GLOBAL EDITION

Principles of Marketing

NINETEENTH EDITION

Philip Kotler

Gary Armstrong

Sridhar Balasubramanian

PRINCIPLES of MARKETING

This page is intentionally left blank

PRINCIPLES of MARKETING

Nineteenth Edition
Global Edition

Philip Kotler
Northwestern University

Gary Armstrong
University of North Carolina

Sridhar Balasubramanian
University of North Carolina

Pearson

Harlow, England • London • New York • Boston • San Francisco • Toronto • Sydney • Dubai • Singapore • Hong Kong
Tokyo • Seoul • Taipei • New Delhi • Cape Town • Sao Paulo • Mexico City • Madrid • Amsterdam • Munich • Paris • Milan

Product Management: Yajnaseni Das and Ishita Sinha
Content Strategy: Steven Jackson, Daniel Luiz, and Kajori Chattopadhyay
Product Marketing: Wendy Gordon, Ashish Jain, and Ellen Harris
Supplements: Tooba Shafique
Production: Jayaprakash Kothandapani and Nikhil Rakshit
Digital Studio: Vikram Medepalli
Rights and Permissions: Anjali Singh and Ashish Vyas

Please contact https://support.pearson.com/getsupport/s/contactsupport with any queries on this content.

Cover Photo: Preto Perola/Shutterstock

Pearson Education Limited
KAO Two
KAO Park
Hockham Way
Harlow
Essex
CM17 9SR
United Kingdom

and Associated Companies throughout the world

Visit us on the World Wide Web at: www.pearsonglobaleditions.com

Authorized adaptation from the United States edition, entitled Principles of Marketing*, 19th Edition, ISBN 978-0-13-786489-8 by Philip Kotler, Gary Armstrong, and Sridhar Balasubramanian, published by Pearson Education © 2024.*

ISBN 10: 1-292-44936-5
ISBN 13: 978-1-292-44936-4
eBook ISBN: 978-1-292-44933-3

British Library Cataloguing-in-Publication Data
A catalogue record for this book is available from the British Library

1 21

Typeset in Palatino LT Pro and 9 pt by Integra Software Service
ebook formatted by B2R Technologies Pvt. Ltd.

Dedication

To Kathy, Mandy, Matt, KC, Keri, Delaney, Molly, Macy, Ben, and Bert; Nancy, Amy, Melissa, and Jessica; and Lakshmi, Karthik, and Meenakshi.

Pearson's Commitment to Diversity, Equity, and Inclusion

Pearson is dedicated to creating bias-free content that reflects the diversity, depth, and breadth of all learners' lived experiences.

We embrace the many dimensions of diversity, including but not limited to race, ethnicity, gender, sex, sexual orientation, socioeconomic status, ability, age, and religious or political beliefs.

Education is a powerful force for equity and change in our world. It has the potential to deliver opportunities that improve lives and enable economic mobility. As we work with authors to create content for every product and service, we acknowledge our responsibility to demonstrate inclusivity and incorporate diverse scholarship so that everyone can achieve their potential through learning. As the world's leading learning company, we have a duty to help drive change and live up to our purpose to help more people create a better life for themselves and to create a better world.

Our ambition is to purposefully contribute to a world where:

- Everyone has an equitable and lifelong opportunity to succeed through learning.
- Our educational content accurately reflects the histories and lived experiences of the learners we serve.
- Our educational products and services are inclusive and represent the rich diversity of learners.
- Our educational content prompts deeper discussions with students and motivates them to expand their own learning (and worldview).

Accessibility

We are also committed to providing products that are fully accessible to all learners. As per Pearson's guidelines for accessible educational Web media, we test and retest the capabilities of our products against the highest standards for every release, following the WCAG guidelines in developing new products for copyright year 2022 and beyond.

You can learn more about Pearson's commitment to accessibility at **https://www.pearson.com/us/accessibility.html**

Pearson

Contact Us

While we work hard to present unbiased, fully accessible content, we want to hear from you about any concerns or needs with this Pearson product so that we can investigate and address them.

Please contact us with concerns about any potential bias at **https://www.pearson.com/report-bias.html**

For accessibility-related issues, such as using assistive technology with Pearson products, alternative text requests, or accessibility documentation, email the Pearson Disability Support team at **disability.support@pearson.com**

Brief Contents

This page is intentionally left blank

Contents

Preface

New to This Edition

All That's New: Marketing in a Digital Age of Customer Value and Engagement

The nineteenth edition of *Principles of Marketing* reflects the major trends and shifting forces that impact marketing in this digital age of customer value, engagement, and relationships. Here are just some of the major new and continuing changes you'll find in this edition.

- *Customer engagement framework:* This nineteenth edition continues to build on its *customer engagement* framework—creating direct and continuous customer involvement in shaping brands, brand conversations, brand experiences, brand advocacy, and brand community. New coverage and fresh examples throughout the text address the latest customer engagement tools, practices, and developments.
- *Digital marketing:* In the nineteenth edition, the *Digital Marketing* chapter (Chapter 17) is retitled, heavily restructured, and much revised, with substantial new framing and content. Rather than treating digital marketing as a part of the promotion mix, the chapter is now a standalone digital marketing strategy chapter that focuses on special considerations in preparing digital marketing campaigns. The recrafted chapter is organized around a four-step digital marketing process that involves understanding digital marketing, preparing for a digital marketing campaign, employing digital channels (online, social media, and mobile marketing) in an omni-channel strategy, and addressing public policy issues in digital marketing.
- *Marketing information and customer insights management:* In the nineteenth edition, the *Managing Marketing Information to Gain Customer Insights* chapter (Chapter 4) has been heavily restructured and revised to reflect the extensive transformation of marketing research and information insights management in the digital age—from data sources and digital insights gathering to big data and marketing analytics. The massive digital shift in managing marketing information is now fully integrated into the chapter.
- *Marketing in the age of disruption*: Throughout the nineteenth edition, you'll find new coverage of how companies are dealing with recent major disruptions in the marketing environment. The recent past has been marked by everything from the rapid rise of digital technologies and large economic swings to extreme environmental patterns, social and political turmoil, and global health crises. For example, the digital age has caused an enormous shift in what, how, and where consumers buy. Wide-ranging social, environmental, and political developments require a new approach to social responsibility, sustainability, diversity, and brand activism. The global COVID-19 pandemic had a huge and lasting impact on consumers and, consequently, on the industries and brands that serve them. Such disruptions create both threats and opportunities for marketers, who must adapt quickly and create flexible strategies that can deal with uncertain times and futures.
- *Diversity, equity, and inclusion (DEI):* With guidance from DEI experts, every effort has been made to ensure that the nineteenth edition of *Principles of Marketing* fully and responsibly represents the interests of diversity, equity, and inclusion in its treatment of marketing topics, examples, and illustrations. We also take care throughout this edition to note how marketers are applying DEI values in their strategies and actions. As just a few examples, see the new Chapter 15 section on *Diversity, Equity, and Inclusion (DEI) in Advertising* and Real Marketing 15.2: Diversity, Equity, and Inclusion in Advertising: More Than a Catchphrase. Also see the substantially revised and updated Chapter 5 *Subculture* sections, Chapter 3 *Diversity* section, and Chapter 7 discussion of gender segmentation and gender-neutral marketing.
- *Content marketing and marketing communications:* The nineteenth edition continues to track fast-changing developments in marketing communications and the creation of brand content. Marketers no longer simply create advertising and integrated marketing

17

Digital Marketing

476 PART 3 | Designing a Customer Value–Driven Strategy and Mix

Real Marketing 15.2 | **Diversity, Equity, and Inclusion in Advertising (DEI): More Than a Catchphrase**

If you ask Amazon's Alexa "What is love?," Alexa will share a response from one of eight people representing eight different backgrounds. "Love is supporting people in pursuing their dreams, no matter their abilities," says Rajee, a disability activist who was given up for adoption in her native India after polio left her with limited leg mobility. "We gotta look out for each other, that's how we show love," says Jim, an anti-bullying activist who experienced bullying throughout his childhood. "Love is when true allies protect my voice," says Shujaa, a student who started activism work at age 10 working for a collective focused on health justice for Black people. "Love is opening your doors to others without expecting anything in return," says Igor, a filmmaker from Mexico who experienced injustices because he was an immigrant. Each voice presents a different take on love. But they all center on a common theme—that an everyday act by someone made them feel seen, heard, included…loved.

Alexa's response isn't just a clever tactic designed to make people see Amazon as a caring entity. Rather, it's representative of the kind of inclusive storytelling that lies at the heart of "Love Has No Labels," a multimedia campaign produced in partnership by Amazon and the Ad Council. "We made sure from the concept through the production…to make this as inclusive as possible," says an Amazon marketer. "Love is unique. It's very complex, and it's different for everyone. I think this is a celebration of that."

At the center of the campaign is a documentary-style film that takes a deep dive into the stories and life experiences of the eight people who lent their voices to the campaign. Campaign elements include Amazon audio ads, Amazon streaming TV ads, social media placements, and digital formats, as well as a campaign microsite where people can learn more about the campaign, the film, the individuals featured, and how to take action to make others feel loved and included. Ads in the broader Ad Council "Love Has No Labels" campaign proclaim that love has no race, no religion, no sexuality, no disability, no age, and no gender.

The "Love Has No Labels" campaign is just one example of how brands large and small are working to make a difference by highlighting issues related to diversity, equity, and inclusion (DEI). There's Nike's award-winning "You Can't Stop Us" campaign—one 90-second ad, 24 sports, 53 athletes, and 72 clips joined by split-screen magic to celebrate, as only Nike can, the similarities and differences of athletes around the world. Or Etsy's "Gift Like You Mean It" campaign, made up of multiple videos highlighting how gifts purchased on Etsy make people of diverse backgrounds feel seen. Dating app Bumble's "Find Me on Bumble" campaign delivers a powerful message of diversity simply by highlighting a diverse group of real-life Bumble users of different genders, races, abilities, religions, and sexualities.

Almost every brand these days addresses DEI issues in its advertising and marketing, whether it's diversity and representations of people in their ads, full campaigns supporting DEI causes, or both. Whatever they do, it's critical that such efforts be authentic. Consumers want more than just superficial DEI tactics. They want to see evidence that companies practice what they preach.

Nabisco's Oreo brand does just that. The longtime leading cookie brand has also been a longtime leader in supporting the cause of LGBTQ+ rights. For example, two years ago Oreo launched its #ProudParent campaign, designed to educate and empower parents and families to come out in loud, public support of their LGBTQ+ child and inspire others to do the same. "As a brand that is interlaced with family bonds," says the company, "we've resolved to take a stand in moments where these bonds may be threatened. …A loving world starts with a loving home." The #ProudParent campaign was a collaborative effort with PFLAG—the first and largest support organization for the LGBTQ+ community. PFLAG works with dozens of other "Pride Partners"—ranging from Walmart, Bank of America, Verizon, and GEICO to J.Crew, GM, Marriott, MetLife, and Major League Baseball.

The first phase of the #ProudParent campaign—"Inform the Head"—was all about providing information and resources to families to provide education and direction. The second phase—"Trigger the Heart"—consisted of a short film telling the heartwarming story of a young woman bringing her girlfriend home to meet her family for the first time. In the campaign's final phase, "Encourage Action," Oreo created 10,000 packages of #ProudParent Oreos, with seven different-colored cream fillings inspired by the colors of the Pride flag. The limited-production cookies were distributed free of charge to people who followed the @Oreo account on Instagram or Twitter and tagged it in their photos along with the #ProudParent hashtag.

Within hours of kickoff, the #ProudParent campaign took over the internet. On social media, it produced more than 315 million impressions and 2 million engagements. On Instagram alone, more than 600,000 people posted the campaign hashtag to show their support. In total, the campaign generated more than 400 press placements on every major media outlet. And #ProudParent took multiple honors in last year's Shorty Awards for real-time short-form content across the social web.

Like Oreo, brands in every industry are committed to efforts across a wide range of DEI issues. For example, to address potential

Successfully incorporating DEI into the fabric of a brand's advertising and identity requires a deep and continuous commitment. Love has no race, no age, no gender, no religion… no labels.

Courtesy of Ad Council

communications programs; they join with customers and media to curate and share marketing content in paid, owned, earned, and shared media. You won't find fresher coverage of these important topics in any other marketing text.

- *Global marketing and sustainable marketing:* The nineteenth edition's *Global Marketing* and *Sustainable Marketing* chapters (Chapters 19 and 20) have both been significantly restructured and revised, with new organizing frameworks, concepts, and examples. For example, in the sustainability chapter, the environmental sustainability sections have much new material, including new discussions of carbon footprint/offsetting and a set of specific approaches to reducing environmental harm. The final section includes a new set of principles for building a sustainable marketing organization.
- *Omni-channel marketing and retailing:* Linked with all the new digital marketing developments, this edition addresses the substantial shifts toward omni-channel marketing and retailing. Such discussions are integrated throughout the text, but see especially the *Marketing Channels* and *Retailing and Wholesaling* chapters (Chapters 12 and 13) and the new sections in the *Digital Marketing* chapter (Chapter 17).
- *Marketing technology:* Keeping up with digital concepts, technologies, and practices is a top priority and major challenge for today's marketers. The nineteenth edition of *Principles of Marketing* provides thoroughly refreshed, up-to-date coverage of these explosive developments in every chapter—from digital, online, mobile, and social media engagement technologies in Chapters 1, 4, 15, and 17; to "big data," new marketing analytics, the Internet of Things, and artificial intelligence in Chapters 1, 3, 4, and 17; to the massive shift to omni-channel and digital marketing in Chapters 13 and 17; to marketing in the metaverse (Chapters 7 and 17). A Chapter 1 section on *The Digital Age: Online, Mobile, and Social Media Marketing* introduces the exciting developments in digital and social media marketing. Then a heavily revised Chapter 17 on *Digital Marketing* digs more deeply into digital marketing strategy and the digital tools by which marketers engage consumers anywhere, anytime via their digital devices.
- *Fast-changing marketing trends and topics:* This edition adds fresh coverage of both traditional marketing areas and fast-changing topics such as digital, mobile, and social media marketing; customer engagement marketing; the customer journey; big data, artificial intelligence, and new marketing analytics; influencer marketing; the major digital transformation in marketing research; omni-channel marketing and the game-changing shifts in today's retailing; real-time customer listening and marketing; marketing content creation and curation; technology-driven customer service; B-to-B social media and social selling; online and dynamic pricing; and much more.

New Real-World Brand Stories, Highlights, Cases, and In-Text Examples

The nineteenth edition of *Principles of Marketing* is loaded with new brand stories, highlight features, cases, in-text examples, and end-of-chapter exercises and features that illustrate brand strategies and contemporary marketing issues and let students apply what they've learned.

- *New company cases, applications, and exercises:* The nineteenth edition provides 15 new company cases by which students can apply what they learn to actual company

situations. End-of-chapter discussion questions, critical thinking exercises, and other applications features are also mostly new and revised.

- *Chapter-opening stories, Real Marketing highlights, and in-text examples:* The nineteenth edition brings marketing to life with new or heavily revised chapter-opening vignettes, boxed features that highlight relevant companies and marketing issues, and loads of new in-text examples and images throughout that illustrate contemporary marketing practice.

Solving Teaching and Learning Challenges

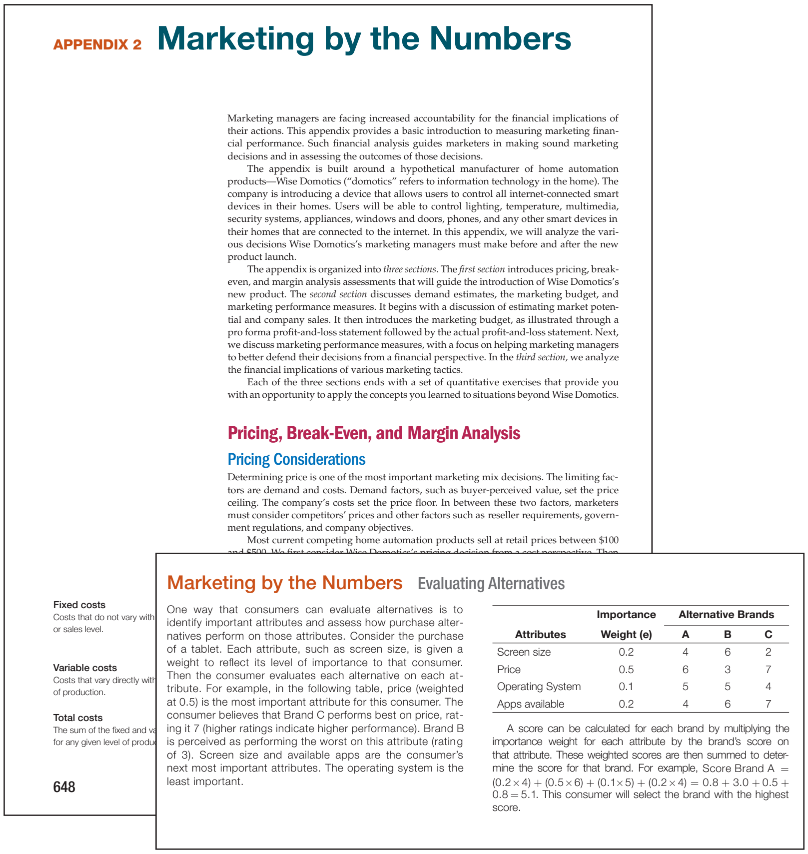
Today's marketing is all about creating customer value and engagement in a fast-changing, increasingly digital and social marketplace. Marketing starts with understanding consumer needs and wants, determining which target markets the organization can serve best, and developing a compelling value proposition by which the organization can attract and grow valued consumers. Then, more than just making a sale, today's marketers want to engage customers and build deep customer relationships that make their brands a meaningful part of consumers' conversations and lives.

In this digital age, marketers have a dazzling set of online, mobile, and social media tools for engaging customers anytime, anyplace to jointly shape brand conversations, experiences, and community. If marketers do these things well, they will reap the rewards in terms of market share, profits, customer advocacy, and customer equity. In the nineteenth edition of *Principles of Marketing*, students learn how customer value and customer engagement drive every good marketing strategy.

Six Major Customer Value and Engagement Themes

The nineteenth edition of *Principles of Marketing* builds on six major customer value and engagement themes:

1. ***Creating value* for *customers in order to capture value* from *customers in return*.** Today's marketers must be good at *creating customer value, engaging customers,* and *managing customer relationships*. In return, they capture value from customers in the form of sales, profits, customer advocacy, and customer equity. This innovative *customer value and engagement framework* is introduced at the start of Chapter 1 in a unique five-step marketing process model, which details how marketing *creates* customer value and *captures* value in return. The framework is carefully developed in the first two chapters and then fully integrated throughout the remainder of the text.
2. ***Customer engagement and today's digital and social media.*** Digital, mobile, and social media have dramatically changed how companies and brands engage consumers, and how consumers connect and influence each other's brand behaviors. The nineteenth edition thoroughly explores the exciting digital technologies that help brands to engage customers more deeply and interactively. It starts with two major Chapter 1 sections: *Customer Engagement and Today's Digital Media* and *The Digital Age: Online, Mobile, and Social Media Marketing.* A completely restructured and revised Chapter 17 on *Digital Marketing* summarizes the latest developments in digital marketing strategy and digital engagement tools. Chapters 13 and 17 discuss the massive shift toward digital and omni-channel buying and marketing. Everywhere in between, you will find revised and expanded coverage of



APPENDIX 2 **Marketing by the Numbers**

Marketing managers are facing increased accountability for the financial implications of their actions. This appendix provides a basic introduction to measuring marketing financial performance. Such financial analysis guides marketers in making sound marketing decisions and in assessing the outcomes of those decisions.

The appendix is built around a hypothetical manufacturer of home automation products—Wise Domotics ("domotics" refers to information technology in the home). The company is introducing a device that allows users to control all internet-connected smart devices in their homes. Users will be able to control lighting, temperature, multimedia, security systems, appliances, windows and doors, phones, and any other smart devices in their homes that are connected to the internet. In this appendix, we will analyze the various decisions Wise Domotics's marketing managers must make before and after the new product launch.

The appendix is organized into *three sections*. The *first section* introduces pricing, break-even, and margin analysis assessments that will guide the introduction of Wise Domotics's new product. The *second section* discusses demand estimates, the marketing budget, and marketing performance measures. It begins with a discussion of estimating market potential and company sales. It then introduces the marketing budget, as illustrated through a pro forma profit-and-loss statement followed by the actual profit-and-loss statement. Next, we discuss marketing performance measures, with a focus on helping marketing managers to better defend their decisions from a financial perspective. In the *third section*, we analyze the financial implications of various marketing tactics.

Each of the three sections ends with a set of quantitative exercises that provide you with an opportunity to apply the concepts you learned to situations beyond Wise Domotics.

Pricing, Break-Even, and Margin Analysis

Pricing Considerations

Determining price is one of the most important marketing mix decisions. The limiting factors are demand and costs. Demand factors, such as buyer-perceived value, set the price ceiling. The company's costs set the price floor. In between these two factors, marketers must consider competitors' prices and other factors such as reseller requirements, government regulations, and company objectives.

Most current competing home automation products sell at retail prices between $100

Fixed costs
Costs that do not vary with
or sales level.

Variable costs
Costs that vary directly with
of production.

Total costs
The sum of the fixed and va
for any given level of produ

648

Marketing by the Numbers Evaluating Alternatives

One way that consumers can evaluate alternatives is to identify important attributes and assess how purchase alternatives perform on those attributes. Consider the purchase of a tablet. Each attribute, such as screen size, is given a weight to reflect its level of importance to that consumer. Then the consumer evaluates each alternative on each attribute. For example, in the following table, price (weighted at 0.5) is the most important attribute for this consumer. The consumer believes that Brand C performs best on price, rating it 7 (higher ratings indicate higher performance). Brand B is perceived as performing the worst on this attribute (rating of 3). Screen size and available apps are the consumer's next most important attributes. The operating system is the least important.

	Importance	Alternative Brands		
Attributes	Weight (e)	A	B	C
Screen size	0.2	4	6	2
Price	0.5	6	3	7
Operating System	0.1	5	5	4
Apps available	0.2	4	6	7

A score can be calculated for each brand by multiplying the importance weight for each attribute by the brand's score on that attribute. These weighted scores are then summed to determine the score for that brand. For example, Score Brand A $= (0.2 \times 4) + (0.5 \times 6) + (0.1 \times 5) + (0.2 \times 4) = 0.8 + 3.0 + 0.5 + 0.8 = 5.1$. This consumer will select the brand with the highest score.

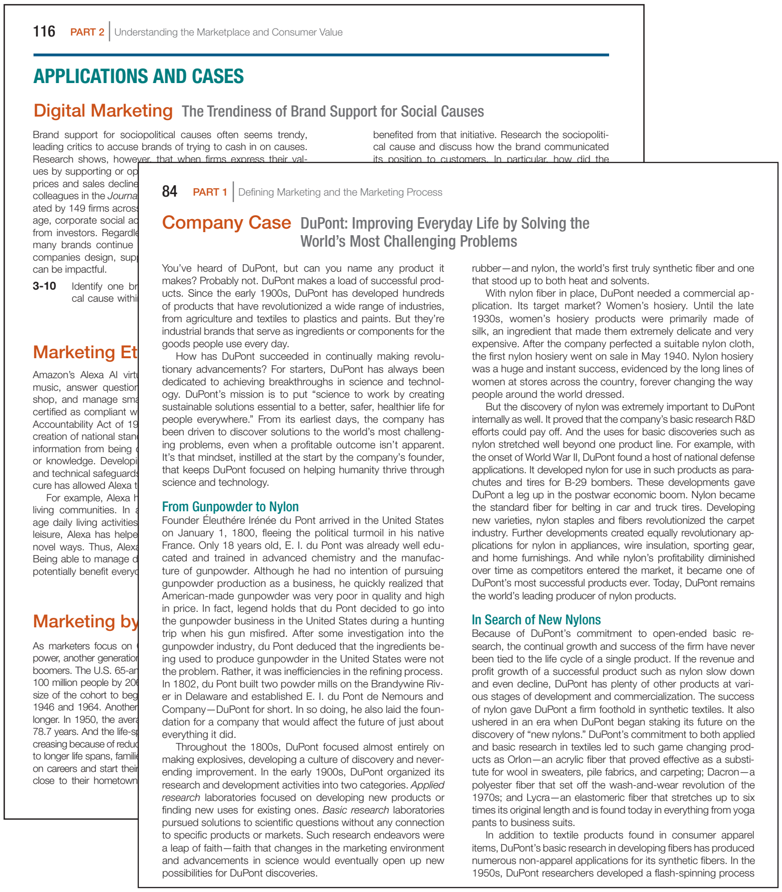
the exploding use of digital and social marketing tools.

3. ***Building and managing strong, value-creating brands***. Well-positioned brands with strong brand equity provide the basis upon which to build customer value and profitable customer relationships. Today's marketers must position their brands powerfully and manage them well to create valued brand experiences. The nineteenth edition provides a deep focus on brands, anchored by a Chapter 8 section on *Branding Strategy: Building Strong Brands*.
4. ***Measuring and managing return on marketing***. Especially in uneven economic times and an uncertain marketing environment, marketing managers must ensure that their marketing dollars are being well spent. "Marketing accountability"—measuring and managing marketing return on investment—has now become an important part of strategic marketing decision making. This emphasis on marketing accountability is addressed in Chapter 2, in Appendix 2 *Marketing by the Numbers*, and throughout the nineteenth edition.
5. ***Sustainable marketing around the globe***. As technological developments make the world an increasingly smaller and more fragile place, marketers must be good at marketing their brands globally and in sustainable ways. New material throughout the nineteenth edition emphasizes the concepts of global marketing and sustainable marketing—meeting the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs. The nineteenth edition integrates global marketing and sustainability topics throughout the text. It then provides focused coverage on each topic in Chapters 19 and 20, respectively. Both chapters are substantially restructured and revised in this edition for clarity and currency.
6. ***Marketing in the age of disruption.*** Disruptions in the marketing environment have always been around. There will be a constant flow of future disruptions, and the "new normal" will always be elusive and evolving. Throughout the nineteenth edition, you'll find discussions and examples of how companies and brands are successfully meeting disruptive challenges—from the digital revolution and large economic swings to new-age disruptive brands, the aftermath of the global COVID-19 pandemic, and wide-ranging environmental, social, and political movements. As a basic tenet of marketing, to prosper in this age of disruption or even to survive, marketers must bend and adapt to fend off the threats and take advantage of the opportunities. They must learn to serve customers profitably in the face of constant change and uncertainty.

In-Text Teaching and Learning Features

Principles of Marketing provides a wealth of chapter-opening, within-chapter, and end-of-chapter learning features that help students to learn, link, and apply major concepts.

- ***Integrated chapter-opening preview sections.*** The active and integrative opening spread in each chapter starts with an *Objectives Outline* that provides a helpful preview of chapter contents and learning objectives. Next, a *Chapter Preview* section briefly previews chapter concepts, links them with previous chapter concepts, and introduces the chapter-opening story. Finally, a *chapter-opening vignette*—an engaging, deeply developed, illustrated, and annotated marketing story—introduces the chapter material and sparks student interest.
- ***Author comments and figure annotations.*** Throughout each chapter, author comments ease and enhance student learning by introducing and explaining major chapter sections and figures.



116 PART 2 | Understanding the Marketplace and Consumer Value

APPLICATIONS AND CASES

Digital Marketing The Trendiness of Brand Support for Social Causes

Brand support for sociopolitical causes often seems trendy, leading critics to accuse brands of trying to cash in on causes.

benefited from that initiative. Research the sociopolitical cause and discuss how the brand communicated

84 PART 1 | Defining Marketing and the Marketing Process

Company Case DuPont: Improving Everyday Life by Solving the World's Most Challenging Problems

You've heard of DuPont, but can you name any product it makes? Probably not. DuPont makes a load of successful products. Since the early 1900s, DuPont has developed hundreds of products that have revolutionized a wide range of industries, from agriculture and textiles to plastics and paints. But they're industrial brands that serve as ingredients or components for the goods people use every day.

How has DuPont succeeded in continually making revolutionary advancements? For starters, DuPont has always been dedicated to achieving breakthroughs in science and technology. DuPont's mission is to put "science to work by creating sustainable solutions essential to a better, safer, healthier life for people everywhere." From its earliest days, the company has been driven to discover solutions to the world's most challenging problems, even when a profitable outcome isn't apparent. It's that mindset, instilled at the start by the company's founder, that keeps DuPont focused on helping humanity thrive through science and technology.

From Gunpowder to Nylon

Founder Éleuthére Irénée du Pont arrived in the United States on January 1, 1800, fleeing the political turmoil in his native France. Only 18 years old, E. I. du Pont was already well educated and trained in advanced chemistry and the manufacture of gunpowder. Although he had no intention of pursuing gunpowder production as a business, he quickly realized that American-made gunpowder was very poor in quality and high in price. In fact, legend holds that du Pont decided to go into the gunpowder business in the United States during a hunting trip when his gun misfired. After some investigation into the gunpowder industry, du Pont deduced that the ingredients being used to produce gunpowder in the United States were not the problem. Rather, it was inefficiencies in the refining process. In 1802, du Pont built two powder mills on the Brandywine River in Delaware and established E. I. du Pont de Nemours and Company—DuPont for short. In so doing, he also laid the foundation for a company that would affect the future of just about everything it did.

Throughout the 1800s, DuPont focused almost entirely on making explosives, developing a culture of discovery and never-ending improvement. In the early 1900s, DuPont organized its research and development activities into two categories. *Applied research* laboratories focused on developing new products or finding new uses for existing ones. *Basic research* laboratories pursued solutions to scientific questions without any connection to specific products or markets. Such research endeavors were a leap of faith—faith that changes in the marketing environment and advancements in science would eventually open up new possibilities for DuPont discoveries.

rubber—and nylon, the world's first truly synthetic fiber and one that stood up to both heat and solvents.

With nylon fiber in place, DuPont needed a commercial application. Its target market? Women's hosiery. Until the late 1930s, women's hosiery products were primarily made of silk, an ingredient that made them extremely delicate and very expensive. After the company perfected a suitable nylon cloth, the first nylon hosiery went on sale in May 1940. Nylon hosiery was a huge and instant success, evidenced by the long lines of women at stores across the country, forever changing the way people around the world dressed.

But the discovery of nylon was extremely important to DuPont internally as well. It proved that the company's basic research R&D efforts could pay off. And the uses for basic discoveries such as nylon stretched well beyond one product line. For example, with the onset of World War II, DuPont found a host of national defense applications. It developed nylon for use in such products as parachutes and tires for B-29 bombers. These developments gave DuPont a leg up in the postwar economic boom. Nylon became the standard fiber for belting in car and truck tires. Developing new varieties, nylon staples and fibers revolutionized the carpet industry. Further developments created equally revolutionary applications for nylon in appliances, wire insulation, sporting gear, and home furnishings. And while nylon's profitability diminished over time as competitors entered the market, it became one of DuPont's most successful products ever. Today, DuPont remains the world's leading producer of nylon products.

In Search of New Nylons

Because of DuPont's commitment to open-ended basic research, the continual growth and success of the firm have never been tied to the life cycle of a single product. If the revenue and profit growth of a successful product such as nylon slow down and even decline, DuPont has plenty of other products at various stages of development and commercialization. The success of nylon gave DuPont a firm foothold in synthetic textiles. It also ushered in an era when DuPont began staking its future on the discovery of "new nylons." DuPont's commitment to both applied and basic research in textiles led to such game changing products as Orlon—an acrylic fiber that proved effective as a substitute for wool in sweaters, pile fabrics, and carpeting; Dacron—a polyester fiber that set off the wash-and-wear revolution of the 1970s; and Lycra—an elastomeric fiber that stretches up to six times its original length and is found today in everything from yoga pants to business suits.

In addition to textile products found in consumer apparel items, DuPont's basic research in developing fibers has produced numerous non-apparel applications for its synthetic fibers. In the 1950s, DuPont researchers developed a flash-spinning process

- ***Reviewing and extending the concepts.*** Sections at the end of each chapter summarize key chapter concepts and provide questions and exercises by which students can review and apply what they've learned. The *Objectives Review* section reviews major chapter concepts and links them to chapter objectives. The *Key Terms* section provides a helpful listing of chapter key terms by order of appearance to facilitate easy reference. *Discussion Questions* and *Critical Thinking Exercises* sections provide discussion questions and critical thinking exercises that help students to keep track of and apply what they've learned in the chapter.
- ***Applications and cases.*** Sections at the end of each chapter provide brief *Digital Marketing; Marketing Ethics*; and *Marketing by the Numbers* applications cases that facilitate discussion of current issues and company situations in areas such as mobile and social marketing, ethics, and financial marketing analysis. *Company Cases* at the end of each chapter help students apply major marketing concepts and critical thinking to real company and brand situations. Each case now includes a small group exercise that encourages students to debate among themselves and arrive at conclusions to key case issues.

Developing Employability Skills

- ***Real Marketing features.*** Each chapter contains a chapter-opening story and two deeply developed *Real Marketing* highlight features that provide in-depth looks at real brand marketing strategies and contemporary marketing issues. For example, students learn how Emirates Airline's deep-down passion for creating customer value, engagement, and relationships earns customer patronage and loyalty in return. They see how brands like Wendy's, Jollibee, and Zoom harness real-time marketing's power to engage customers in the moment. They see what makes LinkedIn the place to be for B-to-B marketers; how Mayo Clinic has become a model for service quality; how luxury cosmetics brand L'Occitane en Provence builds success in the new marketing environments it has entered; and how brands ranging from Walmart and Target to beverage maker Keurig Dr Pepper have learned to deal with marketing in this age of disruption. They learn that artificial intelligence in marketing is now "a bigger deal than fire and electricity"; how brands are racing to establish spaces in the young but exploding marketing metaverse; and how marketers are incorporating diversity, equity, and inclusion values into the fabric of their brand identities and marketing. No other text brings marketing to life like the nineteenth edition of *Principles of Marketing*.
- ***Marketing Plan appendix.*** *Appendix 1* contains a detailed sample marketing plan that helps students to apply important marketing planning concepts.
- ***Marketing by the Numbers appendix.*** An innovative *Appendix 2* provides students with a comprehensive introduction to the marketing financial analysis that helps guide, assess, and support marketing decisions. A new or revised exercise at the end of each text chapter lets students apply analytical and financial thinking to that chapter's concepts and links the chapter to the *Marketing by the Numbers* appendix.
- ***Careers in Marketing.*** A newly revised *Appendix 3* helps students to explore marketing career paths and lays out a process for landing a marketing job that best matches their special skills and interests.

Instructor Teaching Resources

The nineteenth edition of *Principles of Marketing* comes with the following resources:

- Instructor's Manual
- Test Bank
- Computerized TestGen
- PowerPoints

For more information and resources, please visit www.pearson.com.

Acknowledgments

No book is the work only of its authors. We greatly appreciate the valuable contributions of several people who helped make this new edition possible. As always, we owe extra-special thanks to Andy Norman of Drake University for his skillful help in developing chapter vignettes and highlights, company cases, and the marketing plan appendix. This and many previous editions have benefited greatly from Andy's assistance.

We also thank publishing consultant Melissa Pellerano for her skillful assistance in manuscript preparation and image development. We appreciate the contributions of Breagin Riley of the University of North Carolina in preparing end-of-chapter materials. Additional thanks go to those who worked to update the Instructor's Manual, PowerPoints, Test Bank, and the Revel version. All of these contributors are greatly appreciated in making the nineteenth edition of *Principles of Marketing* a robust teaching and learning program.

Many reviewers at other colleges and universities provided valuable comments and suggestions for this and previous editions. We are indebted to the following colleagues for their thoughtful input: Timothy W. Aurand, Northern Illinois University; Aysen Bakir, Illinois State University; Leta Beard, University of Washington; Thomas C. Hewett, Kennesaw State University; Robert M. McMillen, James Madison University; Carlton O'Neal, University of San Diego; Rebecca Reczek, The Ohio State University; Sandra Robertson, Thomas Nelson Community College; Emily Rosenzweig, Tulane University; Carol Rowey, Community College of Rhode Island; and Aninda Shome, University of Idaho.

We also owe a great deal to the people at Pearson Education who helped develop this book. Product & Content Strategy Manager Lynn Huddon provided considerable guidance and support during the revision. We'd also like to thank Senior Content Producer Claudia Fernandes and Product Marketing Manager Nayke Heine. We are proud to be associated with the fine professionals at Pearson. We also owe a mighty debt of gratitude to Senior Project Manager Allison Campbell and the rest of the team at Integra for their fine work on this and previous editions.

Finally, we owe many thanks to our families for all of their support and encouragement—Kathy, Mandy, Matt, KC, Keri, Delaney, Molly, Macy, Ben, and Bert from the Armstrong clan; Nancy, Amy, Melissa, and Jessica from the Kotler side; and Lakshmi, Karthik, and Meenakshi from the Balasubramanian family. To them, we dedicate this book.

Philip Kotler
Gary Armstrong
Sridhar Balasubramanian

Global Edition Acknowledgments

Pearson would like to thank the following people for their work on the Global Edition:

Contributors

Marc Oliver Opresnik, *St. Gallen Management Institute*
Muneeza Shoaib, *Lincoln University of Business and Management*
Mariusz Soltanifar, *Hanze University of Applied Sciences, Groningen*
Jon and Diane Sutherland
Karan Vishwanath, *University of London*
Uzma Zaidi, *Amity University Dubai*

Reviewers

Anna Galindo, *Lancaster University*
Ayantunji Gbadamosi, *University of East London*
Michael Grund, *HWZ University of Applied Sciences in Business Administration Zurich*
Jie Liu, *Manchester Metropolitan University*
Alice Cheah Wai Kuan, *Taylor's College*

About the Authors

As a team, Philip Kotler, Gary Armstrong, and Sridhar Balasubramanian provide a blend of skills uniquely suited to writing an introductory marketing text. Professor Kotler is one of the world's leading authorities on marketing. Professors Armstrong and Balasubramanian are award-winning teachers and researchers. Together, they make the complex world of marketing practical, approachable, and enjoyable.

Philip Kotler is Professor Emeritus of Marketing at the Kellogg School of Management, Northwestern University. He received his master's degree at the University of Chicago and his Ph.D. at M.I.T., both in economics. Dr. Kotler is the co-author of *Marketing Management* (Pearson), now in its sixteenth edition and the most widely used marketing textbook in graduate schools of business worldwide. He has authored more than 60 other successful books and has published more than 150 articles in leading journals. He is the only three-time winner of the coveted Alpha Kappa Psi award for the best annual article in the *Journal of Marketing*.

Professor Kotler was named the first recipient of four major awards: the Distinguished Marketing Educator of the Year Award and the William L. Wilkie "Marketing for a Better World" Award, both given by the American Marketing Association; the Philip Kotler Award for Excellence in Health Care Marketing presented by the Academy for Health Care Services Marketing; and the Sheth Foundation Medal for Exceptional Contribution to Marketing Scholarship and Practice. He is a charter member of the Marketing Hall of Fame, was voted the first Leader in Marketing Thought by the American Marketing Association, and was named the Founder of Modern Marketing Management in the *Handbook of Management Thinking*. His numerous other major honors include the Sales and Marketing Executives International Marketing Educator of the Year Award; the European Association of Marketing Consultants and Trainers Marketing Excellence Award; the Charles Coolidge Parlin Marketing Research Award; and the Paul D. Converse Award, given by the American Marketing Association to honor "outstanding contributions to science in marketing." A recent *Forbes* survey ranks Professor Kotler in the top 10 of the world's most influential business thinkers. And in a recent *Financial Times* poll of 1,000 senior executives across the world, Professor Kotler was ranked as the fourth "most influential business writer/guru" of the twenty-first century. He is considered by many to be the "father of modern marketing."

Dr. Kotler has served as chairman of the College on Marketing of the Institute of Management Sciences, a director of the American Marketing Association, and a trustee of the Marketing Science Institute. He has consulted with many major U.S. and international companies in the areas of marketing strategy and planning, marketing organization, and international marketing. He has traveled and lectured extensively throughout Europe, Asia, and South America, advising companies and governments about global marketing practices and opportunities.

Gary Armstrong is Crist W. Blackwell Distinguished Professor Emeritus in the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill. He holds undergraduate and master's degrees in business from Wayne State University in Detroit, and he received his Ph.D. in marketing from Northwestern University. Dr. Armstrong has contributed numerous articles to leading business journals. As a consultant and researcher, he has worked with many companies on marketing research, sales management, and marketing strategy.

But Professor Armstrong's first love has always been teaching. His long-held Blackwell Distinguished Professorship is the only permanent endowed professorship for distinguished undergraduate teaching at the University of North Carolina at Chapel Hill. He has been very active in the teaching and administration of Kenan-Flagler's undergraduate program. His administrative posts have included Chair of Marketing, Associate Director of the Undergraduate Business Program, Director of the Business Honors Program, and many others. Through the years, he has worked closely with business student groups and has received several UNC campuswide and Business School teaching awards. He is the only repeat recipient of the school's highly regarded Award for Excellence in Undergraduate Teaching, which he received three times. Most recently, Professor Armstrong received the UNC Board of Governors Award for Excellence in Teaching, the highest teaching honor bestowed by the 16-campus University of North Carolina system.

Sridhar Balasubramanian is the Roy & Alice H. Richards Bicentennial Distinguished Scholar, Professor of Marketing, and Marketing Concentration Chair at the University of North Carolina at Chapel Hill's Kenan-Flagler Business School. He holds a Bachelor of Technology (Honors) degree from the Indian Institute of Technology (Kharagpur), an MBA from the Indian Institute of Management (Bangalore) and MA, M.Phil and Ph.D. degrees from Yale University. Leading business education publication *Poets&Quants* ranked him one of the "Top 50 Business Professors" in the World.

Professor Balasubramanian—commonly referred to as "Dr. B"—is an award-winning researcher, teacher, and academic administrator. He has served as Senior Associate Dean for MBA programs at UNC-CH. His research and teaching interests are in the areas of market strategy and technology strategy, innovation and growth strategy, customer focus, globalization and sustainability, and managing competition. He also specializes in bringing tools and concepts related to innovation, market focus and customer focus into other functional areas, including the management of human resources. He has published pioneering, award-winning research on the impact of the internet, other technology-intensive channels, and social media on marketing. His research has been cited more than 12,000 times on Google Scholar.

Professor Balasubramanian also excels in teaching. He has won best teacher awards eight times across different programs at UNC and was awarded the Kenan-Flagler Weatherspoon award for distinguished Ph.D. teaching. He specializes in "toolkit-based teaching," transforming cutting-edge knowledge into useful and usable toolkits that can be applied the next day. He also engages extensively with the corporate world and has worked with more than 50 organizations spread across North America, South America, Africa, Asia, and Europe.

This page is intentionally left blank

PRINCIPLES of MARKETING

1 Marketing

Creating Customer Value and Engagement

OBJECTIVES OUTLINE

OBJECTIVE 1-1 Define marketing and outline the steps in the marketing process.

OBJECTIVE 1-2 Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts.

OBJECTIVE 1-3 Identify the key elements of a customer value–driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.

OBJECTIVE 1-4 Discuss customer relationship management and identify strategies for creating value for customers and capturing value from customers in return.

OBJECTIVE 1-5 Describe the major trends and forces that are changing the marketing landscape in this age of relationships.

CHAPTER PREVIEW This first chapter introduces you to the basic concepts of marketing. We start with the question: What is marketing? Simply put, marketing is engaging customers and managing profitable customer relationships. The goal of marketing is to maximize long-term profitability by creating value for customers in order to capture value from customers in return. Next we discuss the five steps in the marketing process—from understanding customer needs to designing customer value–driven marketing strategies and integrated marketing mix programs to building customer relationships and recapturing value for the firm. Finally, we discuss the major trends and forces affecting marketing in this age of digital, mobile, and social media. Understanding these basic concepts and forming your own ideas about what they really mean to you will provide a solid foundation for all that follows.

Let's start with a good story about marketing in action at Emirates, the largest international airline in the world and one of the best-known brands on the planet. Emirates' success results from much more than just offering a way to connect people from Point A to Point B. It's based on a customer-focused marketing strategy by which Emirates creates customer value through deep brand–customer engagement and close brand community with and among its customers. You'll see this theme of creating customer value in order to capture value in return repeated throughout this chapter and the remainder of the text.

EMIRATES' Customer Value–Driven Marketing: Engaging Customers and Building a Brand Community

The Emirates Group operates across six continents and flies to 157 cities. Headquartered in Dubai, UAE, the airline was founded in 1985 and has become one of the largest airlines in the world, employing over 45,000 people across 172 different nationalities.

The company has built a fast-growing and profitable hub-based business model. It has successfully capitalized on its location—a small city-state strategically located to reach three-fourths of the world population in a flight of fewer than eight hours. Emirates Airlines has become one of the leaders in the global aviation sector through its innovations, modern fleet, and customer-focused strategies.

From the outset, Emirates has sought to ensure that it not only provides high-quality service but is also innovative, contemporary, and customer-oriented. To that end, the airline has pursued a customer-focused value proposition through a combination of products, services, and experiences, customized for each market at each destination. This approach has led to an array of product offerings such as exclusive lounges for its clientele and its onboard Information, Communication, and Entertainment (ICE) system—an all-in-one communications device accommodating customer needs such as surfing the internet, emailing, and even calling a landline while in the airplane.

The Skywards Program, the airline's frequent traveler loyalty program, is an important part of the airline's success in building strong customer relationships. Through this program, the first of its kind in the industry, members earn miles using four basic inputs: route, fare type, class, and tier, and a "miles accelerator feature" offers bonus miles on specific flights, thereby boosting turnover on flights that are not full.

Emirates has launched a range of customer service initiatives that support differentiation from other airlines, including Dubai Connect, an incentive for premium-class passengers that offers free luxury hotel accommodation, meals, ground transportation, and visa costs in Dubai. Another differentiating element of its customer service is Chauffeur Drive, a service offered to customers flying first class or business class. Emirates chauffeurs collect customers from their doorstep or stand by to take them to their final destination as soon as they land. This destination could be the customer's hotel, their next meeting, their favorite restaurant, or even the course for a round of golf. The service is available in over 70 cities worldwide.

Before the COVID-19 pandemic, most airlines would reduce their fares to remain competitive, but Emirates continued to maintain its fares and get good returns. This was due to its customer value–driven marketing approach and its service proposition, for which customers were willing to pay a premium. Where competitors emphasized low prices or well-maintained aircraft, Emirates built customer engagement and relationships. Beyond the functional benefit of air travel, Emirates marketed its services as "The Emirates Experience," a genuine passion for comfort and attention to detail. Customers didn't just fly Emirates; they experienced it.

Recognizing the impact of various kinds of digital technology on the marketing landscape, Emirates is focusing on creating a new kind of customer relationship—deeper, more personal, and more engaging. Although the airline still invests in traditional advertising, it now spends an increasing amount of its marketing budget on cutting-edge digital and social media marketing that interacts with customers to build brand engagement and community.

Emirates has emphasized customer engagement and relationships, and customers are willing to pay a premium for "The Emirates Experience."

Iain Masterton/Alamy Stock Photo

Emirates uses online, mobile, and social media marketing to connect with its customers. Emirates also creates brand "tribes"—large groups of highly engaged users—with the help of social media platforms such as Facebook, Twitter, Instagram, YouTube, and Pinterest. For example, the main Emirates Facebook page has almost 11 million likes. The Emirates Twitter page adds another 1.5 million; the Emirates Instagram page has 6.2 million followers, making it the largest in the industry; and the company's LinkedIn page has 2.5 million followers, also no. 1 in the airline business. Emirates' social media presence engages customers at a high level, gets them talking with each other about the brand, and weaves the brand into their daily lives through cross-media campaigns that integrate digital media with traditional tools to connect with customers. A compelling example is the company's "Hello Tomorrow" campaign. Launched in 2012, it targeted travelers seeking new experiences and cultures and sought to position the airline as a lifestyle choice that would connect people with different cultures worldwide, inspiring new conversations on food, fashion, art, and music. The campaign was launched in over 80 markets around the world and featured print, TV, and digital advertising, including iconic billboards in New York's Times Square and Milano Centrale railway station. According to Sir Maurice Flanagan, the founding CEO of Emirates and former executive vice-chairman of The Emirates Group, Emirates is not

Emirates is not just offering a way to connect people from Point A to Point B but aims to be the catalyst to connect with people's dreams, hopes, and aspirations.

just offering a way to connect people from Point A to Point B but wants to be the catalyst to connect people's dreams, hopes, and aspirations by bringing people and cultures closer and creating relevant and meaningful experiences that are shaping the world.

To reach a wider audience, Emirates started global collaborations with the BBC, CNN, and Yahoo for various series and campaigns like Collaboration Culture, Fusion Journeys, and Inspired Culture. These collaborations encouraged travel and discovering global cultures through art, music, food, and different experiences. In 2018, the brand launched its new slogan, "Fly Better," which showcased its differentiation and efforts to provide its customers with an enhanced travel experience. The campaign showcased the airline's updated award-winning inflight entertainment system and its wide network of global destinations, from Kenya to Paris.

The coronavirus pandemic impacted airlines around the world and caused many of them to slash their marketing budgets. Although Emirates also cut its marketing expenses by a third, it continued to reach out and connect with its customers to keep them engaged. It launched various campaigns to motivate its staff, customers, and community to spread a message of hope and of overcoming challenges. At a time when people were nervous about air travel, Emirates developed various campaigns to inform its customers about the precautionary measures it had adopted for their health and safety as well as of its employees. One of its most popular campaigns during the pandemic was the We Are on Top of the World advertisement, which showed one of its flight attendants standing at the top of the world's tallest building, the Burj Khalifa, in the city of Dubai. Through the ad, the airline celebrated the opening of popular travel routes and communicated to the world that Dubai had opened its borders—and Emirates was ready to fly them.

Over the years, Emirates has received various awards and accolades, including the World's Most Valuable Airline Brand and the Middle East's Most Valuable Brand by Brand Finance (2014), the TripAdvisor Travelers' Choice Awards (2019), the Business Traveler Middle East Awards (2019), and the World's Best Airline and Best In-Flight Entertainment at Skytrax for 12 successive years. Even the coronavirus pandemic couldn't buck the trend, with Emirates receiving awards such as Leading Airline First Class; Leading Airline – Brand; Leading Airline Lounge – Business Class, and Leading Airline – Rewards Programme for its Skywards program at the World Travel Award 2021. Amid global aviation's most challenging times, Emirates thus continued to demonstrate commitment, authenticity, relevance, and differentiation.[1]

TODAY'S SUCCESSFUL COMPANIES have one thing in common: Like Emirates, they are strongly customer-focused and heavily committed to marketing. These companies share a passion for satisfying customer needs in well-defined target markets. They motivate everyone in the organization to help build lasting customer relationships based on creating value.

Customer relationships and value are especially important today. Facing dramatic technological advances and deep economic, social, and environmental disruptions, today's customers are reassessing how they engage with brands. New digital, mobile, and social media developments have revolutionized how consumers shop and interact, in turn calling for new marketing strategies and tactics. It's now more important than ever to build strong customer engagement, relationships, and advocacy based on real and enduring customer value.

We'll discuss the exciting new challenges facing both customers and marketers later in the chapter. But first, let's introduce the basics of marketing.

Author Comment | Pause here and think about how you'd answer this question before studying marketing. Then see how your answer changes as you read the chapter.

What Is Marketing?

OBJECTIVE 1-1 Define marketing and outline the steps in the marketing process.

Marketing, more than any other business function, deals with customers. For example, Amazon dominates the online marketplace by creating a world-class online buying experience that helps customers to "find and discover anything they might want to buy online." Facebook has attracted more than 2.9 billion monthly active web and mobile users worldwide by helping them to "connect and share with the people in their lives." And Starbucks dominates the U.S. out-of-home coffee market by "creating a culture of warmth and belonging, where everyone is welcome."[2]

Marketing is all around you, in good-old traditional forms and in a host of newer forms, from websites and mobile apps to online videos and social media.

Cathy Yeulet/123RF

Sound marketing is critical to the success of every organization. Large for-profit firms such as Apple, Target, Coca-Cola, Procter & Gamble, Google, and Microsoft use marketing. But so do not-for-profit organizations, such as colleges, hospitals, museums, symphony orchestras, and even churches.

You already know a lot about marketing—it's all around you. Some marketing comes to you in good-old traditional forms: You see it in the abundance of products at your nearby shopping mall and the ads that fill your TV screen, spice up your magazines, or stuff your mailbox. In recent years, marketers have assembled a host of newer marketing approaches, everything from imaginative websites and smartphone apps to online videos and social media. These new approaches do more than just blast out messages to the masses. They reach you directly, personally, and interactively. Today's marketers want to become a part of your life and enrich your experiences with their brands. They want to help you live their brands.

At home, at school, where you work, and where you play, you see marketing in almost everything you do. Yet there is much more to marketing than meets the consumer's casual eye. Behind it all is a massive network of people, technologies, and activities competing for your attention and purchases. This book will give you a complete and contemporary introduction to the key concepts and practices of modern marketing. In this chapter, we begin by defining marketing and the marketing process.

Marketing Defined

What *is* marketing? Many people think of marketing as only selling and advertising. We are bombarded every day with TV commercials, online pitches, catalogs, and spiels from salespeople. However, selling and advertising are only the tip of the marketing iceberg.

Today, marketing must be understood not in the sense of making a sale—"telling and selling"—but in the sense of satisfying customer needs. If marketers engage consumers effectively, understand their needs, develop products that provide superior customer value, and price, distribute, and promote them well, these products will sell easily. In fact, according to management guru Peter Drucker, "The aim of marketing is to make selling unnecessary."[3] Selling and advertising are only part of a larger marketing mix—a set of marketing tools that work together to engage customers, satisfy customer needs, build customer relationships, and ultimately help drive the company's profits.

Marketing
The set of strategies and activities by which companies acquire and engage customers, build strong customer relationships, and create superior customer value in order to capture value from customers in return.

Broadly defined, marketing is a social and managerial process by which individuals and organizations obtain what they need and want through creating and exchanging value with others. In a narrower business context, marketing involves building profitable, value-laden exchange relationships with customers. Hence, we define **marketing** as the set of strategies and activities by which companies acquire and engage customers, build strong customer relationships, and create superior customer value in order to capture value from customers in return.[4] The threefold goals of marketing are to attract new customers by promising superior value, keep and grow current customers by delivering the promised value, and help drive long-term company profitability by recapturing some of the delivered value from satisfied and loyal customers.

The Marketing Process

Figure 1.1 presents a simple, five-step model of the marketing process for creating and capturing customer value. In the first four steps, companies work to understand consumers, create superior customer value, and build strong customer relationships. In the final step, companies reap the rewards of creating superior customer value. By creating value for consumers, they in turn capture value from consumers in the form of sales, profits, and long-term customer equity—the value of the customer to the company.

In this chapter and the next, we examine the steps of this simple model of marketing. In this chapter, we review each step but focus more on the customer relationship

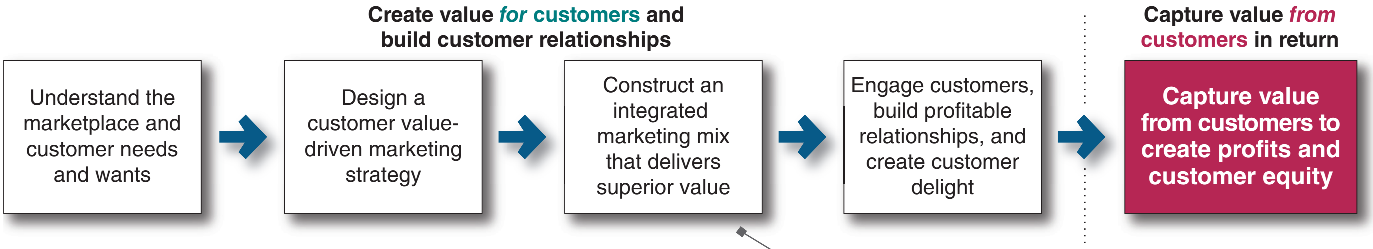


FIGURE 1.1
The Marketing Process: Creating and Capturing Customer Value

This important figure shows marketing in a nutshell. By creating value *for* customers, marketers capture value *from* customers in return. This five-step process forms the marketing framework for the rest of the chapter and the remainder of the text.

steps—understanding customers, engaging and building relationships with customers, and capturing value from customers. In Chapter 2, we look more deeply into the second and third steps—designing value-creating marketing strategies and constructing marketing mix programs.

Author Comment | Creating value for customers is central to any marketing strategy. So, as the first step in the marketing process, the company must fully understand customers and the marketplace. This deep understanding will guide the customer value creation process.

Understanding the Marketplace and Customer Needs

OBJECTIVE 1-2 Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts.

As a first step, marketers need to understand customer needs and wants and the marketplace in which they operate. We examine five core customer and marketplace concepts: (1) needs, wants, and demands; (2) market offerings (products, services, and experiences); (3) value and satisfaction; (4) exchanges and relationships; and (5) markets.

Needs
States of felt deprivation.

Wants
The form human needs take as they are shaped by culture and individual personality.

Demands
Human wants that are backed by buying power.

Customer Needs, Wants, and Demands

The most basic concept underlying marketing is that of human needs. Human **needs** are states of felt deprivation. They include basic physical needs for food, clothing, warmth, and safety; social needs for belonging and affection; and individual needs for knowledge and self-expression. Marketers did not create these needs; they are a basic part of who we are as humans.

Wants are the form human needs take as they are shaped by culture and individual personality. An American needs food but may want roast turkey with all the fixings, followed by pumpkin pie. A person in Papua, New Guinea, needs food but may want taro, rice, yams, and pork, followed by banana cake with chocolate-coconut sauce. When backed by buying power, wants become **demands**. Given their wants and resources, people demand products and services with benefits that deliver the most value and satisfaction.

Companies go to great lengths to learn about and understand customer needs, wants, and demands. They conduct consumer research, analyze mountains of customer data, and observe customers as they shop and interact, offline and online. People at all levels of the company—including top management—should stay close to customers. For example, Starbucks CEO Kevin Johnson regularly spends time in Starbucks stores, working the counter, brewing coffee, handing out orders, wiping tables, and chatting with customers. Johnson wants to be certain that he understands “what it means to be human in a digital age and what that means for the future of Starbucks.” Amazon founder

Staying close to customers: Starbucks CEO Kevin Johnson regularly spends time in local Starbucks stores, working the counter, brewing coffee, handing out orders, wiping tables, and chatting with customers. He wants to understand “what it means to be human in a digital age.”

AP Photo/Ted S. Warren

and executive chair Jeff Bezos had a customer-facing email address that helped him identify customer concerns. "I see most of those emails," said Bezos, "and I forward them, some of them—the ones that catch my eye." Similarly, to see up close what their customers experience, Airbnb's CEO Brian Chesky and his co-founder Joe Gebbia regularly stay at the company's host locations, making sure they live up to the company's lofty vision. Such personal visits help the pair to shape new customer solutions based on real user experience.[5]

Market Offerings—Products, Services, Solutions, and Experiences

Market offerings
Some combination of products, services, solutions, and experiences offered to a market to satisfy a need or want.

Consumers' needs and wants are fulfilled through **market offerings**—some combination of products, services, solutions, and experiences offered to a market to satisfy a need or a want. Market offerings are not limited to physical products. They include services—activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything. Examples include banking, airline, hotel, retailing, and home repair services. They include solutions—combinations of products and services offered that solve customer problems in their entirety, as when a tour company provides end-to-end vacation planning and execution for a family. And they include experiences—offerings that are designed to create customer journeys with memorable customer touch points.

Marketing ideas and causes: Singapore's Land Transport Authority runs various campaigns to increase road safety.

Arterra Picture Library/Alamy Stock Photo.

More broadly, market offerings also include other entities, such as persons, places, organizations, information, ideas, and causes. For example, Singapore's Land Transport Authority (LTA) runs various campaigns that promote road safety ideas. Cycling has become a popular commuting option in Singapore, but there have been a number of accidents involving cyclists and other vehicles on the roads. In response, the LTA launched the #SaferRoadsForAll campaign, which featured a video to increase public understanding of the rules and guidelines that motorists and cyclists should follow to maintain road safety. The campaign promoted the idea that users should show care on the roads they share and included messages for cyclists and motorists to be more considerate of other commuters and to follow the rules and guidelines.[6]

Marketing myopia
The mistake of paying more attention to the specific products a company offers than to the benefits and experiences produced by these products.

Many sellers make the mistake of paying more attention to the specific products they offer than to the benefits and experiences produced by these products. These sellers suffer from **marketing myopia**. They are so focused on their products that they focus only on existing wants and lose sight of underlying customer needs.[7] They forget that a product is only a tool to solve a consumer problem. As famously emphasized by marketing guru Theodore Levitt: "People don't want to buy a quarter-inch drill. They want a quarter-inch hole." Myopic sellers will have trouble if a new product comes along that serves the customer's need better or less expensively. The customer will have the same *need* but will *want* the new product.

Smart marketers look beyond the attributes of the products and services they sell. By orchestrating several services and products, they create brand experiences for consumers. For example, every hospitality chain seeks to provide a clean, safe, comfortable room for guests. But the most successful hospitality businesses know that they offer much more than just basic places to stay. They offer unique experiences built around their brand's positioning. That's how the Mahali Mzuri safari camp—located in Kenya's renowned Masai Mara National Reserve—earned the title of "#1 hotel in the world" (see Real Marketing 1.1).

As another example, Apple's highly successful retail stores don't just sell the company's products. They create an engaging Apple brand experience:[8]

> Apple's retail stores are very seductive places, where "life-feels-good" experiences abound. The store design is clean, simple, and just oozing with style—much like an Apple iPad or a featherweight MacBook Air. The bustling stores feel more like community centers than retail outlets, with crowds of customers sampling the goods and buzzing excitedly about all things Apple. The stores encourage a lot of purchasing, to be sure. But they also encourage lingering, with tables full of fully functioning Macs, iPads, iPhones, and Apple Watches sitting out for visitors to try and dozens of laid-back Apple employees close at hand to answer questions and cater to every whim. The stores offer expert technical assistance at the Genius Bar and a full schedule of workshops where customers at all experience levels can learn about their Apple devices and explore their creative sides. You don't just visit an Apple store—you experience it in a way that no other

Real Marketing 1.1

Mahali Mzuri: An Immersive Experience at the World's Number-One Hotel

At their core, all lodging businesses have one basic thing in common: They provide people with places to stay when they travel away from home. But the best hospitality businesses know that they offer much more than just basic accommodations. They offer experiences built around those accommodations.

On the one hand, it might be the "Best Bang for Your Buck" experience offered by America's Best Value Inn—clean, safe, comfortable, well-located accommodations where travelers get "an honest stay and reliable service." On the other hand, it might be "The Ritz-Carlton Experience"—a truly memorable one that "enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests." Or it might be a unique Airbnb experience in which guests "live like a local."

When it comes to delivering unique and unforgettable experiences, few travel and hospitality businesses can match Kenya's Mahali Mzuri safari camp, recently named by *Travel + Leisure* magazine as the "#1 hotel in the world." The unique Mahali Mzuri experience is forged from a combination of inspired natural surroundings, unsurpassed accommodations and service, and memorable adventures.

Mahali Mzuri is located in Kenya's Masai Mara National Reserve, one of Africa's most famous and important wildlife conservation and wilderness areas. Maasai Mara is renowned for its exceptional year-round concentrations of wildlife, including African bush elephants, giraffes, lions, leopards, and cheetahs. Named one of the "Seven New Wonders of the World," by ABC's *Good Morning America,* the reserve's 600 square miles also play host to the more than 2 million wildebeests, zebras, and antelopes that make up the famous Great Migration. Winding its way through the reserve, the Mara River is home to dense thickets, large rafts of hippos, enormous crocodiles, endangered black rhinos, and more than 450 species of birds.

Living up to its name—Mahali Mzuri means "beautiful place" in Swahili—the safari camp is strategically located in the smaller, more exclusive, and privately owned Olare Motorogi Conservancy on the northern border of the national reserve. One of only five safari camps located in the conservancy, the eco-friendly Mahali Mzuri camp not only minimizes its environmental impact but also creates exclusive and authentic African bush experiences.

In line with its eco-friendly mission, the Mahali Mzuri's camp is small, with only 12 guest "tents" and room for a maximum of 24 guests at any given time. But what the Mahali Mzuri lacks in size it makes up for with, well, everything else. Maasai traditions and culture are respectfully interwoven into the camp experience. As guests arrive, they are greeted by young Maasai women and elders who dance and sing traditional songs of greeting and by Maasai warriors whose traditional jewelry makes an unforgettable sound. The guest tents, designed to look like Maasai shields, nestle seamlessly into the natural landscape to provide a feeling of being at one with the African bush. Built on platforms and situated on a ridge above a river, they sit just high enough to provide both exceptional views and safety from wandering wildlife.

As guests check in, it becomes immediately apparent that a stay at the Mahali Mzuri safari camp hardly qualifies as "camping." As one guest put it, "Yes, your suite is a 'tent' but it's like camping on steroids." The luxurious guest "tents" are in fact spacious tented suites, with handsome furnishings made by local Maasai people. The en-suite stylish bathrooms feature dark wood trim and contemporary fittings, including a large walk-in shower and a claw-foot bathtub. Each suite comes stocked with all the amenities of a modern luxury hotel room—a Bose sound system, a Nespresso machine, a fridge, a minibar, and Africology bath products. A centrally located main tent serves as a central gathering place. It's home to a relaxing lounge furnished with leather sofas, cowhide rugs, and velvet armchairs arranged around an open fireplace, library, and entertainment area featuring satellite TV and Wi-Fi. The main tent also houses the camp's lavish 36-foot infinity-edge swimming pool and full-service spa.

The all-inclusive Mahali Mzuri experience also includes world-class dining unlike any elsewhere in the world. Using locally sourced produce, chefs create authentic and mouthwatering Kenyan dishes such as ugali (a flour porridge), sukuma wiki (sautéed collard greens), and pilau (a rice dish) as well as dishes influenced by international cuisine. Gracious, well-trained staff serve these eye-and-palate-pleasing meals to guests on private decks, at large tables in the common dining tent, and even in the open bush during game drives. Exclaims another guest, an experienced world traveler, "the food is better than most Michelin-rated restaurants and the service will consistently knock your socks off."

The Mahali Mzuri's stunning location and opulent accommodations, however, are only the backdrop to the most essential Mahali Mzuri "world's-best" experience—an introduction to the wildlife and culture of Kenya's savannah. A stay at the Mahali Mzuri includes two safari game drives per day, led by expert local guides, giving guests unique and exciting vantage points for spotting animals. Game drives provided by most safari operators compete with each other for positioning when they observe wildlife. But in the privately owned Olare Motorogi Conservancy, Mahali Mzuri guests usually have the animals all to themselves.

Marketing experiences: When it comes to delivering unforgettable experiences, few travel and hospitality businesses can match Kenya's Mahali Mzuri safari camp, recently named by *Travel + Leisure* magazine as the "#1 hotel in the world."

Adam Slama

The guided game excursions venture deep into the conservancy and the national reserve. But at other times, Mahali Mzuri guests don't have to go searching for game—it comes to them. "I saw elephants and giraffes while drinking coffee in the morning," said one guest. "When we walked in and were greeted by a herd of elephants, I knew this was the right place for us," said another. Within a three-minute drive from camp, it's common for guests to see a herd of elephants, a troop of baboons, or a dazzle of zebras. But even from within the camp, guests armed with binoculars and telescopes have a front-row seat for viewing game from any of an abundance of viewing decks.

In fact, guests are told not to leave their tents unaccompanied after dark when the animals come closest. After "lights out" (the entire camp goes dark after hours to preserve energy), guests are immersed in nothing but the sounds of the African beyond. It isn't unusual for them to hear lions growling during a hunt or the cackling laughter of packs of hyenas.

Beyond the wildlife, a stay at the Mahali Mzuri includes an immersive cultural experience—a visit to a local Maasai village that lies just a short drive from camp. At the village, guests tour a traditional Maasai home, where they are treated to tea and a basic lesson in Maa, the Maasai language. They visit local markets, schools, and cattle holding areas. They learn about and observe local culture and even participate in games, traditional songs and dances, and building fires using dried elephant dung.

A stay at the Mahali Mzuri isn't cheap, with prices ranging from $1,000 to $1,700 per person per night, depending on the time of year. But visitors to the world's number-one hotel aren't looking for a bargain. Nor are they seeking just a nice room with good meals. Instead, they're seeking a transformational experience. When asked what lures travelers to the Mahali Mzuri, the resort's general manager had this to say: "As human beings, anything that draws us back to nature or to our origin like the Garden of Eden, we will pay for it. People will pay even more to come to a place like this where they are in touch with nature more privately and intimately. Nature takes you back to where it all started, to your roots." Concludes yet another satisfied guest, "We had a magical time."[9]

consumer electronics company can match. As one Apple retail executive explains, "I don't want to be sold to when I walk into a store. Don't sell! No! Because that's a turn-off. Build an amazing brand experience, and then [sales] will just naturally happen." And sales certainly do happen at Apple stores. Apple's more than 500 retail stores in 25 countries attract more than 1 million customers daily and generate the highest sales per square foot of any U.S. retailer.

Customer Value and Satisfaction

Consumers usually face a broad array of products and services that might satisfy a given need. How do they choose among these many market offerings? Customers form expectations about the value and satisfaction that various market offerings will deliver and buy accordingly. Satisfied customers buy again and tell others about their good experiences. Dissatisfied customers often switch to competitors and disparage the product to others.

Marketers must be careful to set the right level of expectations. If they set expectations too low, they may satisfy those who buy but fail to attract enough buyers. If they set expectations too high, buyers will be disappointed. Customer value and customer satisfaction are key building blocks for developing and managing customer relationships. We will revisit these core concepts later in the chapter.

Exchanges and Relationships

Exchange
The act of obtaining a desired object from a person or an organization by offering something in return.

Marketing occurs when people decide to satisfy their needs and wants through exchange relationships. **Exchange** is the act of obtaining a desired object from a person or an organization by offering something in return. In the broadest sense, the marketer tries to bring about a response to some market offering. The response may be more than simply buying or trading products and services. A political candidate, for instance, wants votes; a church wants membership and participation; an orchestra wants an audience; and a social action group wants idea acceptance.

Marketers create, maintain, and grow desirable exchange relationships with target audiences involving a product, service, idea, or other object. Companies want to build strong relationships by consistently delivering superior value. We will expand on the important concept of managing customer relationships later in the chapter.

Markets

Market
The set of all actual and potential buyers of a product or service.

The concepts of exchange and relationships lead to the concept of a market. A **market** is the set of actual and potential buyers of a product or service. The buyers share a particular need or want that can be satisfied through exchange relationships.

Marketing means managing markets to bring about profitable customer relationships. However, creating these relationships takes work. Sellers must search for and engage buyers, identify their needs, design good market offerings, set prices for them, promote them, and store and deliver them. Activities such as consumer research, product development, communication, distribution, pricing, and service are core marketing activities.

Although we normally think of marketing as being carried out by sellers, buyers also carry out marketing. Consumers do marketing when they search for products, interact with companies to obtain information, and make their purchases. In fact, today's digital technologies, from websites and social media to smartphone apps, have empowered consumers and made marketing a truly two-way affair. Thus, in addition to customer relationship management, today's marketers must also deal effectively with customer-managed relationships. Marketers are no longer just asking, "How can we influence our customers?" Instead, they are also asking, "How can our customers influence us?" and even "How can our customers influence each other?"

Figure 1.2 shows the main elements in a marketing system. Marketing involves serving a market of final consumers in the face of competitors. The company and competitors research the market and interact with consumers to understand their needs. Then they create and exchange market offerings, messages, and other marketing content with consumers, either directly or through marketing intermediaries. Each party in the system is affected by major environmental forces (demographic, economic, natural, technological, political, and social/cultural).

Each party in the system adds value for the next level. The arrows represent relationships that must be developed and managed. Thus, a company's success at engaging customers and building profitable relationships depends not only on its own actions but also on how well the entire system serves the needs of final consumers. Walmart cannot fulfill its promise of low prices unless its suppliers provide good-quality merchandise at low costs. And Ford cannot deliver a high-quality car-ownership experience unless its downstream dealers provide outstanding sales and service.

Author Comment | Once a company fully understands its consumers and the marketplace, it must decide which customers it will serve and how it will bring value to them.

Designing a Customer Value–Driven Marketing Strategy and Plan

OBJECTIVE 1-3 Identify the key elements of a customer value–driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.

Customer Value–Driven Marketing Strategy

Once it fully understands consumers and the marketplace, marketing management can design a customer value–driven marketing strategy. Marketing involves choosing target markets and building profitable relationships with them. The marketing manager must acquire, engage, keep, and grow target customers by creating, delivering, and communicating superior customer value.

To design a winning marketing strategy, the marketing manager must answer two important questions: What customers will we serve (what's our target market)? and How can we serve these customers best (what's our value proposition)? We will discuss these marketing strategy concepts briefly here and then look at them in more detail in Chapters 2 and 6.

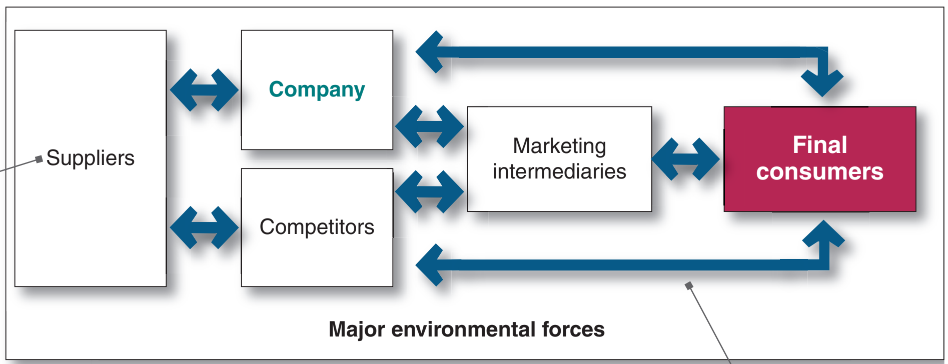


FIGURE 1.2
A Modern Marketing System

Selecting Customers to Serve

The company must first decide whom it will serve. It does this by dividing the market into segments of customers (market segmentation) and selecting which segments it will go after (target marketing). Some people think that marketing managers focus on finding as many customers as possible and increasing demand. But marketing managers know that they cannot serve all customers in every way. By trying to serve all customers, they may not serve any customers well. Instead, the company should select only customer segments that it can serve well and profitably. For example, Nordstrom profitably targets affluent professionals; Dollar General profitably targets families with more modest means. Ultimately, marketing managers must decide which customers they want to target and the level, timing, and nature of their demand.

Value propositions: JetBlue promises "award-winning service from award-winningly nice humans." "Just Alright Doesn't Fly Here."

Courtesy of JetBlue

Choosing a Value Proposition

The company must also decide how it will serve targeted customers—how it will differentiate and position itself in the marketplace. A brand's value proposition is the set of benefits or values it promises to deliver to consumers to satisfy their needs. JetBlue promises "award-winning service from award-winningly nice humans," proclaiming that "Just Alright Doesn't Fly Here." By contrast, Spirit Airlines gives you "Bare Fare" pricing: "Less Money. More Go." Video streaming service Hulu aims to "empower everyone to discover, share, and celebrate the stories that connect us." Netflix wants simply to let you "See What's Next." Online accommodations site Airbnb helps people to "Belong Anywhere"—to live like a local wherever they travel. Competitor Vrbo makes travel more of a family affair. It's "where families travel better together."

Such value propositions differentiate one brand from another. They answer the customer's question: "Why should I buy your brand rather than a competitor's?" Companies must design strong value propositions that give them a distinctive advantage in their target markets.

Marketing Orientations

Marketing managers want to design strategies that will engage target customers and build profitable relationships with them. But what philosophy should guide these marketing strategies? What weight should be given to the interests of customers, the organization, and society? Very often, these interests conflict.

There are five alternative concepts under which organizations design and carry out their marketing strategies: the production, product, selling, marketing, and societal marketing concepts.

Production concept
The idea that consumers will favor products that are available and highly affordable; therefore, the organization should focus on improving production and distribution efficiency.

The Production Concept. The **production concept** holds that consumers will favor products that are available and highly affordable. Therefore, management should focus on improving production and distribution efficiency. This concept is one of the oldest orientations that guide sellers.

The production concept is still useful in some situations. For example, both personal computer maker Lenovo and home appliance maker Haier dominate the highly competitive, price-sensitive Chinese market through low labor costs, high production efficiency, and mass distribution. However, the production concept can also lead to marketing myopia. Companies adopting this orientation run a major risk of focusing too narrowly on their own operations and losing sight of the real objective—satisfying customer needs and building highly profitable customer relationships.

Product concept
The idea that consumers will favor products that offer the most quality, performance, and features; therefore, the organization should devote its energy to making continuous product improvements.

The Product Concept. The **product concept** holds that consumers will favor products that offer the most in quality, performance, and innovative features. Under this concept, marketing strategy focuses on making continuous product improvements.

Product quality and improvement are important parts of most marketing strategies. However, focusing only on improving the company's products can also lead to marketing myopia. For example, some manufacturers believe that if they can "build a better mousetrap, the world will beat a path to their doors." But they are often rudely shocked. Buyers may be looking for a better solution to a mouse problem but not necessarily for a better mousetrap. The better solution might be a chemical spray, an exterminating service, a house cat, or something else that suits their needs even better than a mousetrap. Furthermore, a better mousetrap will not sell unless the manufacturer designs, packages, and prices it attractively; places it in convenient distribution channels; brings it to the attention of people who need it; and convinces buyers that it is a better product.

Selling concept
The idea that consumers will not buy enough of the firm's products unless the firm undertakes a large-scale selling and promotion effort.

The Selling Concept. Many companies follow the **selling concept**, which holds that consumers will not buy enough of the firm's products unless it undertakes a large-scale selling and promotion effort. The selling concept is typically practiced with unsought goods—those that buyers do not normally think of buying, such as life insurance or blood donations. These industries must be good at tracking down prospects and selling them on a product's benefits.

Such aggressive selling, however, carries high risks. It focuses on creating sales transactions rather than on building long-term, profitable customer relationships. The aim often is to sell what the company makes rather than to make what the market wants. It assumes that customers who are coaxed into buying the product will like it. Or, if they don't like it, they will possibly forget their disappointment and buy it again later. These are usually poor assumptions.

Marketing concept
A philosophy in which achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do.

The Marketing Concept. The **marketing concept** holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do. Under the marketing concept, customer focus and value are the paths to sales and profits. Instead of a product-centered make-and-sell philosophy, the marketing concept is a customer-centered sense-and-respond philosophy. The job is not to find the right customers for your product but to find the right products for your customers.

Figure 1.3 contrasts the selling concept and the marketing concept. The selling concept takes an inside-out perspective. It starts with the factory, focuses on the company's existing products, and calls for heavy selling and promotion to obtain profitable sales. It focuses primarily on customer conquest—getting short-term sales with little concern about who buys or why.

In contrast, the marketing concept takes an outside-in perspective. As Herb Kelleher, the colorful founder of Southwest Airlines, once put it, "We don't have a marketing department; we have a customer department." The marketing concept starts with a well-defined market, focuses on customer needs, and integrates all the marketing activities that affect customers. In turn, it yields profits by creating relationships with the right customers based on customer value and satisfaction.

Implementing the marketing concept often means more than simply responding to customers' stated desires and obvious needs. Customer-driven companies research customers deeply to learn about their desires, gather new product ideas, and test product improvements. Such customer-driven marketing usually works well when a clear need exists and when customers know what they want.

In many cases, however, customers don't know what they want or even what is possible. As Henry Ford supposedly remarked, "If I'd asked people what they wanted, they would have said faster horses." For example, even 20 years ago, how many consumers

FIGURE 1.3
Selling and Marketing Concepts Contrasted

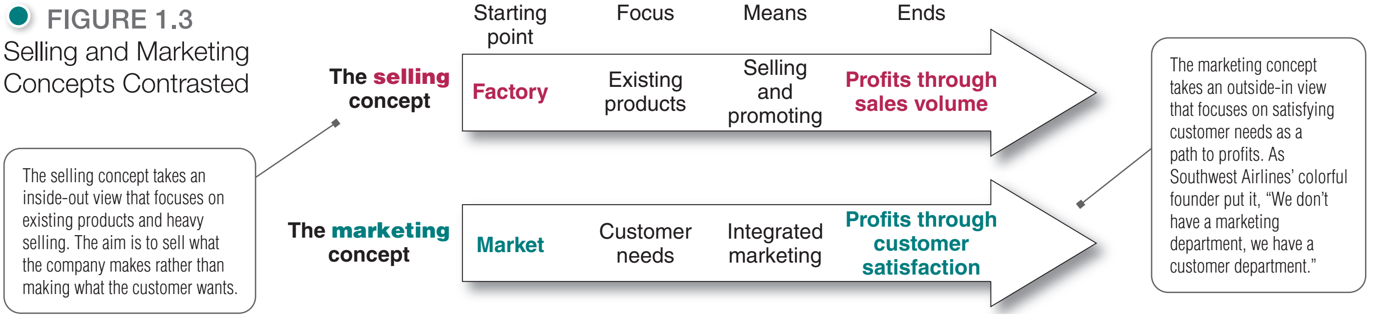
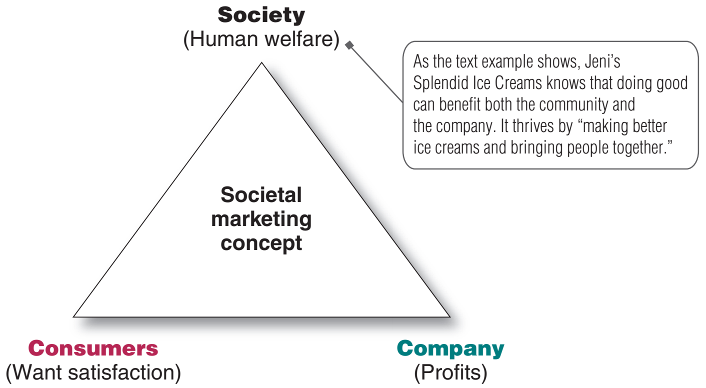


FIGURE 1.4
Three Considerations Underlying the Societal Marketing Concept



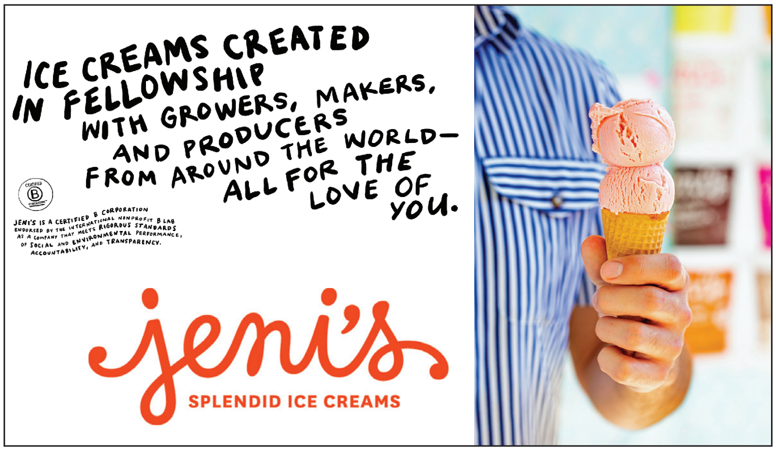
would have thought to ask for now-commonplace products such as smartphones, 24-hour online buying, digital video and music streaming, and all-electric vehicles? Such situations call for *customer-driving* marketing—understanding customer needs even better than customers themselves do and creating products and services that meet both existing and latent needs, now and in the future. As legendary Apple cofounder Steve Jobs once said, "Our job is to figure out what [consumers are] going to want before they do . . . . Our task is to read things that are not yet on the page."

Societal marketing concept
The idea that a company's marketing decisions should consider consumers' wants, the company's requirements, consumers' long-run interests, and society's long-run interests.

The Societal Marketing Concept. The **societal marketing concept** questions whether the pure marketing concept overlooks possible conflicts between consumer short-run wants and consumer long-run welfare. Is a firm that satisfies the immediate needs and wants of target markets always doing what's best for its consumers in the long run? The societal marketing concept holds that marketing strategy should deliver value to customers in a way that maintains or improves both the consumer's and society's well-being. It calls for sustainable marketing, socially and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs.

Even more broadly, many leading business and marketing thinkers are now preaching the concept of *shared value*, which recognizes that societal needs, not just economic needs, define markets.[10] The concept of shared value focuses on creating economic value in a way that also creates value for society. A growing number of companies known for their hard-nosed approaches to business—such as Google, GE, IBM, Johnson & Johnson, Nestlé, Unilever, and Walmart—are rethinking the interactions between society and corporate performance. They are concerned not just with short-term economic gains but with the well-being of their customers, the depletion of natural resources needed by their businesses, the welfare of key suppliers, and the economic well-being of the communities in which they operate. As consumer goods giant Nestlé puts it, "creating shared value is about sustainably delivering on shareholder expectations while helping to address global societal challenges. We believe that if we want to be successful in the long term, we must create value for our shareholders and society while also protecting the planet."[11]

As **Figure 1.4** shows, companies should balance three considerations in setting their marketing strategies: company profits, consumer wants, and society's interests. Fast-growing Jeni's Splendid Ice Creams operates this way:[12]



The societal marketing concept: Jeni's Splendid Ice Creams does more than just make good ice cream. It makes "ice creams created in fellowship with growers, makers, and producers from around the world all for the love of you."
Jeni's Splendid Ice Creams, LLC

> Jeni's Splendid Ice Creams makes and sells really good artisan ice cream in its own scoop shops, with exotic flavors such as Goat Cheese with Red Cherries, Wildberry Lavender, and Riesling Poached Pear sorbet. But Jeni's does more than just make and sell ice cream. It also dedicates itself to a deeply felt mission of "making better ice creams and bringing people together. That's what gets us out of bed in the morning and keeps us up late at night." Jeni's follows what it

calls a "fellowship model"—making great ice creams for communities, by communities. Signs in Jeni's shops proudly proclaim: "Ice creams created in fellowship with growers, makers, and producers from around the world all for the love of you."

To achieve this ambitious mission, Jeni's sources its ingredients carefully, using whole fruits and vegetables, milk from local grass-grazed cows, and herbs and wildflower honey from nearby farms, along with fair-trade vanilla and bean-to-bar direct trade chocolate. Jeni's believes in "buying directly and paying fairly for the ingredients, in having minimal impact on the environment, and in building and shaping community." It also works to involve its local communities. "Each time we open a store . . . we spend time in the neighborhoods; we want residents and visitors to be our partners. We think of our company as a community." Thanks to its societal mission, Jeni's is thriving. In less than 20 years, the business has grown from a pint-sized local operation to over 65 scoop shops across the country, all with devoted followings and pulling in annual revenues of nearly $96 million. You'll also find Jeni's in thousands of grocery stores, suggesting that doing good can benefit both the community and the company.

Preparing an Integrated Marketing Mix

The company's marketing strategy outlines which customers it will serve and how it will create value for these customers. Next, the marketer develops an integrated marketing mix that will actually deliver the intended value to target customers. The marketing mix consists of the set of marketing tools the firm uses to implement its marketing strategy.

The major marketing mix tools are classified into four broad groups, called the *four Ps of marketing*: product, price, place, and promotion. To deliver on its value proposition, the firm must first create a need-satisfying market offering (product). As discussed earlier, we can define the product broadly to include services, solutions, and experiences. The firm must then decide how much it will charge for the offering (price) and how it will make the offering available to target consumers (place). Today, the "place" includes not just traditional brick-and-mortar stores but also the internet, mobile channels, and other media that facilitate digital interaction and delivery. Finally, it must engage target consumers, communicate about the offering, and persuade consumers of the offer's merits (promotion). The firm must blend each of the marketing mix tools—the four Ps—into a comprehensive and integrated marketing program that communicates and delivers the intended value to chosen customers. We will explore the marketing mix in much more detail in later chapters.

Author Comment | Doing a good job with the first three steps in the marketing process sets the stage for step four, building and managing customer relationships.

Managing Customer Relationships and Capturing Customer Value

OBJECTIVE 1-4 Discuss customer relationship management and identify strategies for creating value for customers and capturing value from customers in return.

Engaging Customers and Managing Customer Relationships

The first three steps in the marketing process—understanding the marketplace and customer needs, designing a customer value–driven marketing strategy, and constructing a marketing mix composed of the fours Ps—all lead up to the fourth and overarching step: engaging customers and managing profitable customer relationships. We first discuss the basics of customer relationship management. Then we examine how companies go about engaging customers on a deeper level in this age of digital and social marketing.

Customer Relationship Management

Customer relationship management
The overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction.

Customer relationship management is a central concept in modern marketing. In the broadest sense, **customer relationship management** is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. It deals with all aspects of acquiring, engaging, and growing customers.

Relationship Building Blocks: Customer Value and Satisfaction. The key to building lasting customer relationships is to create superior customer value and satisfaction. In general, satisfied customers are more likely to be loyal customers and give the company a larger share of their business.

Customer-perceived value
The customer's evaluation of the difference between the benefits delivered by and the costs of obtaining and using a market offering, relative to those of competing offerings.

Attracting and retaining customers can be a difficult task. Customers often face a bewildering array of products and services from which to choose. A customer buys from the firm that offers the highest **customer-perceived value**—the customer's evaluation of the difference between the benefits delivered by and the costs of obtaining and using a market offering, relative to those of competing offerings. Importantly, customers often do not judge values and costs "accurately" or "objectively." They act on *perceived* value.

To some consumers, value might mean sensible products at affordable prices. To other consumers, however, value might mean paying more to get more. For example, a luxurious Patek Philippe costs a small fortune, ranging in price from $20,000 to $1,000,000 or more. But to those who own one, a Patek is a great value:[13]

> How could a watch costing $20,000 or even $1,000,000 be perceived not as expensive but in fact as a tremendous value? Every Patek Philippe watch is handmade by Swiss watchmakers from the finest materials. A standard Patek Philippe watch takes up to three years to plan and nine months to produce. More complex models often take two years to produce. "Every single component of every single watch is made by Patek Philippe and hand-finished by Patek Philippe," notes one observer. "Every. Single. Component. So, before it leaves Switzerland, roughly 1,000 people will have contributed to the production of each timepiece." Still not convinced? Beyond keeping precise time, Patek Philippe watches are also good investments. They carry high prices but retain or even increase their value over time. Many models achieve a kind of cult status that makes them the most coveted timepieces on the planet.
>
> But more important than just a means of telling time or a good investment is the sentimental and emotional value of possessing a Patek Philippe. Says the company's president: "This is about passion. I mean—it really is a dream. Nobody needs a Patek." These watches are unique possessions steeped in precious memories, making them treasured family assets. According to the company, "The purchase of a Patek Philippe is often related to a personal event—a professional success, a marriage, or the birth of a child—and offering it as a gift is the most eloquent expression of love or affection." A Patek Philippe watch is made not to last just one lifetime but many. Says one ad: "You never actually own a Patek Philippe. You merely look after it for the next generation."

Perceived value: Some owners consider a Patek Philippe watch a real bargain, even at prices ranging from $20,000 to $1,000,000 or more. "You never actually own a Patek Philippe. You merely look after it for the next generation."

Courtesy of Patek Philippe Geneva

Customer satisfaction
The sense of pleasure a buyer feels when a product's perceived performance matches or exceeds their expectations.

Customer satisfaction depends on the product's perceived performance relative to a buyer's expectations. If the product's performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is highly satisfied or even delighted.

Good marketers go out of their way to keep important customers satisfied. Higher levels of customer satisfaction often lead to greater customer loyalty, which in turn results in better company performance. Companies should aim to delight customers by promising only what they can deliver and then delivering more than they promise—they should "underpromise and overdeliver." Delighted customers not only make repeat purchases but also become willing brand advocates and "customer evangelists" who spread the word about their good experiences to others.

For companies interested in delighting customers, exceptional value and service become part of the overall company culture. For example, fast-food chicken chain Chick-fil-A excels at customer delight by creating an environment in which employees go the "second mile" in everyday customer service:[14]

> Chick-fil-A's melt-in-your-mouth chicken sandwich has kept customers lining up at its counters for decades. But ask loyal customers what they like best about Chick-fil-A and they'll likely tell you that it's the unbeatable service that really sets the chain apart. All Chick-fil-A employees are trained to go the "second mile" in providing service—not only meeting basic standards of food quality, cleanliness, and politeness but also going above and beyond by delivering each order to the customer's table, along with unexpected touches such as a fresh-cut flower, ground pepper for salads, or happily fetching drink refills.

Customer satisfaction: Fast-food restaurant chain Chick-fil-A excels at customer delight by creating an environment in which employees go the "second mile" in everyday customer service. It's in the spirit of the place.

Ken Wolter/Shutterstock

Customer delight is in the spirit of the place. Chick-fil-A employees constantly look for special ways to serve customers—such as retrieving dental appliances from dumpsters, walking customers to cars under umbrellas when it rains, or delivering smartphones and wallets that customers have left behind. Many Chick-fil-As even offer a special family service, inviting parents juggling small children to order at the drive-thru and then come inside where the family's meal is waiting on placemats at a table, complete with highchairs in place. "Whole Twitter threads and corners of the internet are devoted to the marvels of service that people have experienced at Chick-fil-A stores," says one analyst.

By consistently delighting customers, Chick-fil-A has earned a trophy case full of awards for top service quality. The chain has ranked number one in customer service among fast-food chains for seven straight years in the American Customer Service Satisfaction Index (ACSI). Chick-fil-A also took top honors in recent surveys by *Consumer Reports, Business Insider,* and *Newsweek-Statista*. Such high-quality service makes for happy customers, and happy customers make for fast-growing sales and profits. Chick-fil-A recently hurtled past Taco Bell, Burger King, Wendy's, and Subway to become the nation's third-largest fast-food chain, behind only McDonald's and Starbucks. But in the hearts, minds, and stomachs of its loyal fans, Chick-fil-A has long been number one.

Other companies that have become legendary for customer service include L.L.Bean, Amazon.com, Wegmans, Nordstrom department stores, and JetBlue Airways. However, a company doesn't need to have over-the-top service to create customer delight. For example, no-frills grocery chain ALDI's everyday very low pricing on good-quality products delights its loyal customers, who willingly bag their own groceries. Thus, customer satisfaction comes not just from service heroics but from how well a company delivers on the expectations it sets.

Although a customer-centered firm seeks to deliver high customer satisfaction relative to competitors, it does not attempt to maximize customer satisfaction. A company can always increase customer satisfaction by lowering its prices or increasing its services. But this usually lowers profits. Thus, the purpose of marketing is to generate customer value profitably. This requires a delicate balance: Marketers must manage customer satisfaction to maximize long-run profitability.

Customer Relationship Levels and Tools. Companies can build customer relationships at many levels. At one extreme, a company with many low-margin customers may seek to develop basic relationships with them. For example, P&G's Tide detergent does not phone or call on all of its consumers to get to know them personally. Instead, Tide creates engagement and relationships through product experiences, brand-building advertising, websites, and social media. At the other extreme, sellers may want to create full partnerships with key customers. For example, relationship managers at investment firms like e-Trade will regularly touch base with their high-net-worth customers to check on how the company can continue to serve them well.

Relationship marketing tools: The HHonors smartphone app personalizes and strengthens the customer's brand experience, offering a selection of rooms and on-property benefits.

Halil ERDOĞAN/123rf.com

Beyond offering consistently high value and satisfaction, marketers can use specific marketing tools to develop stronger bonds with customers. For example, many companies offer frequency marketing programs that reward customers who buy frequently or in large amounts. Airlines offer frequent-flier programs, hotels give room upgrades to frequent guests, and supermarkets give patronage discounts to "very important customers."

Today, many brands have a loyalty rewards program. Such programs can enhance a customer's brand experience. For example, Hilton's HHonors loyalty program allows customers to earn points redeemable for free stays or upgrades. These points can also be converted into miles for flight bookings. In addition, the member-exclusive HHonors smartphone app allows travelers to personalize their stay. It offers options like an eCheck-in or the selection of on-property benefits (such as pillows or snacks) prior to arrival. Travelers can pick their room of choice before their stay, either from a digital floor plan or by choosing their room's view with Google Maps. The app also serves as a digital key, meaning that travelers do not even need to visit the front desk. Additional features include personalized content reflecting the user's forthcoming travels, the option to request Uber rides, as well as restaurant recommendations. For future stays, the app offers the option of marking favorite hotels or hotel rooms.[15]

Customer Engagement and Today's Digital Media

Today's digital technologies have profoundly changed the ways that companies and brands connect with customers and how customers connect with and influence each other's brand behaviors. The digital age has spawned a dazzling set of customer relationship-building tools, from websites, online ads and videos, mobile ads and apps, and blogs to online communities and major social media platforms such as Facebook, Twitter, Instagram, YouTube, TikTok, and Snapchat.

Companies historically focused mostly on mass marketing brands at arm's length to broad segments of customers. In contrast, companies now use online, mobile, and social media to refine their targeting and to engage customers more deeply and interactively. This new marketing is **customer-engagement marketing**—fostering direct and continuous customer involvement in shaping brand conversations, brand experiences, and brand community. Customer-engagement marketing goes beyond just selling a brand to customers. Its goal is to make the brand a meaningful part of customers' conversations and lives.

Customer-engagement marketing
Making the brand a meaningful part of customers' conversations and lives by fostering direct and continuous customer involvement in shaping brand conversations, experiences, and community.

The burgeoning internet, mobile, and social media platforms have boosted customer-engagement marketing. Today's consumers are better informed, more connected, and more empowered than ever before. Newly empowered consumers have more information about brands, and they have a wealth of digital platforms for airing and sharing their brand views with others. Thus, marketers are now embracing not only customer relationship management but also *customer-managed relationships*, in which customers connect with companies and with each other to help forge and share their own brand experiences. Beyond building brand loyalty and purchasing, marketers want to create **customer brand advocacy**, by which satisfied customers initiate favorable interactions with others about a brand.

Customer brand advocacy
Actions by which satisfied customers initiate favorable interactions with others about a brand.

Greater customer empowerment means that companies can no longer rely on marketing by *intrusion*. Instead, they must practice marketing by *attraction*—creating market offerings and messages that engage customers rather than interrupt them. Hence, most marketers now combine their mass-media marketing efforts with a rich mix of online, mobile, and social media marketing that promotes brand-customer engagement, brand conversations, and brand advocacy among customers.

For example, companies post their latest ads and videos on social media sites, hoping they'll go viral. They maintain an extensive presence on Facebook, Instagram, Twitter, Snapchat, YouTube, TikTok, LinkedIn, and other social media to start conversations with and between customers, address customer service issues, research customer reactions, and drive traffic to relevant articles, web and mobile marketing sites, contests, videos, and other brand activities. They launch their own blogs, mobile apps, brand microsites, and consumer-generated review systems, all with the aim of engaging customers on a more personal, interactive level. Skilled use of social media can get customers involved with a brand, talking about it, and advocating it to others.

Engaging customers: Rather than using intrusive, hard-sell product pitches, Innocent Drinks interacts with customers in humorous ways, inspiring conversations and fostering relationships.

Martin Lee/Alamy Stock Photo

The key to engagement marketing is to find ways to enter targeted customers' conversations with engaging and relevant brand messages. Simply posting a humorous video, creating a social media page, or hosting a blog isn't enough. Successful engagement marketing means making relevant and genuine contributions to targeted customers' lives and interactions. Consider Innocent Drinks, the smoothies and juice company:

> Innocent Drinks was established in 1998 with the aim of becoming "Europe's favorite little juice company." The company's timing was crucial; it capitalized on the trend toward healthy eating and living. However, rather than using aggressive, hard-sell product pitches, Innocent

interacts with customers in a very humorous and informal way. Through engagement marketing, the company fosters a very personal relationship with its customers to make them feel valued and part of the brand. This is reflected in the way that packaging is designed—light-hearted and fun. For example, instead of displaying "use by" on its smoothie bottles, it says "enjoy by." Innocent's social media strategy has a conversational and often irreverent approach; its posts take on relevant topics, keywords, and hashtags with a dry sense of humor but never hijacks these topics to try and sell juice or smoothies. Its shared posts are often reactive; ideas are turned around in about half an hour. For Penguins Awareness Day, for example, the company shared a cartoon of a cute penguin on Twitter with a statement that there were no penguins in any of their products. The text underneath the picture called for action, saying that the company was doing its bit and asking its customers about their contribution to this day. In another tweet, Innocent made fun of a typical New Year workout plan by including 1 burp with 10 burpees, 1 sit down with 10 sit ups, and 1 nap. This type of humor helps Innocent Drinks engage with customers and creates conversations while keeping the brand's personality in the back of its audience's mind. Innocent's relational approach has engaged a substantial following, with more than a quarter of a million fans on Twitter alone. Innocent, in turn, picks up user-produced content to further deepen the relationship between the brand and its customers.[16]

Customer-Generated Marketing

Customer-generated marketing Brand exchanges created by customers themselves—both invited and uninvited—by which customers play a role in shaping their own brand experiences and those of other customers.

One form of customer-engagement marketing is **customer-generated marketing**, by which customers themselves help shape their own brand experiences and those of others. This might happen through uninvited customer-to-customer exchanges in social media, blogs, online review sites, and other digital forums. But increasingly, companies themselves are inviting customers to play a more active role in shaping products and brand content.

Some companies ask customers for new product and service ideas. For example, Oreo ran a #MyOreoCreation contest asking fans to come up with new flavor ideas. Three finalist flavors hit the stores for two months before fans voted online for a winner, who received $500,000. Other companies invite customers to play a role in shaping ads and social media content. For example, Heinz launched a "Draw Ketchup" campaign in which it asked customers across five continents to participate in an anonymous "social experiment" and simply "draw ketchup." Although it never identified the Heinz brand, all participants drew bottles of Heinz ketchup except two—one drew mustard; another drew only a red blob. "Whether it was the glass bottle, the logo with a tomato, or simply just Heinz scrawled across the bottle, it was pretty amazing to see," says a Heinz marketer. Many of the sketchers and their sketches—both sophisticated and amateurish—were featured in an online video and on digital billboards. Heinz also invited other customers to add their own drawings online, with a chance to win a custom-designed Heinz bottle with their label on it.[17]

Customer-generated content: Heinz invited people across five continents to "draw ketchup." Most drew Heinz. Many of the sketchers and their sketches—both sophisticated and amateurish—were featured in an online video and on digital billboards.

The Kraft Heinz Company

As it did with most things digital, the COVID-19 pandemic lockdown boosted the use of customer-generated content, as brands sought new ways to connect with isolated customers. For example, reflecting the fact that people could no longer gather and watch their favorite teams in public places, Buffalo Wild Wings created an uplifting "Sports Live On" ad—using purely customer-generated content—showing real people creating made-up sports in their homes. Facebook's "We're Never Lost If We Can Find Each Other" campaign used footage from real people showing how they were staying connected during the pandemic. And McDonald's spotlighted customer reactions to its long-awaited reopening with footage from real-life fans.[18]

Despite the successes, however, harnessing customer-generated content can be a time-consuming and costly process, and companies may find it difficult to mine even a little gold from all the content submitted. Moreover, because consumers have so much control over social media content, inviting their input can sometimes backfire. As a classic example, McDonald's famously launched a Twitter campaign using the hashtag #McDStories, hoping that it would inspire heartwarming stories about Happy Meals. Instead, the effort was hijacked by Twitter users, who turned the hashtag into a "bashtag" by posting less-than-appetizing messages about their bad experiences with the fast-food chain. McDonald's pulled the campaign within only two hours, but the hashtag was still churning weeks, even months later. In another example, Australian airline Qantas's social media team once made the mistake of asking customers to share their #QantasLuxury "dream luxury inflight experience." It seemed like a good idea but was launched just one day after the airline had grounded its fleet and locked out staff for 48 hours over a union pay dispute. Needless to say, staff and customer went into full Twitter bashtag mode.[19]

Looking forward, customer brand engagement—whether invited by marketers or not—will be an increasingly important marketing force. Through a profusion of videos, shared reviews, mobile apps, blogs, and websites, customers and the broader public are playing a growing role in shaping their own and other customers' brand experiences. Brands must embrace such customer empowerment and master digital and social media relationship tools—or risk being left behind.

Partner Relationship Management

When it comes to creating customer value and building strong customer relationships, today's marketers know that they can't go it alone. They must work closely with a variety of marketing partners. In addition to being good at customer relationship management, marketers must also be good at **partner relationship management**—working with others inside and outside the company to jointly engage and bring more value to their customers.

Partner relationship management
Working closely with partners in other company departments and outside the company to jointly bring greater value to customers.

Traditionally, marketers have been charged with understanding customers and representing customer needs to different company departments. However, in today's more connected world, every functional area in the organization can interact with customers. Rather than letting each department go its own way, firms must link all departments in the cause of creating customer value. At the same time, firms must be careful to not overwhelm customers with too many contacts across the different functional areas.

Marketers must also partner with suppliers, channel partners, and others outside the company. Marketing channels consist of distributors, retailers, and others who connect the company to its buyers. The supply chain describes a longer channel, stretching from raw materials to components to final products that are carried to final buyers. Through supply chain management, companies today are strengthening their connections with partners all along the supply chain. They know that their profits depend on how well their entire supply chain performs against competitors' supply chains.

Author Comment | Look back at Figure 1.1. In the first four steps of the marketing process, the company creates value for target customers, engages them, and builds strong relationships with them. If it does that well, it can capture value from customers in return, in the form of loyal customers who buy and advocate for the company's brands.

Capturing Value from Customers

The first four steps in the marketing process outlined in Figure 1.1 involve engaging customers and building customer relationships by creating and delivering superior customer value. The final step involves capturing value in return in the form of sales, market share, advocacy, and profits. By creating superior customer value, the firm creates satisfied customers who stay loyal, buy more, and advocate the brand to others. This, in turn, means greater long-run profits for the firm. Here, we discuss the outcomes of creating customer value: customer loyalty and retention, share of market and share of customer, and customer equity.

Creating Customer Loyalty and Retention

Good customer relationship management creates customer satisfaction. In turn, satisfied customers remain loyal and talk favorably to others about the company and its products. Studies show big differences in the loyalty between satisfied and dissatisfied customers. Even slight dissatisfaction can create an enormous drop in loyalty, especially when customer expectations are high. Thus, the aim of customer relationship management is to create not only customer satisfaction but also customer delight.

Keeping customers loyal makes good economic sense. In most cases, loyal customers spend more and stay around longer. Companies with highly loyal customer bases grown faster and deliver two to five times the shareholder returns. Research also shows that it's five times cheaper to keep an existing customer than acquire a new one. Conversely, customer defections can be costly. Losing a customer means losing more than a single sale. It means losing the entire stream of purchases that the customer would make over a lifetime of patronage. For example, here is a classic illustration of **customer lifetime value**:[20]

Customer lifetime value
The value of the entire stream of purchases a customer makes over a lifetime of patronage.

Customer lifetime value: To keep customers coming back, Stew Leonard's has created the "Disneyland of dairy stores." Rule #1—The customer is always right. Rule #2—If the customer is ever wrong, reread Rule #1.

Courtesy of Stew Leonard's

Stew Leonard, who operates a highly profitable seven-store supermarket in Connecticut, New Jersey, and New York, once said that he saw $50,000 flying out of his store every time he saw a sulking customer. Why? Because his average customer spent about $100 a week, shopped 50 weeks a year, and remained in the area for about 10 years. If this customer had an unhappy experience and switched to another supermarket, Stew Leonard's lost $50,000 in lifetime revenue. The loss could be much greater if the disappointed customer shared the bad experience with other customers and caused them to defect.

To keep customers coming back, Stew Leonard's has created what it calls the "Disneyland of Dairy Stores," complete with costumed characters, scheduled entertainment, a petting zoo, and animatronics throughout the store. From its humble beginnings as a small dairy store in 1969, Stew Leonard's has grown at an amazing pace. It's built 30 additions onto the original store, which now serves more than 300,000 customers each week. This legion of loyal shoppers is largely a result of the store's passionate approach to customer service. "Rule #1: The customer is always right. Rule #2: If the customer is ever wrong, reread Rule #1."

Customer lifetime value is an essential measure for assessing customer relationships. It looks beyond the profitability of any given transaction and emphasizes the long-term value of a customer or customer segment to the company over the lifetime of their relationship. In fact, a company can lose money on a specific transaction but still benefit greatly from a long-term relationship. This means that companies must aim high in building customer relationships. Customer delight creates an emotional relationship with a brand, not just a rational preference. And that relationship keeps customers coming back.

Growing Share of Customer

Share of customer
The portion of the customer's spending in its product categories that a company captures.

Beyond simply retaining good customers to capture customer lifetime value, good customer relationship management can help marketers increase their **share of customer**—the share they get of the customer's purchasing in their product categories. Thus, banks want to increase "share of wallet." Supermarkets and restaurants want to get more "share of stomach." Car companies want to increase "share of garage" and airlines want greater "share of travel."

To increase share of customer, firms can offer greater variety to current customers. Or they can create programs to cross-sell and up-sell more products and services to existing customers. For example, Amazon is highly skilled at leveraging relationships with its hundreds of millions of customers worldwide to increase its share of each customer's spending budget:[21]

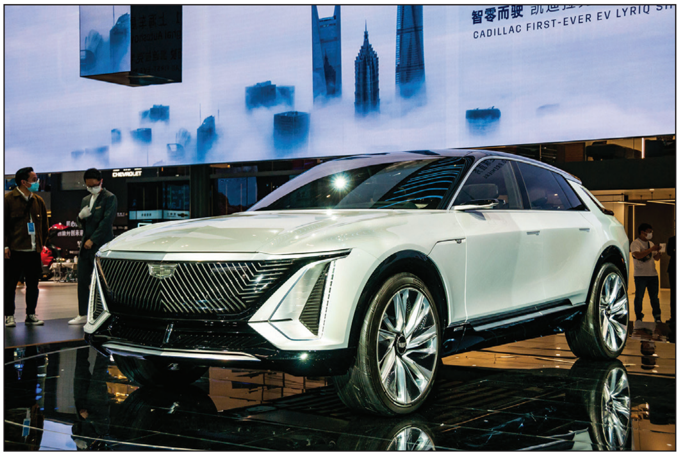
> Once on Amazon.com, customers often buy more than they intend, and Amazon works hard to make that happen. The online giant continues to broaden its merchandise assortment, carrying hundreds of millions of products and creating an ideal spot for one-stop shopping. And based on each customer's purchase and search history, the company recommends related products, increasing customer discovery and purchase with every visit. Amazon's ingenious Amazon Prime and Amazon Prime Now shipping programs have also helped boost its share of customers' wallets. According to one analyst, the ingenious Amazon Prime "converts casual shoppers, who gorge on the gratification of having purchases reliably appear two days [or even two hours] after the order, into Amazon addicts." Amazon's 157 million Prime customers spend, on average, 2.3 times more annually than non-Prime customers. And to dig even deeper into customers' wallets, Amazon is now expanding rapidly to physical stores to sell everything from groceries to consumer electronics.

Building Customer Equity

We can now see the importance of not only acquiring customers but also keeping and growing them. Customer relationship management takes a long-term view. Companies want to not only create profitable customers but also keep them for life, earn a greater share of their purchases, and capture their customer lifetime value.

Customer equity
The total combined customer lifetime values of all of the company's customers.

What Is Customer Equity? The value of a company comes from the value of its current and future customers. The ultimate aim of customer relationship management is to produce high customer equity.[22] **Customer equity** is the total combined customer lifetime values of



Managing customer equity: To increase customer equity, Cadillac is making the classic car cool again among younger buyers. For example, says GM, "Cadillac will lead the company to an all-electric future."

Mark Andrews/Alamy Stock Photo

all of the company's current and potential customers. As such, it's a measure of the future value of the company's customer base. Clearly, the more loyal the firm's profitable customers, the higher its customer equity. Customer equity may be a better measure of a firm's performance than current sales or market share. Whereas sales and market share reflect the past and present, customer equity looks to the future. Consider Cadillac:[23]

In the 1970s and 1980s, the name Cadillac defined "The Standard of the World." Cadillac's share of the luxury car market reached a whopping 51 percent in 1976, and the brand's future looked rosy. However, measures of customer equity would have painted a bleaker picture. Cadillac customers were getting older (average age 60), and many Cadillac buyers were on their last cars. Thus, although Cadillac's market share was strong, its customer equity was not.

Compare this with BMW. Its more youthful and vigorous image didn't win BMW the early market share war. However, it did win BMW younger customers (average age about 40) with higher customer lifetime values. The result: In the years that followed, BMW's market share and profits soared while Cadillac's fortunes eroded badly. Cadillac has since struggled to make the Caddy cool again with edgier, high-performance designs that positioned it more effectively against the likes of BMW and Audi with younger consumers. For example, GM announced that "Cadillac will lead the company to an all-electric future" with its first fully electric vehicle, the recently launched all-electric Cadillac Lyriq. Despite these efforts, however, Cadillac's market share has rebounded only modestly in recent years and still lags other luxury brands. The moral: Marketers should care not just about current sales and market share. Customer lifetime value and customer equity are the name of the game.

Building the Right Relationships with the Right Customers. Companies should manage customer equity carefully. They should view customers as assets that need to be managed and maximized. But not all customers, not even all loyal customers, are good investments. Surprisingly, some loyal customers can be unprofitable, and some disloyal customers can be profitable. Which customers should the company acquire and retain?

The company can classify customers according to their potential profitability and manage its relationships with them accordingly. **Figure 1.5** classifies customers into one of four relationship groups, according to their profitability and projected loyalty. Each group requires a different relationship management strategy. *Strangers* show low potential profitability and little projected loyalty. There is little fit between the company's offerings and their needs. The relationship management strategy for these customers is simple: Don't invest anything in them; try to make money on every transaction.

Butterflies are potentially profitable but not loyal. There is a good fit between the company's offerings and their needs. However, like real butterflies, we can enjoy them for only a short while and then they're gone. An example is stock market investors who trade shares often and in large amounts but who enjoy hunting out the best deals without building a regular relationship with any single brokerage company. Efforts to convert butterflies into loyal customers are rarely successful. Instead, the company should enjoy the butterflies for the moment. It should create satisfying and profitable transactions with them, capturing as much of their business as possible in the short time during which they buy from the company. Then it should move on and cease investing in them until the next time around.

True friends are both profitable and loyal. There is a strong fit between their needs and the company's offerings. The firm wants to make continuous relationship investments to delight these customers and engage, nurture, retain, and grow them. It wants to turn true friends into true believers, who come back regularly and tell others about their good experiences with the company.

Barnacles are highly loyal but not very profitable. Barnacles are perhaps the most problematic customers. There is a limited fit between their needs and the company's offerings. An example is smaller bank customers who bank regularly but do not generate enough returns to cover the costs of maintaining their accounts. Yet, being long-term customers, they often

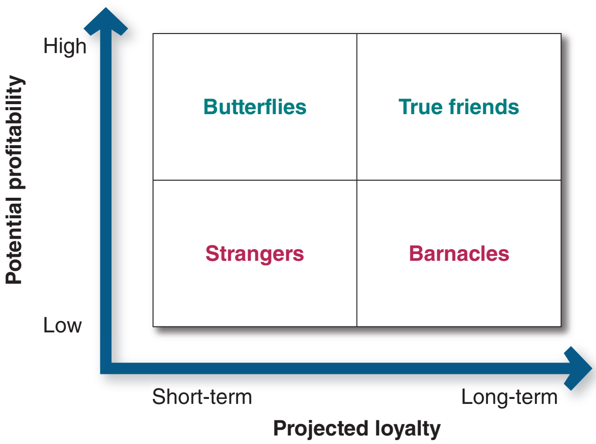


FIGURE 1.5
Customer Relationship Groups

ask for and absorb a lot of time and attention, taking away from efforts that would otherwise be spent on developing and nurturing true friends. Like barnacles on the hull of a ship, they create drag and reduce profitability. The company might be able to improve their profitability by selling them more, raising their fees, or reducing service to them. However, if they cannot be made profitable, barnacles should be "fired."

For example, Best Buy offers an attractive returns policy. But a small segment of frequent customers abuses this policy. So it tracks and scores individual customer returns. The system identifies the shoppers whose behavior suggests returns abuse or fraud. A shopper who exceeds a certain score is informed that future returns will be denied, even if it means losing the customer. Many large retailers, including Amazon, have similar policies. "We want everyone to be able to use Amazon," says Amazon, "but there are rare occasions where someone abuses our service over an extended period of time [causing us to] take action when appropriate to protect the experience for all our customers.[24]

The point here is important: Although pursuing customer satisfaction and loyalty is generally a good approach, some types of customers require different engagement and relationship management strategies. The goal is to build the right kinds of relationships with the right customers.

Author Comment Marketing doesn't take place in a vacuum. Now that we've discussed the five steps in the marketing process, let's look at how the ever-changing marketplace affects both consumers and the marketers who serve them. We'll look more deeply into these and other marketing environment factors in Chapter 3.

The Changing Marketing Landscape

OBJECTIVE 1-5 Describe the major trends and forces that are changing the marketing landscape in this age of relationships.

Every day, dramatic changes are occurring in the marketplace. Richard Love of HP once observed, "The pace of change is so rapid that the ability to change has now become a competitive advantage." Yogi Berra, the legendary New York Yankees catcher and manager, summed it up more simply when he said, "The future ain't what it used to be." As the marketplace changes, so must those who serve it. A company may not be able to control changes in the market, but it can do a lot to adjust to such changes. As Jimmy Dean noted: "I can't change the direction of the wind, but I can adjust my sails to always reach my destination."

Change has always shaped the marketing world. But change has been accelerated in recent years by major disruptions, ranging from the rapid rise of digital technologies and a number of culture-changing social movements to economic crises such as the Great Recession of 2008–2009, major environmental events, and the COVID-19 pandemic. Marketing in the age of disruption requires new thinking, strategies, and tactics. We will discuss the changing marketing environment in detail in Chapter 3. In this section, we examine four major developments that are changing the marketing landscape and challenging marketing strategy: the digital age, the growth of not-for-profit marketing, rapid globalization, and the call for sustainable marketing practices.

The Digital Age: Online, Mobile, and Social Media Marketing

The explosive growth in digital technology has fundamentally changed the way we live—how we communicate, share information, access entertainment, and shop. Welcome to the age of the **Internet of Things (IoT)**, a global environment where everything and everyone is digitally connected to everything and everyone else. Almost 5 billion people—63 percent of the world's population—are now online. Over 97 percent of all American adults own a mobile phone of some kind; 85 percent own a smartphone, up from just 35 percent a decade ago. These numbers will only grow as digital technology rockets into the future.[25]

Internet of Things (IoT)
A global environment where everything and everyone is digitally connected to everything and everyone else.

Many consumers are smitten with the digital world. For example, according to one study, the average American spends about 4.5 hours on non-voice smartphone activities each day. About 71 percent of them check their phones within 10 minutes of waking up, and about 61 percent have texted somebody in the same room as them. Some 47 percent of Americans consider themselves addicted to their phones, and about 48 percent feel a sense of panic or anxiety when their phone battery charge goes below 20 percent. Importantly to marketers, nearly 80 percent of smartphone users have made an online purchase using their phone in the past six months.[26]

Digital and social media marketing
Using digital marketing tools such as websites, social media, mobile apps and ads, online video, email, and blogs to engage consumers anywhere, at any time, via their digital devices.

The consumer love affair with digital and mobile technology makes it fertile ground for marketers trying to engage customers. It's no surprise then that the internet and rapid advances in digital and social media have taken the marketing world by storm. **Digital and social media marketing** involves using digital marketing tools such as websites, social media, mobile ads and apps, online video, email, blogs, and other digital platforms to engage consumers anywhere, anytime via their computers, smartphones, tablets, internet-ready TVs, and other digital devices. These days, almost every company is reaching out to customers with multiple websites, newsy tweets and Facebook pages, Instagram posts and Snapchat stories, shoppable TikTok content, viral ads and videos posted on YouTube, rich-media emails, and mobile apps that help consumers shop and solve their buying problems.

The COVID-19 pandemic greatly hastened the shift to digital in almost every area of human activity, including marketing-related activities. For example, the pandemic accelerated the shift to online shopping by an estimated 5 to 10 years. Before the pandemic, e-commerce sales were expected to account of 15 percent of all U.S. sales in 2020. But only three months into the pandemic, 25 percent of all sales were moving through online channels. Similarly, to connect with consumers who were often sheltering at home, marketers quickened their shift from in-store and in-person connections to digital-first consumer engagement strategies, boosting their use of online, mobile, social media, and other digital platforms to connect their brands with consumers. By one report, across 2020 and 2021, the COVID-19 pandemic boosted U.S. e-commerce sales by an estimated $218 billion.[27]

At the most basic level, marketers set up company and brand websites that provide information and promote the company's products. Many companies also set up online brand community sites, where customers can congregate and exchange brand-related interests and information. For example, the Fitbit Community section on the Fitbit app serves as a social hub for more than 1.1 million of the brand's enthusiasts. It's a place where Fitbit fans can share inspiration, updates, and milestones with fellow users; learn about local Fitbit events; and read brand-related news and expert content hand-picked for them.

Online brand communities: Sephora's Beauty Insider Community is a thriving online community where customers can ask questions, share ideas and reviews, post photos, and get beauty advice and inspiration from other enthusiasts.

Manuel Esteban/Shutterstock; Eyal Dayan Photography

And beauty products retailer Sephora's Beauty Insider Community—"the world's largest beauty forum"—is a thriving online community where customers can ask questions, share ideas and reviews, post photos, and get beauty advice and inspiration from other enthusiasts. Sephora works actively to make its online community diverse and inclusive. It reflects the company's written manifesto, which states that Sephora "believes in championing all beauty, living with courage, and standing fearlessly to celebrate our differences. We will never stop building a community where diversity is expected, self-expression is honored, all are welcomed, and you are included."[28]

The digital age has changed the marketing landscape. As such, offering innovative products that are customer-focused and can stand out from the competition is extremely important (see Real Marketing 1.2).

Beyond brand websites, most companies are also integrating social and mobile media into their marketing mixes.

Social Media Marketing

It's hard to find a brand website, or even a traditional media ad, that doesn't feature links to the brand's Facebook, Instagram, Twitter, YouTube, Snapchat, TikTok, Pinterest, LinkedIn, or other social media sites. Social media provide exciting opportunities to extend customer engagement and get people talking about a brand.

Some social media are huge—Facebook has more than 2.9 *billion* active monthly users, YouTube 2.6 billion, WhatsApp 2 billion, Instagram 1.5 billion, WeChat 1.3 billion, TikTok 1 billion, and Twitter more than 330 million. But smaller, more focused social media sites are also thriving. For example, each month CafeMom reaches 75 million members who exchange advice, entertainment, and commiseration at the community's online, Facebook, Twitter, Pinterest, YouTube, and mobile sites. Even tiny sites can attract active audiences. For example, Newgrounds.com targets gamers, programmers, and illustrators, and Ravelry.com targets knitters and crocheters.[29]

Online social media provide a digital home where people can connect and share important information and moments in their lives. As a result, they offer an ideal platform for *real-time marketing*, by which marketers can engage consumers in the moment by linking brands to important trending topics, real-world events, causes, personal occasions, or other happenings in consumers' lives. They provide an ideal platform for consumer engagement and building brand personality and community.

Real Marketing 1.2

Zoom: A Winning Product and Agile Marketing in the Digital Age

The COVID-19 pandemic triggered a sudden move to the digital world, with remote working, virtual learning, online consultations, and online socializing becoming the norm. The lockdowns and work-from-home requirements urged businesses to be nimble in responding to the fast-changing situation and to come up with ways to stay connected with their customers and employees. This propelled the need for efficient communication tools and video conferencing platforms. Although many video conferencing apps like Skype, Cisco, Webex, and Google Meet existed, Zoom, which was already a major player in the video conferencing industry, came into the limelight in a matter of days during the pandemic.

Zoom was founded in 2011 by Eric Yuan and is headquartered in San Jose, California. Zoom is a cloud-based video communications app that enables its users to set up online video and audio conferences and webinars with live chats, screen-sharing, and other functions for efficient virtual collaboration. In 2019, it was listed on the Nasdaq stock exchanges. During the pandemic, Zoom quickly became the benchmark for video conferencing and a platform providing real-time collaborative communication for businesses, organizations, public bodies, schools, colleges, universities, and personal use around the world.

Before the pandemic, people normally imagined video conferencing as a serious corporate meeting with participants who could not be physically present in the boardroom. However, the coronavirus changed this perception within a few days as video calling became the means through which society operated. Millions of people across the globe who were locked in their homes resorted to using video conferencing to attend not just work meetings but also birthday parties, school and college classes, virtual concerts, religious events, and even funerals. These unforeseen circumstances led to a race in the tech industry to fulfill the urgent communication needs of businesses and individual consumers. Some experts have commented that the accelerated adoption behavior exhibited by people is comparable to seven years' worth of adoption behavior as the market was pushed to plan, implement, and adopt a seven-year plan in two weeks. Zoom seemed to be the most ready to respond to the market needs. According to *Business Insider*, the usage of Zoom increased by a whopping 1900 percent between December 2019 and September 2020!

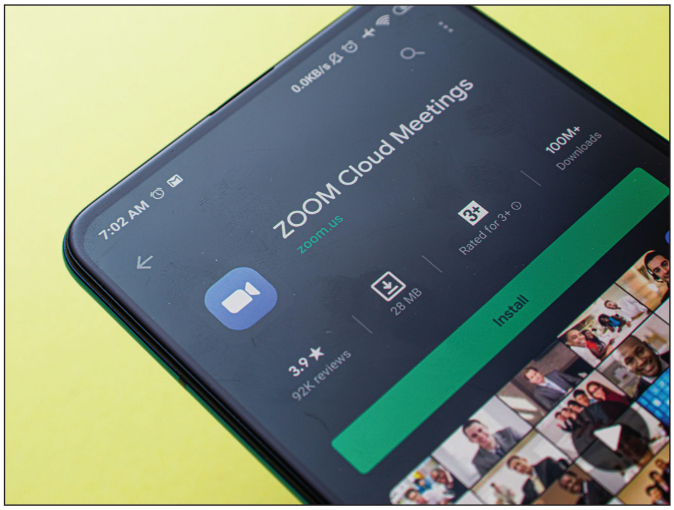
Zoom's primary appeal comes from its simplicity and the user-friendly experience it offers. The app is easy to get started with and the user interface is simple. The company prides itself on delivering happiness to its users by enabling them to connect with others, express ideas, and pursue future dreams and goals. Zoom has offered scalable and secure communication and collaboration solutions for individuals, small businesses, and large corporates alike. It has developed plans specifically tailored for different industries, including the government, education sector, healthcare sector, finance sector, and IT sector, to offer appropriate features and customer-support systems for their respective needs. As the usage and popularity of the app increased in the early days of the pandemic, the company continued to innovate, adding features to enhance the user experience. Some of its most popular capabilities preferred by its users include in-meeting chat, meeting recordings, screen-sharing, breakout rooms, virtual backgrounds, the raise-hand feature, remote support, personal meeting ID, the waiting room, and integration with Google and Outlook calendars.

Although Zoom reached unprecedented levels of popularity during the COVID-19 pandemic, it was already on an impressive growth path before the coronavirus triggered lockdowns and stay-at-home orders were enforced. It had already done the groundwork for its exemplary success based on three key factors: 1) having a strong customer focus as part of its DNA; 2) building an innovative product that sells itself; and 3) spending on marketing and brand building. According to the founder and CEO of Zoom, Eric Yuan, "From the start, Zoom's main focus had been to provide a cloud-based video conferencing platform that would exceed customers' expectations and make them happy."

Zoom believed that they had to break out of the crowded market space populated by companies like Microsoft, Cisco, Adobe, Polycom, Citrix, and newcomers like Highfive and JoinMe. To build a product that can outsell the competition in a crowded market, Zoom always operated under the philosophy of being customer-driven, and it sought to provide a product that would provide the best user experience. Zoom gathered extensive customer feedback to understand customer needs and to develop features that match expectations.

One of the most successful aspects of Zoom's marketing strategy has been offering a free version of the platform with up to 40 minutes of free video conferencing. Along with the positive word of mouth it received, Zoom's freemium model played a huge role in its customer acquisition efforts. Amid tough competition, getting customers to test the product is important, and a freemium product helped in achieving this for Zoom. Once a customer has tested Zoom and its features, they are often converted to loyal customers who transition from freemium to subscription plans.

Besides its focus on developing a customer-driven product, Zoom emphasized brand building. It believed that it had to get the Zoom brand in front of as many people as possible. To that end, it targeted the adventurous early adopters of the product who



Real-time marketing: Video conferencing app Zoom has made skillful use of real-time social media marketing to create a fresh, relevant brand personality and spark real-time engagement.

Seemanta Dutta/Alamy Stock Photo

often play a crucial role in spreading the word. Before its pandemic-boosted popularity, Zoom used billboards in tech districts like the Silicon Valley to make itself visible to technology enthusiasts who, as early adopters, would influence a wider user base.

During the pandemic, when it was experiencing exponential growth and when the world operated from home, Zoom ran a successful social media contest using its virtual background feature. Recognizing that more than 4 million people use social media every day, Zoom leveraged its power through a contest to drive consumer engagement across different social media channels. As the use of virtual meetings with co-workers, family, and friends became widespread in 2020 and 2021, Zoom reached out through social media to increase its brand awareness and encourage new users to install its product. To achieve its goals, Zoom started the Virtual Background contest and giveaways. Zoom asked its user community to share a video or photo of them using the virtual background feature every month. The winner of the contest was announced monthly on its social media channel and was awarded brand items and prizes.

Despite speculation that Zoom's tremendous growth during the worst of the pandemic would evaporate once people returned to work or schools, businesses reopened, and in-person events returned, it is clear now that virtual and remote are here to stay. Thanks to its customer focus and agility, Zoom remains a leading player in the video conferencing industry with its focus on innovation, brand building, and customer needs.[30]

Using online platforms and social media might involve something as simple as a virtual contest or promotion to garner Facebook Likes, tweets, Instagram "regrams," or YouTube postings. But more often these days, brands create large-scale, carefully integrated social media programs. For example, energy drink maker Red Bull uses a broad mix of social media to connect and inspire its enthusiastic fan base. It has nearly 48 million followers on Facebook, 2 million on Twitter, 16 million on Instagram, and 6.5 million on TikTok. Red Bull's high-energy social media pages hardly mention the company's products at all. Instead, they promote Red Bull's pedal-to-the-metal, adrenaline-filled lifestyle and provide a place where fans can connect with the brand and each other to share their common interests in extreme sports, music, and entertainment.

Mobile Marketing

Mobile marketing is perhaps the fastest-growing digital marketing platform. Smartphones are ever present, always on, finely targeted, and highly personal. This makes them ideal for engaging customers anytime, anywhere as they move through the buying process. For example, Starbucks customers can use their mobile devices for everything from finding the nearest Starbucks and learning about new products to placing and paying for orders. In turn, Starbucks uses the data collected by the app about customer preferences and purchasing behaviors to craft personalized offers and discounts for individual customers. Nearly two-thirds of Starbucks customers use the mobile app, and almost 25 percent of all orders in its stores are placed using the mobile app.[31]

Many consumers today rely heavily on their phones when shopping. They browse product information through apps or the mobile web, make price comparisons, read online product reviews, and make purchases from home, from work, or in stores. According to one study, nearly 7 out of 10 internet users would look for customer reviews on their phones while in-store before approaching a salesperson. Nearly 70 percent use shopping apps and 58 percent use their phones in a store to research products they are thinking about buying. And more than 70 percent of all online purchases are now made from mobile devices. As a result, to reach mobile shoppers, mobile advertising is surging and now accounts for about two-thirds of all digital ad spending.[32]

Marketers use mobile channels to stimulate immediate buying, make shopping easier, enrich the brand experience, reach on-the-go consumers, or all of these. For example, Taco Bell uses mobile advertising to reach consumers at what it calls mobile "moments that matter."[33]

As part of its ongoing push to promote Taco Bell for breakfast, the chain uses carefully targeted mobile advertising to reach consumers just as they are starting their day. It targets mobile ads based on specific behaviors such as which apps consumers use first in the morning, their favorite news apps, or what time of day they've looked at a breakfast recipe. Taco Bell also targets mobile ads geographically using navigation and traffic apps such as Google's Waze to zero in on specific customer locations, even providing step-by-step directions to nearby stores. In these ways, Taco Bell can customize mobile ads according to each customer's actions, experiences, and environment. In marketing its breakfasts, says the marketer, mobile lets Taco Bell be "present on experiences that consumers turn to when they first open their eyes in the morning."

Taco Bell is also integrating mobile marketing into its store operations through a new "Taco Bell Go Mobile" restaurant concept. It is opening new stores especially designed for customers ordering ahead through the Taco Bell mobile app. The Go Mobile stores will be smaller, with separate priority drive-thru lanes for customers who use the app to order and pay ahead. The stores will be fitted with technology integrated with the app, which creates a more seamless pickup experience. Taco Bell has also opened the innovative "Taco Bell Defy" store, which is a two-story restaurant with four drive-thru lanes running beneath and vertical lifts to transport Taco Bell menu items straight from the kitchen to fans. The Taco Bell Go Mobile strategy was motivated in part by changes in consumer restaurant behavior caused by the coronavirus pandemic. "With demand for our drive-thru at an all-time high, we know adapting to meet our consumers' rapidly changing needs has never been more important," says a Taco Bell executive.

Mobile marketing: Taco Bell is now opening stores like this "Taco Bell Defy" store that integrate store drive-thru with mobile ordering and pickup to create a seamless mobile customer experience.

Ken Wolter/Shutterstock

Online, social media, and mobile marketing are having a huge impact on customer engagement. The key is to blend the new digital approaches with traditional marketing to create a smoothly integrated marketing strategy and mix. We will examine digital, mobile, and social media marketing throughout the text—they touch almost every area of marketing strategy and tactics. Then, after we've covered the marketing basics, we'll look more deeply into digital and direct marketing in Chapter 14.

Big Data and Artificial Intelligence (AI)

With the explosion in digital technologies, marketers can now amass mountains of data. They are tapping information sources ranging from customer transactions to real-time data flowing from website and social media monitoring, smartphones, connected Internet of Things (IoT) devices, and many other sources. Brands can use such *big data* to gain deep customer insights, personalize marketing offers, and improve customer engagements and service.

To make sense of all this big data and use it to benefit their brands and customers, marketers are turning to ever-more-advanced marketing analytics. For example, *artificial intelligence (AI)* has burst onto the marketing scene. AI is the ability of a non-human device or system to collect and correctly interpret data and conditions related to the external environment, learn from such data and conditions, and take actions that maximize the likelihood of achieving its goals. Marketers can use AI to analyze data at lightning speed and apply the insights to engage customers in real time and help them through the buying process.

AI-empowered applications related to marketing include everything from customer-service chat bots and virtual assistants like Amazon Echo's Alexa or Apple's Siri to IBM's almost-human AI supercomputer Watson. For example, one medicine maker recently used Watson to shape personalized mobile ads to individual allergy medication customers based on real-time weather data and pollen counts in their areas. We will discuss the fascinating developments in big data and artificial intelligence more deeply in Chapter 4.

The Growth of Not-for-Profit Marketing

In recent years, marketing has also become a major part of the strategies of many not-for-profit organizations, such as colleges, hospitals, museums, zoos, symphony orchestras, foundations, and even churches. The nation's not-for-profits face stiff competition for support and membership. Sound marketing can help them attract membership, funds, and support. For example, consider the not-for-profit Make-A-Wish Foundation:[34]

> Make-A-Wish® has a powerful mission: "Together, we create life-changing wishes for children with critical illnesses." The organization works with volunteers, donors, and supporters with the lofty goal of meeting the wish of every child with a critical illness. It grants a child's wish somewhere in the United States every 34 minutes and never bills families for wishes fulfilled.

Not-for-profit marketing: Make-A-Wish® skillfully markets its mission to "create life-changing wishes for children with critical illnesses." Since its founding, Make-A-Wish has fulfilled more than 520,000 wishes to children at dark times in their lives, bringing them welcome rays of light and hope that can play an important part in their healing.

Make-A-Wish America

Granting wishes uplifts these children's spirits, even if for only a short time. And as Make-A-Wish notes: "A wish can be that spark that helps these children believe that anything is possible and gives them the strength to fight harder against their illnesses."

However, fulfilling the average wish can cost more than $10,000. So Make-A-Wish has to market its mission well hard to keep contributions rolling in. Its most potent marketing tool relates directly to its work—the moving stories of children in great need whose lives have been uplifted when their wishes were fulfilled. Make-A-Wish does a wonderful job of marketing through these stories—on its websites, through its ads, and through its robust presence on social media platforms ranging from Facebook to LinkedIn. Make-A-Wish works with volunteers to host a wide variety of fundraising events ranging from annual Mac & Cheese challenges to fashion shows and special movie screenings. And the organization garners the support of corporate partners, including "Mission Champions" Disney and Macy's, which contribute more than $5 million annually, and a dozen "Wish Champions" such as Avis, JetBlue, Southwest, and American Airlines that contribute than $1 million annually.

Make-A-Wish's marketing efforts produce amazing results. In a typical year, the organization raises more than $400 million in regular years and grants more than 9,000 wishes within just the United States. Since its founding in 1980, Make-A-Wish has granted more than 520,000 wishes to children at dark times in their lives, bringing each of them welcome rays of light and hope.

Public corporations such as state universities are also showing increased interest in marketing. The German government is helping public universities to assert themselves internationally. University marketing is designed to get students, young scientists, and researchers around the world excited about studying and researching at the universities. The Federal Ministry of Education and Research supports the exchange of German students, graduates, and researchers with the aim of providing young academics in Germany with international academic and cultural qualifications. Numerous programs support universities in asserting themselves internationally and in attracting outstandingly trained specialists locally.[35]

Rapid Globalization

Today, almost every company, large or small, is touched in some way by global competition. A neighborhood florist buys its flowers from Mexican nurseries, and a large U.S. electronics manufacturer competes in its home markets with giant Asian rivals. A fledgling internet retailer finds itself receiving orders from all over the world at the same time that an American consumer goods producer introduces new products into emerging markets abroad.

American firms have been challenged at home by the skillful marketing of European and Asian multinationals. Companies such as Toyota, Nestlé, and Samsung have often outperformed their U.S. competitors in American markets. Similarly, U.S. companies in a wide range of industries have developed truly global operations, making and selling their products worldwide. Quintessentially American McDonald's now serves 69 million customers daily in more than 37,000 local restaurants in more than 100 countries worldwide—73 percent of its corporate revenues come from outside the United States. Similarly, Nike markets in 190 countries, with non-U.S. sales accounting for 61 percent of its worldwide sales.[36] Today, companies are not just selling more of their locally produced goods in international markets; they are also sourcing more supplies and components abroad and developing new products for specific markets around the world.

Thus, managers in countries around the world are increasingly taking a global, not just local, view of the company's industry, competitors, and opportunities. They are asking: What is global marketing? How does it differ from domestic marketing? How do global competitors and forces affect our business? To what extent should we "go global"? We will discuss the global marketplace in more detail in Chapter 19.

Sustainable Marketing: The Call for More Environmental and Social Responsibility

Marketers are reexamining their relationships with social values and responsibilities, and with the very earth that sustains us. Today's consumers expect marketers to be socially and environmentally responsible, and pressures to act sustainably will likely grow in the future. Some companies resist these pressures, budging only when forced by legislation or organized consumer outcries. Most companies, however, now view sustainable marketing as an opportunity to do well by doing good. They seek ways to profit by serving immediate needs and the best long-run interests of their customers and communities.

Some companies, such as Patagonia, Unilever, Warby Parker, Ben & Jerry's, and others, practice *caring capitalism*, setting themselves apart by being civic minded and responsible. They build social and environmental responsibility into their company value and mission statements. For example, Ben & Jerry's, a division of Unilever, has long prided itself on being a "values-led business," one that creates "linked prosperity" for everyone connected to the brand—from suppliers to employees to customers and communities:[37]

Sustainable marketing: Ben & Jerry's three-part "linked prosperity" mission drives it to make fantastic ice cream (product mission), manage the company for sustainable financial growth (economic mission), and use the company in "innovative ways to make the world a better place" (social mission). Both Ben & Jerry's and its products are "Made of Something Better."

Ben & Jerry's Homemade Inc.

> Under its three-part mission, Ben & Jerry's wants to make fantastic ice cream (product mission), manage the company for sustainable financial growth (economic mission), and use the company "in innovative ways to make the world a better place" (social mission). Ben & Jerry's backs its mission with actions. For example, the company is committed to using wholesome, natural, non-GMO, fair-trade-certified ingredients and buys from local farms. It employs business practices "that respect the earth and the environment," investing in wind energy, solar usage, travel offsets, and carbon neutrality. Its Caring Dairy program helps farmers develop more sustainable practices on the farm ("Caring Dairy means happy cows, happy farmers, and a happy planet"). The Ben & Jerry's Foundation awards nearly $2 million annually in grassroots grants to community service organizations and projects in communities across the nation. Ben & Jerry's also operates 14 PartnerShops, scoop shops that are independently owned and operated by community-based not-for-profit organizations. The company waives standard franchise fees for these shops.

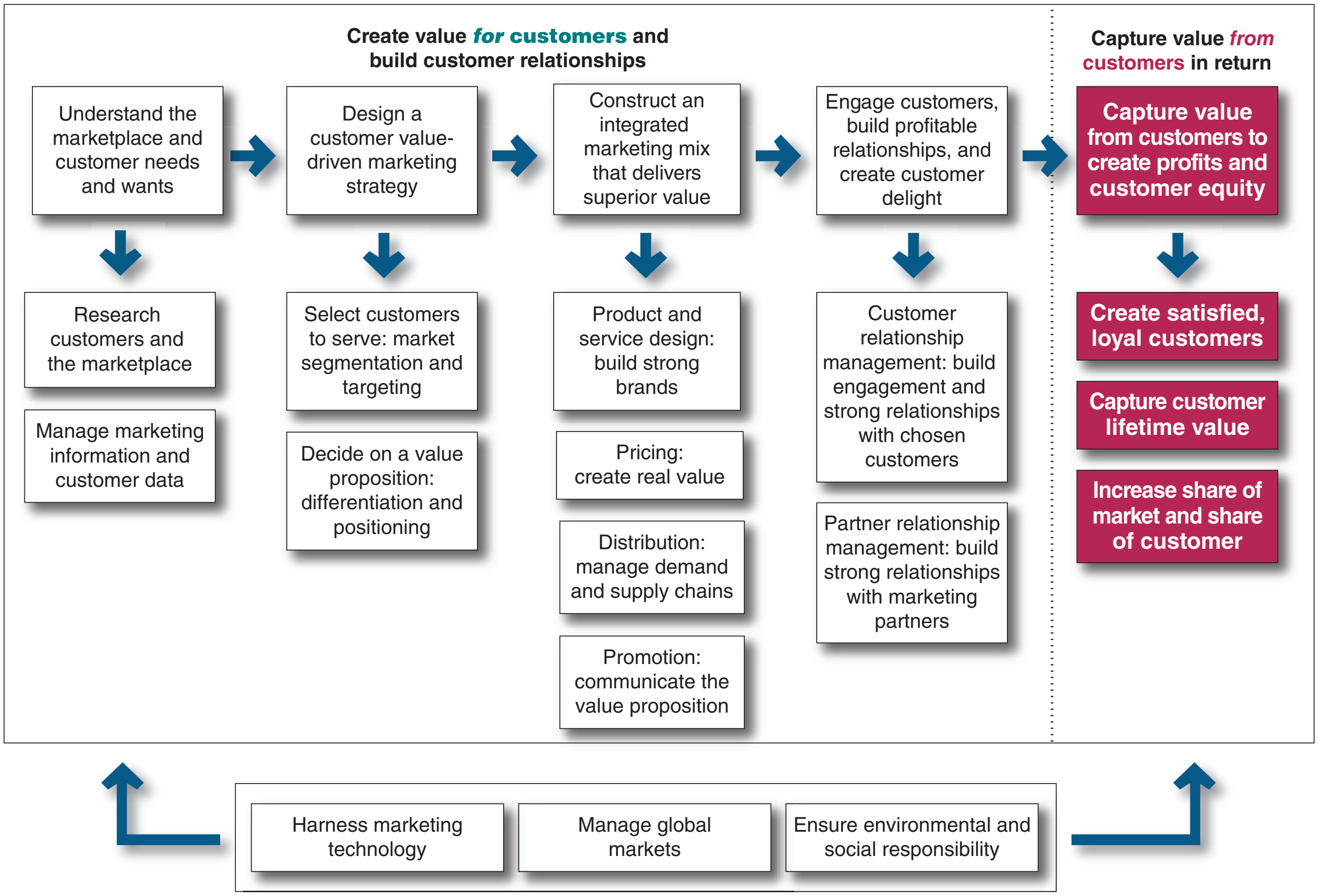
Sustainable marketing presents both opportunities and challenges for marketers. We will revisit the topic of sustainable marketing in greater detail in Chapter 20.

Author Comment | Remember Figure 1.1 outlining the marketing process? Now, based on everything we've discussed in this chapter, we'll expand that figure to provide a road map for learning marketing throughout the remainder of the text.

So What Is Marketing? Pulling It All Together

At the start of this chapter, Figure 1.1 presented a simple model of the marketing process. Now that we've discussed all the steps in the process, **Figure 1.6** presents an expanded model that will help you pull it all together. What is marketing? Simply put, marketing is the set of strategies and activities by which companies acquire and engage customers, build strong customer relationships, and create superior customer value in order to capture value from customers in return.

FIGURE 1.6
An Expanded Model of the Marketing Process



This expanded version of Figure 1.1 at the beginning of the chapter provides a good road map for the rest of the text. The underlying concept of the entire text is that marketing creates value for customers in order to capture value from customers in return.

The first four steps of the marketing process focus on creating value for customers. The company first gains a full understanding of the marketplace by researching customer needs and managing marketing information. It then designs a customer value–driven marketing strategy based on the answers to two simple questions. The first question is "What consumers will we serve?" (market segmentation and targeting). Good marketing companies know that they cannot serve all customers in every way. Instead, they need to focus their resources on the customers they can serve best and most profitably. The second marketing strategy question is "How can we best serve targeted customers?" (differentiation and positioning). Here, the marketer outlines a value proposition that spells out what values the company will deliver to win target customers.

With its core marketing strategy chosen, the company now constructs an integrated marketing mix consisting of a blend of the four mix elements—the four Ps—that transforms the marketing strategy into real value for customers. The company develops *product* offerings and creates strong brand identities for them. It *prices* these offers to create real customer value. It distributes or *places* the offers to make them available to target consumers. Finally, the company designs *promotion* programs that engage target customers, communicate the value proposition, and persuade customers to act on the market offering.

Perhaps the most important step in the marketing process involves engaging target customers and building value-laden, profitable relationships with them. Throughout the process, marketers practice customer relationship management to create customer satisfaction and delight. They engage customers in the process of creating brand conversations, experiences, and community. In creating customer value and relationships, however, the company cannot go it alone. It must work closely with marketing partners both inside the company and throughout its marketing system. Thus, beyond practicing good customer relationship management and customer-engagement marketing, firms must also practice good partner relationship management.

The first four steps in the marketing process create value for customers. In the final step, the company reaps the rewards of its strong customer relationships by capturing value from customers. Delivering superior customer value creates highly satisfied customers who will buy more, buy again, and advocate for the brand. This helps the company capture customer lifetime value and a greater share of the customer's spending. The result is increased long-term customer equity for the company.

Finally, in the face of today's changing marketing landscape, companies must consider three additional factors. In building customer and partner relationships, they must harness marketing technologies in the new digital age, take advantage of global opportunities, and ensure that they act in a socially and environmentally sustainable way.

Figure 1.6 provides a good road map for future chapters of this text. Chapters 1 and 2 introduce the marketing process, with a focus on building customer relationships and capturing value from customers. Chapters 3 through 6 address the first step of the marketing process—understanding the marketing environment, managing marketing information, and understanding consumer and business buyer behavior. In Chapter 7, we look more deeply into the two major marketing strategy decisions: selecting which customers to serve (segmentation and targeting) and determining a value proposition (differentiation and positioning). Chapters 8 through 17 discuss the marketing mix variables—the four Ps—in turn. Chapter 18 sums up customer value–driven marketing strategy and creating competitive advantage in the marketplace. The final two chapters examine special marketing considerations: global marketing, and sustainable marketing.

Developing Skills for Your Career

Marketing is an exciting, fast-changing discipline that offers a wide range of rewarding careers. See Appendix 3, Careers in Marketing, to see if one of these careers is right for you. But even if you're not planning a career in marketing or business, the lessons you learn in this course will help you in whatever career to choose and in your life more generally. You will acquire and apply many of the skills that employers have identified as critical to success in the workplace, which will contribute to your employability. Ultimately, good marketing managers are also good general managers.

In studying this text, you'll sharpen your *critical-thinking* and *problem-solving* skills as you learn about and assess marketing strategies, tactics, and issues. You'll expand your persuasive *communication* skills as you study and report on how marketers create advertising, digital, social media, and other promotional campaigns that engage consumers and create brand relationships. You'll see how *technology and marketing analytics* are dramatically reshaping the marketing world and apply some of these technologies in completing your own analyses of marketing problems. You'll learn the importance of *collaboration and teamwork* as you see how marketers work closely with others on their marketing teams and with managers in other company areas to develop overall organizational strategies and tactics. And you'll learn more about *business ethics and social responsibility*, from sections in the very first chapter through the final chapter on sustainable marketing.

During the course, your professors will help you to improve your critical thinking, analytical, communication, presentation, and teamwork skills through meaningful assignments, perhaps from the end-of-chapter exercises, cases, or appendixes in this text. Finally, beyond business applications, you'll see that marketing applies to your life more generally. For the rest of your life, you will be marketing yourself to others—championing your "personal brand." In fact, a favorite tactic of some employers during job interviewers is to give you this challenge: "Pretend you are a product and market yourself to me." After taking this course and studying this text, you should have ready answers.

Reviewing and Extending the Concepts

Objectives Review

Today's successful companies—whether large or small, for-profit or not-for-profit, domestic or global—share a strong customer focus and a heavy commitment to marketing. The goal of marketing is to engage customers and manage profitable customer relationships.

OBJECTIVE 1-1 Define marketing and outline the steps in the marketing process.

Marketing is the set of strategies and activities by which companies acquire and engage customers, build strong customer relationships, and create superior customer value in order to capture value from customers in return. The marketing process involves five steps. The first four steps create value for customers. First, marketers need to understand the marketplace and customer needs and wants. Next, marketers design a *customer value–driven marketing strategy* with the goal of getting, engaging, and growing target customers. In the third step, marketers construct a marketing mix that actually delivers superior value. All of these steps form the basis for the fourth step: engaging customers, building profitable customer relationships, and creating customer delight. In the final step, the company reaps the rewards of strong customer relationships by capturing value from customers.

OBJECTIVE 1-2 Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts.

Outstanding marketing companies go to great lengths to learn about and understand their customers' needs, wants, and demands. This understanding helps them to design want-satisfying market offerings and build value-laden customer relationships by which they can capture customer lifetime value and greater share of customer. The result is increased long-term customer equity for the firm. The core marketplace concepts are needs, wants, and demands; market offerings (products, services, solutions, and experiences); value and satisfaction; exchange and relationships; and markets. Companies address needs, wants, and demands by putting forth a *value proposition*, a set of benefits that they promise to consumers to satisfy their needs. The value proposition is fulfilled through a market offering, which delivers customer value and satisfaction, resulting in long-term exchange relationships with customers.

OBJECTIVE 1-3 Identify the key elements of a customer value–driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.

To design a winning marketing strategy, the company must first decide whom it will serve. It does this by dividing the market into segments of customers (market segmentation) and selecting which segments it will cultivate (target marketing). Next, the company must decide how it will serve targeted customers (how it will differentiate and position itself in the marketplace).

Marketing can adopt one of five competing market orientations. The *produc*tion concept holds that management's task is to improve production efficiency and bring down prices. The product concept holds that consumers favor products that offer the most in quality, performance, and innovative features; thus, little promotional effort is required. The selling concept holds that consumers will not buy enough of an organization's products unless it undertakes a large-scale selling and promotion effort. The marketing concept holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors do. The societal marketing concept holds that generating customer satisfaction and long-run societal well-being through sustainable marketing strategies is key to both achieving the company's goals and fulfilling its social responsibilities.

OBJECTIVE 1-4 Discuss customer relationship management and identify strategies for creating value for customers and capturing value from customers in return.

Broadly defined, customer relationship management is the process of engaging customers and building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. Customer-engagement marketing aims to make a brand a meaningful part of consumers' conversations and lives through direct and continuous customer involvement in shaping brand conversations, experiences, and community. The aim of customer relationship management and customer engagement is to produce high customer equity, the total combined customer lifetime values of all the company's customers. The key to building lasting relationships is the creation of superior customer value *and* satisfaction. In return for creating value for targeted customers, the company captures value from customers in the form of profits and customer equity.

OBJECTIVE 1-5 Describe the major trends and forces that are changing the marketing landscape in this age of relationships.

Dramatic changes are occurring in the marketing arena. Marketing in an age of disruption calls for new marketing thinking and strategies. The digital age has created exciting new ways to learn about, engage, and relate to individual customers. As a result, advances in digital, social, and mobile media have taken the marketing world by storm. Online, mobile, and social media marketing offer exciting new opportunities to target customers more selectively and engage them more deeply. And today's big data and improved marketing analytics, including artificial intelligence applications, are enhancing how marketers learn about and interact with customers.

In recent years, marketing has become a major part of the strategies for many not-for-profit organizations, such as colleges, hospitals, museums, zoos, symphony orchestras, foundations, and even churches. Also, in an increasingly smaller world, many marketers are now connected globally with their customers, marketing partners, and competitors. Finally, today's marketers are responding to the call to take greater responsibility for the social and environmental impacts of their actions.

Pulling it all together, as discussed throughout the chapter, the major new developments in marketing can be summed up in a single concept: engaging customers and creating and capturing customer value. Today, marketers of all kinds are taking advantage of new opportunities for building value-laden relationships with their customers, their marketing partners, and the world around them.

Key Terms

OBJECTIVE 1-1

Marketing

OBJECTIVE 1-2

Needs
Wants
Demands
Market offerings
Marketing myopia
Exchange
Market

OBJECTIVE 1-3

Production concept
Product concept
Selling concept
Marketing concept
Societal marketing concept

OBJECTIVE 1-4

Customer relationship management
Customer-perceived value
Customer satisfaction
Customer-engagement marketing
Customer brand advocacy
Customer-generated marketing
Partner relationship management
Customer lifetime value
Share of customer
Customer equity

OBJECTIVE 1-5

Internet of Things (IoT)
Digital and social media marketing

Discussion Questions

1-1 What is marketing, and what is the goal of the marketing process? (AACSB: Written and Oral Communication)

1-2 What are the five marketing orientations, and what do marketing managers prioritize when operating under each? (AACSB: Written and Oral Communication)

1-3 Marketers calculate and track customer-centered metrics to assess their performance, such as customer lifetime value customer equity. How are these two measures related? (AACSB: Written and Oral Communication; Reflective Thinking)

1-4 Discuss the concept of customer relationship management. Why is it essential that a business incorporates this in its operations? (AACSB: Communication; Reflective Thinking)

1-5 What is consumer-generated marketing? What are the challenges associated with consumer-generated marketing? (AACSB: Written and Oral Communication; Reflective Thinking)

1-6 Why is marketing as important for not-for-profit organizations as profit-driven ones? (AACSB: Communication; Reflective Thinking)

Critical Thinking Exercises

1-7 Visit www.lego.com and discuss how well LEGO balances the three considerations underlying the societal marketing concept. To what extent has LEGO embodied the societal marketing concept? (AACSB Written and Oral Communication; Analytical Thinking)

1-8 Consider the four customer relationship groups in Figure 1.5. Realizing that no group will be 100 percent satisfied, one can assume that some groups are likely to be more satisfied than others. As a marketing manager for Chase banking services (see www.chase.com), which groups would you aim to satisfy and profit from in the short run and, separately, in the long run, and why? What would your relationship management strategy be for each group in Figure 1.5? (AACSB: Written and Oral Communication; Reflective Thinking)

1-9 Some believe that social marketing is primarily effective only for bigger companies with the time and capacity to manage and update their media content. Choose a local business and evaluate its effectiveness in creating customer engagement. Is the content up-to-date and relevant? How does it manage its content? (AACSB: Communication; Use of IT; Reflective Thinking)

APPLICATIONS AND CASES

Digital Marketing Fionamania

Fiona, a hippopotamus who was born prematurely and survived, lives in the Cincinnati Zoo's Africa exhibit. Fiona became a star when the zoo's communication director and her team started posting every move she made from the day she was born. She became a symbol of resilience and positivity, earning millions of fans and engaging the not-for-profit zoo's visitors and potential donors. Videos of Fiona twirling around the internet gain millions of views and followers across social media, including Twitter, Instagram, and TikTok. She has inspired a children's book, beer, and ice cream flavors. She even had a reality show on Facebook (four seasons, 27 episodes, and 3.5 million followers). People are heavily invested in Fiona's story.

1-10 Go to the Cincinnati Zoo's Instagram or TikTok (@cincinnatizoo) and find posts that feature Fiona the hippo. How does the zoo's communications team engage with Fiona's fans? What benefit does the zoo receive from Fionamania? (AACSB: Written and Oral Communication; Reflective Thinking)

1-11 What can other not-for-profit marketers learn from the Cincinnati Zoo's use of social media to generate interest in Fiona? How does it fit with the Cincinnati Zoo's overall social media strategy? (AACSB: Written and Oral Communication; Reflective Thinking)

Marketing Ethics Exaggeration and High Pressure

It is a great temptation for manufacturers to exaggerate the benefits of their products on their packaging. Sometimes, the claims are overstated. Businesses want to make bold claims to help them sell more products. Some of the claims are morally wrong; others are just "advertising puff." A business might resort to high-pressurized sales techniques; in other cases, they might focus on vulnerable customer groups. Businesses need to make a profit, but is it wrong to try any means to achieve this? Legally, it often is.

1-12 How would a business begin to frame an ethical marketing process as a template for their activities now and in the future? (AACSB: Communication; Ethical Reasoning)

1-13 What is likely to motivate a business to adopt ethical marketing? (AACSB: Communication; Ethical Reasoning)

Marketing by the Numbers Be on the First Page

The internet has become a vital marketing medium, and pay-per-click (PPC) is one of the many ways for a business to attract traffic. It is risky, and a business can spend a lot of money, get a lot of visits, but end up with very few actual sales. Search engines allow businesses to buy listings in their search results; they appear next to the non-paid organic search results. These spots are sold by auction. If the business bids the most, they get a chance, but only the chance to be ranked first.

1-14 If you bid $1.25 on a keyword related to your product and 14,000 people click on your PPC, how much will the search engine charge you? (AACSB: Communication; Analytical Reasoning)

1-15 PPC can be expensive, so why is it popular as a marketing method? (AACSB: Communication; Reflective Thinking)

Company Case The Walt Disney World Resort: Making Magical Moments

More than 58 million people flock to The Walt Disney World Resort in Florida annually, making it the world's number one tourist attraction. On a single busy day, more than 300,000 eager guests might drop by to visit with Mickey and his friends across Disney World's four major theme parks—the Magic Kingdom, Epcot, Disney's Hollywood Studios, and Disney's Animal Kingdom.

What brings so many people to Disney World? Well, Disney World is a true fantasyland—more than 40 square miles (as big as San Francisco) brimming with thrill-a-minute attractions such as Expedition Everest, Twilight Zone Tower of Terror, Space Mountain, Soarin' Around the World, Toy Story Mania, Pirates of the Caribbean, Kilimanjaro Safaris, Millennium Falcon: Smugglers Run, and Guardians of the Galaxy: Cosmic Rewind. But Disney World doesn't offer just amusement park rides. The real "Disney Magic" lies in how the resort turns park visits into carefully orchestrated customer experiences that make dreams come true.

Imagineering the Magic

Disney World is obsessed with making all aspects of every customer's visit perfect. In an increasingly rude, mismanaged, and mundane world, Disney World offers warmth, order, and magical moments. Known to many as "The most magical place on earth," at Disney World, America still works the way it's supposed to. From the moment visitors purchase tickets to the moment they leave the resort, Disney goes to extremes to create experiences that fulfill guests' high expectations and dreams.

Each park, attraction, restaurant, and hotel is part of an enchanted world, with every nuance carefully dreamed up by Disney "Imagineers." On Epcot Center's Test Track, visitors don't just zoom around a track. They become GM test engineers putting concept vehicles through rigorous testing. At the Magic Kingdom's Be Our Guest dining room, guests don't just eat a meal. They experience French-inspired food inside Beast's castle, a place where it's always snowing gently outside, the suits of armor talk, and the magic rose glitters in a corner of the forbidden west wing. And at Disney's Polynesian Village Resort, guests aren't just staying in a hotel. They are immersed in the spirit of the South Pacific, surrounded by tropical palms, lush vegetation, authentic cuisine, and enticing performances that showcase the culture of the region.

All Disney World employees—from executives in the corner office to the person scooping ice cream on Main Street in the Magic Kingdom—are trained in helping people have fun. They learn that they are "cast members" whose job is to be enthusiastic, knowledgeable, and professional in serving Disney's "guests." They learn that each cast member plays a vital role in the Disney World "show," whether it's as a "security host" (police), "transportation host" (driver), "custodial host" (street cleaner), or "food and beverage host" (restaurant worker).

Before they can receive their "theme costumes" and go "on stage," cast members learn how to interact effectively with guests. In a course called "Traditions," they learn the Disney language, history, and culture. They learn to be enthusiastic, helpful, and *always* friendly. They learn to do good deeds, such as taking pictures of guests so that the whole family is in the picture. They are taught to never say "I don't know" or "It's not my job." When a guest asks "Where the nearest restroom?" or "What are the names of Snow White's seven dwarves?," they know the answer. And they know that if they see a piece of trash, they must pick it up.

Disney trains cast members to connect with guests on a personal level. Cast members proactively seek opportunities to turn the mundane into the magical. For example, a cast member who notices a child's disappointment might hand out a Lightning Lane ride voucher, confer a coveted special-edition Disney pin, or connect the family to just the right Disney character at just the right moment. One Disney fan recalls: "I was three and I swear Cinderella was waving [to me] from the castle and my brother yelled, 'Cinderella, my sister wants to meet you!' Minutes later, I was whisked away to meet Cinderella in a private meet and greet."

Challenges of Maintaining the Magic

Executing Disney's formula for creating magical experiences is not without its challenges. For starters, as Disney's reputation for delivering magical customer experiences has grown, so have the crowds. And as each park reaches its peak capacity, Disney must somehow maintain the magic in the face of long lines and shoulder-to-shoulder foot traffic.

Disney starts by using entertainment to alleviate the boredom of waiting. For example, Disney characters often pass through sluggish line areas, interacting with guests and posing for pictures. Even more engaging, Disney creatively designs queue spaces in ways that accentuate the illusions created by each attraction. For example, when eager fans go through the entrance of Guardians of the Galaxy: Cosmic Rewind—Disney World's newest and Epcot Center's only roller coaster—they are far from boarding the 20-person Vekoma "Omnicoaster" vehicles. Rather, they enter The Galaxarium on planet Xandar with visual and audio effects that make it seem like they are in another world. Visitors then enter the Xandar Gallery, where they learn more about the planet, its people, and its cities. They are treated to a broadcast of "Good Morning Xandar" on an enormous screen, featuring interviews with Star Lord and the other Guardian heroes. Fully immersed in the Xandar experience, they then enter the Phase Chamber, where the Xandarians' Cosmic Generator transports them to a Nova Corps Starcharter cruiser that happens to be orbiting Earth. But when Eson, a Celestial, steals the Cosmic Generator and announces his plans to turn back time to prevent Earth's creation, riders board the Starjumper shuttles to track Eson until the Guardians can arrive to save the day.

While Disney works hard to entertain people as they wait, lines on busy days often exceed 60 minutes of wait time. That's why Disney introduced FastPass over 20 years ago, a ride-reservation and line-skipping program. With FastPass, guests could grab tickets from kiosks in front of attractions and return at a designated time to enter the ride through an express lane. The program evolved to include RFID-embedded wristbands—MagicBands—that not only kept FastPass reservations but also doubled as electronic touchpoints for room keys, park passes, and payment methods and also connected to the full-featured MyDisneyExperience app. This program evolved to provide paid versions of the FastPass system—now branded Disney Genie+—giving visitors special privileges like making ride reservations electronically and remotely, providing special audio experiences, and getting Disney PhotoPass extras. Disney's technologies now allow cast members to identify guests individually, greeting them by name and even recognizing celebratory occasions such as birthdays, anniversaries, or reunions.

The Downside of High Expectations

Disney is renowned for delivering magical experiences. Thus, visitors have high expectations, which are further heightened by the high price of experiencing Disney World. A five-day Disney World vacation for a family of four in one of Disney World's "economy" hotels is priced around $5,700. And it doesn't help that once within the boundaries of Mickey's Kingdom, guests must pay Disney prices for everything from food to souvenirs.

Thus, no matter how hard Disney and its teams try, they simply can't make everything perfect. And while Disney does cap attendance at its parks, the limits are so high that parks become unnavigable seas of people. As one disgruntled holiday visitor eloquently put it on social media, "Don't go there on Christmas Holiday unless the only thing you want to see and feel is people." And when visitors pay Disney prices, they expect the best. That's why unexpected unpleasantries—everything from bad weather to ride closures caused by maintenance issues—can amplify guest dissatisfaction.

And while Disney FastPass programs have delivered much valued times savings to guests, they have also delivered some unexpected dissatisfactions. The more attractive the benefits of reserving rides, the more people sign up, making even the express lanes longer than most feel are acceptable. And the express lanes reminded those in the regular lines just how long they were waiting. With the introduction of paid FastPass options, many visitors felt coerced into paying the extra fees to get the best service. And those who didn't want to pay often felt like lower-class citizens. Making matters worse, when Disney introduced the Genie+ program after eliminating the FastPass system entirely during low-capacity restrictions imposed during the COVID-19 pandemic, guests were no longer allowed to make any time-saving ride reservations for free.

Still, most people who make the trek to The Walt Disney World Resort—whether for the day or for an extended stay—come away feeling more than satisfied. People don't go just to ride some rides. Instead, they visit to be part of a carefully choreographed experience—a magical world of wonder where dreams come true and things still work as they should. Disney has become so highly regarded for its ability to deliver customer experiences that many leading corporations have sent managers to Disney Institute to "discover the method behind the magic." As one avid Disney World fan puts it, "Walking down Main Street and seeing Cinderella's castle for the first time always makes my heart jump . . . . No matter what I'm going through . . . suddenly the world is filled with magic and wonder and possibilities all over again and I feel a wave of happiness flow over me and a smile creep back onto my face easily, not forced or painted on. A real, true smile."[38]

Questions for Discussion

1-16 Describe The Walt Disney World experience based on the concepts of needs, wants, and demands, differentiating the three.

1-17 What does Walt Disney World teach us about the internal culture, people, and processes that must be in place for an organization to create and deliver great customer experiences?

1-18 How do customer expectations influence Disney World's approach to creating great customer value and experiences? How can Disney manage those customer expectations?

1-19 How can The Walt Disney World Resort better meet the challenges it faces in delivering its famous customer experience? Come up with some original and innovative ideas.

1-20 *Small group exercise*: Choose any industry—health care, transportation, education, dining, or any other. Apply the learnings from Walt Disney World to come up with specific, innovative ideas to create fantastic experiences in your chosen industry. Present your ideas.

2 Company and Marketing Strategy

Partnering to Build Customer Engagement, Value, and Relationships

OBJECTIVES OUTLINE

OBJECTIVE 2-1 Explain company-wide strategic planning and its four steps.

OBJECTIVE 2-2 Discuss how to design business portfolios and develop growth strategies.

OBJECTIVE 2-3 Explain marketing's role in strategic planning and how marketing works with its partners to create and deliver customer value.

OBJECTIVE 2-4 Describe the elements of a customer value–driven marketing strategy and mix and the forces that influence them.

OBJECTIVE 2-5 Explore the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing marketing return on investment.

CHAPTER PREVIEW

In the first chapter, we explored the marketing process by which companies create value for customers to capture value from them in return. In this chapter, we dig deeper into steps two and three of the marketing process: designing customer value–driven marketing strategies and constructing marketing mix programs. First, we look at the organization's overall strategic planning, which guides marketing strategy and planning. Next, we discuss how, guided by the strategic plan, marketers partner closely with others inside and outside the firm to engage customers and create value for them. We then examine marketing strategy and planning—how marketers choose target markets, position their market offerings, develop a marketing mix, and manage their marketing programs. Finally, we look at the important step of evaluating the effectiveness of marketing strategy by measuring and managing marketing return on investment (marketing ROI).

First, let's look at Starbucks, a great brand and a good marketing strategy story. Starbucks met with enormous early success by focusing not just on coffee but on the coffee-drinking experience. The company has since taken a bumpy ride from boom to bust and back to boom again. Along the way, it learned that good marketing strategy means more than just growth, sales, and profits. It means skillfully engaging customers and creating value for them. At its core, Starbucks doesn't sell just coffee, it sells the "Starbucks Experience."

STARBUCKS: Delivering the "Starbucks Experience"

Four decades ago, Howard Schultz began transforming the coffee industry by bringing a European-style coffeehouse to America. He believed that people needed to slow down—to "smell the coffee" and to enjoy life a little more. The result was Starbucks, a retail coffee chain that revolutionized coffee and the quick-serve food industries based on a whole new strategy for engaging customers and creating customer value.

Starbucks didn't sell just coffee; it sold the "Starbucks Experience"—"an uplifting experience that enriches people's lives one moment, one human being, one extraordinary cup of coffee at a time." Starbucks gave customers what it calls a "third place"—a place away from home and away from work. At Starbucks, the smells, the sound of beans grinding, and watching baristas blend and brew the brand's specialty coffees all became as much or more a part of the customer experience as the coffee itself.

Over the next two decades, customers flocked to Starbucks cafés as they began dotting the nation and the planet, and the company's sales and profits rose like steam off a mug of hot java. However, Starbucks's enormous success drew a host of competitors. It seemed that every rival—from independent coffeehouses to fast-food restaurants—was peddling its own brand of premium coffee.

To maintain its phenomenal growth in the increasingly overcaffeinated marketplace, Starbucks brewed up an ambitious growth strategy. It opened new stores at a breakneck pace, seemingly everywhere. For example, one three-block stretch in Chicago contained six of the trendy coffee bars. In New York City, there were two Starbucks in one Macy's store. In fact, cramming so many stores so close together caused one satirical publication to run this headline: "A New Starbucks Opens in the Restroom of Existing Starbucks." The company also blanketed the country with Starbucks kiosks and coffee stands in everything from Target stores and supermarkets to hotel lobbies. And service businesses from airlines to car dealerships proclaimed: "We proudly serve Starbucks coffee."

The more Starbucks grew, however, the more it drifted away from the core mission and values that had made the brand so successful. The company's relentless focus on growth for growth's sake began to take a toll on the prized Starbucks Experience. Far from its roots as a warm and intimate coffeehouse, Starbucks began to evolve into more of a caffeine filling station. More and more, the premium brand found itself competing with the likes of—gasp!—McDonald's for many of the same customers.

Founder Howard Schultz, who had stepped down as CEO in 2000, expressed concern. In a 2007 memo to Starbucks management, Schultz lamented that the company's push for growth had "led to the watering down of the Starbucks Experience" and that Starbucks was "losing its soul." Schultz was right that something was wrong. By early 2008, when Schultz reassumed his role as Starbucks president and CEO, the company found itself in hot water. For the first time ever, the average number of transactions per U.S. store declined, and same-store sales growth slowed. Within just the previous two years, Starbucks's stock had tumbled nearly 80 percent. According to one analyst, "The financial vultures circled. Obituaries were drafted."

Instead of presiding over the brand's demise, however, Schultz reacted quickly to restore its luster. He cooled the pace of Starbucks's growth, closed underperforming locations, and replaced most of the company's top executives. Most important, Schultz laid plans to reestablish the company's core mission and values and to refocus the brand on giving customers the authentic Starbucks Experience. "As we grew rapidly and had phenomenal success," Shultz announced, "we started to lose sight of our focus on the customer and our commitment to continually and creatively enhance the Starbucks Experience." Starbucks needed to shift its focus back to customers—to "reignite the [brand's] emotional attachment with customers."

To emphasize the point, at a cost of $30 million, Schultz transported 10,000 Starbucks store managers to New Orleans for a morale-building reorientation. A short time later, Starbucks dramatically closed all of its U.S. locations for three hours to conduct nationwide employee training on the basics of producing satisfying customer experiences.

With those early actions, Starbucks began a process of continual renewal by which it reignited the Starbucks customer experience through new products, innovative store formats, and new platforms for engaging customers. Beyond improving its signature coffee products, Starbucks developed new products that take the Starbucks Experience into new areas. For example, it developed or acquired various beverage brands and broadened its premium food options. It now offers everything from hot breakfast entrées and focaccia sandwiches to protein boxes and yogurt parfaits.

More than just coffee, Starbucks sells the "Starbucks Experience," one that "enriches people's lives one moment, one human being, one extraordinary cup of coffee at a time."

Andrew Aitchison/Alamy Stock Photo

The company has also rolled out new store formats, such as the high-end Starbucks Reserve Roasteries—part café, part shrine, and part working roaster. Think of it as the Starbucks Experience on steroids. "We designed the Roastery as the pinnacle experience around all-things-coffee, and there is nothing else like it in the world," says Starbucks's current CEO. The ultimate expression of the Starbucks Experience, these flagship stores have rolled out slowly in the world's most cosmopolitan cities, including Shanghai, Milan, New York, Tokyo, and Chicago. Starbucks has also rolled out more than 40 smaller Starbucks Reserve Bars, like the Roasteries but offering a more intimate small-lot coffee experience.

Starbucks has also extended the Starbucks Experience well beyond its traditional stores through digital, mobile, and other high-tech platforms. Its highly successful Starbucks Rewards mobile app lets members order ahead, pay, earn rewards, and learn about new products and special offers. Starbucks thinks of its app as "a direct, real-time, personalized, two-way digital relationship with its customers."

Starbucks continues to modernize the Starbucks Experience to meet new marketplace realities in a post-pandemic world. When the COVID-19 pandemic hit, dramatically disrupting the restaurant industry, Starbucks responded aggressively with even greater emphasis on digital order-and-pay options through its Starbucks app. It added "contactless" pickup options, including drive-thru, curbside, grab-and-go, and at-the-door delivery. And in many U.S. markets, customers can now use Starbucks Delivers to have their Starbucks favorites brought to their doors through Uber Eats.

Starbucks has become America's—the world's—largest coffeehouse by skillfully engaging customers and delivering superior customer value. At its core, Starbucks doesn't sell just coffee. It sells the "Starbucks Experience."

These digital and delivery improvements have only extended and strengthened the Starbuck Experience. Although Starbucks's overall sales dipped more than 11 percent in fiscal 2020 at the start of the pandemic, the company's digital and delivery sales grew rapidly. During the third quarter of 2020 alone, Starbucks app downloads grew 17 percent, and 90 percent of Starbucks U.S. sales came through a combination of mobile order-and-pay and drive-thru. Starbucks Delivers transactions tripled. Today, Starbucks remains devoutly committed to delivering the one-of-a-kind Starbucks Experience. And once again, sales and profits are really perking. Every day, 383,000 Starbucks employees serve more than 25 million customers in over 34,000 stores in 83 countries.

The moral of the Starbucks story: Good marketing strategy means focusing first and foremost on delivering customer value. The objective isn't just growth or sales or profits; it's engaging customers in a meaningful way and creating value for them. If a company takes care of customer engagement and value, good performance will result. "It's not just about ringing a register and performing a task," says Schultz, now chairman emeritus at Starbucks. "It's also about creating an emotional, enduring relationship and connection with our … customers. At our core, we celebrate the interaction between us and our customers through the coffee experience. Life happens over coffee."[1]

Author Comment | Company-wide strategic planning guides marketing strategy and planning. Like marketing strategy, the company's broader strategy must also be customer focused.

Company-Wide Strategic Planning: Defining Marketing's Role

OBJECTIVE 2-1 Explain company-wide strategic planning and its four steps.

Each company must find the game plan for long-run survival and growth that makes the most sense given its specific situation, opportunities, objectives, and resources. This is the focus of **strategic planning**—the process of developing and maintaining a profitable strategic fit between the organization's goals and capabilities and its changing marketing opportunities.

Strategic planning
The process of developing and maintaining a profitable strategic fit between the organization's goals and capabilities and its changing marketing opportunities.

Strategic planning sets the stage for the rest of planning in the firm. Guided by the strategic plan, companies prepare annual and long-range operating plans. The annual and long-range plans deal with the company's current businesses and how to keep them going. In contrast, the strategic plan involves adapting the firm to take advantage of opportunities in its constantly changing environment.

At the corporate level, the company starts the strategic planning process by defining its overall mission (see Figure 2.1). The mission is an overarching goal that addresses how the company wants to positively affect its market or the society in which it operates. This mission is then translated into detailed supporting goals that guide the entire company. Next, as part of the strategic plan, the company decides what portfolio of businesses and products is best for the company and how much support to give each one. Marketing leaders such as the chief marketing officer play a key role in developing the mission and strategic plan at the corporate level. Following that, each business unit and product team develops detailed marketing plans that support the company's strategic plan. Thus, marketing planning occurs at the business-unit, product, and market levels.

Defining a Market-Oriented Mission

An organization exists to accomplish something, and this purpose should be clearly stated. Forging a sound mission begins with the following questions: What *is* our business? Who is the customer? What do consumers value? What *should* our business be? These simple-sounding questions are among the most difficult the company will ever have to answer. Successful companies continually raise these questions and answer them carefully and completely.

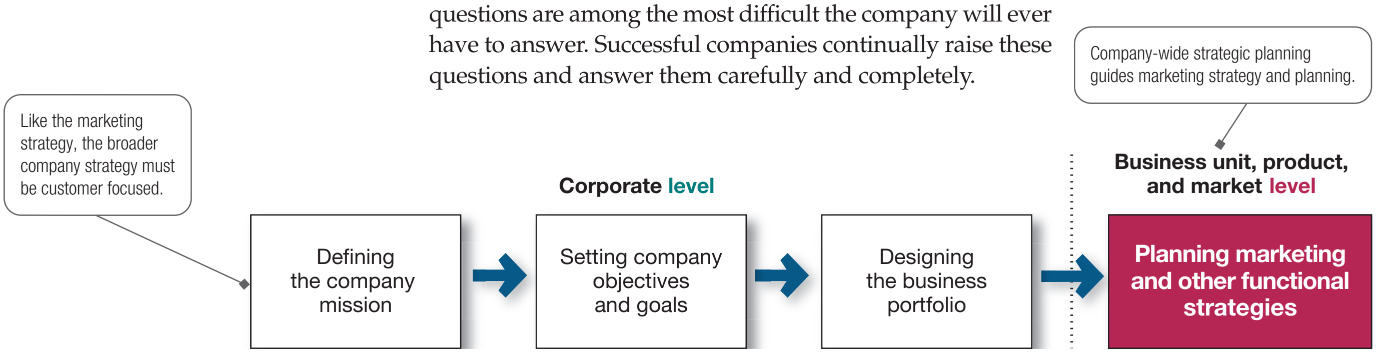


FIGURE 2.1
Steps in Strategic Planning

Mission statement
A statement of the organization's purpose—what it wants to accomplish in the larger environment.

Many organizations develop formal mission statements that answer these questions. A **mission statement** is a statement of the organization's purpose—what it wants to accomplish in the larger environment. A clear mission statement acts as an "invisible hand" that guides and energizes people in the organization. For example, 3M once defined its mission as "To solve unsolved problems innovatively." And Disney's aims quite simply "To make people happy."

Some companies define their missions myopically in product or technology terms ("We make and sell furniture" or "We are a chemical-processing firm"). But mission statements should be *market oriented* and defined in terms of satisfying customer and societal needs. Products and technologies eventually become outdated, but market and societal needs may last much longer, even forever. For example, social scrapbooking site Pinterest doesn't define itself as just an online place to post pictures. Its mission is to give people a social media platform for collecting, organizing, and sharing things they love. And Sephora's mission isn't to be a beauty products retailer. It's to sell lifestyle and self-expression by helping customers to unlock their beauty potential. **Table 2.1** provides several examples of product-oriented versus market-oriented business definitions.

Mission statements should be meaningful and specific yet motivating. Too often, mission statements are written for public relations purposes and lack specific, workable guidelines. Instead, they should emphasize the company's strengths and forcefully convey how it will make the world better while winning in the marketplace.

Finally, a company's mission should not be stated as making more sales or profits; profits are ultimately a reward for creating value for customers. Instead, the mission should focus on customer and societal benefits the company seeks to create. For example, Ritz-Carlton Hotels & Resorts doesn't see itself as just renting out rooms. It's on a mission to create "The Ritz-Carlton Experience," one that "enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests." Ritz-Carlton follows up this mission with specific steps of service by which every employee can help to turn the mission into reality.[2] Similarly, home furnishings retailer IKEA doesn't just sell furniture. It pursues simple but powerful customer-focused mission: to "create a better everyday life for the many people" (see Real Marketing 2.1).

Table 2.1 | Product- versus Market-Oriented Business Definitions

Company	Product-Oriented Definition	Market-Oriented Definition
Starbucks	We sell coffee and snacks.	We sell the "Starbucks Experience," one that enriches people's lives one moment, one human being, one extraordinary cup of coffee at a time.
Walmart	We run discount stores.	We deliver low prices every day and give ordinary folks the chance to buy the same things as rich people. "Save Money. Live Better."
Zoom	We host online meetings.	We deliver happiness by making video communications frictionless and secure, empowering people to accomplish more.
Home Depot	We sell tools and home repair and improvement items.	We empower consumers to achieve the homes of their dreams.
NPR	We are a public radio network.	We create a more informed public—one challenged and invigorated by a deeper understanding and appreciation of events, ideas, and cultures.
Sephora	We are a beauty products retailer.	We sell lifestyle and self-expression by helping customers to unlock their beauty potential.
Airbnb	We rent places online.	We help create a world where people can "belong anywhere," where they can live in a place instead of just traveling to it.
Cargill	We sell food and agricultural products.	We nourish the world in a safe, responsible and sustainable way.

Real Marketing 2.1 | IKEA's Mission: Creating a Better Everyday Life for the Many People

IKEA, the world's largest home furnishings retailer, is the quintessential global cult brand. Last year, more than 775 million shoppers flocked to the Scandinavian retailer's 458 huge stores in 59 countries, generating revenues of more than $48 billion. That's an average of about $105 million per store annually, more than double Walmart's average per-store sales. IKEA is big, and it's getting bigger—its revenues have nearly doubled during the past decade.

At the heart of IKEA's success is a steadfast focus on its simple but powerful customer-focused mission: to "create a better everyday life for the many people." More than 70 years ago, IKEA founder Ingvar Kamprad developed what became known as the "IKEA concept." He was a native of Småland, Sweden, where the soil was poor and the people had a reputation for working hard, living frugally, and making the most of limited resources. IKEA reflects those characteristics—"offering 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."

That mission forms the foundation for IKEA's entire operating model, and it provides the guiding light for IKEA's culture and values. Far more than just a home furnishings retailer, the company curates an IKEA lifestyle. According to IKEA, "a better home creates a better life. So we work to create better homes, every day, through the products and solutions we offer." At IKEA, this mission is more than just lofty words. True to its mission, IKEA offers a wide range of well-designed, functional home furnishings at consistently low prices.

"Creating a better everyday life" happens not only through the look of IKEA's products but also in how well they work. For example, like most of its upholstered furniture, the best-selling Klippan sofa has a removable cover, so customers can wash it easily or change the sofa's looks by simply replacing the cover. And characteristic of IKEA's cabinets, bookcases, and shelves, its PAX wardrobe system is modular, letting customers mix and match components that best meet their needs and spaces.

Such adaptability is key in IKEA's simple designs that have a timeless, near-universal appeal that never ages. For example, the POANG—an upholstered chair based on a laminated, bentwood frame with only two front legs—was created in 1976 but remains one of the company's best-selling lines today. The same holds true for its BILLY bookcase—a product that sells every five seconds. In fact, most of IKEA's best-selling products have been around for years. And that's how IKEA customers enjoy countless practical IKEA products that at first seem designed for a single purpose but work well in countless situations.

Another makes-life-better aspect of IKEA products is their convenient "flat pack," assemble-at-home design. Getting big furniture items home from other stores requires a truck or professional movers. Not so with IKEA, where enterprising customers can pull products from shelves, load them into a car or minivan, and carry them home. And although IKEA furniture often requires assembly, IKEA has discovered that the assembly process makes customers feel more engaged with and connected to its products and the IKEA brand.

As important, IKEA's "flat pack" design also keeps prices down by reducing the retailer's labor, transportation, and warehousing costs. To support the affordable-pricing side of its mission, IKEA is a relentless cost-cutter. It keeps prices low through product design, volume selling, and working closely with carefully selected supplier-partners who share IKEA's mission and dig in to help IKEA meet cost targets. IKEA aims to set the price of every IKEA product at half the price of similar products from competitors. And with its focus on cost-cutting, IKEA can keep the price of a popular product constant over time or even reduce it. For example, when IKEA opened its first U.S. store in Philadelphia in 1985, it priced its basic Klippan sofa at $395. Today, that same sofa costs just $319.

In its quest to improve people's lives, IKEA obsesses over the customer experience. Its showrooms are more than just stores. They are one-stop home-shopping emporiums filled with merchandise and friendly, helpful employees. The average IKEA store, at 300,000 square feet (about 50 percent larger than the average Walmart Supercenter), might seem overwhelming at first. But IKEA designs its stores with the same care that it puts into designing its products.

To offset the stores' massive size, IKEA divides them into three main sections. Showrooms display furnishings in real-room settings, the marketplace houses small items, and the warehouse makes it easy for customers to pull their own furniture items in flat-pack boxes and cart them to checkout. At any IKEA in the world, parents can drop off their children in the IKEA Småland play area and feed the entire family in IKEA's famous three-meal-a-day cafeteria and snack bar, making it easy to hang around and shop for hours.

IKEA follows a highly standardized global operating model worldwide. No matter where in the world you shop at IKEA—from Beijing to Moscow to Middletown, Ohio—you'll find huge stores, large selections of contemporary Scandinavian-design furnishings, and affordable prices. However, IKEA has learned that, when it comes to global markets, the meaning of "a better everyday life" often depends on where you live. So all over the world, IKEA works to adapt its mission to the distinct needs and tastes of local consumers.

There are limits to how much IKEA can adapt product designs and assortments without increasing costs. So instead of making wholesale product changes around the globe, IKEA often simply adapts its marketing

IKEA's deeply held mission is to "create a better everyday life for the many people . . . by offering 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."

Used with the permission of Inter IKEA Systems B.V.

and merchandising to show locals how IKEA's standard products and the IKEA lifestyle fit with their lives and cultures. For example, showrooms in Japan and the Netherlands may feature the same beds and cabinets, but the Japanese display might feature tatami mats whereas the Dutch room incorporates slanted ceilings. In the United States, those same beds will be covered with decorative pillows.

IKEA also adjusts its store assortments to local needs. For instance, IKEA stores in China carry many of the same items found in other parts of the world. However, because the average living space in China's crowded cities is much smaller than in Europe and the United States, Chinese IKEAs stock smaller appliances and products geared toward saving space and organizing a household.

Beyond adapting designs, assortments, and merchandising, IKEA often adjusts its basic store operations to suit local lifestyles. For example, IKEA customers in the United States typically visit an IKEA store, shop for a while, and then move on. In China, however, IKEA is known as Yi Jia, which translates to "comfortable home," a concept taken literally by Chinese shoppers. Chinese families often make themselves at home in an IKEA store, hanging out for hours to enjoy the air-conditioning and refreshments, lounging in display furniture and socializing, or even hopping into display beds for a snooze. In fact, IKEA recently opened a new concept store in Shanghai—the Home Experience of Tomorrow, with a central theater-like communal space for shoppers to socialize or relax. Thanks to such cultural understandings coupled with competitively low prices, China is now IKEA's fastest-growing market. Eight of the world's 10 biggest IKEA stores are in China.

Thus, IKEA's success stems from much more than selling lots of merchandise. It results from the pursuit of a deeply held, customer-focused mission, adapted to the needs of customers no matter where they live. IKEA summarizes it this way: IKEA is "a global home furnishing brand that brings affordability, design, and comfort to people all over the world. [But it] goes beyond home furnishings. We may have come a long way since our humble beginnings but our vision remains the same: to create a better everyday life for the many people. . . . We want to create a better everyday life for all people impacted by our business."[3]

Setting Company Objectives and Goals

The company needs to turn its broad mission into detailed supporting objectives for each level of management. Each manager should have objectives and be responsible for reaching them. For example, most Americans know CVS as a chain of retail pharmacies selling prescription and over-the-counter medicines, personal care products, and a host of convenience and other items. But CVS Health has a much broader mission. It views itself as a "pharmacy health care innovation company," one that is "helping people on their path to better health." The company's motto: "Health is everything."[4]

CVS Health's broad mission leads to a hierarchy of objectives, including business objectives and marketing objectives. CVS Health's overall business objective is to increase access, lower costs, and improve the quality of care. It does this through the products it sells at its retail pharmacies and by taking a more active role in overall health-care management through research, consumer outreach and education, and support of health-related programs and organizations.

However, such activities are expensive and must be funded through improved profits, so improving profits becomes another major objective for CVS Health. Profits can be improved by increasing sales or by reducing costs. Sales can be increased by improving customer engagement and raising the company's share of the health-care market. These goals then become the company's current marketing objectives.

CVS Health's overall mission is to be a "health care innovation company," one that is "helping people on their way to better health." Its marketing strategies and programs must support this mission.

rafapress/Shutterstock

Marketing strategies and programs must be developed to support these marketing objectives. To increase customer engagement, sales, and market share, CVS Health has reshaped and broadened its lines of products and services. For example, it stopped selling tobacco products, items not compatible with its "better health" mission. And it has placed CVS MinuteClinic locations in more than 1,100 of its own 9,950 stores and Target stores, providing walk-in medical care for more than 37 million patient visits since 2000. CVS Health has also broadened its range of customer contact activities to include tailored advising to customers managing chronic and specialty health conditions.

These are CVS Health's broad marketing strategies. Each marketing strategy must then be defined in greater detail. For example, the company's rapidly expanding MinuteClinic services will require more advertising and promotional efforts, and such efforts will need to be spelled out carefully. In this way, CVS Health's broad mission is translated into a set of specific short-term objectives and marketing plans.

Author Comment Once it sets its mission, a company faces difficult decisions about what businesses and products will make up the company, now and in the future.

Designing the Business Portfolio

OBJECTIVE 2-2 **Discuss how to design business portfolios and develop growth strategies.**

Business portfolio
The collection of businesses and products that make up the company.

Guided by the company's mission statement and objectives, management now must plan its business portfolio—the collection of businesses and products that make up the company. The best **business portfolio** is the one that achieves the best fit between opportunities in the environment and the company's strengths and weaknesses.

Most large companies have complex portfolios of businesses and brands. For example, you probably know Johnson & Johnson for its many iconic consumer health brands, maybe BAND-AID brand adhesive bandages, Johnson's baby shampoo, or Tylenol pain reliever. In fact, J&J markets a very broad portfolio of consumer health and wellness products in three categories. Its *self-care* brands include over-the-counter pain-relief, smoking-cessation, allergy, antacid, nasal decongestant, and cough and cold products—well-known brands such as Tylenol, Motrin, Benadryl, Zyrtec, Nicorette, and Pepcid. J&J's *skin health and beauty* brands include Neutrogena, Aveeno, and a dozen others. Its *essential health* group includes wound care, oral care, baby care, and women's health brands, such as BAND-AID, Listerine, and Johnson's baby shampoo. Managing this deep portfolio of consumer brands, in itself, creates a big challenge.

Complex business portfolios: You probably know Johnson & Johnson for its many iconic consumer health brands, maybe BAND-AID brand adhesive bandages, Johnson's baby shampoo, or Tylenol pain reliever. But did you know that the substantial bulk of J&J's revenue comes from its pharmaceuticals and medical devices businesses?

Justin Sullivan/Getty Images

But did you know that these iconic consumer brands account for only about 15 percent of J&J's $94 billion in annual revenue? The substantial bulk of J&J's revenue comes from its pharmaceuticals and medical devices businesses. J&J's MedTec group markets an array of innovative surgical, orthopedics, and vision devices and technologies, ranging from interocular lens implants to hip, knee, and shoulder replacements and robotic-assisted orthopedic sports medicine devices. And more than half of J&J's revenues come from a full range of prescription drugs and other pharmaceuticals for treating immunological disorders, cardiovascular and metabolic diseases, cancer, pulmonary hypertension, and infectious diseases such as HIV and COVID-19. Combined, managing J&J's huge and diverse portfolio of consumer and medical businesses is enough to make the heads of even the most skilled portfolio management team spin. In fact, Johnson & Johnson recently made a dramatic strategic planning move to help simplify its portfolio. It announced that it would divide up its diverse family of companies into two more cohesive entities by splitting off its consumer health brands as a separate company while retaining its pharmaceutical and medical device units under the J&J brand.[5]

Business portfolio planning for large portfolios such as Johnson & Johnson's is a complex task. Such planning involves two steps. First, the company must analyze its *current* business portfolio and determine which businesses should receive more, less, or no investment. Second, it must shape the *future* portfolio by developing strategies for growth and downsizing. These two decisions are connected. For example, dropping a current business that is lagging frees up the resources, time, and managerial attention needed to open up a new business. Or a company may invest more in a current business because it can operate synergistically with a new business it intends to introduce.

Analyzing the Current Business Portfolio

Portfolio analysis
The process by which management evaluates and plans for the future of the products and businesses that make up the company.

A major activity in strategic planning is business **portfolio analysis**, whereby management evaluates and plans for the future of the products and businesses that make up the company. Typically, the company will want to put strong resources into its more profitable businesses and phase down or drop its weaker ones.

Management's first step is to identify the key *strategic business units* (SBUs)—the businesses that make up the company. An SBU can be a company division, a product line within a division, or sometimes a single product or brand. The company next assesses the attractiveness of its various SBUs and decides how much support each deserves. When designing a business portfolio, it's a good idea to add and support products and businesses that fit closely with the firm's core philosophy and competencies.

A key purpose of strategic planning is to determine how the company can best use its strengths to take advantage of attractive opportunities in the environment. For this reason, most standard portfolio analysis methods evaluate SBUs on two important dimensions: the attractiveness of the SBU's market or industry and the strength of the SBU's position in that market or industry. One of the best-known portfolio-planning methods was developed by the Boston Consulting Group (BCG), a leading management consulting firm.[6]

Growth-share matrix
A portfolio-planning method that evaluates a company's strategic business units (SBUs) in terms of market growth rate and relative market share.

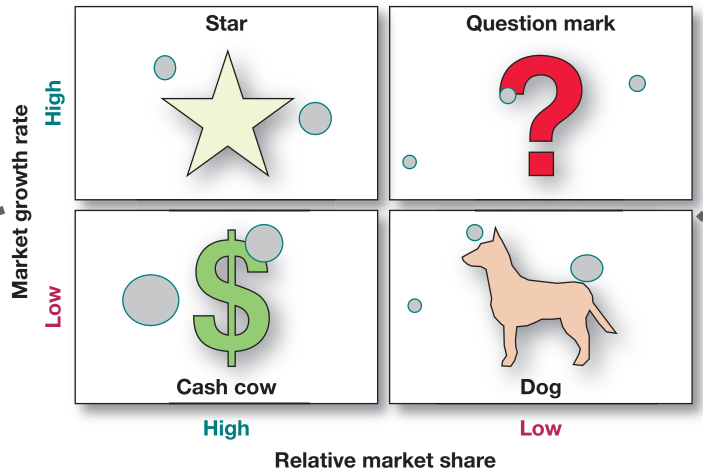
Using the now-classic BCG approach, a company classifies all its SBUs according to the **growth-share matrix**, as shown in Figure 2.2. On the vertical axis, *market growth rate* provides a measure of market attractiveness. On the horizontal axis, *relative market share*—the SBU's share relative to competitors—serves as a measure of company strength in the market. The growth-share matrix places SBUs into four quadrants:

1. ***Stars.*** Stars are high-growth, high-share businesses or products. They often need heavy investments to finance their rapid growth. Eventually their growth will slow down, and they will turn into cash cows.
2. ***Cash cows.*** Cash cows are low-growth, high-share businesses or products. These established and successful SBUs need less investment to hold their share. Thus, they produce a lot of the cash that the company uses to pay its bills, support other SBUs that need investment, add to cash reserves, or return to shareholders.
3. ***Question marks.*** Question marks are low-share business units in high-growth markets. They require a lot of cash to hold their share, let alone increase it. Management has to think hard about which question marks it should try to build into stars and which should be phased out.
4. ***Dogs.*** Dogs are low-growth, low-share businesses and products. They may generate enough cash to just maintain themselves but do not promise to be large sources of cash. Even if they break even financially, dogs can represent significant opportunity costs by absorbing managerial energy and attention that could be used more profitably elsewhere.

The 10 circles in the growth-share matrix represent the company's 10 current SBUs. The company has two stars, two cash cows, three question marks, and three dogs. The area of each circle is proportional to the SBU's dollar sales. This company is in fair shape, although not in great shape. It must invest in the more promising question marks to make them stars and maintain the stars so that they will become cash cows as their markets mature. Fortunately, it has two good-sized cash cows. Income from these cash cows will help finance the company's question marks, stars, and dogs. The company should take some decisive action concerning its dogs and its question marks.

FIGURE 2.2
The BCG Growth-Share Matrix

Under the classic BCG portfolio planning approach, the company invests funds from mature, successful products and businesses (cash cows) to support promising products and businesses in faster-growing markets (stars and question marks), hoping to turn them into future cash cows.



The company must decide how much it will invest in each product or business (SBU). For each SBU, it must decide whether to build, hold, harvest, or divest.

Cash cows are cash-generating machines. However, a portfolio with only cash cows is not a healthy one. At some point, the markets the cash cows are in will wither. Without stars as future cash cows and promising question marks as future stars, the company will not be able to keep the engines of profitability and growth running smoothly in the long run.

Once it has classified its SBUs, the company must determine what role each will play in the future. It can pursue one of four strategies for each SBU. An SBU's position in the growth-share matrix significantly impacts this decision. The company can invest more in a business unit to *build* its share—this applies mainly to promising question marks and stars. Or it can invest just enough to *hold* an SBU's share at the current level. This applies mostly to some stars and some cash cows. It can *harvest* an SBU, milking its short-term cash flow regardless of the long-term effect. This applies mainly to cash cows whose markets are shrinking, to less-than-promising question marks, and to some dogs. Finally, it can *divest* the SBU by selling it or phasing it out and using the resources elsewhere. This applies mainly to unpromising question marks and dogs.

As time passes, SBUs change their positions in the growth-share matrix. Many SBUs start out as question marks and move into the star category if they receive investment and succeed. They later become cash cows as market growth falls and then finally die off or turn into dogs toward the end of the life cycle. The company needs to add new products and units continuously so that some of them will become stars and, eventually, cash cows that will help finance other SBUs.

Problems with Matrix Approaches

The BCG and other formal corporate planning approaches have strongly impacted strategic planning. However, such centralized approaches have limitations. They can be difficult to undertake, time-consuming, and costly to implement. And they may not apply well or easily to certain types of markets facing structural changes or disruptions. For example, consider applying the BCG model to the hospitality industry at the stage when disruptors such as Airbnb, Vrbo, and others began to challenge the traditional economic model anchoring that market. With such dramatic structural changes, meaningly defining the market becomes difficult, let alone applying the notions relative market share and market growth rate.

Given these problems, many companies have dropped formal matrix-based methods in favor of customized approaches that better suit their specific situations. These approaches are also more decentralized, placing responsibility for strategic planning in the hands of cross-functional teams of division-level and market-level managers who are close to their markets. In this digital age, these managers have rich and current data at their fingertips and can adapt their plans quickly to meet changing market conditions.

Developing Strategies for Growth and Downsizing

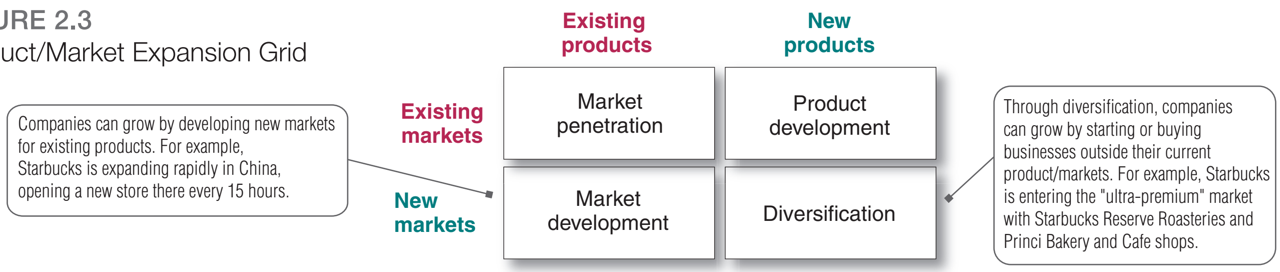
Beyond evaluating current businesses, designing the business portfolio involves finding businesses and products the company should consider in the future. Companies need growth to compete effectively, satisfy their stakeholders, and attract top talent. But growth alone is insufficient. The company must pursue "profitable growth."

Product/market expansion grid
A portfolio-planning tool for identifying company growth opportunities through market penetration, market development, product development, or diversification.

Marketing bears the main responsibility for achieving profitable growth. Marketing needs to identify, evaluate, and select market opportunities and craft strategies for capturing them. One useful device for identifying growth opportunities is the **product/market expansion grid**, shown in **Figure 2.3**.[7] We apply it here to Starbucks.

As discussed in our chapter-opening story, in only four decades, Starbucks has grown at an astounding pace from a small Seattle coffee shop to an over $24 billion powerhouse with more than 34,000 retail stores in more than 83 countries. Growth is the engine that

FIGURE 2.3
The Product/Market Expansion Grid



Strategies for growth: To maintain its incredible growth, Starbucks has brewed up an ambitious, multipronged growth strategy. In little more than three decades, the chain has grown from a small Seattle coffee shop to an over $24 billion powerhouse.

ChameleonsEye/Shutterstock

keeps Starbucks perking. To maintain its incredible growth in an increasingly overcaffeinated marketplace, Starbucks has brewed up an ambitious, multipronged growth strategy.[8]

First, Starbucks's management might consider whether the company can achieve deeper **market penetration**—making more sales to current customers without changing its original products. It might add new stores in current market areas to make it easier for customers to visit. In fact, Starbucks plans to grow to 55,000 stores in more than 100 markets by 2030, an increase of 75 percent from its current 34,000 stores. And improvements in Starbucks's advertising, prices, service, store design, delivery platforms, or menu selection might encourage customers to stop by more often, stay longer, or buy more during each visit. Thanks to an ever-expanding food menu, sales of breakfast items alone have doubled in the past four years, and food sales currently account for 20 percent of Starbucks's total revenue.

Market penetration
Company growth by increasing sales of current products to current market segments without changing the product.

Second, Starbucks might consider possibilities for **market development**—identifying and developing new markets for its current products. For instance, managers could review new demographic markets. Perhaps new groups—such as seniors—could be encouraged to visit Starbucks shops for the first time or to buy more from them. Managers could also review new geographic markets. Starbucks is now expanding swiftly in non-U.S. markets, especially Asia. For example, the number of Starbucks stores in China has grown from 800 to 6,000 in the past eight years, with an average of one new store opening every 15 hours.

Market development
Company growth by identifying and developing new market segments for current company products.

Third, Starbucks could consider **product development**—offering modified or new products to current markets. For example, to capture a piece of the fast-growing single-serve beverage market, Starbucks developed Via instant coffee, and it sells its coffees and Tazo teas in K-Cup packs that fit Keurig at-home brewers. Starbucks continues to expand it lines of ready-to-drink beverages sold in grocery stores, such as Starbucks Coffee with Essential Vitamins, Starbucks Cold Brew Concentrate, and Starbucks Coffee with 2x the Caffeine. And as a part of its ongoing commitment to health and sustainability, Starbucks added a line of plant-based Oatly oat milk selections to its core store menu. Starbucks is also developing new store formats, including Starbucks Pickup stores, pick-up only stores in major metropolitan areas geared toward customers who order ahead and pay with the mobile app. Most recently, Starbucks is experimenting with a cashierless concept store in Manhattan in partnership with Amazon. The store is part Starbucks mobile order pickup and part Amazon Go—the convenience store concept that uses cameras and sensors to track customer purchases and automatically charge them to customer accounts.

Product development
Company growth by offering modified or new products to current market segments.

Finally, Starbucks might consider **diversification**—starting up or buying businesses beyond its current products and markets. For example, the company created the ultra-premium Starbucks Reserve brand, with Starbucks Reserve Roasteries and Starbucks Reserve Bars featuring high-end immersive experiences. Within its Starbucks Reserve locations, the company is opening Princi Bakery and Café shops, offering artisan Italian food—from fresh-baked bread and pastries to flaky cornetti to focaccia sandwiches—based on the recipes of famed Italian baker Rocco Princi. Starbucks is also experimenting with standalone boutique Princi bakery stores, taking the company beyond coffee and snack shops. Such diversification into premium food and beverages fits well with the brand's "Starbucks Experience" positioning.

Diversification
Company growth through starting up or acquiring businesses outside the company's current products and markets.

But it's not all about growth. Sometimes, companies must *downsize* their business portfolios by exiting products, markets, or both. A firm may have grown too fast or entered areas where it lacks expertise. The market environment might change, making some products or markets less profitable. For example, in difficult economic times, many firms prune out weaker, less-profitable products and markets to focus their more limited resources on the strongest ones. Finally, some products or business units or the markets for them may simply age and fade.

Companies must carefully prune, harvest, or divest brands or businesses that no longer fit their overall strategy. For example, in past years, P&G has sold off numerous major brands, including Crisco, Folgers, Jif, Pringles, Duracell batteries, Right Guard deodorant, Aleve pain reliever, CoverGirl and Max Factor cosmetics, Wella and Clairol hair care brands, and its Iams and other pet food brands. This has allowed P&G to focus deeply on a more selective set of household care and beauty and grooming products.

Author Comment | Marketing can't go it alone in creating customer value. Under the company-wide strategic plan, marketing must work closely with other departments to design an effective internal company value chain—and with other companies in the marketing system to create an external value creation and delivery network—in order to serve customers well.

Planning Marketing: Partnering to Build Customer Relationships

OBJECTIVE 2-3 Explain marketing's role in strategic planning and how marketing works with its partners to create and deliver customer value.

The company's strategic plan establishes what kinds of businesses the company will operate and its objectives for each. Then, within each business unit, more detailed planning takes place. The major functional departments in each unit—marketing, finance, accounting, purchasing, operations, information systems, human resources, and others—must work together to accomplish strategic objectives.

Marketing plays many key roles in the company's strategic planning. First, marketing provides a guiding *philosophy*—the marketing concept—that focuses the company strategy on creating customer value and building profitable relationships with key customer segments. Second, marketing provides critical *insights* to strategic planners and helps them shape high-level corporate strategy by assessing market conditions, identifying attractive market opportunities, and evaluating the company's ability to take advantage of them. Finally, apart from helping set the objectives for individual business units, marketing facilitates the design and execution of market-focused *strategies* at the unit level to profitably achieve those objectives.

Customer engagement and value are the key ingredients in the marketer's formula for success. However, as noted in Chapter 1, although marketing plays a leading role, it cannot act alone. It must partner with other entities in attracting, engaging, and growing customers. In addition to *customer relationship management*, marketers must also practice *partner relationship management*. They must work closely with partners in other company departments to form an effective internal *value chain* that serves customers. Moreover, they must partner effectively with other companies in the marketing system to form a competitively superior external *value delivery network*. We now take a closer look at the concepts of a company value chain and a value delivery network.

Partnering with Other Company Departments

Value chain
The set of internal departments that carry out value-creating activities to design, produce, market, deliver, and support a firm's products.

Each company department can be thought of as a link in the company's internal **value chain**.[9] That is, each department carries out value-creating activities to design, produce, market, deliver, and support the firm's products. The firm's success depends not only on how well each department performs its work but also on how well the various departments coordinate their activities.

For example, consider Airbus—one of the world's two largest commercial airplane manufacturers.[10] The Airbus marketing and sales teams often compete head-to-head against Boeing to obtain and keep commercial airline customers ranging from Delta, American, and United to Air Canada, Lufthansa, Emirates, Swiss Air, and most other major air carriers. A single large sale can total billions of dollars over several years. Marketing plays a key role in engaging with and understanding the needs of customer airlines, translating them into product specifications, and designing and executing a marketing and sales strategy. However, marketing alone cannot make a sale or maintain the customer relationship. Marketing partners with other Airbus departments to ensure that the customer's needs are ultimately met.

Airbus's design and engineering groups must assure customers that the company's aircraft will meet their operational requirements, offer competitive operating costs, and pass rigorous performance and safety testing. Various Airbus operational groups must ensure on-time delivery and the availability of backup parts and services. The finance department must help with pricing and financing. Beyond delivery, Airbus must be ready to support the aircraft with maintenance services and parts over its life cycle. To put all this together, obtain a sale, and maintain a profitable long-term customer relationship calls for marketing, finance, design, production, service, and other Airbus departments to engage in a highly choreographed dance of customer value creation and delivery over time. In fact, at the top of the list of Airbus's company values are "We are one/teamwork!" and

The value chain: To obtain sales and maintain a profitable customer relationship, Airbus marketers work closely with finance, design, production, service, and other Airbus departments to engage in a highly coordinated customer value creation and delivery process over time. Working together, the total company team can help Airbus's airline customers "own the sky."

vaalaa/Shutterstock

"Customer focus." Working together, the total company team can help Airbus's airline customers "own the sky."

A company's value chain is only as strong as its weakest link. At Airbus, if purchasing can't obtain the required combination of high quality, reliability, and competitive prices from suppliers, then marketing cannot deliver on its promise of high-performing, reliable, and safe aircraft to its customers.

A company's different functions should ideally work in harmony to produce value for consumers. But, in practice, departments often conflict with each other. The marketing department takes the consumer's point of view. But when marketing tries to improve customer value and satisfaction, it can cause other departments to do a poorer job on dimensions they value. For example, marketing can ask for perfect, even over-engineered products that delight customers, delivered at exactly the desired times and places. But such demands can increase purchasing costs, disrupt production schedules, increase inventories, and create budget headaches—ultimately reducing overall profitability. Thus, other departments may resist the marketing department's efforts.

In fact, sometimes top management may strategically design conflicting objectives for departments so that they keep a good balance. For example, marketing is often compensated on higher sales, whereas production is rewarded for lower costs. In resolving this conflict through bargaining, marketing can ensure that production does not produce shoddy products that harm customer relationships, whereas production can ensure that marketing does not overspend on quality and create losses in an unbridled quest to satisfy customers.

Engaging customers today requires a whole-company commitment. Marketers can play a key role in getting all departments to "think consumer" and developing a smoothly functioning value chain. As HP cofounder David Packard once famously said, "Marketing is too important to be left only to the marketing department." Thus, whether you're an accountant, an operations manager, a financial analyst, an IT specialist, or a human resources manager, you need to understand marketing and your role in creating customer value. From finance to marketing to manufacturing, every employee should see how their role plays a part in the customer experience.

Partnering with Others in the Marketing System

Value delivery network
A network composed of the company, suppliers, distributors, and, ultimately, even customers who partner with each other to improve the performance of the entire system in delivering customer value.

In its quest to engage customers and create customer value, the company needs to look beyond its own internal value chain and into the value chains of suppliers, distributors, and, ultimately, customers. Consider fast-food chain Subway. People flock to Subway for its fresh sandwiches. But it is Subway's finely tuned customer **value delivery network** that consistently delivers fresh, fast, and tasty made-to-order sandwiches at affordable prices. Subway is effective only to the extent that it successfully partners with its franchisees, suppliers, and others to jointly carry out its "Make It What You Want" positioning promise. Competition no longer takes place only between individual competitors. Rather, it takes place between the entire value delivery network created by these competitors. Thus, Ford's performance against Toyota depends on the quality of Ford's overall value delivery network versus Toyota's. Even if Ford makes the best cars, it might lose in the marketplace if Toyota's dealer network provides a more customer-satisfying sales and service experience.

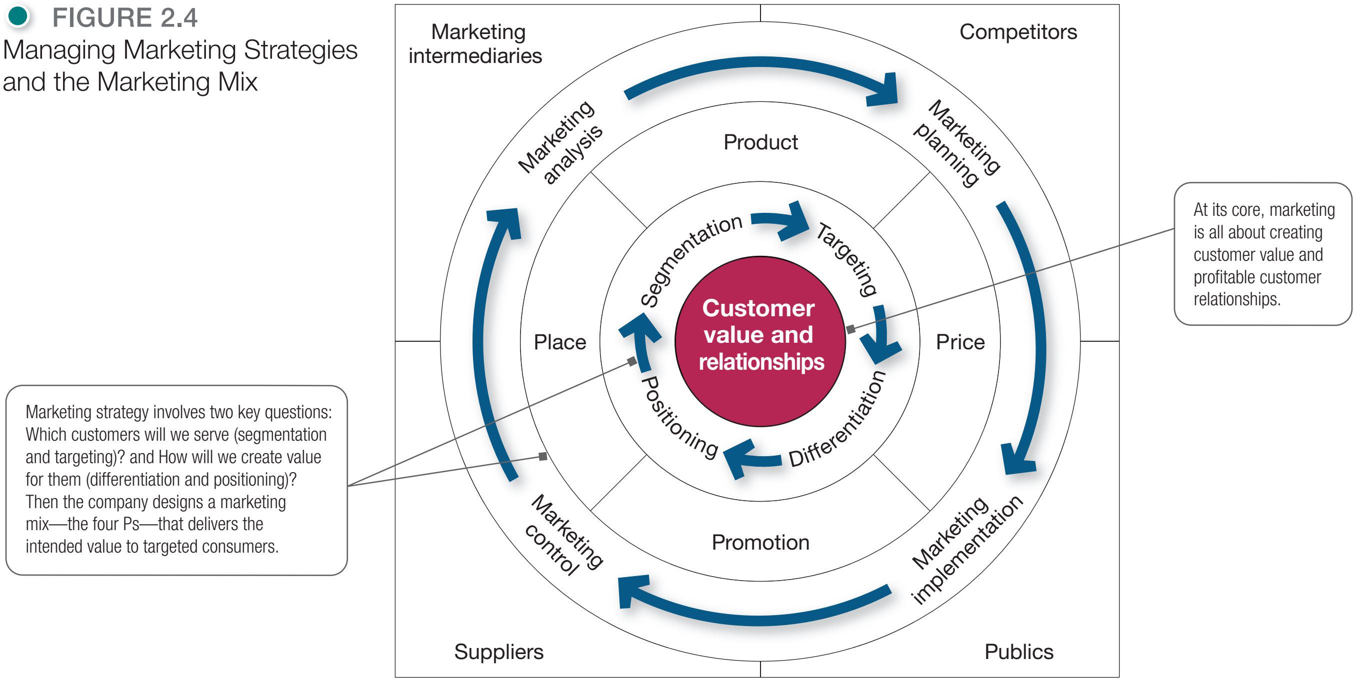
Author Comment | Now that we've set the context in terms of company-wide strategy, it's time to discuss customer value–driven marketing strategies and programs.

Marketing Strategy and the Marketing Mix

OBJECTIVE 2-4 Describe the elements of a customer value–driven marketing strategy and mix and the forces that influence them.

The strategic plan defines the company's overall mission and objectives. Marketing's role under the strategic plan is shown in **Figure 2.4**, which summarizes the major activities involved in managing a customer value–driven marketing strategy and the marketing mix.

FIGURE 2.4
Managing Marketing Strategies and the Marketing Mix



Marketing strategy
The marketing logic by which the company hopes to create customer value and achieve profitable customer relationships.

Customers are at the center. The goal is to create value for customers and build profitable customer relationships. Next comes **marketing strategy**—the marketing logic by which the company hopes to create this customer value and achieve these profitable relationships. The company decides which customers it will serve (segmentation and targeting) and how (differentiation and positioning). It identifies the total market and then divides it into smaller segments, selects the most promising segments, and focuses on serving and satisfying the customers in these segments.

Guided by marketing strategy, the company designs an integrated *marketing mix* made up of factors under its control—product, price, place, and promotion (the four Ps). The mix itself must be strategically designed to be long-term oriented, profitable, and sustainable. To find the best marketing strategy and mix, the company engages in marketing analysis, planning, implementation, and control. Through these activities, the company watches and adapts to the actors and forces in the marketing environment. We will now look briefly at each activity. In later chapters, we will discuss each one in more depth.

Customer Value–Driven Marketing Strategy

To succeed in today's competitive marketplace, companies must be customer-centric. They must win customers from competitors and then engage and grow them by delivering greater value. But before a company can satisfy customers, it must first understand customer needs and wants. Thus, sound marketing requires careful customer analysis.

Companies cannot profitably serve all consumers in a given market—at least not all consumers in the same way. There are too many different kinds of consumers with too many different kinds of needs. Companies that try to be everything to everybody often end up being very little to anybody. Most companies are in a position to serve some segments better than others. Thus, each company must divide up the total market, choose the best segments, and design strategies for profitably serving chosen segments. This process involves *market segmentation, market targeting, differentiation*, and *positioning*.

Market Segmentation

Market segmentation
Dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviors and who might require separate marketing strategies or mixes.

The market consists of many types of consumers, products, and needs. The marketer must determine which segments offer the best opportunities. Consumers can be grouped and served in various ways based on geographic, demographic, psychographic, and behavioral factors. The process of dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviors and who might require separate marketing strategies or mixes is called **market segmentation**.

Every market has segments, but not all ways of segmenting a market are equally useful. For example, pain reliever Tylenol would gain little by distinguishing between low-income

Market segment
A group of consumers who are expected to respond in a similar way to a given set of marketing efforts.

and high-income pain-relief users if both respond the same way to marketing efforts. A **market segment** usually consists of consumers who are expected to respond in a similar way to a given set of marketing efforts. Usually, this shared response is based on shared needs across the customers in a segment. In the car market, for example, consumers who want the biggest, most comfortable car regardless of price make up one market segment. Consumers who care mainly about price and operating economy make up another segment. It would be difficult to make one car model that was the first choice of consumers in both segments. Companies should focus their efforts on meeting the distinct needs of individual market segments.

Market Targeting

Market targeting
Evaluating each market segment's attractiveness and selecting one or more segments to serve.

After a company has defined its market segments, it can enter one or more of these segments. **Market targeting** involves evaluating each market segment's attractiveness and selecting one or more segments to enter. A company should target segments in which it can profitably generate the greatest customer value and sustain it over time.

A company with limited resources might decide to serve only one or a few special segments or market niches. Such *nichers* specialize in serving customer segments that major competitors overlook or ignore. For example, McLaren sells fewer than 5,000 of its very-high-performance cars each year but at very high prices—such as its entry-level 570S model at $192,500 or the Speedtail model starting at a jaw-dropping $2 million. Only 106 will be made, and all were purchased in advance. Most nichers aren't quite so exotic. Profitable low-cost airline Allegiant Air avoids direct competition with larger major airline rivals by targeting smaller, neglected markets and new fliers. Allegiant "goes where they ain't." And shave and grooming products marketer Harry's uses direct-to-consumer marketing to serve a niche of consumers seeking lower prices and a simpler buying process.

Other companies may choose to serve a wide range of market segments. For example, with its mix of short-haul, national, and international flights, multiple classes of seating ranging from basic economy to first class, and multi-tiered AAdvantage loyalty program, American Airlines services a wide range of segments that differ in terms of travel needs (short-haul versus global), willingness to pay (basic economy versus first class), and loyalty to the airline (members versus non-members of the AAdvantage loyalty program). Or a company might choose to serve several related segments—perhaps those with different kinds of customers but with the same basic wants. The L'Oréal group serves major segments of the beauty market, and within each segment it caters to many sub-segments. L'Oréal targets the larger segments through its major divisions: L'Oréal Luxe, Consumer Products, Professional Products, Active Cosmetics, and The Body Shop. Within these major divisions, L'Oréal markets various brands that cater to customers of different ages, incomes, and lifestyles. For example, its Consumer Product division sells brands like Garnier, L'Oréal Paris, Maybelline New York, Essie, and NYX Professional Makeup. Similarly, the L'Oréal Luxe division offers more than 15 brands, including Lancôme, Giorgio Armani, Urban Decay, Diesel, and Ralph Lauren.

Most companies enter a new market by serving a single segment; if this proves successful, they add more segments. For example, Southwest Airlines entered the crowded airline market almost 50 years ago as an upstart, no-frills commuter airline serving selected second-tier airports in Texas and other Southwestern states. Legendary founder and CEO Herb Kelleher once claimed Southwest's San Antonio–Dallas fare was so low because he wanted to compete against driving between those cities rather than against competing airlines. Based on its early success in niche markets, Southwest has grown to become the United States' second-largest airline, serving more than 121 major destinations in the United States and 11 additional countries.[11] Plant-based milk marketers have started targeting the small segment within the dairy milk market of people who have allergies, intolerances, or special nutritional requirements. The segment has grown bigger, attracting more customers with specific health, fitness, and lifestyle choices (see Real Marketing 2.2). More recently, Tesla challenged well-established, deep-pocketed competitors in the auto industry by first concentrating on a narrow, high-tech, high-end all-electric vehicle market niche with its Model S and later expanded toward more of the mass-market space with the Model 3 compact sports sedan and the Model Y crossover utility vehicle.

Market Differentiation and Positioning

Positioning
Arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.

As the company decides which market segments to enter, it must also differentiate its market offering for each targeted segment and position it to occupy a unique space in the minds of targeted customers. **Positioning** is arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.

Real Marketing 2.2

How Milk Is Becoming Dairy-Free

The dairy-free market has come into its own, and consumers around the world are spoilt for choice of milk alternatives in the market. The non-dairy segment started off as an offshoot of the milk industry, but it has since become a huge industry in itself with various segments of its own. For example, a quick search on the Waitrose website will give you over 30 different variants of milk alternatives. Driving the growth of the non-dairy milk industry are rising health concerns among consumers related to the use of dairy milk, the spread of vegan lifestyles, and new health and fitness trends.

The global consumption of animal milk has been on the decline, a contrast to the sales of plant-based milk alternatives. There are several reasons for this: Lactose intolerance, the inability to digest a sugar in dairy products, is one of the better-known health conditions that force people to look for alternatives, but many also suffer from milk allergies that can cause rashes, diarrhea, vomiting, etc. Consumers are now also more aware of the environmental impact of animal husbandry, prompting many to adopt vegan diets, and of potential health risks associated with potential contaminants, including antibiotics, pesticides, and hormones.

Plant-based non-dairy drinks come from various sources and are marketed accordingly. These include almond milk, cashew milk, coconut milk, hemp milk, oat milk, pea protein milk, rice milk, quinoa milk, and soy milk. There are variants within each of these milk types too, such as sweetened, unsweetened, low-calorie, vanilla, chocolate, and banana flavored.

The most popular plant-based milks are soy, almond, rice, and coconut. Soy milk has been the most popular dairy milk substitute for over four decades, though many consumers do not care for the taste. Almond milk is believed to help in weight management and is a popular complement for smoothies or mixed with cereals and cookies. Coconut milk is particularly popular in Asia and South America but offers less protein and lower calories. All types of plant-based milk offer the advantage of longer shelf life compared to common dairy milk. The growth of the alternative milk segment has prompted many established players in the food and drinks industry to introduce brand extensions in the category. For instance, the Quaker Oats Company announced the launch of its oat milk brand in 2019.

The plant-based milk market size exceeded $12 billion in 2019 and is estimated to achieve a compound annual growth rate (CAGR) of over 11 percent between 2020 and 2026 and be valued at $21 billion by 2026. North America has been leading the global sales of plant-based milk, with 25 percent of the global market share. It is expected that the plant milk market in North America will reach a valuation of more than $6 billion by 2026. This can be attributed to the popular trend of vegan diets and consumption of products with high nutritional values. Europe's non-dairy milk market is forecasted to have a CAGR of 14.5 percent between 2018 and 2023. Asia Pacific—including China, Japan, India, and South Korea—is also anticipated to record a high CAGR of 13 percent between 2017 and 2024.

For the dairy milk industry, however, the rapid growth, popularity, and easy availability of plant-based milk pose a major threat. Faced with a continuous decline in the consumption of cow's milk in many markets around the world, diary milk producers have developed campaigns to position cow's milk as a complete natural food for healthy bones and teeth that cannot be substituted with plant-based alternatives. They have also argued that plant-based alternatives cannot be labeled and marketed as milk. For example, in the European Union, a landmark ruling by the European Court of Justice stated that any vegan, dairy-alternative brand cannot be sold if it has used the words "milk," "butter," or "cheese"; however, there are exemptions to this rule, such as almond milk, coconut milk, and peanut butter. For their part, plant-based milk producers contend that they have not fooled customers, for most of these products are positioned based on their sources or ingredients, and they offer different values and benefits to customers based on their preferences.

An interesting example of the ongoing dispute between dairy and non-dairy producers comes from Sweden, where the non-dairy milk brand Oatly was taken to court by the country's dairy lobby. The latter argued that Oatly's campaign disparaged cow's milk as unhealthy through taglines in its ads such as "Like milk, but made for humans," "Oh wow, no cow," and "No milk, no soy." The combined sales of the group that the lobby represented were 200 times greater than Oatly's sales, but the lawsuit increased the sales of the brand significantly.

Many companies have based their vision and mission on offering customers plant-based products, like Alpro, a Belgium-based company that started by selling soy milk in 1980 and has since developed various other organic and non-organic plant-based products. Alpro aims to be the leading contributor in expanding plant-based food and drinks options. The company says that its vision is to see a world where more people's food items come directly from plants, and the company wants to change what people eat by offering tasty, natural, and healthy plant-based nutritious food.

For plant-based milk producers, Gen Z and millennial families look to be the most profitable demographic segment as they

The non-dairy segment started off as an offshoot of the milk industry but has now become a huge industry containing various segments within itself.

imageBROKER/Alamy Stock Photo

generally have higher awareness of and concern for animal welfare as well as the nutritional content and health benefits and risks of milk. They are also more willing to spend more on such products.

Both the dairy industry and the non-dairy industry are sure to witness more shifts as consumer preferences evolve. Product development will be a key factor in determining success. The non-dairy market can continue to look for alternative sources, new flavors, textures, formulations, and adaptations. The non-dairy industry will have to demonstrate that these products provide long-term health and sustainability benefits; at the same time, it must encourage more changes in product development and consumer behavior. Other areas of growth for non-dairy alternatives is their use in products like yogurt, frozen desserts and ice cream, creamers, and cheese.

Meanwhile, the old values of price, taste, and convenience that worked for the traditional dairy milk industry are being replaced by new values like wellness, health, safety, and social impact. The dairy industry needs to be more innovative and needs to expand in terms of products that will connect better with consumers. For example, Arla, one of the biggest UK milk producers, is planning to launch a carbonated, fizzy milk product in the United Kingdom, Singapore, and the United Arab Emirates. Some predict that such products could successfully leverage the sparkling-water and flavored milk trends among millennials and the more experimental beverage users. Flavored milk generally has a longer shelf life too, so this could help in competing with plant-based milk on that basis.[12]

Effective positioning distinguishes products from competing brands and gives them the greatest advantage in their target markets. The essence of a brand or product positioning can often be captured with a tagline. For example, Volkswagen gives you "Think small"; L'Oréal says, "Because I'm worth it"; British Airways claims to be "The world's favorite airline"; Huawei tells you to "Make it Possible"; and Siemens positions itself as "Ingenuity for life." Moreover, BMW promises "Sheer driving pleasure" and adidas tells people that "Impossible is nothing."

Positioning: Global Village Dubai's positioning as a funfair ground sets it apart from the plethora of theme parks in the region.

Aleksandar Tomic/Alamy Stock Photo

Such deceptively simple statements form the backbone of a product's marketing strategy. Global Village Dubai is a multicultural festival park that provides entertainment as well as food-and-beverage outlets representing countries around the world. A total of 75 countries feature in pavilions each year when the cooler season comes to the desert city, and it has been a regular feature in Dubai events calendar for the past 25 years. Global Village has four components: the funfair, entertainment and shows, authentic retail products representing each country, and food-and-beverage outlets from different parts of the world. The success of the Global Village's masterplan is in its positioning, not as a theme park—of which there are plenty in the UAE boasting the highest or the fastest rides—but as a funfair ground like Coney Island or Oktoberfest in Germany. It provides that full experience of lights, sound, music, rides, and food. This is the proposition of a fully fledged marketable brand, one that is local, offers its own experience, but celebrates different cultures. The success of the Global Village lies in its ability to draw local crowds with its location, pricing, and entertainment style, which distinguishes it from competing brands and makes it so desirable as a regional and local tourist destination.[13]

In positioning its brand, a company first identifies possible points of differentiation from the competition that provide competitive advantages in the marketplace. The positioning builds on these differences. A company can offer greater customer value by either charging lower prices than competitors or offering more or different benefits to justify higher prices. But if the company *promises* greater value, it must then *deliver* that greater value. Thus, effective positioning begins with

Differentiation
Actually differentiating the market offering to create superior customer value relative to the competition.

differentiation—actually *differentiating* the company's market offering to create superior customer value relative to the competition. Once the company has chosen a desired positioning, it must deliver and communicate that positioning to target consumers. The company's entire marketing program should support the chosen positioning.

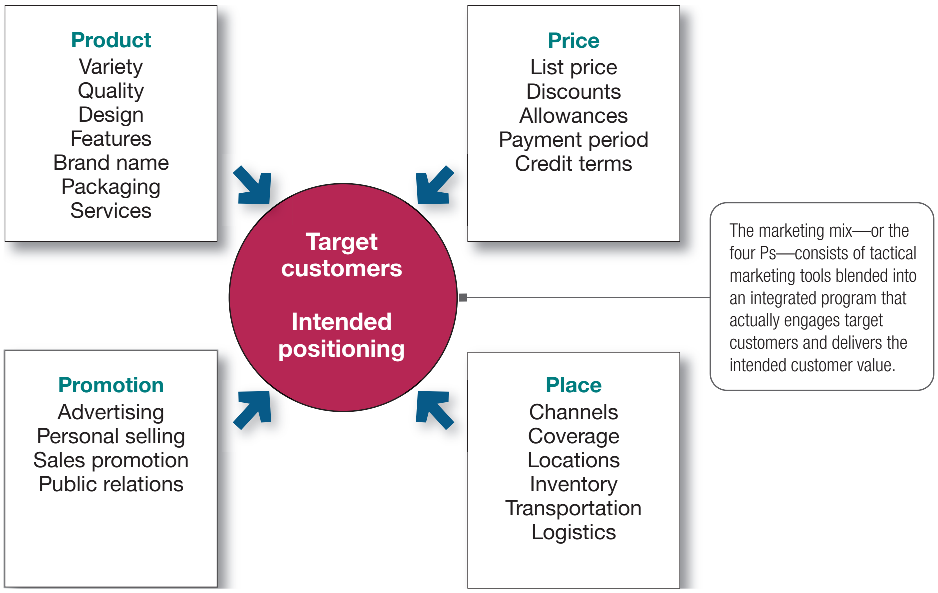
Developing an Integrated Marketing Mix

Marketing mix
The set of marketing tools—product, price, place, and promotion—that the firm blends to produce the response it wants in the target market.

After determining its overall segmentation, targeting, differentiation, and positioning strategy, the company is ready to begin planning the details of the **marketing mix**, one of the major concepts in modern marketing. The marketing mix is the set of marketing tools that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything the firm can do to engage consumers and deliver customer value. The many possibilities can be collected into four groups of variables—the four Ps. **Figure 2.5** shows the marketing tools under each P.

- *Product* captures the offering from the company to the target market. It can include physical or digital products, services, solutions, or even experiences. Thus, a Ford Escape consists of nuts and bolts, spark plugs, pistons, headlights, and thousands of other parts. Ford offers several Escape models and dozens of optional features. But the car also comes with the expectation of services and parts that will keep it working smoothly over its lifetime, and those offerings are as much a part of the product as the tailpipe.
- *Price* is the amount of money customers must pay to obtain the product. For example, Ford calculates suggested retail prices that its dealers might charge for each Escape. But Ford dealers rarely charge the full sticker price. Instead, they negotiate the price with each customer, offering discounts, trade-in allowances, and credit terms. These actions adjust prices for the current competitive and economic situations and bring them into line with the buyer's perception of the car's value. Sometimes the price can be paid over time. For example, customers pay for some video games based on their usage patterns over time.
- *Place* includes company activities that make the product available to target consumers. Ford partners with a large body of independently owned dealerships that sell the company's many different models. Ford selects its dealers carefully and strongly supports them. The dealers keep an inventory of Ford automobiles, demonstrate them to potential buyers, negotiate prices, close sales, and service the cars after the sale. Today, many digital products can be delivered over the internet or on mobile devices. In these cases, the traditional brick-and-mortar channel is replaced by a digital channel.
- *Promotion* refers to activities that communicate the benefits of the product and persuade target customers to buy it. Ford spent nearly $2.3 billion last year on U.S. advertising to tell consumers about the company and its many products.[14] Dealership

FIGURE 2.5
The Four Ps of the Marketing Mix



salespeople assist potential buyers and persuade them that Ford is the best car for them. Ford and its dealers offer special promotions—sales, cash rebates, and low financing rates—as added purchase incentives. While advertising was traditionally delivered through television, print, and direct mail, today Ford also employs websites and social media platforms such as Facebook, Twitter, YouTube, and Instagram to engage consumers with the brand and with each other.

Effective marketing blends the marketing mix elements into an integrated marketing program designed to achieve the company's marketing objectives by engaging consumers and delivering value to them. The marketing mix constitutes the company's tool kit for establishing a strong positioning in target markets. Therefore, the entire marketing mix must be designed to support the chosen targeting and positioning.

Some critics think that the four Ps may omit or underemphasize certain important activities. For example, they ask, "Where are services? Just because they don't start with a *P* doesn't justify omitting them." The answer is that services, such as banking, airline, financial, and retailing services, are products too. We might call them *service products*. "Where is packaging?" the critics might ask. Marketers would answer that they include packaging as one of many product decisions. All said, as Figure 2.5 suggests, many marketing activities that might appear to be left out of the marketing mix are included under one of the four Ps. The issue is not whether there should be four, six, or ten Ps so much as what framework is most helpful in designing integrated marketing mixes.

There is another concern, however, that is valid. It holds that the four Ps concept takes the seller's view of the market, not the buyer's view. From the buyer's viewpoint, in this age of customer value and relationships, the four Ps might be better described as the four As:[15]

Four Ps	Four As
Product	Acceptability
Price	Affordability
Place	Accessibility
Promotion	Awareness

Under this more customer-centered framework, *acceptability* is the extent to which the product exceeds customer expectations; *affordability* the extent to which customers are willing and able to pay the product's price; *accessibility* the extent to which customers can readily acquire the product; and *awareness* the extent to which customers are informed about the product's features, persuaded to try it, and reminded to repurchase. The four As relate closely to the traditional four Ps. Product design influences acceptability, price affects affordability, place affects accessibility, and promotion influences awareness. Marketers would do well to think through the four As first and then build the four Ps on that platform.

Author Comment | So far we've focused on the marketing in marketing management. Now, let's turn to the management.

Managing the Marketing Effort and Marketing Return on Investment

OBJECTIVE 2-5 Explore the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing marketing return on investment.

Managing the Marketing Effort

In addition to being good at the *marketing* in marketing management, companies also need to pay attention to the *management*. Managing the marketing process requires the five marketing management functions shown in **Figure 2.6**—*analysis, planning, implementation, organization,* and *control*. The company first develops company-wide strategic plans and then translates them into marketing and other plans for each division, product, and brand. Through organization and implementation, the company turns the plans into actions. Control consists of measuring and evaluating the results of marketing activities and taking corrective action where needed. Finally, marketing analysis provides the information and evaluations needed for all the other marketing activities.

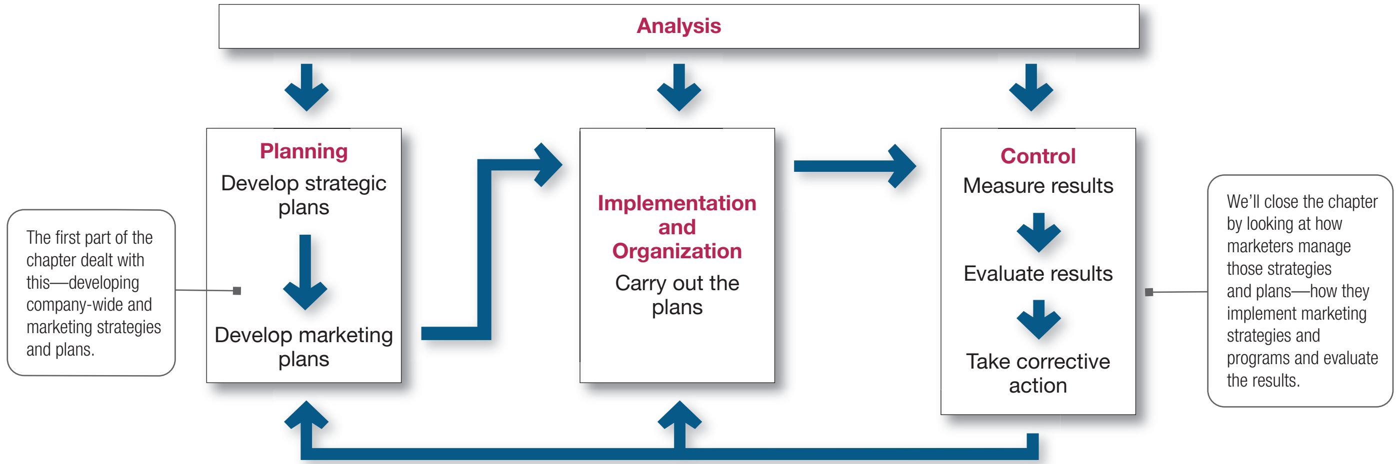


FIGURE 2.6
Managing Marketing: Analysis, Planning, Implementation, and Control

SWOT analysis
An overall evaluation of the company's strengths (S), weaknesses (W), opportunities (O), and threats (T).

Marketing Analysis

Managing the marketing function begins with a complete analysis of the company's situation. The marketer should conduct a **SWOT analysis** (pronounced "swat analysis"), by which it evaluates the company's overall strengths (S), weaknesses (W), opportunities (O), and threats (T) (see **Figure 2.7**). Strengths include internal capabilities, resources, and positive situational factors that may help the company serve its customers and achieve its objectives. Weaknesses include internal limitations and negative situational factors that may interfere with the company's performance. Opportunities are favorable factors or trends in the external environment that the company may be able to exploit to its advantage. And threats are unfavorable external factors or trends that may present challenges to performance.

The company should analyze its markets and marketing environment to find attractive opportunities and identify threats. It should analyze company strengths and weaknesses as well as current and possible marketing actions to determine which opportunities it can best pursue. The goal is to match the company's strengths to attractive opportunities in the environment while simultaneously eliminating or overcoming the weaknesses and minimizing the threats. Marketing analysis provides inputs to each of the other marketing management functions. We discuss marketing analysis more fully in Chapter 3.

Marketing Planning

Through corporate strategic planning, the company decides what it wants to do with each business unit. Marketing planning involves choosing marketing strategies that will help the company attain its overall strategic objectives. A detailed marketing plan is needed for each business, product, or brand. The marketing plan essentially translates the corporate and marketing strategies into a more tangible blueprint that helps with the successful execution of those strategies at the business, product, or brand level. What does a marketing plan look like? Our discussion focuses on product or brand marketing plans.

FIGURE 2.7
SWOT Analysis: Strengths (S), Weaknesses (W), Opportunities (O), and Threats (T)

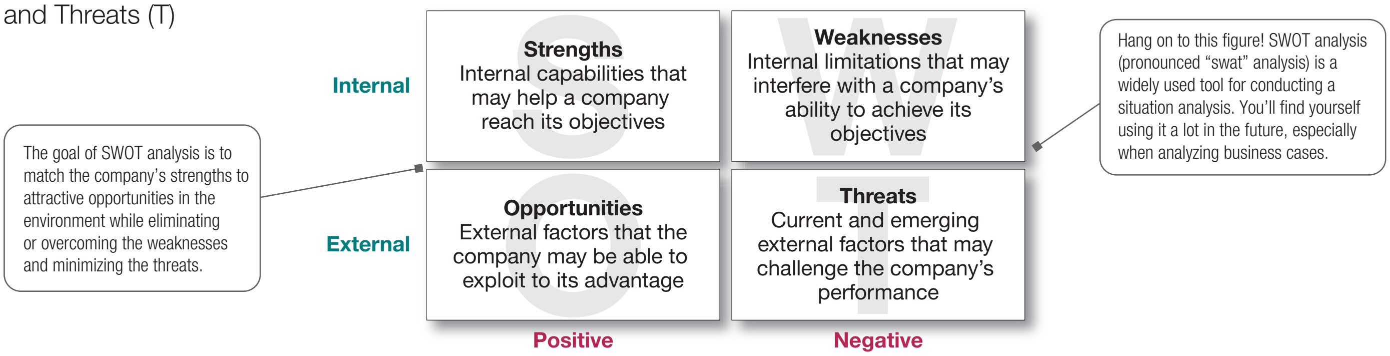


Table 2.2 outlines the major sections of a typical product or brand marketing plan. (See Appendix 1 for a sample marketing plan.) The product or brand marketing plan, which follows and builds on the corporate strategic plan, begins with an executive summary that quickly reviews major assessments, goals, and recommendations. The main section of the plan presents a detailed SWOT analysis of the current marketing situation as well as potential threats and opportunities. The plan next states major objectives for the brand and outlines the specifics of a marketing strategy for achieving them.

A *marketing strategy* consists of specific strategies related to target markets, positioning, the marketing mix, and marketing expenditure levels. It outlines how the company intends to engage target customers and create value in order to capture value in return. In this section, the planner explains how each strategy responds to the threats, opportunities, and critical issues spelled out earlier in the plan. Additional sections of the marketing plan lay out an *execution plan* for implementing the marketing strategy along with the details of a supporting *marketing budget*. The last section outlines the *controls* that will be used to monitor progress, measure return on marketing investment, and take corrective action.

Marketing implementation
Turning marketing strategies and plans into marketing actions to accomplish strategic marketing objectives.

Marketing Implementation

Planning good strategies is only a start toward successful marketing. A brilliant marketing strategy counts for little if the company fails to implement it properly. **Marketing implementation** is the process that turns marketing *plans* into marketing *actions* to accomplish

Table 2.2 | Contents of a Marketing Plan

Section	Purpose
Executive summary	Presents a brief summary of the main goals and recommendations of the plan for management review, helping top management find the plan's major points quickly.
Current marketing situation	Describes the target market and the company's position in it, including information about the market, product performance, competition, and distribution. This section includes the following: • A *market description* that defines the market and major segments and then reviews customer needs and factors in the marketing environment that may affect customer purchasing. • A *product review* that shows sales, prices, and gross margins of the major products in the product line. • A review of *competition* that identifies major competitors and assesses their market positions and strategies for product quality, pricing, distribution, and promotion. • A review of *distribution* that evaluates recent sales trends and other developments in major distribution channels.
Threats and opportunities analysis (SWOT)	Assesses major threats and opportunities that the product might face, helping management to anticipate important positive or negative developments that might have an impact on the firm and its strategies.
Objectives and issues	Drawing from the corporate strategy, states the marketing objectives that the company would like to attain during the plan's term and discusses key issues that will affect their attainment.
Marketing strategy	Outlines the broad marketing logic by which the business unit hopes to engage customers, create customer value, and build customer relationships, plus the specifics of target markets, positioning, and marketing expenditure levels. How will the company create differentiated value for customers in order to capture value from customers in return? This section also outlines specific strategies for each marketing mix element and explains how they respond to the threats, opportunities, and critical issues spelled out earlier in the plan.
Execution plans	Spells out how marketing strategies will be turned into specific action programs that answer the following questions: *What* will be done? *When* will it be done? *Who* will do it? *How* much will it cost?
Budgets	Details a supporting marketing budget that is essentially a projected profit-and-loss statement. It shows expected revenues and expected costs of production, distribution, and marketing. The difference is the projected profit. The budget becomes the basis for materials buying, production scheduling, personnel planning, and marketing operations.
Controls	Outlines the controls and metrics that will be used to monitor progress, allow management to review implementation results, and spot products that are not meeting their goals. It includes measures of return on marketing investment.

strategic marketing objectives. Whereas marketing planning addresses the *what* and *why* of marketing activities, implementation addresses the *who, where, when*, and *how*.

Many managers think that "doing things right" (implementation) is as important as, or even more important than, "doing the right things" (strategy). The fact is that both are critical to success, and companies can gain competitive advantages through effective implementation. One firm can have essentially the same strategy as another yet win in the marketplace through faster or better execution. Still, implementation is difficult—it is often easier to think up good marketing strategies than it is to carry them out.

In an increasingly connected world, people at all levels of the marketing system must work together to implement marketing strategies and plans. Noon is an e-commerce platform in the UAE that launched itself with the promise that "Everything You Need" would be "Delivered Same/Next Day." The Customer Engagement team at Noon created a launch campaign with visuals and ad copy to bring this message to life, while the Category Management team partnered with various local retailers to offer a range of products. Its Warehouse and Logistics department created a synchronized business process to ensure that customers are provided with a reliable experience while its Operations team created an efficient system for payments, refunds, and exchanges to ensure an overall seamless implementation of their marketing strategy. This focus on an actionable plan with a strong emphasis on implementation has been critical to the brand's success in the GCC region.[16]

Marketing Department Organization

The company must design a marketing organization that can carry out marketing strategies and plans. If the company is very small, one person might do all the research, selling, advertising, customer service, and other marketing work. As the company expands, however, it must develop a marketing department to plan and carry out marketing activities. In large companies, this department contains many specialists—product and market managers, sales managers and salespeople, market researchers, and advertising and digital media experts, among others.

To head up such large marketing organizations, many companies have now created a *chief marketing officer* (or CMO) position. This person heads up the company's entire marketing operation and represents marketing on the company's top management team. The CMO works closely with other "C-level" executives, such as the chief operating officer (COO) and the chief financial officer (CFO). As a member of top management, the CMO's role is to champion the customer's cause. To that end, many companies call their top marketer the "chief customer experience officer" or the "chief customer value officer." "Today's customer experiences must align with business strategy—and the CMO is the best candidate to drive these programs across the company," says one marketing analyst. "Instead of [just] creating big-picture marketing campaigns, CMOs are now responsible for the entire customer experience."[17]

Modern marketing departments can be arranged in several ways. The most common form of marketing organization is the *functional organization*, under which different marketing activities are headed by a functional specialist—a sales manager, an advertising manager, a digital media manager, a marketing information manager, a customer service manager, or a new product manager. A company that sells nationally or internationally often uses a *geographic organization* in parallel, assigning sales and marketing people to specific countries, regions, and districts. Companies with many different products or brands often create a *product management organization.* For companies that sell one product line to many different types of markets and customers who have different needs and preferences, a *market* or *customer management organization* might be best. Large companies that

Marketers must continually plan their analysis, implementation, and control activities.

ammentorp/123RF

produce many different products flowing into many different geographic and customer markets usually employ some *combination* of the functional, geographic, product, and market organization forms.

Marketing organization has become an increasingly important issue in recent years. Some companies are shifting their brand management focus toward *customer management*—moving away from managing only product or brand profitability and toward managing customer profitability and customer equity. They think of themselves not as managing portfolios of brands but as managing portfolios of customers. And rather than managing the fortunes of a brand, they see themselves as managing customer–brand engagement, experiences, and relationships.

Marketing Control

Marketing control
Measuring and evaluating the results of marketing strategies and plans and taking corrective action to ensure that the objectives are achieved.

Because many surprises occur during the implementation of marketing strategies and plans, marketers must practice constant **marketing control**—evaluating results and taking corrective action to ensure that the objectives are attained. Marketing control involves four steps. Management first sets specific marketing goals. It then measures its performance in the marketplace and evaluates the causes of any differences between expected and actual performance. Finally, management takes corrective action to close the gaps between goals and performance. This may require changing the action programs or even changing the goals.

Operating control involves checking ongoing performance against the annual plan and taking corrective action when necessary. Its purpose is to ensure that the company achieves the sales, profits, and other goals set out in its annual plan. It also involves determining the profitability of different products, territories, markets, and channels. *Strategic control* involves looking at whether the company's basic strategies are well matched to its opportunities. Marketing strategies and programs can quickly become outdated, and each company should periodically reassess its overall approach to the marketplace.

Author Comment | Measuring marketing return on investment has become a major emphasis. But it can be difficult. For example, a Super Bowl ad reaches more than 100 million consumers but may cost almost $6.5 million for 30 seconds of airtime. How do you measure the return on such an investment in terms of sales, profits, and building customer engagement and relationships?

Measuring and Managing Marketing Return on Investment

Marketing managers must ensure that their marketing dollars are being well spent. In the past, many marketers spent freely on big, expensive marketing programs and flashy advertising campaigns, often without thinking carefully about the financial returns on their spending. Their goal was often a general one—to "build brands and consumer preference." They believed that marketing produces intangible creative outcomes, which do not lend themselves readily to measures of productivity or return.

However, those free-spending days have long since been replaced by a new era of marketing measurement and accountability. More than ever, today's marketers are being held accountable for linking their strategies and tactics to measurable marketing performance outcomes. One important marketing performance measure is **marketing return on investment (or marketing ROI)**. *Marketing ROI* is the net return from a marketing investment divided by the costs of the marketing investment. It measures the profits generated by investments in marketing activities.

Marketing return on investment (marketing ROI)
The net return from a marketing investment divided by the costs of the marketing investment.

Marketing ROI can be difficult to measure. In measuring financial ROI, both the *R* and the *I* are uniformly measured in dollars. For example, when buying a piece of equipment, the productivity gains resulting from the purchase are fairly straightforward. As of yet, however, there is no consistent definition of marketing ROI. For instance, returns such as customer engagement, advertising, and brand-building impact aren't easily put into dollar returns. And some of the benefits may be significant but only play out in the long run.

A company can assess marketing ROI in terms of standard marketing performance measures, such as brand awareness, social media responses, sales, or market share. Many companies are assembling such measures into *marketing dashboards*—meaningful sets of marketing performance measures in a single display used to monitor strategic marketing performance. Just as automobile dashboards present drivers with details on how their cars are performing, the marketing dashboard gives marketers the detailed measures they need to assess and adjust their marketing strategies. For example, VF Corporation uses a marketing dashboard to track the performance of its 20 lifestyle apparel brands—including Smartwool, The North Face, Vans, Red Kap, Timberland, and others. VF's marketing dashboard tracks brand equity and trends, share of voice, market share, online sentiment, and marketing ROI in key markets worldwide, not only for VF brands but also for competing brands.[18]

However, beyond standard performance measures, most major marketers also use customer-centered measures of marketing impact, such as customer acquisition, customer engagement, customer experience, customer retention, customer lifetime value, and customer equity. These measures capture not only current marketing performance but also future performance resulting from stronger customer relationships.

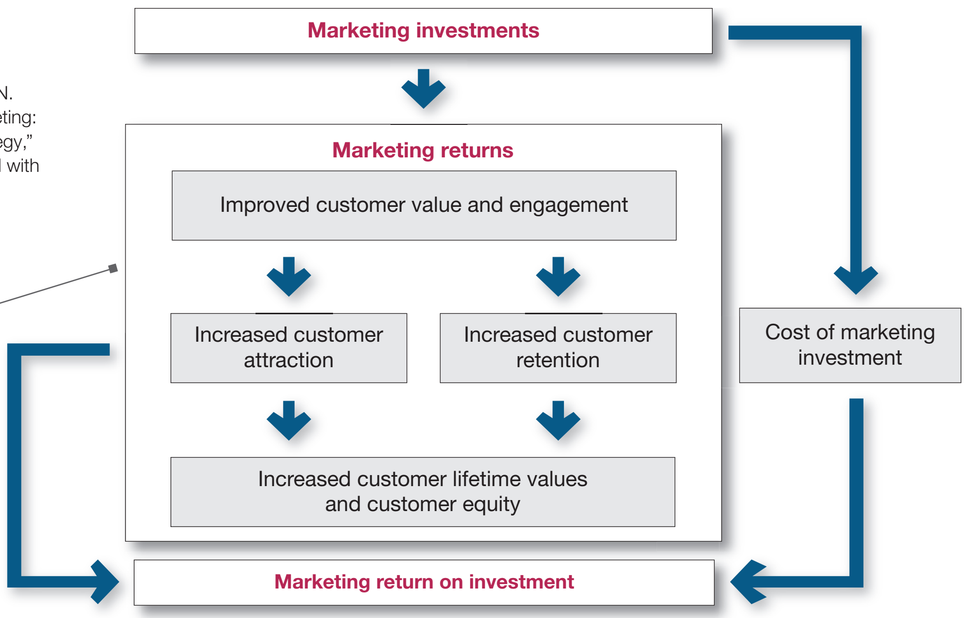
Figure 2.8 views marketing expenditures as investments that produce returns in the form of more profitable customer engagement and relationships.[19] Marketing investments result in improved customer value, engagement, and satisfaction, which in turn increase customer attraction and retention. This increases individual customer lifetime values and the firm's overall customer equity. Increased customer equity, in relation to the cost of the marketing investments, determines return on marketing investment.

As one chief marketing officer says, "You have to be able to move on to those deeper engagement metrics, which show that for the money that I'm spending, here are the various programs that are working in terms of driving engagement with customers and ultimately driving purchase behavior and revenue. Adds a marketing consultancy, "Better marketing ROI starts with ... objectives that are based in the consumer decision journey."[20]

FIGURE 2.8
Marketing Return on Investment

Source: Adapted from Roland T. Rust, Katherine N. Lemon, and Valerie A. Zeithaml, "Return on Marketing: Using Consumer Equity to Focus Marketing Strategy," *Journal of Marketing,* January 2004, p. 112. Used with permission.

Beyond measuring marketing return on investment in terms of standard performance measures such as sales or market share, many companies are using customer relationship measures, such as customer satisfaction, engagement, retention, and equity. These are more difficult to measure but capture both current and future performance.



Reviewing and Extending the Concepts

Objectives Review

In Chapter 1, we defined marketing and outlined the steps in the marketing process. In this chapter, we examined company-wide strategic planning and marketing's role in the organization. Then we looked more deeply into marketing strategy and the marketing mix and reviewed the major marketing management functions. So you've now had a pretty good overview of the fundamentals of modern marketing.

OBJECTIVE 2-1 Explain company-wide strategic planning and its four steps.

Strategic planning sets the stage for the rest of the company's planning. Marketing contributes to strategic planning, and the overall plan defines marketing's role in the company.

Strategic planning involves developing a strategy for long-run survival and growth. It consists of four steps: (1) defining the company's mission, (2) setting objectives and goals, (3) designing a business portfolio, and (4) developing functional plans. The company's mission should be market oriented, realistic, specific, motivating, and consistent with the market environment. The mission is then transformed into detailed supporting goals and objectives, which in turn guide decisions about the business portfolio. Then each business and product unit must develop detailed marketing plans in line with the company-wide plan.

OBJECTIVE 2-2 Discuss how to design business portfolios and develop growth strategies.

Guided by the company's mission statement and objectives, management plans its business portfolio, or the collection of businesses and products that make up the company. The firm wants to produce a business portfolio that best fits its strengths and weaknesses to opportunities in the environment. To do this, it must analyze and adjust its current business portfolio and develop growth and downsizing strategies for adjusting the future portfolio. The company might use a formal portfolio-planning method. But many companies are now designing more-customized portfolio-planning approaches that better suit their unique situations and their business environments.

OBJECTIVE 2-3 Explain marketing's role in strategic planning and how marketing works with its partners to create and deliver customer value.

Under the strategic plan, the major functional departments—marketing, finance, accounting, purchasing, operations, information technology, human resources, and others—must work together to accomplish strategic objectives. Marketing plays a key role in the company's strategic planning by providing a marketing concept philosophy and inputs regarding attractive market opportunities. Within individual business units, marketing designs strategies for reaching the unit's objectives and helps to carry them out profitably.

Marketers alone cannot produce superior value for customers. Marketers must practice partner relationship management, working closely with partners in other departments to form an effective *value chain* that serves the customer. And they must also partner effectively with other companies in the marketing system to form a competitively superior *value delivery network*.

OBJECTIVE 2-4 Describe the elements of a customer value–driven marketing strategy and mix and the forces that influence them.

Customer engagement, value, and relationships are at the center of marketing strategy and programs. Through market *segmentation, targeting, differentiation*, and *positioning*, the company divides the total market into smaller segments, selects segments it can best serve, and decides how it wants to bring value to target consumers in the selected segments. It then designs an integrated marketing mix to produce the response it wants in the target market. The *marketing mix* consists of product, price, place, and promotion decisions (the four Ps).

OBJECTIVE 2-5 Explore the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing marketing return on investment.

To find the best strategy and supporting marketing mix and to put them into action, the company engages in marketing analysis, planning, implementation, and control. The marketing plan serves as a blueprint that helps articulate and implement the marketing strategy. The main components of a marketing plan are the executive summary, the current marketing situation, threats and opportunities, objectives and issues, marketing strategies, execution plans, budgets, and controls. Planning good strategies is often easier than executing them well. To be successful, companies must also be effective at implementation—turning marketing strategies into marketing actions.

Marketing departments can be organized in one way or a combination of ways: functional marketing organization, geographic organization, product management organization, or market management organization. In this age of customer relationships, many companies are now changing their organizational focus from product or territory management to customer relationship management. Marketing organizations carry out marketing control, both operating control and strategic control.

More than ever, marketing accountability is the top marketing concern. Marketing managers must ensure that their marketing dollars are being well spent. In a tighter economy, today's marketers face growing pressures to show that they are adding value in line with their costs. In response, marketers are developing better measures of *marketing return on investment*. Increasingly, they are using customer-centered measures of marketing impact as a key input into their strategic decision making.

Key Terms

OBJECTIVE 2-1

Strategic planning
Mission statement

OBJECTIVE 2-2

Business portfolio
Portfolio analysis
Growth-share matrix
Product/market expansion grid
Market penetration
Market development
Product development
Diversification

OBJECTIVE 2-3

Value chain
Value delivery network

OBJECTIVE 2-4

Marketing strategy
Market segmentation
Market segment
Market targeting
Positioning
Differentiation
Marketing mix

OBJECTIVE 2-5

SWOT analysis
Marketing implementation
Marketing control
Marketing return on investment (marketing ROI)

Discussion Questions

2-1 What are the two steps involved in business portfolio planning? Why is each step important? (AACSB: Written and Oral Communication; Reflective Thinking)

2-2 What key roles does marketing play in a firm's strategic planning? (AACSB: Written and Oral Communication; Reflective Thinking)

2-3 Why would a firm sell a major brand or business to another firm? Please provide an example. (AACSB: Written and Oral Communication, Reflective Thinking)

2-4 Why do companies segment markets? How does market segmentation relate market targeting? (AACSB: Written and Oral Communication, Reflective Thinking)

2-5 What is an integrated marketing mix, and why is it important for a firm's marketing strategy? (AACSB: Written and Oral Communication; Reflective Thinking)

2-6 What is marketing return on investment (marketing ROI), and by what metrics can it be measured? (AACSB: Written and Oral Communication; Reflective Thinking)

Critical Thinking Exercises

2-7 Visit www.businessfinancing.co.uk/the-most-popular-consumer-brand-in-every-country/ and choose one of the world maps showing the popularity of brands around the world. Identify the top five and the bottom five brands. Suggest a strategy for each of the brands using the product/market expansion grid shown in Figure 2.3. Support your suggestions. (AACSB: Written and Oral Communication; Reflective Thinking)

2-8 Examine the integrated marketing mix of the Japanese clothing brand UNIQLO. What are their key marketing mix ingredients? What about their brand, service, and IMC? (AASCB: Communication)

2-9 Locate the mission statements for the following organizations: (a) Samsung, (b) Mobile Telecommunications Network (MTN), (c) United Nations Children's Fund (UNICEF), and (d) IKEA. Evaluate each statement using the criteria for creating a sound mission statement. What could be done to improve each organization's mission statement? (AACSB: Written and Oral Communication; Reflective Thinking)

APPLICATIONS AND CASES

Digital Marketing Lush UK Abandons Social Media

Lush Fresh Handmade Cosmetics UK sells handmade premium beauty products such as body washes, bath bombs, and face masks through 950 cosmetics shops around the globe. Prior to 2021, Lush engaged customers with captivating Instagram posts, which contributed to its massive following of more than 570,000 people. People were surprised when the company announced it was abandoning social media. Because Lush does not pay for advertising, including paid social media posts, those promotion channels were seen as a strategic threat. Lush mentioned the challenges of strategically deploying a promotion strategy through social media channels with evolving algorithms that made it have to fight to appear in customers' news feeds. Upon reevaluation, Lush curated its social media to include only Twitter, YouTube, Pinterest, and LinkedIn. The company believes the opportunities to engage with consumers via these channels provide sufficient marketing ROI, whereas Facebook, Instagram, TikTok, and other more algorithm-driven media do not. "We want social to be more about passions and less about likes," says Lush.

2-10 What is the rationale behind Lush's decision to discontinue and then reintroduce a curated assortment of social media channels? Do you think followers and customers understood Lush's choice? Why or why not? (AACSB: Written and Oral Communication; Reflective Thinking)

2-11 As Lush UK implemented the change, how could it measure the effects of leaving and then returning to social media on the achievement of its marketing goals? (AACSB: Written and Oral Communication; Reflective Thinking)

Marketing Ethics Pharrell Williams' Humanrace Brand

In 2020, Pharrell Williams launched an all-gender, all-race skin care line called Humanrace, sold exclusively through its website (humanrace.com). The skin care line had three vegan and sustainable products sold in Japan-inspired green packaging made with 50 percent post-consumer recycled landfill plastic with braille writing for the visually impaired. The signature recyclable and refillable green packaging includes what a consumer needs for a three-step, three-minute facial: a cleanser, an exfoliant, and a moisturizer. The sustainable packaging is one major source of differentiation for the product.

Despite the brand's goal of accessibility to all, its prices were expensive relative to those of competing products. When launched, the cost of the three-product set was $100. One reason for the high price was the quality of the ingredients. Another reason was fit with the brand's positioning as a high-quality product that really works. Even so, Humanrace's prices raised questions about whether it really offered skin care for all humans. Still, Pharrell Williams was applauded for associating his celebrity with a position related to inclusivity.

2-12 Humanrace's focus on reusable, recyclable plastics; high-quality, vegan ingredients; and skin care products that work for all humans seems to go against the traditional segmentation and targeting process. Defend this market segmentation strategy. Is it ethical to characterize the Humanrace product line as skin care for all? (AACSB: Written and Oral Communication; Ethical Understanding and Reasoning)

2-13 From an ethics standpoint, discuss Humanrace's focus on sourcing high-quality, vegan ingredients, and post-recycled, reusable packaging instead of developing products that keep costs down. Discuss the challenges Humanrace faces as a brand that is positioned as accessible to everyone but not affordable for many. (AACSB: Written and Oral Communication; Reflective Thinking; Ethical Understanding and Reasoning)

Marketing by the Numbers Alphabet versus Meta

Alphabet (Google) and Meta (Facebook) are tech giants. If you compare sales and profits, you would think that Alphabet is a far better marketer than Meta: Alphabet's sales last year were more than double Meta's sales, and its profits were 29 percent higher. Sales and profits provide information to compare the profitability of companies, but between these numbers is information regarding the efficiency of the marketing efforts in creating those sales and profits. Appendix 2: Marketing by the Numbers, Marketing Performance Measures, discusses other marketing profitability measures beyond the return on marketing investment (marketing ROI) measure described in this chapter. Review the appendix to answer the questions using the following information from the two companies' incomes statements (all numbers are in thousands):

	Alphabet (2020)	Meta (2020)
Sales	$182,500,000	$84,170,000
Gross Profit	$97,790,000	$69,273,000
Marketing Expenses	$22,910,000	$2,260,000
Net Income (Profit)	$40,269,000	$29,146,000

2-14 Calculate profit margin, net marketing contribution, marketing return on sales (or marketing ROS), and marketing return on investment (or marketing ROI) for each company. Which company is performing better? (AACSB: Communication; Analytic Thinking)

2-15 Go to Yahoo! Finance (http://finance.yahoo.com/) and find the income statements for two other competing companies. Perform the same analyses for these companies that you performed for the previous question. Which company is doing better overall and with respect to marketing? For marketing expenses, use 75 percent of the company's reported "Selling General and Administrative" expenses, as not all of the expenses in that category are marketing expenses. (AACSB: Communication; Analytic Reasoning; Reflective Thinking)

Company Case DuPont: Improving Everyday Life by Solving the World's Most Challenging Problems

You've heard of DuPont, but can you name any product it makes? Probably not. DuPont makes a load of successful products. Since the early 1900s, DuPont has developed hundreds of products that have revolutionized a wide range of industries, from agriculture and textiles to plastics and paints. But they're industrial brands that serve as ingredients or components for the goods people use every day.

How has DuPont succeeded in continually making revolutionary advancements? For starters, DuPont has always been dedicated to achieving breakthroughs in science and technology. DuPont's mission is to put "science to work by creating sustainable solutions essential to a better, safer, healthier life for people everywhere." From its earliest days, the company has been driven to discover solutions to the world's most challenging problems, even when a profitable outcome isn't apparent. It's that mindset, instilled at the start by the company's founder, that keeps DuPont focused on helping humanity thrive through science and technology.

From Gunpowder to Nylon

Founder Éleuthére Irénée du Pont arrived in the United States on January 1, 1800, fleeing the political turmoil in his native France. Only 18 years old, E. I. du Pont was already well educated and trained in advanced chemistry and the manufacture of gunpowder. Although he had no intention of pursuing gunpowder production as a business, he quickly realized that American-made gunpowder was very poor in quality and high in price. In fact, legend holds that du Pont decided to go into the gunpowder business in the United States during a hunting trip when his gun misfired. After some investigation into the gunpowder industry, du Pont deduced that the ingredients being used to produce gunpowder in the United States were not the problem. Rather, it was inefficiencies in the refining process. In 1802, du Pont built two powder mills on the Brandywine River in Delaware and established E. I. du Pont de Nemours and Company—DuPont for short. In so doing, he also laid the foundation for a company that would affect the future of just about everything it did.

Throughout the 1800s, DuPont focused almost entirely on making explosives, developing a culture of discovery and never-ending improvement. In the early 1900s, DuPont organized its research and development activities into two categories. *Applied research* laboratories focused on developing new products or finding new uses for existing ones. *Basic research* laboratories pursued solutions to scientific questions without any connection to specific products or markets. Such research endeavors were a leap of faith—faith that changes in the marketing environment and advancements in science would eventually open up new possibilities for DuPont discoveries.

In the decades that followed, the applied side of DuPont's R&D efforts created numerous and profitable innovations, including smokeless gunpowder, celluloid films, and the artificial leather known as Fabrikoid. While DuPont's basic research arm took longer to bear fruit—the source of endless company debate over the value of basic research relative to applied research—it ultimately delivered spectacular results. In the 1930s, DuPont basic research scientists developed both neoprene—a synthetic rubber—and nylon, the world's first truly synthetic fiber and one that stood up to both heat and solvents.

With nylon fiber in place, DuPont needed a commercial application. Its target market? Women's hosiery. Until the late 1930s, women's hosiery products were primarily made of silk, an ingredient that made them extremely delicate and very expensive. After the company perfected a suitable nylon cloth, the first nylon hosiery went on sale in May 1940. Nylon hosiery was a huge and instant success, evidenced by the long lines of women at stores across the country, forever changing the way people around the world dressed.

But the discovery of nylon was extremely important to DuPont internally as well. It proved that the company's basic research R&D efforts could pay off. And the uses for basic discoveries such as nylon stretched well beyond one product line. For example, with the onset of World War II, DuPont found a host of national defense applications. It developed nylon for use in such products as parachutes and tires for B-29 bombers. These developments gave DuPont a leg up in the postwar economic boom. Nylon became the standard fiber for belting in car and truck tires. Developing new varieties, nylon staples and fibers revolutionized the carpet industry. Further developments created equally revolutionary applications for nylon in appliances, wire insulation, sporting gear, and home furnishings. And while nylon's profitability diminished over time as competitors entered the market, it became one of DuPont's most successful products ever. Today, DuPont remains the world's leading producer of nylon products.

In Search of New Nylons

Because of DuPont's commitment to open-ended basic research, the continual growth and success of the firm have never been tied to the life cycle of a single product. If the revenue and profit growth of a successful product such as nylon slow down and even decline, DuPont has plenty of other products at various stages of development and commercialization. The success of nylon gave DuPont a firm foothold in synthetic textiles. It also ushered in an era when DuPont began staking its future on the discovery of "new nylons." DuPont's commitment to both applied and basic research in textiles led to such game changing products as Orlon—an acrylic fiber that proved effective as a substitute for wool in sweaters, pile fabrics, and carpeting; Dacron—a polyester fiber that set off the wash-and-wear revolution of the 1970s; and Lycra—an elastomeric fiber that stretches up to six times its original length and is found today in everything from yoga pants to business suits.

In addition to textile products found in consumer apparel items, DuPont's basic research in developing fibers has produced numerous non-apparel applications for its synthetic fibers. In the 1950s, DuPont researchers developed a flash-spinning process that produced a web of randomly oriented, interconnected filaments that could be made into sheets, a discovery that has given birth to numerous synthetic paper and nonwoven fabric products like Nomex, a heat- and flame-resistant fiber used to make protective clothing for firefighters. DuPont spent 15 years and $500 million to develop Kevlar, a product that *Fortune* magazine called "a miracle in search of a market." Five times stronger than the same weight of steel, Kevlar ultimately found plenty of markets from cut-resistant gloves to lightweight body armor. And then there's Tyvek, a product that took not only 15 years to develop but another 15 years to become profitable. Today, Tyvek building wrap can be found in nearly every housing development, has a firm foothold in the envelope market, is popular in sterile packaging, and is also the primary material for disposable protective clothing.

While DuPont's synthetic fiber and textiles business has alone been successful enough to place the company comfortably on the *Fortune* 500 year after year, the company's orientation toward solving everyday problems extends well beyond a single industry. Often, DuPont has pursued opportunities by looking for alternative uses for its technologies. For example, DuPont entered the plastics industry as a way to use the excess nitrocellulose that was a by-product of its munitions business. As early as the 1870s, DuPont researchers discovered that nitrocellulose could be combined with certain solvents, yielding a solid solution that could be molded and hardened. This early plastic product immediately found markets as a substitute for ivory and metal.

What was initially considered to be a side business eventually blossomed into a major profit center for DuPont. This was thanks in no small part to developments in making plastics from petroleum as supply exploded during the early 1900s. Dupont's early petroleum-based plastics included Lucite—a tough, clear polymer used in the production of aircraft canopies and windows, camera lenses, and automobile taillights—and Butacite—a polyvinyl plastic that would find a major market as an interlayer for automotive safety glass.

A Side Business Turns to Gold

But one of the most significant developments to emerge from DuPont's efforts to develop petroleum-based plastics was polytetrafluoroethylene, better known as Teflon—a slippery resin that is highly resistant to chemicals and heat. First discovered in 1938 as a by-product from DuPont's work with chlorofluorocarbon gas as a refrigerant and propellant, Teflon rapidly found a commercial use in fuses of artillery shell nose cones. It also played a role in the Manhattan Project atomic tests because it could withstand extremely corrosive environments. Like its synthetic fiber business, World War II brought contracts for plastics that not only ensured DuPont steady markets for a number of years but fostered the rapid development of new plastics technologies. Such developments included not only the discovery of new polymers but new processes that enabled DuPont to apply its plastics in a variety of ways, opening opportunities in different industries and product lines.

That's how DuPont plastics found their way into a seemingly infinite stream of products. For example, Lucite served as a foundational product in DuPont's paints and coatings division, finding applications in finishes ranging from automotive lacquers to appliance enamels to acrylic house paints. With developments in coating technology, Teflon became a household name during the 1960s and 1970s as it became the standard for nonstick cookware as well as a very effective soil and stain repellant for fabrics. These are just a few examples of how DuPont discoveries in one area leapfrogged across different DuPont divisions, spawning even more innovation in search of applications brought on by an ever-changing environment. For example, as emissions regulations have increased, scientists have developed yet another use for Teflon fibers—that of filtration fabrics for reducing coal ash and other industrial pollutants. In a similar fashion, DuPont plastics are used today in a wide array of applications including piping, beverage containers, countertops, automobile bumper systems, semiconductor processing, and electrical insulation.

Over the past 220 years, DuPont has demonstrated its ability to adapt and evolve with numerous advancements that established major business units in explosives, textiles, plastics, paints and coatings, and agriculture. The company's penchant for sniffing out market opportunities means that DuPont is just as willing to unload languishing products as it is to develop or acquire new ones. Thus, DuPont's history is filled with divestments, mergers, and acquisitions. In fact, only two years after a 2015 merger with the Dow Chemical Company, DowDuPont spun off into three publicly held companies, with DuPont focused on specialty product industries, the area with the greatest potential for growth. With over 200 brands in its portfolio, "DuPont is working side-by-side with industry leaders in safety, healthcare, electronics, mobility and construction, creating technology-based materials, ingredients, and solutions that help transform industries and everyday life."[21]

Questions for Discussion

2-16 Dupont has steadily grown by developing new products but also creatively expanding the applications of those products. How can marketers become really good at this?

2-17 As described in the case, Dupont has a sprawling business portfolio. What are the advantages and disadvantages of this?

2-18 Is Dupont a customer-centered company, a product/technology-centered company, or both? Explain.

2-19 Given that the business environment is becoming ever more unstable and unpredictable, how is Dupont positioned for that future? Is it positioned well or poorly? Why?

2-20 *Small group exercise*: Google's mission statement is "To organize the world's information and make it universally accessible and useful." Tesla's mission statement is "To accelerate the world's transition to sustainable energy." Drawing from the company's history, evolution, and outlook, come up with an inspiring, market-oriented mission statement of your own for Dupont. Justify your choice.

3 Analyzing the Marketing Environment

OBJECTIVES OUTLINE

OBJECTIVE 3-1 Describe the environmental forces that affect the company's ability to serve its customers.

OBJECTIVE 3-2 Explain how changes in the demographic and economic environments affect marketing decisions.

OBJECTIVE 3-3 Identify the major trends in the firm's natural and technological environments.

OBJECTIVE 3-4 Explain the key changes in the political and cultural environments.

OBJECTIVE 3-5 Discuss how companies can react to the marketing environment.

CHAPTER PREVIEW

So far, you've learned about the basic concepts of marketing and the steps in the marketing process for engaging and building profitable relationships with targeted consumers. In this chapter, we'll begin digging deeper into the first step of the marketing process—understanding the marketplace and customer needs and wants. You'll see that marketing operates in a complex and changing environment. Other actors in this environment—suppliers, intermediaries, customers, competitors, publics, and others—may work with or against the company at different times. Major environmental forces—including demographic, economic, natural and physical, technological, political, and cultural—shape marketing opportunities, pose threats, and affect the company's ability to engage customers and build customer relationships. To develop effective marketing strategies, a company must first deeply understand the environment in which marketing operates. Such an understanding empowers the company to "see around the corner" before major changes happen and prepare for those changes in advance.

What do you do when your markets around the world change suddenly and unpredictably? Let's look at how one company considered its marketing environment in a fresh way, which allowed it to take advantage of an unexpected opportunity for growth in China and to grow sales in Japan during the difficult times of the COVID-19 pandemic.

L'OCCITANE: Adapting to Changes in the Marketing Macroenvironment

L'Occitane en Provence is a brand of skin care products sold all around the world in department stores, airports, and the brand's own high-street stores. It is the original brand of Group L'Occitane. The brand's story begins with experiments by its founder, entrepreneur Olivier Baussan, to extract essential oils from lavender and rosemary, which he sold at local markets. He then formulated the brand's first skin cream, which was launched in 1976 in Manosque in upper Provence, France. In 1978, Baussan's first store opened in Provence with the name Le Relais Occitane, but the brand soon took on L'Occitane, after the medieval women of Occitania, a region covering the south of France, the Basque country, and the Italian Occitane Valleys.

The use of ethically sourced natural materials has always been part of the brand's identity, as is sourcing of authentic oils and perfumes from Provence. In 1976, when its first products were introduced in local markets, people were just becoming aware of the environmental and ethical dimensions of the cosmetics business, and they were ready to buy from smaller brands with values that reflected the changes in society. It is no coincidence that The Body Shop, also based on humane principles, was founded in the same year. These good practices aligned L'Occitane with the evolving concerns of customers while also contributing to the development of customers' consciousness of these issues—a rare case of both contributing to a change in the external environment and responding to it.

And L'Occitane continues to promote its original values. For example, it was one of the first firms to recognize the benefits of shea butter, which is used in many of their skin care products. It is sourced mainly from Burkina Faso, and to this day L'Occitane maintains long-term relationships with its shea butter suppliers. It has helped set up 100-percent fair trade and integrated supply chains to ensure traceability of the raw materials and fair returns for the farmers.

As the brand grew in recognition and sales, they opened more of their own retail stores, first in Europe and then the rest of the world. Today the group is international, with nine brands focused on skin care and a turnover of more than €1.6 billion in 2021. L'Occitane operates in more than 90 countries, with around 1,500 L'Occitane boutiques and 3,000 other retail outlets. From the very beginning, L'Occitane used local suppliers of oils and perfumes to make their skin care products. Indeed, the use of ethically sourced natural materials has always been part of the brand's identity.

In another significant evolution of the external environment, the retail environment changed dramatically with the rise of online shopping, which started to take off when Amazon and eBay were established in the mid-1990s. L'Occitane reacted to these changes early on by developing an international multi-channel distribution strategy in 1996 that included sales through its own websites; it now has dedicated e-commerce sites in all of its major market regions.

Another evolving retail environment is China. As the country emerged as a growing market for luxury products, L'Occitane began opening new stores in many Chinese cities and using Chinese online and social channels for e-commerce targeted at Chinese customers. In 2022, China was the brand's largest market, contributing around 17 percent of total sales. The company has introduced several new products specifically targeted at Chinese tastes, such as the Osmanthus range of creams, gels, and perfumes, launched in 2021. In Chinese culture, the osmanthus flower is widely used in tea and desserts as well as in traditional medicine. Using only flowers from Guilin, in the south of China, L'Occitane was able to market the Osmanthus range to Chinese consumers as natural and local. The launch was highly successful, with Osmanthus products accounting for 10 percent of sales in China during the launch period.

The COVID-19 pandemic brought severe changes to the worldwide macroenvironment, with stores closing and people confined to their homes. L'Occitane

In China and Japan, L'Occitane used local knowledge to find opportunities for growth in these new markets.
Glyn Thomas Photography/Alamy Stock Photo

responded proactively, focusing on its online presence, social media, and e-commerce sales. However, each country or region has its own preferences and local channels that must be understood well if customers are to be found, developed, and maintained—and that includes its social media environment. Japan is a case in point. Its population of 125 million, one-third of whom reside in and around Tokyo, is 98 percent ethnic Japanese. During the pandemic, L'Occitane sought to compensate for lost in-store revenues by improving online coverage. They engaged DMFA (Digital Marketing For Asia), an agency specializing in online business in the region, and chose to use LINE, Japan's no. 1 social media and messaging app, with 84 million monthly active users and a smartphone reach of 90 percent.

LINE is an unusual app—sometimes called a "super app"—because in addition to communication, it can cover almost every type of online activity. Its "official channels" feature allows companies, especially news media outlets, publications, and other mass media companies, to offer an official channel that users can join and receive regular updates, published articles, and news updates. L'Occitane used this facility to grow its store membership, replacing physical cards with digital membership cards to encourage more online customers to join. This shift to digital membership increased the quantity and relevance of L'Occitane's customer data, which in turn improved the company's understanding of customer interests, needs, and behavior, resulting in better targeted news and ads, leading in turn to more customer engagement and more sales.

Targeting the right customers is crucial, so relevant and current customer data is vital for the design and delivery of social media campaigns. People using smartphones and laptops will nearly always ignore messages that are not of interest to them. DMFA therefore set about strengthening the data collection from customers, from stores as well as online, to provide a solid

L'Occitane en Provence is a brand that has always combined core values with an innovative and agile approach to strategy and marketing.

foundation for customer relationship marketing (CRM) actions. Online data are always available, but information about individual customers in high-street stores is more difficult to come by. But L'Occitane has always believed strongly in knowing its customers, so when DMFA kickstarted its next phase, the staff in L'Occitane's stores were already equipped with tablets that gave them access to existing customer data, helped them sell, and gathered new and additional customer data. Thus, store-based information was available in addition to data from online sales.

Expanding its knowledge and improving its understanding of new customer attitudes and behaviors during the pandemic allowed L'Occitane to extend its store membership to more than 75 percent of all customers. This strategy also benefitted from the company's offer of free samples for joining and free gifts for signing up through the official LINE account. After observing how users progressed through the signing-up stages within LINE, the user interface was streamlined to make the process easier and faster, further boosting retention.

The customer data obtained from the memberships has facilitated the delivery of more interesting and relevant messages to prospects and users, providing useful information such as when and how to use the products and the benefits to be gained. This has increased purchases from casual buyers who previously only made purchases infrequently. Overall, the increase in online sales reached 3,000 percent return on ad spend (ROAS) as purchases rose in number and frequency.

In China, L'Occitane took advantage of the opportunity for growth using local ingredients adapted to Chinese culture; in Japan, L'Occitane leveraged local knowledge to create a social media strategy that grew online sales significantly, helping to compensate for the sales lost during the pandemic. These examples reveal a company that, despite its size, remains agile and flexible in its response to external changes.[1]

Marketing environment
The actors and forces outside marketing that affect marketing management's ability to build and maintain successful and profitable relationships with target customers.

A COMPANY'S marketing environment consists of the actors and forces outside marketing that affect marketing management's ability to build and maintain successful and profitable relationships with target customers. Like L'Occitane, companies must constantly watch and adapt to the changing environment—or, in many cases, lead those changes.

More than any other group in the company, marketers must be environmental trend trackers and opportunity seekers. Although every manager in an organization should watch the outside environment, marketers have two special aptitudes. They have disciplined methods—marketing research, marketing intelligence, and marketing analytics—for collecting information and developing insights about the marketing environment. They also spend more time in customer- and competitor-related settings. By carefully studying the environment, marketers can adapt their strategies to meet new marketplace challenges and opportunities.

Author Comment | The microenvironment includes all the actors close to the company that affect, positively or negatively, its ability to engage with and create value for customers.

The Microenvironment and Macroenvironment

OBJECTIVE 3-1 Describe the environmental forces that affect the company's ability to serve its customers.

Microenvironment
The actors close to the company that affect its ability to serve its customers—the company, suppliers, marketing intermediaries, competitors, publics, and customers.

Macroenvironment
The larger societal forces that affect the microenvironment—demographic, economic, natural, technological, political, and cultural forces.

The marketing environment consists of a *microenvironment* and a *macroenvironment*. The **microenvironment** consists of the actors close to the company that affect its ability to engage and serve its customers—the company, suppliers, marketing intermediaries, competitors, publics, and customers. The **macroenvironment** consists of the larger societal forces that affect the microenvironment—demographic, economic, natural, technological, political, and cultural forces. We look first at the company's microenvironment.

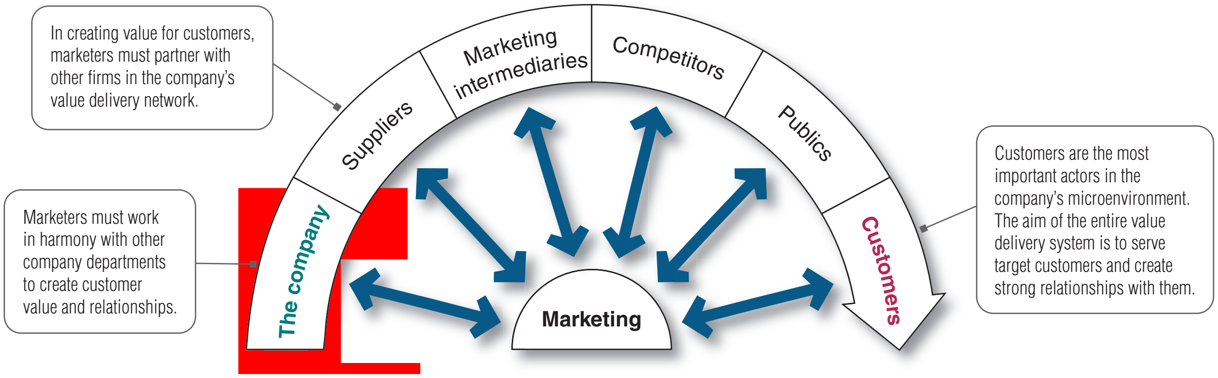
The Microenvironment

Marketing builds profitable relationships with customers by creating customer value and satisfaction. However, marketing managers cannot do this alone. **Figure 3.1** shows the major actors in the marketer's microenvironment. Marketing success requires building relationships with other company departments, suppliers, marketing intermediaries, competitors, various publics, and customers, which combine to make up the company's value creation and delivery network.

The Company

In designing marketing plans, marketing management takes other company groups into account—groups such as top management, finance, research and development (R&D), information technology, purchasing, operations, human resources, and accounting. All of these interrelated groups form the internal environment. Top management—including the

FIGURE 3.1
Actors in the Microenvironment



company's top marketers—sets the company's mission, objectives, broad strategies, and policies. Marketing managers make decisions within these broader strategies and plans. Then, as we discussed in Chapter 2, marketing managers must work closely with other company departments. With marketing taking the lead, all departments—from manufacturing and finance to legal and human resources—share the responsibility for profitably creating and recapturing customer value.

Suppliers

Suppliers provide the resources needed to produce its goods and services. Marketing managers must watch supply availability and costs. Supply shortages or delays, natural disasters, and other events can cost sales in the short run and damage customer satisfaction in the long run. Rising supply costs may force price increases that can reduce sales volume.

Most marketers today treat their suppliers as partners in creating and delivering customer value. For example, cosmetics maker L'Oréal knows the importance of building close relationships with its extensive network of more than 70,000 suppliers, who supply everything from polymers and fats, spray containers, and packaging to production equipment and office supplies:[2]

L'Oréal builds long-term supplier relationships based on mutual benefit and growth. It "wants to make L'Oréal a top performer and one of the world's most respected companies. Being respected also means being respected by our suppliers."

aslysun/Shutterstock; GK Images/Alamy Stock Photo

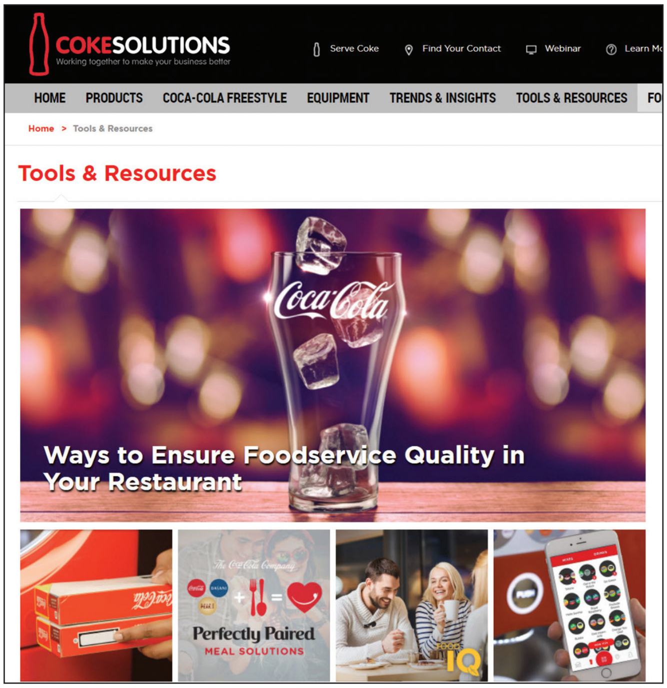
> L'Oréal is the world's largest cosmetics maker, with 36 well-known global brands ranging from L'Oréal Paris, Maybelline, and Kiehl's to Lancôme, Garnier, and Redken. The company's supplier network is crucial to its success. As a result, L'Oréal treats suppliers as respected partners. Whereas some companies make unreasonable demands of their suppliers and "squeeze" them for short-term gains, L'Oréal builds long-term supplier relationships based on mutual benefit and growth. According to the company's extensive supplier website, "L'Oréal does not simply buy products and services from its suppliers. The group has a deep respect for suppliers, their corporate culture, their growth, and their employees." L'Oréal seeks to create "solid and sustainable" supplier relationships, "based on trust, mutual interest, and high standards." The goal is to "invent together the beauty of tomorrow." As a result, more than 75 percent of L'Oréal's supplier partners have been working with the company for 10 years or more and the majority of them for several decades. Says the company's head of purchasing, "The CEO wants to make L'Oréal a top performer and one of the world's most respected companies. Being respected also means being respected by our suppliers."

Marketing Intermediaries

Marketing intermediaries
Firms that help the company to promote, finance, sell, and distribute its goods to final buyers.

Marketing intermediaries help the company promote, sell, and distribute its products to final buyers. They include resellers, physical distribution firms, marketing services agencies, and financial intermediaries. *Resellers* are distribution channel firms that help the company find customers or make sales to them. These include wholesalers and retailers that buy and resell merchandise. *Physical distribution firms* help the company stock and move goods from their points of origin to their destinations. *Marketing services agencies* are the marketing research firms, advertising agencies, media firms, and marketing consulting firms that help the company target and promote its products to the right markets. *Financial intermediaries* include banks, credit companies, insurance companies, and other businesses that help finance transactions or insure against the risks associated with the buying and selling of goods.

Like suppliers, marketing intermediaries form an important component of the company's overall value delivery network. Thus, today's marketers recognize the importance of working with their intermediaries as partners rather than simply as entities through which they sell their products. For example, when Coca-Cola signs on as the exclusive beverage provider for a fast-food chain, such as McDonald's, Wendy's, or Subway, it provides much more than just soft drinks. It also pledges powerful marketing support:[3]



Partnering with intermediaries: Coca-Cola provides its retail partners with much more than just soft drinks. It also pledges powerful marketing support.

The Coca-Cola Company

> Coca-Cola assigns cross-functional teams dedicated to understanding the finer points of each retail partner's business. It conducts a staggering amount of research on beverage consumers and shares these insights with its partners. It analyzes the demographics of U.S. zip code areas and helps partners determine which Coke brands are preferred in their areas. The company's networked FreeStyle vending machines at retail locations record customer ordering patterns and preferences. Based on such insights, the Coca-Cola food service solutions group develops marketing programs and merchandising tools that help its retail partners improve their beverage sales and profits. Its website, www.CokeSolutions.com, provides retailers with a wealth of information, business solutions, merchandising tips, advice on digital and social media marketing, and techniques on how to go green. Such intense partnering has made Coca-Cola a runaway leader in the U.S. fountain-soft-drink market.

Competitors

The marketing concept states that, to be successful, a company must provide greater customer value and satisfaction than its competitors do. Thus, beyond simply adapting to the needs of target consumers, marketers must gain strategic advantage by positioning their offerings strongly against competitors' offerings in the minds of consumers.

No single competitive marketing strategy is best for all companies or all situations. Each firm should consider its size and industry position relative to those of its competitors. Large firms with dominant industry positions can use certain strategies that smaller firms cannot. But being large is not enough. There are winning strategies for large firms, but there are also losing ones. And small firms can develop strategies that give them better rates of return than large firms enjoy.

Publics

Public
Any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives.

The company's marketing environment also includes various publics. A **public** is any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives. We can identify seven types of publics:

- *Financial publics.* This group influences the company's ability to obtain funds. Banks, investment analysts, and stockholders are the major financial publics.
- *Media publics.* This group carries news, features, editorial opinions, and other content. It includes television stations, newspapers, magazines, and blogs and other social media.
- *Government publics.* Management must take government developments into account. Marketers must often consult the company's lawyers on issues of product safety, truth in advertising, and other matters.

- *Citizen-action publics.* A company's marketing decisions may be questioned by consumer organizations, environmental groups, advocacy groups, and others. The company's public relations department can help it stay in touch with consumer and citizen groups.
- *Internal publics.* This group includes workers, managers, volunteers, and the board of directors. Large companies use newsletters and other means to inform and motivate their internal publics. When employees feel good about the companies they work for, this positive attitude spills over to the external publics.
- *General public.* A company needs to be concerned about the general public's attitude toward its products and activities. The marketplace's image of the company affects its buying behavior.
- *Local publics.* This group includes local community residents and organizations. Large companies usually work to become responsible members of the local communities in which they operate.

A company can prepare marketing plans and programs for major publics as well as for customer markets. ● For example, home-improvement retailer Home Depot gives back to its local publics through its charitable giving arm, The Home Depot Foundation:[4]

● **Publics: The Home Depot Foundation gives back to local communities through support for local nonprofits, grants, and countless orange-shirted "Team Depot" employee volunteer hours. It is committed to a culture of service that doesn't stop at the checkout counter.**

Jim West/Alamy Stock Photo

> The Home Depot Foundation has a simply stated mission: "Improving homes. Improving lives." Through its support for local nonprofits, grants, and countless "Team Depot" employee volunteer hours, the foundation works to support communities impacted by natural disasters, improve the homes and lives of U.S. veterans, and train skilled tradespeople to fill the labor gap. For example, when natural disasters strike, The Home Depot Foundation provides disaster relief supplies, resources, and Team Depot volunteers to help rebuild homes and communities. It also awards Community Impact Grants to fund local community projects. Over the past decade, The Home Depot Foundation has invested more than $400 million in veteran causes and improved more than 50,000 veteran homes and facilities. In a single year, more than 55,000 Team Depot volunteers have completed more than 315,000 hours of volunteerism in support of veterans and communities in need. Most recently, through its Path to Pro program, The Home Depot Foundation is helping to train and certify returning veterans, high school students, and underserved youth in the skilled trades and help them find careers in the home improvement industry. It's working with various industry groups to "train the next generation of skilled tradespeople." It's all about giving back to the Home Depot's local communities and committing to "a culture of service that doesn't stop at the checkout counter."

Customers

Customers are the most important actors in the company's microenvironment. The aim of the entire value delivery network is to engage target customers and create strong relationships with them. The company might target any or all of five types of customer markets. *Consumer markets* consist of individuals and households that buy goods and services for personal consumption. *Business markets* buy goods and services for further processing or use in their production processes. Consumer and business markets are the two main types of markets. In addition, *reseller markets* buy goods and services to resell at a profit. *Government markets* consist of government agencies that buy goods and services to produce public services or transfer the goods and services to others who need them. Finally, *international markets* consist of buyers in other countries, including consumers, producers, resellers, and governments. Each market type has special characteristics that call for careful study by the seller.

Author Comment | The macroenvironment consists of broader forces that affect the actors in the microenvironment.

The Macroenvironment

The company and all the other actors operate in a larger macroenvironment of forces that shape opportunities and pose threats to the company. **Figure 3.2** shows the six major forces in the company's macroenvironment. Even the most dominant companies can be vulnerable to the often turbulent and changing forces in the marketing environment. Some disruptions are unforeseeable and uncontrollable. Others can be predicted and skillfully managed. Such disruptions create both threats and opportunities for marketers, who must adapt quickly and create flexible strategies that can deal with uncertain times and futures (see Real Marketing 3.1). Companies that understand and adapt well to their environments can thrive. Those that don't can face difficult times. Once-dominant market leaders such as Xerox, Sears, Sony, Blockbuster, and Kodak have learned this lesson the hard way. In the remaining sections of this chapter, we examine these forces and show how they affect marketing strategy.

Author Comment | Changes in demographics mean changes in markets, so they are very important to marketers. We first look at the biggest demographic trend—the changing age structure of the population.

The Demographic and Economic Environments

OBJECTIVE 3-2 **Explain how changes in the demographic and economic environments affect marketing decisions.**

The Demographic Environment

Demography
The study of human populations in terms of size, density, location, age, gender, race, occupation, and other characteristics.

Demography is the study of human populations in terms of size, density, location, age, gender, race, occupation, and other characteristics. The demographic environment is of major interest to marketers because it involves people, and people ultimately make up markets. The world population is growing rapidly. It now exceeds 7.9 billion people and is expected to grow to more than 8.6 billion by the year 2030.[5] The world's large and highly diverse population poses both opportunities and challenges.

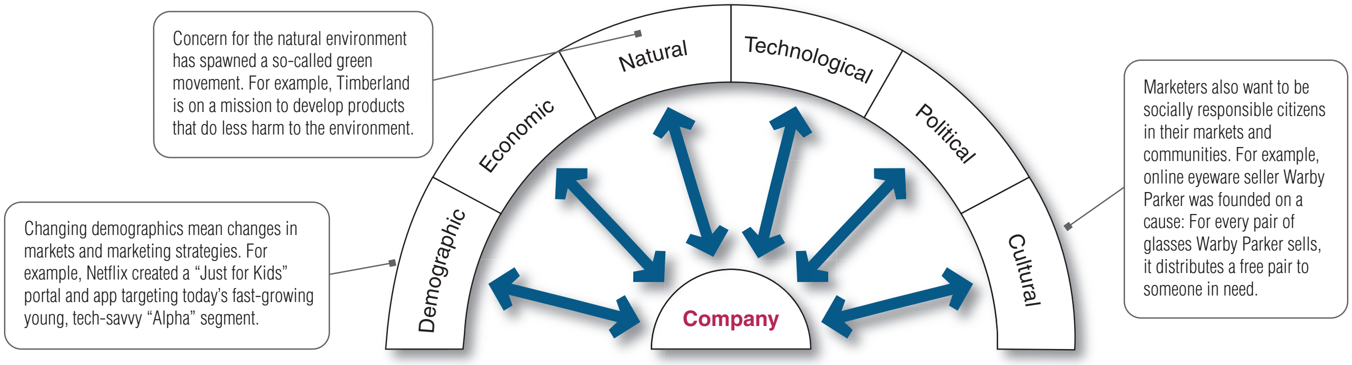
Changes in the global demographic environment have major implications for business. Thus, marketers keep a close eye on demographic trends and developments in their markets. They analyze changing age and family structures, geographic population shifts, educational characteristics, and population diversity. Here, we discuss the most important demographic trends in the United States.

The Changing Age Structure of the Population

The U.S. population currently stands at more than 332 million and may reach almost 360 million by 2030.[6] The single most important demographic trend in the United States is the changing age structure of the population. Primarily because of falling birthrates and longer life expectancies, the U.S. population is rapidly getting older. In 1970, the median age was 28; currently, it is 39 years.[7] This aging of the population will have a significant impact on markets and those who service them.

The U.S. population contains several generational groups. Here, we discuss the five major groups—the baby boomers, Generation X, the millennials, Generation Z, Generation Alpha—and their impact on today's marketing strategies.

FIGURE 3.2
Major Forces in the Company's Macroenvironment



Real Marketing 3.1

Marketing in the Age of Disruption: Managing the Present and Planning for the Future

Disruption in the marketing environment has always been around. But it seems to have accelerated in recent years. The recent past has been marked by everything from the rapid rise of digital technologies and large economic swings to extreme weather patterns, social and political turmoil, and global health crises.

And then came the COVID-19 pandemic, bringing massive disruptions to an already volatile marketing environment. The pandemic had a huge and wide-ranging impact on consumers and, consequently, on the industries and brands that serve them. COVID's adverse impact on jobs and the economy caused major shifts in consumer spending. Homebound, socially distanced, and financially stressed consumers dramatically changed how they shopped and what they bought.

Every brand has a pandemic story. Some industries suffered more than others. For example, hospitality and travel companies, airlines, restaurants, theaters, sports entertainment venues, and many store retailers saw their fortunes plunge as locked-down consumers isolated themselves at home. Many well-known brands fell into bankruptcy, such as Hertz, J.C. Penney, Neiman Marcus, Lord & Taylor, Stein Mart, and Gold's Gym. In contrast, other companies and industries thrived—online retailers or those with strong online order and delivery systems, such as Amazon and Target; videoconferencing and other tech companies like Zoom and Microsoft; and social media and entertainment brands like Facebook and Netflix, to name only a few.

But even brands that received automatic bumps in sales from the pandemic faced huge challenges—how to serve their consumers well and meet immediate demand while at the same time preparing for a post-pandemic "new normal." For example, take Reckitt, which produces Lysol disinfectant and a cabinet full of other household brands that "help people enjoy a cleaner, healthier life." In the early months of the pandemic, Lysol faced a gigantic spike in demand. And as people stayed home and cooked more, they needed more of Reckitt's Finish dishwashing detergent. Homebound families adopted more pets, so they needed more of Reckitt's Resolve carpet cleaner. And with more cooking and pet smells, Reckitt had trouble keeping up with demand for its Air Wick air freshening products.

Reckitt adapted swiftly and decisively. Even before COVID became constant headline news, Reckitt's CEO instructed his managers to "turn on the factories 24 hours" and go "full blast." For starters, even as competitors hesitated, Reckitt nailed down its ingredient supply chain. And it tripled production of Lysol by cutting deals with hundreds of smaller brands to use their surplus production capacity while at the same time investing in more capacity of its own.

To get its products quickly into the hands of needy customers, Reckitt slimmed down the sizes and varieties in the Lysol line, which simplified everything from production to stocking shelves. And even with its increased costs, Reckitt committed to keeping prices steady, mindful of the importance of maintaining customer relationships post-pandemic. Its rapid response to the COVID-19 disruption paid off for Reckitt's brands. By the end of COVID-19's first year, Lysol sales were up 70 percent. And it gained market share as rivals like Clorox struggled just to keep up.

Perhaps no company provides a better example of how to adapt to major disruptions than KDP. The company was formed three years ago by the merger of pod coffee brewer maker Keurig and cold drink maker Dr Pepper Snapple, making it the only company that covers both the "hot" and "cold" sides of the beverage industry. When COVID-19 hit, rather than hunkering down and waiting things out, KDP chose to make the crisis work in its favor. It pivoted quickly for the short term but also wanted to build adaptability into its long-term strategy. "We forged a blueprint that makes disruption our friend," says KDP's CEO, Bob Gamgort.

With 82 percent of the K-Cup pod market and tens of thousands of smarthome brewing machines feeding data directly to its data centers, KDP detected changes in beverage consumption patterns from the very start of the pandemic. With people leaving the cities and sheltering in place, the data showed that coffee consumption would explode. The data also showed changes in cold beverage consumption patterns. Store-delivery data on what was selling and where showed that, instead of buying drinks in local stores or restaurants, people would be stockpiling soda by purchasing big quantities in single trips to megastores such as Walmart, Kroger, or Costco.

In response, KDP made rapid shifts in its soft drink operations. To simplify and speed up production and to make it faster and easier to stock retail shelves, KDP streamlined its product line. To meet reshaped demand, KDP focused on multi-packs and on cans, which stayed fresher longer. This meant that it had to be creative in finding additional supplies of cans, cardboard, and other materials. For example, when the Mexican government declared beer a nonessential product, KDP pounced immediately, relieving Mexico's beer producers of their excess supplies and capacity. And to meet the expected surge in K-Cups pods consumption, "I turned our factories to maximum output, way in advance of retail orders," says CEO Gamgort.

Beyond changes in production and operations, KDP also launched a broad "Fueling the Front Line" campaign to recognize and lend support to frontline workers and healthcare providers during the challenging times. For every consumer social media post of gratitude that included #FuelingtheFrontline, KDP provided a cup of coffee to a hospital worker. KDP also donated Keurig brewers and coffee to break rooms in more than 350 hospitals across the country. And it sponsored a mobile truck tour that visited selected hospitals to give harried hospital workers and first responders a special moment outside to enjoy a cup of coffee or other beverage.

During the first year of COVID, despite the disruptions, KDP increased U.S. brewing machine sales by 10 percent, and its K-Cup

Perhaps no company provides a better example of how to adapt to major disruptions in the marketing environment than beverage maker KDP. During the COVID-19 pandemic, KDP "forged a blueprint that makes disruption our friend."

Eyal Dayan Photography

revenues shot up 30 percent, more than three times the expected increase. KDP saw similar surges in soft drink sales, with its share of the cold beverage market almost doubling. As a company, KDP's total revenues were up 4.5 percent, only a slight uptick from previous years. But compared to Coca-Cola's revenue decline of 11.5 percent and Starbucks's drop of 11.3 percent, KDP was the beverage industry's star of the year. And KDP's ability to adapt positioned it well to handle whatever comes next.

In general, companies that adapted best to the COVID-19 disruptions are faring best in the pandemic's wake. For example, although videoconferencing platform Zoom's sales quadrupled during COVID's first year, its growth slowed in the pandemic's second year as people began venturing out again. But by working tirelessly to adapt its conferencing tools to the new normal for businesses with employees who now work from home, in offices, and anywhere in between, Zoom still grew by 54 percent in 2021.

And then there's beauty retailer Ulta Beauty, whose revenues took a big hit in the early months of COVID-19 as it shuttered many of its stores for weeks at a time. But Ulta used that downtime to refocus on its online and digital marketing operations. As a result, as the pandemic eased, Ulta's 2021 revenues grew a substantial 38 percent to $8.6 billion, nearly 18 percent higher than its pre-COVID revenues. "The results in 2021 [were] extraordinary by any measure," said Ulta's chief financial officer. "People are coming back to the stores but they're also continuing to shop digitally."

The COVID-19 years will long be remembered by both consumers and companies as a period of massive disruptions. One consultant referred to that time as "the most rapid and forced transformation in history." But as noted at the start of this story, disruptions in the marketing environment have always been around. There will be a constant flow of future disruptions, and the "new normal" will always be elusive and evolving. To prosper in this age of disruption or even to survive, marketers must bend and adapt to fend off the threats and take advantage of the opportunities.[8]

Baby boomers
The 71 million people born during the years following World War II, from 1946 through 1964.

The Baby Boomers. There are nearly 71 million U.S. **baby boomers**, people born during the post–World War II baby boom from 1946 to 1964. Over the years, the baby boomers have been one of the most powerful forces shaping the marketing environment. The youngest boomers are now in their late 50s; the oldest are in their 70s and well into retirement.

The baby boomers are the wealthiest generation in U.S. history. Today's baby boomers account for about 21 percent of the U.S. population but hold more than half of U.S. household wealth.[9] The boomers constitute a lucrative market for financial services, new housing and home remodeling, high-end vehicles, travel and entertainment, eating out, health and fitness products, and just about everything else. It's fashionable for some marketers these days to look past the boomers, instead targeting the highly coveted millennial and Generation Z consumers. Some may stereotype the older boomers as stuck in the past, out of touch, and not interested in new products. However, rather than phasing out or slowing down, many of today's boomers see themselves as entering new life phases.

More active boomers have no intention of abandoning their youthful lifestyles as they age. For example, boomers spend more on travel than other age groups. And one recent survey found that 82 percent of boomers are open to new brands. Many boomers are also digitally active and increasingly social media savvy. Some 75 percent of baby boomers now own smartphones, and they use their phones about the same amount of time per day as millennials. Boomers are the fastest-growing shopper demographic online, outspending younger generations two to one.[10] Thus, although boomers may buy lots of products that help them deal with issues of aging—from vitamins to blood pressure monitors to Good Grips kitchen tools—they also appreciate marketers who appeal to their youthful thinking.

Companies across a wide range of industries have put forth special efforts to capture boomer consumers. For example, several dating sites target single baby boomers who are looking for partners to share new experiences as they shift into new life phases. These sites target the substantial 50-plus singles market, including the 19.5 million singles age 65 and older who make up nearly 20 percent of all unmarried people in the United States. Dating site OurTime bills itself as "a dating site that not only understands what it is to be over 50, but also celebrates this exciting chapter of our lives." It invites members to "enjoy a time of exploration, new beginnings, and greater contentment" by rekindling romance, finding friends or travel companions, and having memorable experiences with people they would not otherwise meet. "At OurTime.com," says the company, "we honor the freedom, wisdom and appreciation for life that only comes with time. We also recognize that what people want in their 50s, 60s and beyond is often very different from what they wanted in their 30s and 40s, let alone their 20s."[11]

At the same time, companies must be careful when appealing to older consumers. "The key to marketing to older people?" asks one expert. "Don't say 'old.'" Brands should address the needs and lifestyles of the targeted customers rather than their age. For example, consider Nike's CruzrOne sneaker. As portrayed in a promotional video, when a Nike designer congratulated Nike founder Phil Knight, now in his eighties, on his habit of walking eight miles a day, Knight responded, "I was running. Just running

Marketing to Boomers: The Nike CruzrOne sneaker naturally appeals to older baby boomers but focuses on lifestyle and pace rather than age.

not very fast. There should be a shoe for the slow runner." Thus was born the CruzrOne, a well-cushioned, thick-soled running shoe with excellent support for runners who—for whatever reason—go at a slow pace. It naturally appeals to boomers but could also appeal to the more general market of walkers of all age groups. The CruzrOne marketing campaign focuses on pace rather than age. Says the expert, the product "addresses specific needs of older consumers in a form that doesn't scream, well, 'old.'"[12]

Generation X. The baby boom was followed by a "birth dearth," creating another generation of 65 million people born between 1965 and 1980. Author Douglas Coupland calls them **Generation X** because they lie in the shadow of the boomers.

Considerably fewer than the boomers who precede them and the millennials who follow, Generation Xers are a sometimes-overlooked "in-between" consumer group. Although they seek success, they are less materialistic than the other groups; they tend to value experience, not acquisition. For many Gen X parents and homeowners, family comes first—both children and their aging parents—and career second. From a marketing standpoint, the Gen Xers can be skeptical. They research products heavily, prefer quality to quantity, and are less receptive to overt marketing pitches. But they are more loyal than other generations to brands they like.

Generation X
The 65 million people born between 1965 and 1980 in the "birth dearth" following the baby boom.

Millennials (or Generation Y)
The 73 million children of the baby boomers born between 1981 and 1996.

Many Gen Xers grew up before the internet and adapted to digital technology during young adulthood. Most now fully embrace new technologies. For instance, one study found that more Gen Xers shop online than boomers or millennials.[13] The Gen Xers, now mostly in their 40s and 50s, have grown up and are taking over. They are firmly into their careers, and many are proud homeowners with growing families. They are the most educated generation to date, possess hefty purchasing power, and control 16 percent of the nation's wealth.[14]

With so much potential, many brands and organizations focus on Gen Xers as a prime target segment. For example, consider the groundswell of subscription meal-plan delivery services, such as HelloFresh, Blue Apron, Home Chef, Sunbasket, and Gobble. Some of these services offer "heat-and-eat" plans focusing on regularly delivered precooked meals that need only to be heated and served. Others offer "cook-and-eat" plans, with boxed kits of pre-measured food ingredients and easy-to-follow recipes that make it easy to plan and prepare home-cooked meals. Customers can pick from an extensive selection of meals designed by chefs, culinary experts, and nutritionists. Meal-plan delivery services are especially attractive to time-pressed Gen Xers as they juggle careers and family, seek stress-free and convenient meal planning and preparation, and look for healthier family eating options. Says one HelloFresh customer, "I absolutely love HelloFresh. It is so convenient and delicious. I love coming from work and not having to think about what to cook and I get excited about my box each week." The global market for meal delivery services is expected to reach $64.3 billion by 2030, growing at more than 17 percent annually over the next decade.[15]

Targeting Gen Xers: Meal-plan delivery services like HelloFresh and Home Chef are especially attractive to time-pressed Gen Xers as they juggle careers and family, seek stress-free and convenient meal planning and preparation, and look for healthier family eating options.

Millennials. Both the baby boomers and Gen Xers will one day be passing the reins to the **millennials** (also called **Generation Y** or the echo boomers). Born between 1981 and 1996, these children of the baby boomers number 73 million or more, far outnumbering the Gen Xers and now larger than the baby boomer segment. The mid-20- to 40-something millennials, by their sheer numbers, wield substantial buying power and make up a huge and attractive market, both now and in the future.

The millennials were the first generation to come of age in a world of digital technology, filled with computers, mobile phones, satellite TV, iPods and iPads, and online social media. The millennials don't just embrace technology; it's their way of life. For example, an estimated 85 percent of millennials shop online, and 92 percent prefer to do their banking on web or mobile devices. In fact, a recent survey indicated that they were least likely of any generation to return to brick-and-mortar retailers as the COVID-19 pandemic ended.[16]

More than sales pitches from marketers, millennials seek authenticity, value, and opportunities to shape their own brand experiences and share them with others. Compared with previous generational groups, they tend to be frugal, practical, connected, mobile, and impatient. The millennials are open to connecting with brands and welcome new information and brand experiences, but they want to connect in an efficient and fluid manner.

Many brands have fielded specific products and marketing campaigns aimed at millennial needs and lifestyles. Consider P&G's Tide Pods, which concentrates a clothes-washing "solution" into tiny packs:[17]

> Laundry detergent was traditionally packaged in heavy boxes or bottles that are difficult to lug around, especially for people using shared laundry facilities in apartment complexes, college dorms, and military bases. Even in residential homes, wrestling with the large containers, measuring and pouring out the right amount of detergent without making a mess, and juggling the container back into its place on the shelf was an unpleasant task. A decade ago, with their then-apartment-dwelling and dorm-living lifestyles, millennials were on a quest for products offering time savings and convenience. With this group in mind, P&G rethought laundry detergent and launched Tide Pods—a three-in-one laundry solution integrating a detergent, stain remover, and brightener in a single dissolvable pack that could simply be thrown into a washing machine with no measuring or spills. Tide Pods were an instant hit with millennials. And keeping up with the evolving needs of millennials, Tide Pods now come in multiple versions aimed at everything from odor removal and protecting sensitive skin to cleaning with cold water. Today, Tide Pods continue to be a staple purchase for millennials, making P&G the leader in the nearly $3 billion laundry detergent pods market that it created.

Generation Z
People born between 1997 and 2012 who make up the tween to mid-20-something markets.

Generation Z. Hard on the heels of the millennials is **Generation Z**—young people born between 1997 and 2012. This tweens to mid-20-somethings group is now the largest generation alive in the United States—80 million strong, making up 26 percent of the population. They are also the most ethnically and culturally diverse generation. Besides spending an estimated more than $140 billion annually on their own, Gen Zers influence up to $333 billion of family spending.[18] These young consumers also represent tomorrow's markets—they are now forming brand relationships that will affect their buying well into the future. Raised in the shadows of financial and economic crises, Gen Z consumers take a cautious approach to shopping. They look for value and authenticity in choosing brands and sellers.

Marketing to Generation Z: The Domino's ANYWARE ordering platform, which accepts orders from 11 different devices and channels, appeals to Gen Zers' digital fluency and need for customized interactions and convenient ordering experiences.

Courtesy of Domino's

Even more than the millennials, the defining characteristic of Gen Zers is their utter fluency and comfort with digital technologies. As a result, this group is highly mobile, connected, and social. Gen Zers blend the online and offline worlds seamlessly as they socialize and shop. According to recent studies, 75 percent of Gen Zers prefer to use a smartphone over a computer or tablet and 85 percent learn about new products through social media. Gen Zers tend to be price-conscious, with more than 50 percent citing price comparisons as a top online shopping benefit.[19]

Companies in almost all industries market products and services aimed at Generation Z. However, marketing to Gen Zers presents special challenges. Traditional media and brick-and-mortar stores are still important to this group. But marketers know they must meet Gen Zers where they hang out. Increasingly, that's in the online and mobile worlds. Given their digital and technological fluency, GenZers seek highly customized interactions and convenient ordering experiences. For example, Domino's Pizza offers its Domino's ANYWARE ordering platform, which accepts orders from 11 different devices and channels, ranging from Google Home and Alexa to Twitter and Slack to smart TVs and smartwatches. And the average attention span of Gen Z is only eight seconds, compared to eleven seconds for millennials and even longer for GenX and boomers. Thus, Gen Zers intensely dislike non-skippable, long-form ads. To reach such consumers, Google Ads now lets companies reach out to them on YouTube and other social media with "bumper ads"—quick bursts of video advertising that last only six seconds.[20]

Gen Zers want relatable and personalized marketing approaches and meaningful interactions with brands. The key is to engage these young consumers and let them help define their own brand experiences. For example, the Chinese smartphone brand Xiaomi is enjoying increasing popularity outside China and is focusing on becoming one of the top three suppliers around the world. It sees Gen Z as a high-volume market, especially in Southeast Asia and the United Kingdom, and it's easy to see why: Xiaomi is among the Chinese technology companies that have rapidly established themselves as global brands, including TikTok and Tencent, mainly because of their acceptance by the digital-age Gen Z. According to Xiaomi, Gen Z is a key market as they are more market-aware, less brand-conscious, and have a much more positive perception of the "Made in China" label. Gen Z is less concerned with the product's origin and is more interested in innovation and the affordability of the product they buy.[21]

Generation Alpha
Kids born after 2012, largely the children of the millennials.

Generation Alpha. The latest generational group is **Generation Alpha**, kids born after 2012. Although still a relatively small market, by 2025 this group will grow larger even than the millennials. ● The Alphas hold great promise for marketers. "Generation Alpha will be the most formally educated generation ever, the most technology-supplied generation ever, and globally the wealthiest generation ever," claims the social researcher who gave the group its name.[22]

The emerging Generation Alpha group already exerts substantial influence on the household buying decisions of its mostly millennial parents. Born about the same time that the Apple iPad first appeared, today's kids take technology for granted. "Forget pleas for a puppy. Today's kids demand gadgets," says an analyst, who quotes a young participant in a recent video as saying, "I'd rather have an iPad—better than a dog." Says another, "Meet Gen Alpha: tiny tech giants with brand influence."

Gen Alphas are an important gateway to their parents. In one recent survey, 65 percent of U.S. Gen Alpha parents said their latest technology purchase—including smartphones, tablets, and TVs—was influenced by their children. But Gen Alpha influence reaches well beyond technology. Research has shown that kids influence family decisions ranging from entertainment options and eating out to car purchases and family vacations.

More than just influencers, Gen Alphas are important future consumers who are just beginning to establish brand preferences. By winning them over early, marketers hope to build loyalty that will carry into their later lives. For example, Fitbit now markets Fitbit Ace, a simple-to-use activity-monitoring device for children. According to Fitbit's CEO, the Ace is expanding the brand's user base by helping to "create long-term relationships within the family."

● **Generational marketing: Baby boomers and millennials are now moving over to make room for younger Generation Alpha.**
Shutterstock

As the children of cord-cutting millennials, Gen Alphas tend to watch less TV than previous generations. But they are perfectly comfortable with digital media and IoT technologies. As a result, marketers are testing innovative new ways to reach them. For example, P&G's Crest Kids brand collaborated with media company Gimlet to create an Alexa-based "Chompers" skill for the Amazon Echo smart speaker that helps and encourages kids to brush their teeth properly. As kids brush for the recommended two minutes, Alexa tells them jokes, sings songs, and shares fun facts.

Many brands reach out to Gen Alpha through influencers—such as nine-year-old Ryan Kaji, star of Ryan's World, one of the most lucrative channels on YouTube. Another important approach involves indirectly targeting Gen Alpha kids, especially younger ones who have yet to form their own consumer identity, through their millennial parents. As a food and beverage trend analyst tweeted: "You can tell Gen Alpha are kids of millennials because their snacks are filled with these labels . . . Paleo, keto, probiotic, low carb, low sugar, plant based."[23] While marketers are excited about Generation Alpha, however, they must keep in mind that this cohort is still young and impressionable; therefore, marketing initiatives targeted at them should be responsibly designed, keeping in mind children's privacy rights and their vulnerability to marketing pitches. Companies that ignore these concerns risk incurring the wrath of parents and public policy makers.

Generational Marketing. Do brands need to create separate products and marketing programs for each generation? Some experts warn that marketers need to be careful about turning off one generation each time they craft a product or message that appeals effectively to another. And some generations span decades of time and many socioeconomic levels. For example, Generation Z spans tweens and teens to mid-20s, with varying beliefs and behaviors.

Thus, marketers may need to target more precise age-specific segments within each group. More important, defining people by their birth date may be less effective than segmenting them by lifestyle, life stage, or the common values they seek in the products they buy. We will discuss many other ways to segment markets in Chapters 5 and 7.

The Changing American Family

The "traditional" U.S. household long consisted of a husband, a wife, and children (and sometimes grandparents). In the United States today, however, fewer than half of American households contain married couples, down from 76 percent in 1940. Married couples with children represent about 18 percent of the nation's 128 million households. Married couple households without children represent 30 percent, and single parents are another 8 percent. A full 35 percent are nonfamily households—singles living alone or unrelated adults of one or different sexes living together.[24]

More people are divorcing or separating, choosing not to marry, marrying later, remarrying, or marrying without intending to have children. More than 33 percent of today's adults have never been married, up from 23 percent in 1950. More than 10 percent of all new marriages are interracial or interethnic, and 21 percent of married, same-sex couple households are raising children.[25] The number of working women has also increased greatly, growing from 38 percent of the U.S. workforce in 1970 to 59 percent of the workforce today. The changing composition of today's modern American families is increasingly reflected in popular movies and television shows, such as *Love, Simon*, *The Connors*, and *This Is Us*. Marketers must consider the special preferences of today's more diverse households because they are now growing more rapidly than so-called traditional households. Each group has distinctive needs and buying habits.

Companies are now adapting their marketing to reflect the changing dynamics of American families. For example, whereas fathers were once ignored or portrayed as dolts in family-oriented ads, today's advertisers are showing more caring and capable dads. For example, during the COVID-19 pandemic, Unilever's Dove Men+Care brand ran a campaign showing the relationships between real dads and their kids as they sheltered in place during the pandemic. The campaign spotlighted the dads who were at home parenting, teaching, and otherwise holding down the home front lines as the pandemic upended households. For example, a Dove Men+Care "Dad On" video, made from heartwarming user-generated images and videos, paid tribute to a diverse set of real dads in varying home situations having fun with and relating to their kids. "For showing us what

The changing American family: Dove Men+Care's "Dad On" campaign spotlighted dads who were at home parenting, teaching, and otherwise holding down the home front lines as the coronavirus pandemic upended households.

really matters," says the video's voiceover, "For putting your families first. For everything you're doing. Thanks for showing us what it means to Dad on."[26]

Other ads reflect the evolving diversity in modern American households. For example, Campbell Soup's "Your Father" commercial—part of the brand's "Made for Real. Real Life" campaign—featured a real-life same-sex couple feeding their son Campbell's Star Wars soup as they mimicked Darth Vader's famous Star Wars line "I am your father." The commercial, like others in the campaign, aligned the brand with the company's purpose: "Real food that matters for real life moments." Similarly, whereas it was the exception only a decade ago, most major brands these days routinely run campaigns featuring multiracial families. Despite this progress, analysts have argued that marketing has a long way to go to fully address the rapid increase in the diversity of the marketplace.[27]

Geographic Shifts in Population

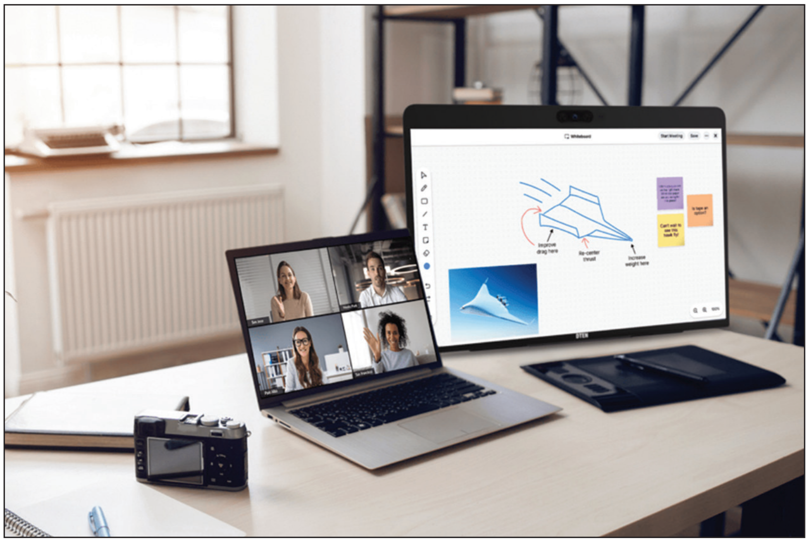
Americans are a mobile people, with about 9 percent of all U.S. residents moving each year. Over the past few decades, the U.S. population has shifted from the Snowbelt states to the Sunbelt states. Numerous states in the West and South (such as Idaho, Oregon, Arizona, South Carolina, and Alabama) have grown, whereas many Midwest and Northeast states (New Jersey, New York, Illinois, and Connecticut) have lost population.[28] Such population shifts interest marketers because people in different regions buy differently.

Also, for more than a century, Americans have been moving from rural to metropolitan areas. In the 1950s, they made a massive exit from the cities to the suburbs. Today, the migration to the suburbs continues. And more and more Americans are moving to "micropolitan areas," small cities located beyond congested metropolitan areas, such as Minot, North Dakota; Boone, North Carolina; Traverse City, Michigan; and Concord, New Hampshire. These smaller micros offer many of the advantages of metro areas but without the population crush, traffic jams, high crime rates, and high property.[29]

The shift in where people live has also caused a shift in where they work. For example, the migration to micropolitan and suburban areas has resulted in a rapid increase in the number of people who "telecommute"—working remotely at home or in a remote office with the help of PCs, tablets, smartphones, and broadband internet access. The remote-work trend got a hefty boost from the COVID-19 pandemic, which forced many people to isolate themselves from the workplace and work from home. The work-anywhere lessons learned during the pandemic have carried forward into the post-pandemic period. By one estimate, the amount of remote work in the post-COVID environment may continue at four to five times the pre-COVID rate.[30]

Many marketers are actively courting the lucrative telecommuting market. For example, online applications such as Zoom, Cisco's WebEx, and Microsoft Teams help people who telecommute or work remotely connect. And companies ranging from Salesforce.com to Google, IBM, and Slack offer cloud computing applications that let people collaborate from anywhere and everywhere through the internet and mobile devices. Beyond basic videoconferencing and interactive cloud computing technologies, they are developing sophisticated tools for collaborating in the virtual world.

As just one example, remote work leader Zoom recently introduced the digital Zoom Whiteboard, positioned as a "modern digital canvas that provides a unified solution for collaboration and creation within the Zoom platform." The Whiteboard lets users in remote locations replicate the experience of a collaborative team physically gathered around a large whiteboard in an office, stepping forward to sketch out their ideas, extending ideas initiated by others, and taking notes on key points that come up in the discussion. Remote users can interact to provide



Working remotely: The Zoom Whiteboard lets users in remote locations replicate the experience of a collaborative team physically gathered around a large whiteboard in an office.

Zoom Video Communications, Inc.

inputs, add sticky notes and connectors, and integrate inputs from other digital whiteboards. The work on the Zoom Whiteboard can be saved and shared with the group or others and is easily restored for further development at a later date.[31]

Additionally, for remote workers who can't work fully at home, companies such as DaVinci and Regus rent out fully equipped shared office space. For a daily, monthly, or yearly fee, telecommuters who work away from a main office can rent shared office space. This space not only provides the amenities of a well-equipped office, ranging from networked computers, printers, and copiers to conference rooms and lounge spaces, but also imparts a sense of the office "buzz" and a feel of working among others in a community.[32]

A Better-Educated, More White-Collar, More Professional Population

The U.S. population is becoming better educated. For example, in 2021, 91 percent of the U.S. population over age 25 had completed high school and 38 percent had a bachelor's degree or better, compared with 66 percent and 16 percent, respectively, in 1980. The workforce also is becoming more white-collar. Job growth is now strongest for professional workers and weakest for manufacturing workers. Between 2016 and 2026, of 10 occupations projected to have the fastest employment growth, almost all require some type of postsecondary education. The rising number of educated professionals affects not just what people buy but also how they buy.

Increasing Diversity

Countries vary in their ethnic and racial makeup. The United States has often been called a melting pot, where diverse groups from many nations and cultures have melted into a single, more homogenous whole. Instead, the United States seems to have become more of a "salad bowl" in which various groups have mixed together but have maintained their diversity by retaining and valuing important ethnic and cultural differences.

Marketers now embrace increasingly diverse markets, both at home and abroad, as their operations become more international in scope. The U.S. population is about 61 percent non-Hispanic white, with Hispanic Americans at almost 19 percent, the Black population at over 13 percent, and Asian Americans at about 6 percent, with the remaining groups being Native Hawaiian and Other Pacific Islander, American Indian, or Alaska Native. The nation's ethnic populations are expected to explode in coming decades. By 2060, Hispanic Americans will be about 28 percent of the population, Black Americans will be about 15 percent, and Asian Americans will increase to 9 percent.[33] Most brands target a diverse mix of consumers with their general-market campaigns. But most also develop specially designed products, ads, and promotions aimed at one or all of these diverse groups.

Diversity goes beyond ethnic or racial heritage. For example, many brands explicitly target the LGBTQ+ community—people who identify as lesbian, gay, bisexual, transgender, questioning (or queer), or other. According to a recent Gallop poll, 7.1 percent of U.S. adults now identify as something other than heterosexual, and 21 percent of Generation Z adults identify as LGBTQ+. According to one estimate, the LGBTQ+ community has a global buying power of nearly $3.7 trillion globally.[34] Brands in a wide range of industries now market to the LGBTQ+ community with gay-specific ads and marketing efforts. For example, Macy's and Best Buy run regular ads for their wedding registries featuring same-sex couples. Starbucks recently ran a holiday ad showing a same-sex couple leaning in for a kiss while holding a Starbucks cup together. And Wells Fargo became one of the first banks to feature an LGBTQ+ couple in a national TV ad campaign. The heartwarming commercial, featuring a lesbian couple adopting a deaf child, is part of a nine-commercial series that also spotlighted other diverse customer groups.[35]

Beyond advertising campaigns, many brands are providing deeper support of the LGBTQ+ community. For example, P&G joined with LGBTQ media advocacy group GLAAD to create The Visibility Project, an effort to encourage *Fortune* 100 advertisers to join in the cause of improving accurate and authentic LGBTQ+ inclusion in advertising. The project's goal is to leverage the power of advertising to create change and acceptance. And the OREO cookie brand teamed up with National Coming Out Day and PFLAG—an organization that supports LGBTQ+ people and their families—to launch a #ProudParent campaign on Twitter. The campaign promoted the importance of family love and affirmation in the LGBTQ+ community and also provided resources for parents and family of LGBTQ+ communities. The #ProudParent campaign started an important national conversation. It also resulted in a 2,846 percent increase in brand mentions for OREO during its Twitter takeover and a 34 percent boost in positive sentiment for OREO and #ProudParent.[36]

Another diversity segment is individuals with disabilities. Fifteen percent of the world's population has a disability, representing a market of $500 billion in annual spending power.[37] Many marketers adapt their products and services to meet the needs of this market. For example, Microsoft's "accessibility team" adapts the company's products, services, and technologies to people with a wide range of disabilities, including vision, hearing, learning, mobility, or cognitive differences. As just one example, the company offers the Xbox Adaptive Controller, a customizable device that lets gamers with disabilities play using whatever abilities they possess through their hands, feet, mouth, head, or otherwise. One ad features nine-year-old Owen, whose physical challenges make it difficult to use a typical controller, surrounded by friends urging him on as he wins a video game with the special Xbox controller. "What I like about the adaptive controller is no matter how your body is or how fast you are, you can play," says Owen. "When everybody plays, we all win," concludes the ad.[38]

Marketing to consumers with disabilities: Toyota's marketing highlights inspirational real-life stories of athletes who overcame mobility challenges, such as Paralympic gold medalist swimmer Jessica Long, whose lower legs were amputated when she was 18 months old.

Lintao Zhang/Getty Images

Other marketers now recognize that the worlds of people with disabilities and those without disabilities are often one in the same. Marketers such as McDonald's, Verizon Wireless, Nike, Samsung, Nordstrom, Apple, and Toyota have featured people with disabilities in their mainstream marketing. For instance, Toyota runs ads highlighting inspirational real-life stories of athletes who overcame mobility challenges. Its Super Bowl LV ad featured three-time Paralympic gold medalist swimmer Jessica Long, whose lower legs were amputated when she was 18 months old. The ad encapsulates Long's courageous life story, from her adoption from a Siberian orphanage to her adoptive parents' home in Baltimore to becoming a legendary Paralympic gold medalist. "Toyota believes that mobility goes beyond cars," says the company. "It is about enabling everyone the freedom of movement."[39]

People often think that incorporating diversity simply means including individuals from underrepresented or marginalized groups in a brand's advertising efforts. Dating and networking app Bumble offers a different take on diversity—one that emphasizes that every individual in our daily lives is unique, interesting, and deserving of respect and attention.[40] Bumble's "Find me on Bumble" campaign highlights its wide range of inspiring, real-life customers, noting that "Every connection you make on Bumble is an opportunity to meet someone who can impact your life. Inspiring people are everywhere." The campaign features diverse, real-life Bumble users sharing their stories and experiences—from models and medical professionals to entrepreneurs and opera singers to single parents and recent immigrants. By building on the diversity of its real-life users rather than using models or stock imagery, Bumble stands out as authentic and relevant in a diverse marketplace.

Author Comment | The economic environment can offer both opportunities and threats. For example, in the post–Great Recession and pandemic eras of more sensible consumer spending, "value" has become the marketing watchword.

The Economic Environment

Markets require buying power as well as people. The **economic environment** consists of economic factors that affect consumer purchasing power and spending patterns. For example, the Great Recession of 2008 to 2009 and the COVID-19 pandemic caused severe unemployment and income losses in several sectors of the economy. New economic realities have forced consumers to bring their consumption back in line with their incomes and to rethink their buying priorities.

Economic environment
Economic factors that affect consumer purchasing power and spending patterns.

Today, consumer spending is again on the rise. However, even as the economy has strengthened, consumers are retaining an enthusiasm for frugality rather than reverting to their old free-spending ways. Each generational group faces financial challenges. For example, many boomers are watching their retirement accounts; many Gen Xers are facing the financial responsibilities of sending kids to college and supporting aging parents; and many millennials are saddled with the expenses of paying back student loans and buying new homes.

As a result, consumers have now adopted a back-to-basics sensibility in their lifestyles and spending patterns that will likely persist for years to come. This doesn't mean that people have resigned themselves to lives of deprivation. As the economy has improved, consumers are again indulging in luxuries and bigger-ticket purchases, just more sensibly. They are looking for greater value in the things they do buy. In turn, companies in all industries—from discounters such as Target to luxury brands such as Lexus, Tiffany, and Armani—are focusing on value for the money, practicality, and durability in their product offerings and marketing pitches.

● For example, for years discount retailer Target focused increasingly on the "Expect More" side of its "Expect More. Pay Less." value proposition. Its carefully cultivated "upscale-discounter" image successfully differentiated it from Walmart's more hard-nosed "lowest-price" position. But when the economy soured and as buyers increasingly shifted toward low-priced and convenient online retailers such as Amazon, many consumers worried that Target's trendier assortments and hip marketing also meant higher prices. So Target has shifted its balance more toward the "Pay Less" half of the slogan. Although the chain still positions itself as chic and trendy, Target now adds a heavy dose of practical price and savings appeals as well. Its recent ads note that "What we value most shouldn't cost more."

Even luxury brands have reached out to serve increasingly value-conscious consumers. For example, fashion brand Armani has stretched its offerings down market. While the parent Giorgio Armani brand continues to compete against the expensive Guccis and Hermès of the world, the Armani Jeans brand competes with the likes of Diesel, and the Armani Exchange brand competes against the likes of Old Navy. By providing such "affordable luxury," Armani both caters to a more value-conscious marketplace and reduces the risks posed by future economic downturns. Still, in stretching down, Armani must be careful not to tarnish the parent brand's luxury positioning.[41]

● **Economic environment: Consumers adopted a new back-to-basics sensibility in their lifestyles and spending patterns. To serve the tastes of these more financially frugal buyers, companies like Target are emphasizing the "pay less" side of their value propositions.**

AP Photo/M. Spencer Green

In adjusting to a weak economy, companies may be tempted to cut their marketing budgets and slash prices. While these can be important marketing tactics, making cuts in the wrong places can damage long-term brand images and customer relationships. The challenge is to balance the brand's value proposition with the current times while also enhancing its long-term equity. Thus, rather than slashing prices, many marketers hold the line on price and instead explain why their brands are worth it.

Marketers should pay attention to and forecast the movements of key economic variables such as income, cost of living, and savings and borrowing patterns. Businesses do not have to be wiped out by a downturn or caught short in a boom. With adequate warning, they can take advantage of changes in the economic environment.

Author Comment | Today's enlightened companies are developing environmentally sustainable strategies in an effort to create a world economy that the planet can support indefinitely.

The Natural and Technological Environments

OBJECTIVE 3-3 Identify the major trends in the firm's natural and technological environments.

The Natural Environment

Natural environment
The physical environment and the natural resources that are needed as inputs by marketers or that affect or are affected by marketing activities.

The **natural environment** involves the physical environment and the natural resources that are needed as inputs by marketers or that are affected by marketing activities. At the most basic level, unexpected happenings in the physical environment—anything from weather and natural disasters to health crises such as the global COVID-19 pandemic—can affect companies and their marketing strategies. For example, the coronavirus pandemic had a huge and lasting negative impact on sales and profits across a wide range of industries, from travel and tourism, restaurants, and store retailing to cosmetics and apparel products. At the same time, the pandemic provided major new opportunities for online retailing, digital entertainment streaming, home-related goods, delivery services, and health and hygiene products. And COVID-19 caused changes in buying behavior that will endure well into the future.

Although companies can't prevent such natural occurrences, they should prepare for dealing with them. For example, shipping companies such as FedEx and UPS maintain corps of meteorologists on their staffs to anticipate weather conditions that might inhibit on-time deliveries around the world. "Someone awaiting a package in Bangkok doesn't care if it snowed in Louisville, Kentucky," says a UPS meteorologist. "They want their stuff."[42]

For unpredictable disruptions, companies must react quickly and decisively. For instance, many store retailers lessened the negative impacts of the COVID-19 pandemic or even prospered during the pandemic by quickly ramping up mobile and online ordering options, offering curbside pickup and home delivery, and creating digital as well as in-person but safely distanced shopping experiences. As an example, thanks to its effective reactions, Walmart's U.S. sales grew nearly 9 percent during the height of the pandemic in 2020; its U.S. online sales soared 79 percent.[43]

At a broader level, concerns about the environmental impact of business have grown steadily. In many cities, air and water pollution have reached dangerous levels. Global warming is a worldwide concern, and many environmentalists fear that we soon will be buried in our own trash. Firms face shortages and scarcities of both renewable of nonrenewable resources. And companies are now under increased pressure to reduce their environmental footprints in production, distribution, packaging, and other areas. Companies in the United States and globally can expect continued strong controls from government and environmental groups regarding natural resource management and pollution standards.

Environmental sustainability
Developing strategies and practices that create a world economy that the planet can support indefinitely.

Concern for the natural environment has now spawned a movement toward **environmental sustainability**. Today, enlightened companies go beyond what government regulations dictate. They are developing strategies and practices that can be profitable while at the same time creating a world economy that the planet can support indefinitely. Environmental sustainability means meeting present needs without compromising the ability of future generations to meet their needs.

Many companies are responding to consumer demands with more environmentally responsible products. Others are developing recyclable or biodegradable packaging, recycled materials and components, better pollution controls, and more energy-efficient operations. Consider Nike, for example. Nike is not only committed to its economic objectives but positions itself as an advocate of sustainability.

The natural environment: Nike has tried to advocate sustainability through its own practices and its impact on its value chain.

Sergio Azenha/Alamy Stock Photo

> Nike tries to reduce its environmental impact through its value chain. Its key focus is to create a new generation of goods for maximum athletic performance but minimal environmental impact, an ethos that is held across all of its products. Nike thus transformed £54 million worth of factory scrap into premium materials that were used to make its performance footwear and apparel in the fiscal year 2015. It diverted 100 percent of the total waste from landfill and incineration in its footwear production. The company launched its energy and carbon program in 2008, and in 2021 it achieved 70 percent absolute reduction of greenhouse gas emissions in owned or operated facilities. Nike also proudly states that 95 percent of the materials used in its production pass its restricted substance list testing. It hopes that it will further minimize its environmental footprint through a reduction in the average environmental footprint and the elimination of waste from footwear manufacturing consigned to incineration and landfill. Nike launched its "Move to Zero" initiative in 2019 to mark its journey toward zero carbon and zero waste sustainability goals and commitments, such as eliminating single-use plastics and keeping up its decades-old Reuse-A-Shoe program to convert waste into new products.[44]

Companies are learning that what's good for customer well-being and the planet can also be good business. For outdoor apparel and gear brand The North Face, for example, being environmentally sustainable is about more than just doing the right thing. It also makes good business sense. More efficient operations and less wasteful products save The North Face money, helping it deliver more value to customers. It's a winning combination. "At the heart of The North Face is a mission to inspire a global movement of outdoor exploration and conservation," says the brand. "We believe the success of our business is fundamentally linked to having a healthy planet."

Companies are increasingly making environmental sustainability a part of their core missions. For example, outdoor apparel and equipment maker Patagonia donates 1 percent of its revenue annually to environmental causes and adheres fiercely to a "cause no unnecessary harm" to the environment mantra. Patagonia wants to "reimagine a world where we take only what nature can replace."

The Technological Environment

Author Comment | Technological advances are perhaps the most dramatic forces affecting today's marketing strategies. Just think about the tremendous impact of digital technologies on marketing. You'll see examples of the fast-growing world of online, mobile, and social media marketing throughout every chapter, and we'll discuss them in detail in Chapter 17.

The **technological environment** is perhaps the most dramatic force reshaping our world. Technology has enabled such wonders as antibiotics, air travel, the internet, smartphones, artificial intelligence, and driverless cars. It also has enabled such horrors as nuclear missiles and massive, privacy-shredding database breaches. Our attitude toward technology depends on whether we are more impressed with its wonders or its blunders.

Technological environment
Forces that create new technologies, leading to new product and market opportunities.

Digital technologies and the dawn of the Internet of Things (IoT) have created a brave new world of marketing. The seemingly unending barrage of digital advances is affecting every aspect of how consumers learn about, shop for, buy, and experience brands. In turn, the digital age provides marketers exciting opportunities for understanding consumers, creating new products, and engaging customers in more direct and meaningful ways.

● Two decades ago, even wide-eyed futurists would have had difficulty envisioning today's digital world:

> Digital has become an inseparable part of everything we do as consumers. You see it in the products we buy—from smartphones and wearable technology like Fitbits and Apple watches to connected IoT smarthome devices from Amazon, Google, Samsung, and a host of others to digital-centric cars that can even self-drive. You see it in the ways we buy—from the massive shift from in-store to online and mobile shopping to our reliance on apps and chatbots to the way we relish brand experiences enhanced by augmented reality and other digital wizardry. It's evident in the ways we engage with brands, through digital brand communities, web and mobile apps, and our constant companions, the social media. Need more shopping information or assistance? Just ask Amazon's Alexa or Apple's Siri or even let them do the buying for you. Today, our consumer lives—our lives in general—are inexorably linked to all things digital. It has become a part of us, almost like in a Dan Brown novel in which a futurist predicts that humans will eventually evolve into beings that are half human and half artificial intelligence–fueled machines. Fiction? Far-fetched? Who knows?

● **Marketing technology: Two decades ago, even wide-eyed futurists would have had difficulty envisioning today's digital world. Digital has become an inseparable part of everything we do as consumers.**

metamorworks/Shutterstock

Disney takes full advantage of digital technology in creating magical customer experiences at its Walt Disney World Resort. Using the My Disney Experience app and cloud-based MyMagic+ services, guests plan their trips and then manage their visits in real time while at the resort:[45]

> At the heart of the experience is an RF-embedded wristband called the "MagicBand+." Wearing a MagicBand+ at the Walt Disney World Resort opens up a whole new level of Disney's famed magic. After registering for MyMagic+ services, with the flick of your wrist you can enter a park or attraction, buy dinner or souvenirs, skip lines at certain attractions, or even unlock your hotel room. Though your Disney phone app, the MyMagic+ band can trigger in-depth information

about park features, ride wait times, FastPass check-in alerts, and your reservations schedule. And packed with features like customizable color-changing lights, haptic vibrations, and gesture recognition, the MagicBand+ interacts with Walt Disney World Resort shows, exhibits, and characters to bring resort experiences to life.

Disney has only begun to tap the potential of such smart technologies for personalizing guest experiences. Future applications could be truly magical. Imagine, for example, the wonder of children who receive a warm hug from Mickey Mouse or a salute from Buzz Lightyear, who then greets them by name and wishes them a happy birthday. Imagine animatronics that interact with nearby guests based on personal information supplied in advance. Of course, use of the MagicBand+ and phone app offer Disney a mother lode of data on guest activities and movements in minute detail, helping to improve guest logistics, services, and sales. If all this seems too Big Brother-ish, there are privacy options—park guests can simply choose not to participate in My Magic+. In all, however, such digital technologies promise to enrich and extend the Disney experience.

The technological environment changes rapidly, creating new markets and opportunities. However, every new technology replaces an older technology. Transistors hurt the vacuum-tube industry, digital photography hurt the film business, and digital downloads and streaming have hurt the DVD and book businesses. When old industries fight or ignore new technologies, their businesses decline. Marketers should watch the technological environment closely. Companies that do not keep up will soon find their products outdated. If that happens, they will miss new product and market opportunities.

Author Comment | Even the strongest free-market advocates agree that the system works best with at least some regulation. But beyond regulation, most companies need to be socially responsible. We'll dig deeper into marketing and social responsibility in Chapter 20.

The Political–Social and Cultural Environments

OBJECTIVE 3-4 Explain the key changes in the political and cultural environments.

The Political and Social Environment

Marketing decisions are strongly affected by developments in the political environment. The **political environment** consists of laws, government agencies, and pressure groups that influence or limit various organizations and individuals in a given society.

Political environment
Laws, government agencies, and pressure groups that influence and limit various organizations and individuals in a given society.

Legislation Regulating Business

Even the strongest free-market advocates agree that the system works best with at least some regulation. Well-conceived regulation can encourage competition and ensure fair markets. Thus, governments develop *public policy* to guide commerce—sets of laws and regulations that influence and limit business for the good of society. Almost every marketing activity is subject to multiple laws and regulations.

Legislation affecting business around the world has increased steadily. The United States and other countries have many laws covering issues ranging from ensuring competition and providing consumers with information to environmental protection and consumer privacy. Understanding the public policy implications of a particular marketing activity is not a simple matter. In the United States, there are many laws created at the national, state, and local levels, and these often overlap. For example, aspirin products sold in Dallas are governed by both federal labeling laws and Texas state advertising laws. Moreover, regulations are constantly changing. Marketers must work hard to keep up with changes in regulations and their interpretations.

Within the United States, many laws are administered through regulatory agencies authorized by Congress, including the Federal Trade Commission (FTC), the Food and Drug Administration (FDA), the Federal Communications Commission (FCC), the Federal Energy Regulatory Commission (FERC), the Federal Aviation Administration (FAA), the Consumer Product Safety Commission (CPSC), the Environmental Protection Agency (EPA), and others. ● **Table 3.1** provides examples of major U.S. legislation affecting business and marketing practices. As the table shows, based on their objectives, these laws can be grouped mainly into three categories: protecting companies and maintaining competitive markets, protecting and informing consumers, and protecting national and societal interests.

Table 3.1 | Major U.S. Legislation Affecting Marketing

Legislation	**Purpose**
Protecting companies and maintaining competitive markets	
Sherman Antitrust Act (1890)	Prohibits monopolies and activities (price-fixing, predatory pricing) that restrain trade or competition in interstate commerce.
Clayton Act (1914)	Supplements the Sherman Act by prohibiting certain types of price discrimination, exclusive dealing, and tying clauses (which require a dealer to take on additional products in a seller's line).
Federal Trade Commission Act (1914)	Established the Federal Trade Commission (FTC), which monitors and remedies unfair trade methods.
Robinson-Patman Act (1936)	Amends the Clayton Act to forbid price discrimination by manufacturers across retailers. Empowers the FTC to establish limits on quantity discounts, forbid some brokerage allowances, and prohibit some promotional allowances.
Lanham Trademark Act (1946)	Protects and regulates distinctive brand names and trademarks.
Protecting and informing consumers	
Federal Food and Drug Act (1906)	Created the Food and Drug Administration (FDA). It forbids the manufacture or sale of adulterated or fraudulently labeled foods and drugs.
Wheeler-Lea Act (1938)	Makes deceptive, misleading, and unfair practices illegal regardless of injury to competition. Places advertising of food and drugs under FTC jurisdiction.
Fair Packaging and Labeling Act (1966)	Regulates the packaging and labeling of consumer goods. Requires declarations of package contents, quantity, and manufacturer details.
Child Protection Act (1966)	Bans the sale of hazardous products. Sets standards for child-resistant packaging.
Consumer Product Safety Act (1972)	Establishes the Consumer Product Safety Commission (CPSC) and authorizes it to set and enforce safety standards for consumer products.
Nutrition Labeling and Education Act (1990)	Requires that food product labels provide detailed nutritional information.
Children's Online Privacy Protection Act (COPPA) (2000)	Prohibits websites or online services operators from collecting personal information from children without obtaining consent from a parent and allowing parents to review information collected from their children.
Do-Not-Call Implementation Act (2003)	Authorizes the FTC to collect fees from sellers and telemarketers for the implementation and enforcement of a national Do-Not-Call Registry.
CAN-SPAM Act (2003)	Regulates the distribution and content of unsolicited commercial email.
Financial Reform Law (2010)	Created the Bureau of Consumer Financial Protection, which writes and enforces rules for the marketing of financial products to consumers. It is also responsible for enforcement of the Truth-in-Lending Act, the Home Mortgage Disclosure Act, and other laws designed to protect consumers.
Internet of Things Cybersecurity Improvement Act (2020)	Requires the National Institute of Standards and Technology (NIST) and the Office of Management and Budget (OMB) to increase cybersecurity for Internet of Things (IoT) devices that connect the internet to physical devices and everyday objects.
Protecting national and societal interests	
National Environmental Policy Act (1969)	Establishes a national policy on the environment. The 1970 Reorganization Plan established the Environmental Protection Agency (EPA).
Clean Air Act (1963, last amended 1990)	Sets standards for National Ambient Air Quality, National Emissions Standards for Hazardous Air Pollutants, and other measures of environmental quality. It has important implications for the design of automobiles, manufacturing plants, and other sources of pollutants.
Anti-Dumping Act (1921)	Combats unfair trade practices by imposing a "special dumping duty" when a foreign producer injures a U.S. industry by selling goods in the United States at a price lower than in their own country or elsewhere.
Exports Promotion Act (2010)	Authorizes the Commerce Department to strengthen global markets for U.S. goods, especially goods produced by rural and small and medium businesses.

The first group consists of legislation designed to *maintain competitive markets and protect companies* from each other. Business executives sometimes try to neutralize competition when it threatens them or to eliminate competition when doing so benefits them. Therefore, laws are passed to define and prevent unfair competition or unscrupulous business practices. In the United States, such laws are often enforced by the FTC and the Antitrust Division of the Attorney General's office.

The second purpose of government regulation is to *protect and inform consumers*—to help consumers make better buying decisions and to protect them from unfair business practices. Some firms, if left alone, would make shoddy products, invade consumer privacy, mislead consumers in their advertising, discriminate against certain consumer groups, and deceive consumers through their packaging and pricing. Rules defining and regulating unfair business practices are enforced by various agencies such as the FTC and the CPSC.

The third purpose of government regulation is to *protect national and societal interests* against unrestrained business behavior. Profitable business activity does not always create a better quality of life. For example, a safe and clean environment benefits consumers and society as a whole. However, some companies may decide to increase profits at the expense of the environment. Several laws make marketers responsible for managing the environmental impact of their processes and products. Also, in the increasingly global business environment, the economic interests of different nations frequently clash. Laws in this area aim to protect the interests of U.S. businesses against unfair or aggressive trading and marketing practices of foreign companies and governments. Laws and regulations in this area are administered by organizations such as the EPA and the U.S. Department of Commerce.

Business executives must watch legal and regulatory developments when planning their products and marketing programs. Marketers need to know about the major laws protecting competition, consumers, and society. And they need to understand these laws at the local, state, national, and international levels.

Increased Emphasis on Ethics and Socially Responsible Actions

Written regulations cannot possibly cover all potential marketing abuses, and existing laws are often difficult to enforce. However, beyond written laws and regulations, business is also governed by social codes and rules of professional ethics.

Socially Responsible Behavior. Enlightened companies encourage their managers to look beyond what the regulatory system allows and simply "do the right thing." These socially responsible firms actively seek out ways to protect the long-run interests of their consumers and the environment.

Almost every aspect of marketing involves ethics and social responsibility issues. Unfortunately, because these issues usually involve conflicting interests, well-meaning people can honestly disagree about the right course of action in a given situation. Thus, many industrial and professional trade associations have suggested codes of ethics. And more companies are now developing policies and guidelines to help shape their responses to complex social responsibility issues.

The boom in online, mobile, and social media marketing has created a new set of social and ethical issues. Critics worry most about online privacy issues. There has been an explosion in the amount of personal digital data available. Users themselves supply some of it. They voluntarily place highly private information on social media sites, such as Facebook or LinkedIn, or on genealogy sites that are easily searched by anyone with a computer or a smartphone. However, much of the information is systematically developed by businesses seeking to learn more about their customers, often without consumers realizing that they are under the microscope. Legitimate businesses track consumers' online browsing and buying behavior and collect, analyze, and share digital data from every move consumers make with their connected devices. Critics worry that these companies may now know *too* much and might use digital data to take unfair advantage of consumers.

Although most companies fully disclose their internet privacy policies and most try to use data to benefit their customers, data abuses and breaches do occur. In recent years, consumer data breaches at major companies such as Facebook, Yahoo!, credit agency Equifax, Target, Uber, Sony, Marriott, and many others have threatened the privacy of hundreds of millions or even billions of individuals.[46] As a result, companies are tightening their data security and public policy makers are acting to protect consumer privacy. In Chapters 4 and 20, we discuss these and other societal marketing issues in greater depth.

Cause-Related Marketing. To exercise their social responsibility and build more positive images, many companies link themselves to worthwhile causes. These days, every product seems to be tied to some cause. For example, Walgreens partners with Red Nose Day to raise money for children in poverty by selling red noses and inviting customers to share funny photos and experiences online. Whirlpool's Care Counts program places washing machines and dryers in schools so that at-risk kids can have clean clothes, increasing both their confidence and their attendance. P&G's Dawn dishwashing detergent brand has donated more than 50,000 bottles of detergent and worked with wildlife experts to help rescue and rehabilitate oily birds, marine mammals, and turtles following major oil spills. And Ben & Jerry's creates new flavors, donates 7.5 percent of its pretax profits, and fields "Take Action" campaigns to support causes ranging from voting rights, racial justice, and climate justice to campaign finance reform. "We use our position to influence change," says the company.[47]

Unilever recently launched a new brand called The Right to Shower, a line of bath products sold in Whole Foods and online, that donates 30 percent of its profits to groups that provide mobile showers for people who are experiencing homelessness. The line includes sustainably sourced and formulated body washes and bar soaps with names like Dignity, Hope, Joy, and Strength. The brand supports a broader The Right to Shower Movement, whose mission is to "bring showers and dignity to the streets." It wants to provide the 550,000 homeless people living in the United States with access to cleanliness, giving them a better chance of jobs and homes. "Access to cleanliness is a fundamental human right," says the brand.[48]

Some companies and brands are founded on cause-related missions. Under the concept of "values-led business," "caring capitalism," or "purpose-driven brands," their mission is to use business to make the world a better place. ● For example, Innocent Drinks, a beverage producer from the United Kingdom, sells smoothies with a purpose.

● **Cause-related marketing: Innocent Drinks has a social mission, a longstanding objective of improving people's life by making it healthier.**

Retro AdArchives/Alamy Stock Photo

> Innocent Drinks was founded with the lofty objective of improving people's lives by making them healthier. This company produces their smoothies without any sugar, artificial sweeteners, or preservatives. But beyond bringing value to its customers, Innocent Drinks has a broader social mission: It aims to better the lives of millions of children suffering from acute hunger and malnutrition. A further mission is to support the poorest families with sustainable agricultural projects so that they can feed themselves. Efforts include installing fish pools and introducing modern farming techniques. Innocent Drinks gives 10 percent of their profits, earned through the sale of smoothies, to their Innocent Foundation for charity. This foundation, working with its several partners, has the potential to help more than 850,000 people and prevent thousands of child deaths related to malnutrition. Yet another mission launched by Innocent in 2020 is the preservation of the habitat of native insects such as butterflies through its "Become a rescuer of the butterfly" campaign.[49]

Still other brands practice *brand activism* by proactively taking stands on social, political, and environmental issues. Major brands such as Starbucks, Ben & Jerry's, Patagonia, and Nike are known for taking public stands on issues ranging from Black Lives Matter and the #MeToo movement to environmentalism, criminal justice reform, voters rights, and immigration reform. These brands believe that they have a responsibility to authentically express brand values and viewpoints on relevant social and political issues. To be effective, however, brand activism must involve more than one-time statements or campaigns. Such positions must be backed by authentic and long-term commitment and action.

Cause-related marketing has become a primary form of corporate giving and brand expression. It lets companies "do well by doing good" by linking purchases of the company's products or services with benefiting worthwhile causes, issues, or charitable organizations (see Real Marketing 3.2). Brands with a higher purpose often produce better business results. According to recent studies, 90 percent of global consumers prefer to support purpose-driven brands, and 70 percent of Gen Z and millennial consumers champion brands that have purposes with which they personally identify.[50]

Real Marketing 3.2

Cause-Related Marketing: Linking Brands, Consumers, and Causes

To see cause-related marketing in action, you need go no further than the checkout counter at your local retail store. Pay a dollar for a miracle balloon icon when checking out at Walmart or Sam's Club and you can support Children's Miracle Network Hospitals across the country. Throw in an extra dollar or two at Petco to help fund animal welfare and adoption programs. And the eBay for Charity program makes it easy for eBay's 187 million community members to donate to their favorite charities when buying or selling at the online market site. Such "checkout charity" programs raise hundreds of millions of dollars for worthy causes each year. At the same time, they add "purpose beyond profits" for retailers and their employees.

But cause-related marketing goes far beyond retailers. It seems that almost every brand supports some cause. And cause-related efforts go much deeper than simply collecting donations for charities. Instead, good cause-related marketing programs strategically link brands, causes, and consumers in authentic and meaningful ways that benefit all.

For example, for the past several years, Anheuser-Busch-owned Belgian brewer Stella Artois has teamed up with nonprofit Water.org to support the cause of providing clean water to people in developing countries. The partnership began with a Stella campaign titled "Buy a Lady a Drink," a series of videos that highlighted the plight of women around the world in their search for clean water. Research showed that women in developing areas spend a collective 200 million hours each day collecting water, walking for miles, missing school, facing fights at public pumps, and going without when they fail.

The videos highlighted not only the woes of life without water but also the joys of life with it. Access to clean water allows women to care for their families, which allows families to earn incomes and pursue their dreams. Each video ended by urging viewers to "Help more women start new journeys" by buying limited-edition Stella beer glasses (chalices). Each artist-designed chalice was inspired by the cultural heritage of a specific country, including India, Ethiopia, Mexico, and Peru. For each chalice purchased, Stella gave $3.13 to Water.org, enough to give one person clean water for five years.

Stella Artois is still selling chalices, but the brand has extended the ways that consumers can support Water.org. For example, it launched a #PourItForward campaign. The campaign kicked off with a Super Bowl ad that resurrected two iconic characters—Jeff Bridges as "The Dude" from *The Big Lebowski* and Sara Jessica Parker as Carrie Bradshaw from *Sex and the City*. The two characters meet in a swanky restaurant, enjoy a Stella Artois, and "change up the usual." Beyond buying chalices, notes the ad, for every purchase of Stella Artois and every social media use of the hashtag #PourItForward, the company will make a donation to Water.org. "Together, we can change more lives," concludes Stella. "Together, let's #PourItForward." So far, with Stella's help, Water.org has positively transformed more than 3 million lives around the world with access to safe water and sanitation.

Some cause-related marketing efforts go beyond raising money and awareness for a specific cause—they become an integral part of a brand's positioning and identity. For example, several years ago, American Eagle Outfitters' Aerie intimate apparel and swimwear brand took a stand against the negative effects of the photoshopped images of female forms perpetuated by the media, marketers, and the modeling industry. It launched #AerieREAL, a campaign that pledges to use only unretouched images and videos of real women in its ads, stores, online, and social marketing content. The brand also committed to featuring women of all body types and ethnicities. Since then, #AerieREAL has grown into a full-blown body positivity, inclusivity, and diversity movement.

As part of the far-reaching #AerieREAL campaign, Aerie has formed a long-running partnership with the National Eating Disorder Association (NEDA). Aerie is the official corporate sponsor for NEDA Walks—community events filled with body-positive activities culminating in a walk symbolizing a unified fight against eating disorders. With thousands of supporters in more than 95 cities, NEDA Walks also raises money to fund eating disorder advocacy, research, and education.

Aerie supports the body positivity cause and NEDA with its ongoing #AerieREAL multimedia campaigns. Each year, the campaigns feature a growing team of #AerieREAL role models, including plus-size model Iskra Lawrence, openly gay actress Samira Wiley, former Olympic gymnast Aly Raisman, Paralympian snowboarder Brenna Huckaby, and wheelchair-using Tony-winning actress Ali Stocker, each displaying their individuality in unretouched photos of themselves in Aerie apparel. To generate funds for NEDA, Aerie sells limited-edition "I Am Real" tees, donating 100 percent of sales to NEDA. Aerie also runs an ongoing #AerieREAL campaign in which it matches customer donations as well as donating one dollar to NEDA for every unretouched swim photo shared in social media tagged @Aerie and #AerieREAL.

For the past two years, Aerie engaged consumers by sponsoring #AerieREAL Kindness, a campaign the urges people to share kindness by nominating someone to receive an act of #AerieREAL Kindness. Hundreds of people were nominated, including Callie—a middle school student, two-time open heart surgery survivor, and lower limb amputee—and Christina—a nurse

Aerie's #AerieREAL campaign pledges that it will use only unretouched images and videos of real women in its ads and other marketing content. The cause of body positivity and inclusivity is an integral part of the brand's identity.

MediaPunch Inc/Alamy Stock Photo

who worked as a first responder during the COVID-19 pandemic. Aerie award 50 nominees with a holiday cheer package—cash cards, Aerie gift cards, shopping sprees, food deliveries, and more. Aerie posts the stories of these recipients, including updates by each on how they used the gifts and how much it meant to them.

Whether it's something like checkout charity, supporting the work of a cause-related nonprofit, or making a cause an integral a part of the brand's identity, it's difficult to calculate the extent to which cause-related marketing contributes to a brand's prosperity. But research shows that today's consumers tend to favor brands with a purpose.

As for Aerie, the #AerieREAL campaign and positioning seems to be doing good things for both the cause and consumers. "By championing body diversity, Aerie is encouraging women and girls to live authentically," says NEDA's CEO. "We thank Aerie for helping to create a culture where all kinds of bodies are celebrated." And what's good for the cause and consumers is also good for the brand. American Eagle and Aerie consistently outperform competitors Abercrombie, Urban Outfitters, and Gap. Aerie has thrived at the same time that traditional mall apparel chains have declined.

In fact, once-hot market leader Victoria's Secret has faced steadily declining sales and market share in recent years, earning from one analyst the inglorious nickname "the Sears of Brassieres." With Aerie nipping at Victoria's Secret's market-leading position, the apparel brand famous for its oversexualized images of scantily clad models has now completely overhauled its own strategy. Today, Victoria's Secret ads and models look an awful lot like those of Aerie. "We're proud of the work Aerie has done," says Aerie's head of marketing and digital. "The filtered and photoshop narrative has certainly made incredible strides over the years and Aerie continues to push for more inclusivity, furthering the brand's commitment to self-acceptance and well-being."[51]

Thus, beyond being socially admirable, cause-related marketing can make good economic sense for the company. For example, in addition to boosting school attendance, Whirlpool's Care Counts program also boosted the company's image, earning 350 million media impressions, more than 12 million video views across Facebook and YouTube, and a significant lift in purchase intent for the brand. And despite its values-led mission, or more probably because of it, after only 10 years, Warby Parker has grown to more than 2,500 employees and is valued at between $2 billion to $3 billion. "Companies can do good in the world while still being profitable," says Warby Parker co-founder Neil Blumenthal. "Good eyewear, good outcome."[52]

Cause-related marketing has also stirred some controversy. Critics worry that cause-related marketing is more a strategy for selling than a strategy for giving—that "cause-related" marketing is really "cause-exploitative" marketing. Thus, companies using cause-related marketing might find themselves walking a fine line between an improved image and perceptions of exploitation or inauthenticity. However, if handled well, cause-related marketing can greatly benefit both the company and the cause. The company gains an effective marketing tool while building a more positive public image. The charitable organization or cause gains greater visibility and important new sources of funding and support.

Author Comment | Cultural factors strongly affect how people think and how they consume, so marketers are keenly interested in the cultural environment.

The Cultural Environment

The **cultural environment** consists of institutions and other forces that affect a society's basic values, perceptions, preferences, and behaviors. People grow up in a particular society that shapes their basic beliefs and values. They absorb a worldview that defines their relationships with others. The following cultural characteristics can affect marketing decision making.

Cultural environment
Institutions and other forces that affect society's basic values, perceptions, preferences, and behaviors.

The Persistence of Cultural Values

People in a given society hold many beliefs and values. Their core beliefs and values have a high degree of persistence. For example, most Americans believe in individual freedom, hard work, getting married, and achievement and success. These beliefs shape more specific attitudes and behaviors found in everyday life. *Core* beliefs and values are passed on from parents to children and are reinforced by schools, businesses, religious institutions, and government.

Secondary beliefs and values are more open to change. Believing in marriage is a core belief; believing that people should get married early in life is a secondary belief. Marketers have some chance of changing secondary values but little chance of changing core values. For example, marketers focused on family-planning could argue more effectively that people should get married later than not get married at all.

Shifts in Secondary Cultural Values

Although core values are fairly persistent, cultural swings do take place. Consider the impact of popular music groups, movie personalities, and social media influencers on young people's style and clothing norms. Marketers want to predict cultural shifts to spot new opportunities or threats. The major cultural values of a society are expressed in people's views of themselves and others as well as in their views of organizations, society, and nature.

People's Views of Themselves. People vary in their emphasis on serving themselves versus serving others. Some people seek personal pleasure, wanting fun, change, and escape. Others seek self-realization through religion, recreation, or the avid pursuit of careers or other life goals. Some people see themselves as sharers and joiners; others see themselves as individualists. People use products, brands, and services as a means of self-expression, and they buy products and services that match their views of themselves.

Marketers can position their brands to appeal to specific self-view segments. For example, energy drink Red Bull targets 18- to 34-year-old athletes, busy professionals, college students, and travelers who view themselves as risk-taking fun-seekers—as active, adventuresome, youthful, and daring. The brand's energy-packed products, events, and marketing content fulfill its long-standing promise that "Red Bull gives you wings."

People's Views of Others. People's attitudes toward and interactions with others shift over time. In recent years, some analysts have voiced concerns that the digital age would result in diminished human interaction, as people buried themselves in social media pages or messaged and texted rather than interacting personally. Instead, today's digital technologies seem to allow people to connect more than ever. Basically, the more people meet, network, text, and socialize online, the more likely they are to eventually meet up with friends and followers in the real world.

However, these days, even when people are together, they are often "alone together." Groups of people may sit or walk in their own little bubbles, intensely connected to tiny screens and keyboards. One expert describes the latest communication skill as "maintaining eye contact with someone while you text someone else; it's hard but it can be done," she says. "Technology-enabled, we are able to be with one another, and also 'elsewhere,' connected to wherever we want to be."[53] Thus, whether the new technology-driven communication is a blessing or a curse is a matter of much debate.

This new way of interacting strongly affects how companies market their brands and communicate with customers. Consumers increasingly tap digitally into networks of friends and online brand communities to learn about and buy products and to shape and share brand experiences. As a result, it is important for brands to participate in these networks too.

People's views of others: These days, even when people are together, they are often "alone together."

rawpixel/123RF

People's Views of Organizations. People vary in their attitudes toward corporations, government agencies, trade unions, universities, and other organizations. By and large, people are willing to work for major organizations and expect them, in turn, to carry out society's work.

The past two decades have seen a sharp decrease in confidence in and loyalty toward America's business and political organizations and institutions. In the workplace, there has been an overall decline in organizational loyalty. Waves of company downsizings have bred cynicism and distrust. In just the past decade, major corporate scandals, consumer data breaches, stories of Wall Street bankers' greed and incompetence, and other unsettling activities have resulted in a further loss of confidence in big business. Many people today see work not as a source of satisfaction but as a required chore to earn money to enjoy their nonwork hours. This trend suggests that organizations need to find new ways to win consumer and employee confidence.

People's Views of Society. People vary in their attitudes toward their society—patriots defend it, reformers want to change it, and malcontents want to leave it. People's orientation to their society influences their consumption patterns and attitudes toward the marketplace.

American patriotism has been increasing gradually for the past two decades. One annual consumer survey shows that some brands are highly associated with patriotism and a sense of "American-ness"—these include Jeep, Levi Strauss, Disney, Coca-Cola, and Ford. Marketers respond with renewed "Made in America" pitches and ads with patriotic themes. For example, Coca-Cola launched a limited-edition red, white, and blue flag can surrounding the July 4 holiday with the patriotic song lyric "I'm proud to be an American" on the label.

Companies ranging from Jeep and Home Depot to Buffalo Wild Wings and National Geographic have run patriotic ads and promotions on Veteran's Day, Super Bowl Sunday, and other occasions. For example, Jeep's patriotic "More Than Just Words" ad, shown during the run-up to a recent Super Bowl and on digital and social platforms, struck a strong and sentimental chord with viewers. As the band OneRepublic plays "The Star-Spangled Banner," the ad shows a succession of modern and historic images keyed to the words in the anthem—including kids playing baseball, farmers waking early, first responders at the scene, Marilyn Monroe stepping down from a Jeep, astronauts hurtling into space, and an aging veteran saluting. The two-minute video ad grabbed more than 52 million views on YouTube within just two months. "For all those who love this country, it's worth every second of viewing time," says one reporter.[54]

Although most such marketing efforts are tasteful and well received, waving the red, white, and blue can sometimes prove tricky. Unless meaningfully executed, flag-waving promotions can be viewed as corny or as token attempts to cash in on the nation's emotions.

Catering to the natural, organic, and ethical products trend: Unilever's Love Beauty and Planet brand has one goal: "To make you more beautiful and give a little love to our planet."

Retro AdArchives/Alamy Stock Photo

People's Views of Nature. People vary in their attitudes toward the natural world—some feel ruled by it, others feel in harmony with it, and still others seek to master it. A long-term trend has been people's growing mastery over nature through technology and the belief that nature is bountiful. More recently, however, people have recognized that nature is finite and fragile; it can be destroyed or spoiled by human activities.

This renewed love of things natural has created a sizable market of consumers who seek out everything from natural, organic, and nutritional products to fuel-efficient cars and alternative medicines. U.S. sales of natural and organic products now exceed $300 billion and will reach an estimated $400 billion by 2030. The U.S. organic/natural food market alone is expected to reach $70 billion by 2025. And the market for organic, natural, and ethical beauty and personal care products is growing just as strongly.[55]

As a result, almost every beauty and personal care products company offers organic and natural brands: Sephora's Future Naturals; Henkel's Nature Box; Garnier's Bio; and L'Oréal's Seed Phytonutrients, La Provençale Bio, and a host of others. Unilever now markets Love Beauty and Planet, a complete line of hair, skin, and personal care products. Love Beauty and Planet products contain high-quality natural ingredients, sourced responsibly and sold in packages made from post-consumer recycled plastics. They are free of silicones, parabens, and dyes; made with vegan formulas; and never tested on animals. The brand's goal is "To make you more beautiful and give a little love to our planet." Similarly, P&G introduced Planet Kind by Gillette—a range of shaving and skin care products made without parabens, SLS sulfates, or dyes sold in 85 percent recycled plastic and paper packaging and with a razor handle that is 60 percent recycled plastic. Planet Kind is "kind to skin and the planet."[56]

Author Comment | Rather than simply watching and reacting to the marketing environment, companies should take proactive steps.

Responding to the Marketing Environment

OBJECTIVE 3-5 Discuss how companies can react to the marketing environment.

Someone once observed, "There are three kinds of companies: those who make things happen, those who watch things happen, and those who wonder what's happened." Many companies view the marketing environment as an uncontrollable element to which they must react and adapt. They passively accept the marketing environment and do not try to change it. They analyze environmental forces and design strategies that will help the company avoid the threats and take advantage of the opportunities the environment provides.

Other companies take a *proactive* stance toward the marketing environment. Rather than assuming that strategic options are bounded by the current environment, these firms develop strategies to change the environment. Sometimes, companies and their products can create and shape new industries and their structures. Such pioneering products include Ford's Model T car, Apple's iPod and iPhone, Google's search engine, and Amazon's online marketplace.

Even more, rather than simply watching and reacting to environmental events, proactive firms "see around the corner" and take aggressive actions to influence the forces in their marketing environment. Such companies may hire lobbyists to influence legislation affecting their industries and stage events to gain favorable media coverage. They may take to the social media and run blogs to shape public opinion. They may press lawsuits and file complaints with regulators to keep competitors in line, and they form contractual agreements to better control their distribution channels. Most importantly, they work to predict the evolution of the marketplace and develop offerings that a fit strongly with changing markets consumer needs.

Predicting the future is no easy task. To make the process of managing the future more tangible, companies should engage in *scenario analysis*—the art and science of preparing for multiple imagined futures. To conduct scenario analysis, managers work in teams to predict multiple futures—or scenarios—that may happen and then develop contingency plans for each potential scenario. This allows managers to quickly recognize if the future is trending in a particular direction and to efficiently deploy the best plan for that future.

By taking action, companies can often overcome seemingly uncontrollable environmental events. For example, whereas some companies try to hush up negative talk about their products, others proactively counter false information. Newell Rubbermaid's Crock-Pot slow cooker brand did this when an episode of a hit TV show wrongly portrayed the product as a potential home fire hazard:[57]

> It happened in an episode of NBC's hit show *This Is Us*. The show's beloved patriarch died when the family's Pittsburgh home burned down in a fire caused by a faulty slow cooker much like your grandmother's 1970s' Crock-Pot. The incident went viral, creating a crisis for the Crock-Pot brand. Thousands of viewers took to Twitter to express both their grief and their intentions to toss out their Crock-Pots. As one fan tweeted: "Gee thanks #thisisus for ruining #CROCKPOT cooking. Now every time I use mine I'll be sad AND afraid."
>
> Rather than sitting back, Crock-Pot reacted quickly with both humor and facts. It created its first-ever Twitter account—CrockPotCares—and posted a humorous "spoiler alert" to Facebook and other social media channels, complete with broken heart emojis and a Pittsburgh Steeler–branded Crock-Pot. "America's favorite dad and husband deserved a better exit and Crock-Pot shares in your devastation," read the message. "Don't further add to this tragedy by throwing your Crock-Pot Slow Cooker away . . . (grandma won't be too happy)." In the week that followed, Crock-Pot continued listening and responding online, expressing concern but with a bit of levity (#CrockPotIsInnocent). The brand also followed up with the facts. Media releases and social media posts noted, "For nearly 50 years, with over 100 million Crock-Pots sold, we have never received any consumer complaints similar to the fictional event portrayed in last night's episode." Thanks to its rapid "We miss him, too. But here are the facts" response, the Crock-Pot brand escaped with little or no long-term damage.

Marketing management cannot always control environmental forces. In many cases, it must settle for simply watching and reacting to the environment. For example, a company would have little success trying to influence geographic population shifts, the economic environment, global pandemics, or major cultural values. But whenever possible, smart marketing managers take a *proactive* rather than *reactive* approach to the marketing environment.

Reviewing and Extending the Concepts

Objectives Review

In this and the next two chapters, you'll examine the environments of marketing and how companies analyze these environments to better understand the marketplace and consumers. Companies must constantly watch and manage the *marketing environment* to seek opportunities and ward off threats. The marketing environment consists of all the actors and forces influencing the company's ability to transact business effectively with its target market.

OBJECTIVE 3-1 Describe the environmental forces that affect the company's ability to serve its customers.

The company's *microenvironment* consists of actors close to the company that combine to form its value delivery network or that affect its ability to serve customers. It includes the company's *internal environment*—its several departments and management levels—as it influences marketing decision making. *Marketing channel firms*—suppliers, marketing intermediaries, physical distribution firms, marketing services agencies, and financial intermediaries—cooperate to create customer value. *Competitors* vie with the company in an effort to serve customers better. Various *publics* have an actual or potential interest in or impact on the company's ability to meet its objectives. Finally, five types of customer *markets* exist: consumer, business, reseller, government, and international markets.

The *macroenvironment* consists of larger societal forces that affect the entire microenvironment. The six forces making up the company's macroenvironment are demographic, economic, natural, technological, political/social, and cultural forces. These forces shape opportunities and pose threats to the company.

OBJECTIVE 3-2 Explain how changes in the demographic and economic environments affect marketing decisions.

Demography is the study of the characteristics of human populations. Today's *demographic environment* shows a changing age structure, shifting family profiles, geographic population shifts, a better-educated and more white-collar population, and increasing diversity. The *economic environment* consists of factors that affect buying power and patterns. The economic environment is characterized by more frugal consumers who are seeking greater value—the right combination of good quality and service at a fair price. In turn, many companies—from discounters such as Target to luxury brands such as Lexus—are focusing on value for the money, practicality, and durability in their product offerings and marketing pitches.

OBJECTIVE 3-3 Identify the major trends in the firm's natural and technological environments.

The *natural environment* involves the physical environment and the natural resources that are needed as inputs by marketers or that are affected by marketing activities. At the most basic level, unexpected happenings in the physical environment—anything from weather and natural disasters to health crises such as the global COVID-19 pandemic—can affect companies and their marketing strategies. The *technological environment* creates both opportunities and challenges. The barrage of digital advances is affecting every aspect of how consumers learn about, shop for, buy, and experience brands. In turn, the digital age gives marketers exciting opportunities for understanding consumers, creating new products, and engaging customers in more direct and meaningful ways. Companies that fail to keep up with technological change will miss out on new product and marketing opportunities.

OBJECTIVE 3-4 Explain the key changes in the political and cultural environments.

The *political environment* consists of laws, agencies, and groups that influence or limit marketing actions. The political environment has undergone changes that affect marketing worldwide: increasing legislation regulating business, strong government agency enforcement, and greater emphasis on ethics and socially responsible actions. The *cultural environment* consists of institutions and forces that affect a society's values, perceptions, preferences, and behaviors. The environment shows trends toward new technology-enabled communication, decreasing trust of institutions, increasing patriotism, and greater appreciation for nature.

OBJECTIVE 3-5 Discuss how companies can react to the marketing environment.

Companies can passively accept the marketing environment as an uncontrollable element to which they must adapt, avoiding threats and taking advantage of opportunities as they arise. Or they can take a *proactive* stance, preparing to address environmental changes in advance and even working to change the environment rather than simply reacting to change after it occurs. Whenever possible, companies should try to be proactive rather than reactive.

Key Terms

OBJECTIVE 3-1

Marketing environment
Microenvironment
Macroenvironment
Marketing intermediaries
Public

OBJECTIVE 3-2

Demography
Baby boomers
Generation X
Millennials (Generation Y)
Generation Z
Generation Alpha
Economic environment

OBJECTIVE 3-3

Natural environment
Environmental sustainability
Technological environment

OBJECTIVE 3-4

Political environment
Cultural environment

Discussion Questions

3-1 How do the different components of a firm's value creation and delivery network help create value and satisfaction? (AACSB: Written and Oral Communication; Reflective Thinking)

3-2 What are publics in the marketing context? Why are they important to marketers? (AACSB: Communication; Reflective Thinking)

3-3 What should brands be aware of if they want to be authentically aligned with the LGBTQ+ community? Provide an example of a brand that supports LGBTQ+ pride in an authentic way. (AACSB: Written and Oral Communication; Reflective Thinking)

3-4 What is scenario analysis, and how does it help firms prepare to respond to the disruptions in the marketing environment? (AACSB: Written and Oral Communication; Reflective Thinking)

3-5 Discuss the natural environment and the three trends that will impact future marketing plans. (AACSB: Written and Oral Communication)

3-6 How should firms prepare for shifts in the technological environment? (AACSB: Written and Oral Communication; Reflective Thinking)

Critical Thinking Exercises

3-7 Wells Fargo, one of the biggest mortgage lenders in the United States, has a mission of "helping customers succeed financially." It was one of the first banks to feature an LGBTQ couple in an ad campaign spotlighting diverse customer groups. This ad campaign makes Wells Fargo seem inclusive. In contrast, and echoing events from 2004 to 2009, Wells Fargo faces a class-action lawsuit for discriminating against Black and Hispanic homeowners. Bloomberg highlighted the unequal access to mortgage refinancing during the COVID-19 pandemic. It reported that Wells Fargo approved 47 percent of Black, 53 percent of Hispanic, and 72 percent of white homeowners' applications. One Black couple featured in the article, whose application was denied by Wells Fargo, had a credit score of 800+ (excellent) and substantial income. Is Wells Fargo being true to its stated mission? How is this a marketing problem? (AACSB: Written and Oral Communication; Reflective Thinking)

3-8 The metals and mining sector is responsible for about 25 percent of the reported greenhouse gas emissions by the world's 12,000 largest companies. Top companies such as Codelco in Chile, Tata Steel in India, and BHP in Australia are in a race to produce lower-carbon products compared to their competitors. How would you recommend they publicize their changing approach to emissions to the wider public? (AACSB: Written and Oral Communication)

3-9 Globally, there are over 1 billion vulnerable and disadvantaged children; 640 million have no shelter, 400 million have no drinking water, and 270 million have no access to health services. Present your ideas on how a brand could engage in cause-related marketing in a meaningful and effective way in this context. (AACSB: Written and Oral Communication; Reflective Thinking)

APPLICATIONS AND CASES

Digital Marketing The Trendiness of Brand Support for Social Causes

Brand support for sociopolitical causes often seems trendy, leading critics to accuse brands of trying to cash in on causes. Research shows, however, that when firms express their values by supporting or opposing sociopolitical issues, their stock prices and sales decline. Research published by Bhagwat and colleagues in the *Journal of Marketing* analyzed 293 events initiated by 149 firms across 39 industries and found that, on average, corporate social activism (CSA) elicits an adverse reaction from investors. Regardless of adverse reaction from investors, many brands continue to support sociopolitical causes. How companies design, support, and communicate CSA initiatives can be impactful.

3-10 Identify one brand that has supported a sociopolitical cause within the past five years and that has also benefited from that initiative. Research the sociopolitical cause and discuss how the brand communicated its position to customers. In particular, how did the company use the digital environment and digital media, including social media platforms, to support and communicate the initiative? How has the support evolved over time? (AACSB: Written and Oral Communication; Reflective Thinking)

3-11 The marketing environment is characterized by a dizzying array of social media and digital communications channels. How should companies think strategically about fully utilizing the capabilities of the digital environment in their CSA campaigns? (AACSB: Written and Oral Communication; Reflective Thinking)

Marketing Ethics Alexa Is HIPPA Compliant

Amazon's Alexa AI virtual assistant is typically used to play music, answer questions, schedule tasks and appointments, shop, and manage smart home devices. In 2019, Alexa was certified as compliant with the Health Insurance Portability and Accountability Act of 1996 (HIPAA), a federal law requiring the creation of national standards to protect sensitive patient health information from being disclosed without the patient's consent or knowledge. Developing the proper physical, administrative, and technical safeguards needed to keep health information secure has allowed Alexa to expand into health care.

For example, Alexa has expanded into senior and assisted-living communities. In addition to setting reminders to manage daily living activities such as grooming, homemaking, and leisure, Alexa has helped people manage health-care tasks in novel ways. Thus, Alexa is thriving in a fast-changing market. Being able to manage daily tasks and health care by voice can potentially benefit everyone. But there are multiple concerns on this front. And doing so through global tech giant Amazon invites additional ethical concerns such as whether and when the pursuit of profits trumps the goal of enhancing health care for Alexa users.

3-12 What are three pros and three cons of using Alexa devices for health care? (AACSB: Written and Oral Communication; Reflective Thinking; Ethical Understanding and Reasoning)

3-13 Consider the case where Alexa becomes a common and useful part of the health-care ecosystem, leading to better-coordinated, higher-quality care for the Alexa user. In this situation, could the social divide between socioeconomic groups related to health-care access become even deeper? (AACSB: Written and Oral Communication; Information Technology; Reflective Thinking)

Marketing by the Numbers Targeting Americans 65 and Older

As marketers focus on Generation Z and its sizable purchasing power, another generation should not be forgotten: the aging baby boomers. The U.S. 65-and-older population will increase to almost 100 million people by 2060. One reason for this trend is the sheer size of the cohort to begin with—76 million people born between 1946 and 1964. Another major factor is that Americans are living longer. In 1950, the average life span was 68 years, but it is now 78.7 years. And the life-span gap between men and women is decreasing because of reduced smoking rates among men. In addition to longer life spans, families are spreading out—as children embark on careers and start their own families, they are no longer staying close to their hometowns. These factors contribute to a greater need for caregiver support for the elderly. There is already a proliferation of services such as Visiting Angels and A Place for Mom. The number of Americans needing long-term care is expected to double by 2030, reaching 24 million individuals, where costs could reach $2.5 trillion by 2030. The following chart shows the population estimates for the 65-and-over population for 2020, 2025, and 2030:

	2020	2025	2030
Females & Males	56,051	65,227	73,137
Females	25,014	29,300	32,922
Males	31,037	35,925	40,215

3-14 Calculate the percentage change in the 65-and-over population between 2020 and 2025, between 2025 and 2030, and between 2020 and 2030 for females & males, males, and females. You should have nine calculations. (AACSB: Analytical Reasoning)

3-15 How many more females than males aged 65 and older will there be in 2025 and 2030? What percentage of the population did females make up in each year? Draw some conclusions regarding this data and the choice of time horizon, 5 years versus 10 years. (AACSB: Written and Oral Communication; Analytical Reasoning)

Company Case GoPro: From Hero to Zero and Back

Nowadays, there are millions of videos on streaming and social media sites shot with high-definition, wearable cameras that show amazing moves by amateur and professional action sports athletes. It's common to find clips of skaters pulling 1080s off a vert ramp, surfers being spit out of enormous barrels, snowboarders outrunning avalanches, and wing-suited skydivers flying through narrow canyons, all from the perspective of the stunt performer.

While these videos are now found everywhere, it wasn't long ago that such videos first appeared and racked up millions of views from captivated viewers. This video phenomenon exists largely thanks to GoPro, the company that invented high-definition wearable video cameras. GoPro's first product sparked a revolution in the camera industry. As action sports enthusiasts mounted GoPros cameras to themselves and to anything that moved, the company grew quickly, establishing itself as the leader in a product category it created. But little more than a decade after GoPro forever changed how people captured action video, shifts in the marketing environment left the once-hot company in dire straits. With sales and profits declining, GoPro struggled to regain its footing and turn things around. But it now seems that GoPro has figured things out and anticipates a promising future. How does a company rise, fall, and then rise again so quickly?

The Hero Maker

GoPro was founded in 2004 by Nick Woodman, an amateur surfer who was disappointed with the lack of equipment for capturing high-quality close-up surfing action shots. Its initial product—a 35-millimeter still camera in a waterproof shell—was simple. But as technologies evolved, GoPro developed new products quickly. Soon, GoPro products were waterproof (without a separate shell), drop-proof, small, lightweight, and capable of capturing high-definition video. At that point, the infrastructure was in place for budding videographers to freely upload videos to YouTube and other sites. And as the first-person action videos took the internet by storm, GoPro's revenues exploded, increasing by triple-digit percentages each year.

GoPro's success was tied to more than just its high-quality, even revolutionary, products. GoPro succeeded because it understood that its customers were less driven by what its cameras could do than by what GoPro's cameras allowed *them* to do. GoPro users weren't just shooting videos. Rather, they wanted to tell the stories and share the adrenaline-pumped emotions of the extreme moments in their lives. "Enabling you to share your life through incredible photos and video is what we do," stated the GoPro website. "[We] help people capture and share their lives' most meaningful experiences with others—to celebrate them together."

Woodward understood the GoPro customer because he *was* the GoPro customer—an extreme sports enthusiast. As the company grew, he ensured that most of the employees were also extreme sports enthusiasts. With offices in the foothills of California's Santa Cruz mountains, GoPro designers and developers could access some of the best terrain in the world to test the company's products, engaging in activities they were passionate about. They wanted viewers to experience what they experienced, to feel their passion and adrenaline. With that, GoPro created an army of loyal customers who emotionally connected with the brand even as those customers emotionally connected with their viewers by telling their stories through GoPro's products.

To guide its more-than-cameras strategy, GoPro embraced four essential steps to storytelling and emotion-sharing journeys: *Capture* is what the cameras do—shooting pictures and videos. *Creation* is the editing and production process that turns raw footage into compelling videos. *Broadcast* involves distributing the video content to an audience. And *Recognition* is the payoff for the content creator, fulfilled by likes and shares on YouTube, Facebook, Twitter, and other social media—and by the enthusiastic oohs and aahs that their videos evoked from friends and family. It was from a deep understanding of these motivations that the company slogan emerged: GoPro—Be a HERO.

Expanding Beyond Cameras

Given its core video camera product line, GoPro had the capture step of storytelling down pat. Taking a "good-better-best" approach, GoPro introduced three to four new cameras every year, ranging from entry-level models to high-end, cutting-edge ones. Each new generation of its cameras produced higher-quality video even as they became smaller, lighter, and hardier.

GoPro's pitched itself as offering the "World's Most Versatile Camera. Wear It. Mount It. Love It." Adding to its cameras, GoPro developed an endless supply of rigs, mounts, harnesses, straps, and other accessories, making the cameras usable just about anywhere. Users could strap the cameras to their wrists, mount them on helmets, or attach them to the tip of a snow ski, the bottom of a skateboard, or the underside of an RC helicopter. With the handy little GoPro devices and accessories, even low-skilled video amateurs could capture incredible footage.

While the capture-oriented hardware side of GoPro was red-hot, the company also broadened its business to fulfill the full range of its customer's needs and motivations. It worked to give its customers the ability not only to capture but also to create, broadcast, and be recognized. On the creation side, GoPro developed video creation and editing software. Going beyond what other editing software could do, GoPro's software recognized video footage shot simultaneously from multiple cameras rigged in configuration, allowing for the creation of panoramic, 3D, and 360-degree videos. On the broadcast side, GoPro partnered with YouTube to establish the GoPro YouTube network and pioneer a Wi-Fi plug-in that let customers upload video directly from their cameras or through a mobile app. And contributing to recognition, GoPro released a string of TV and internet commercials created from the best videos submitted by customers.

With first-mover advantage and a rich understanding of its customers, GoPro's popularity spread as rapidly as videos went viral. Its customers were among the most loyal and engaged of any brand. GoPro's social media fanbase grew rapidly into the millions as GoPro users posted videos on their own social media accounts, interacting heavily with the brand, each other, and everyone else. By addressing all four elements of storytelling well, GoPro became the fastest-growing camera company in the world.

Finding Opportunities Among Threats

Despite this impressive ramp-up, at the next stage, GoPro growth was rapidly thrown into reverse gear. At the height of its success in 2015, GoPro sold $1.6 billion worth of cameras and accessories. In 2016, however, its revenues plummeted by 30 percent and remained at that level for four years. In 2020, as the COVID-19 pandemic kept people indoors, revenues fell another 17 percent to just $892 million.

What happened to reverse GoPro's fortunes? For starters, competition began to take its toll. While GoPro's product was initially revolutionary, the young company was also a new fish in a sea of technically strong, well-resourced sharks. Experienced camera companies like Nikon, Canon, and Panasonic entered the market with their own offerings, as did other startups inspired by GoPro. And these competitors began out-innovating GoPro's offerings.

But perhaps more of a threat was the competition from unexpected sources. With the advent of drones, action video creators took to the air. The biggest threat, however, came from a camera that initially wasn't even a camera—the smartphone. When GoPro first launched, phones were capable of taking only grainy still shots and had no connectivity. If people wanted to take photos or video, they carried a standalone digital camera or camcorder. But by 2015, everyone carried a smartphone capable of capturing exquisite high-definition video and still shots, along with apps that allowed users to organize, edit, and post directly to social media. Overnight, the dedicated video and still camera market became a specialty market focused on avid photographers and videographers. As if that wasn't limiting enough, the emergence of smartphones that took great photos and videos shrunk the global camera market. Hence, GoPro was slotted into a niche within this shrinking market that is now valued at less than $7 billion.

With the market for GoPros cameras shrinking, the hero-making brand discovered that the high quality of its products was also a threat. Paradoxically, the high quality and durability of GoPro cameras turned out to be liability. As video definition and megapixels improved with each generation of hardy GoPro cameras, people who bought a GoPro just didn't need to buy another one for years. In attempting to combat the threats hitting it from all sides, once-industry leader GoPro quickly became a follower. Following the competition, GoPro launched a media division, a drone, and a VR camera. Each failed miserably.

Still under the direction of founder Nick Woodward, however, GoPro is far from finished. Over the past few years, the company has reassessed its competitive advantages in order to focus on the intersection of what it does best and where the market is headed. For starters, GoPro has shifted its product development strategy. Previously, to support its broad product portfolio that comprised multiple price and quality points, GoPro had to debut as many as four new cameras each year. Now, GoPro will only introduce flagship models at a rate of one every year at the most. When a new product is launched, the previous year's flagship model will get a price cut, meeting the needs of customers who want a less expensive product and don't need the most cutting-edge gizmo. This streamlined product line strategy will continue to serve multiple segments but with lower production and inventory costs.

GoPro hasn't abandoned its strength for developing innovative new products. The previous "good-better-best" product approach suffered from cannibalization by making several products that all appealed to the same or highly overlapping types of buyers. GoPro now plans to introduce specialized cameras that appeal to entirely different user groups. Its Max 360 is a strong player in the small but steady market for 360-degree cameras. And although GoPro's attempt at becoming a drone maker crashed, that didn't deter it from targeting drone users. Its own fans had petitioned the company for years to make a version of its Hero line suitable for drone duty—some of them even reverse-engineering Hero cameras for that purpose. In response, GoPro recently launched the Hero 10 Black Bones, a small, lightweight camera designed to be attached to first-person-view drones, letting pilots "see what the drone sees" via a VR headset or smartphone app. And GoPro plans to unveil other such specialty cameras for specialty users.

Beyond that, GoPro is also seeing new life in developing a solution-focused ecosystem with its GoPro subscription service. For $49.99 per year, members get unlimited cloud storage, access to GoPro's Quik video-editing app, livestream capabilities, free "no-questions-asked" camera replacement, and discounts on all accessories and products. And to build its subscriber base, GoPro is offering a $100 discount on its current flagship—the Hero10 Black camera—for customers who sign up for the annual subscription. While that may seem like a net loss, GoPro is counting on the recurring revenue stream from annual subscription renewals.[58]

Questions for Discussion

3-16 Describe how actors in the microenvironment have influenced GoPro's evolution.

3-17 Describe how forces in the macroenvironment have influenced GoPro's evolution.

3-18 What current and future trends may further shape the company? Will GoPro be successful in the future?

3-19 Given the story of GoPro's rise, fall, and ongoing resurrection, what lessons can you draw for companies working in rapidly evolving, technology-intensive environments?

3-20 *Small group exercise*: Think about where the world is going in terms of technology development, the growth of social networks, video streaming, demographic changes and preferences, globalization, geopolitical change, global warming, new ways of learning, and so on. From these various sources of environmental change and uncertainty, highlight three specific forces or influences that will strongly affect GoPro. How should the company react to these environmental forces?

4 Managing Marketing Information
to Gain Customer Insights

OBJECTIVES OUTLINE

OBJECTIVE 4-1 Explain the importance of information in gaining insights about the marketplace and customers.

OBJECTIVE 4-2 Define the marketing information ecosystem and discuss its parts.

OBJECTIVE 4-3 Outline the role of marketing research and the steps in the marketing research process.

OBJECTIVE 4-4 Explain how companies analyze and use marketing information.

OBJECTIVE 4-5 Discuss the special issues some marketing researchers face, including public policy and ethics issues.

CHAPTER PREVIEW

In this chapter, we continue our exploration of how marketers gain insights into consumers and the marketplace. We look at how companies develop and manage information about customers, competitors, products, and marketing programs. Today, companies must know how to turn mountains of marketing information from a slew of new sources into fresh customer insights that will help them engage customers and deliver greater value to them. As the chapter unfolds, you will discover how the marketing information and research industry is undergoing a major transformation. A growing onslaught of digital, online, mobile, and analytical platforms have enhanced the marketer's ability to gather, analyze, communicate, and gain insights from data about consumers and markets.

Let's start with a story about marketing research and customer insights in action. Founded in 1923, Nielsen has long been one of the world's premier marketing research companies. Nielsen's traditional strengths lay in measuring company market shares, radio and television audience ratings, and retail scanner data. But as the world has gone digital, Nielsen's offerings and information solutions have rapidly expanded to keep pace. Nielsen's journey provides rich insights into the ongoing transformation in conducting marketing research and developing customer insights.

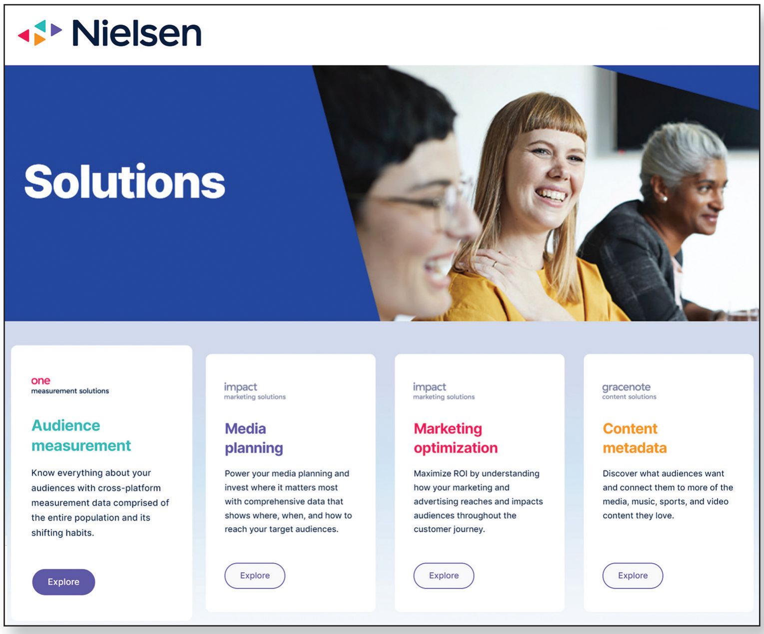
NIELSEN: A New Era of Marketing Research and Customer Insights

You've probably heard of Nielsen, the global corporation best known for its television program ratings. What you may not know is that Nielsen's marketing and information business extends far beyond just the ratings that fuel advertising placements. In fact, Nielsen ranked number one on the most recent list of the Top 50 U.S. market research and data analytics companies. No other company offers the breadth and depth of consumer and market research that Nielsen does. Digging into Nielsen offers more than just a look into marketing research in action today. It also provides an understanding of where the world of consumer information, insights, and research is headed.

Founded in 1923, Nielsen was the first company to sell "market research." It tracked the sales of food and drugs in retail stores, and based on this data it originated the concept of "market share." Other early Nielsen ventures included the Audimeter, which measured what radio stations were being listened to across a "Nielsen panel" of 1,000 homes chosen to represent the population at large. In 1950, Nielsen began measuring TV viewership with devices attached to TV sets across its panel of homes. Such "Nielsen ratings"—measures of audience share across different media and programs—are still widely used by marketers today.

Nielsen continues to strengthen many of its traditional marketing information and research offerings. For example, its NielsenIQ division offers annually updated retail scanner data covering weekly sales, pricing, display details, and other information for more than 4.5 million Universal Product Codes (UPCs), sourced from more than 50,000 participating grocery, mass merchandiser, and other stores. Each UPC represents a unique product unit in terms of brand, ingredients, package, and size. Marketers from a wide range of companies use these data to make informed pricing, promotion, product redesign, and other marketing mix decisions.

Similarly, Nielsen still offers a lot of data from its extensive portfolio of Nielsen Families panels. These panels include carefully chosen individuals and family units that represent specific markets. More than 750,000 people around the world now participate in Nielsen panels. By understanding what makes the members of a panel tick, Nielsen creates an accurate image of consumer behavior in a larger population. The Nielsen TV panel remains the gold standard for knowing who's watching what, providing information that fuels the buying and selling of TV advertising.



Nielsen helps client companies to turn its research and media data into consumer insights solutions that guide their marketing strategies.

But even as these traditional strengths endure, Nielsen has evolved rapidly in recent years. Its evolution has mirrored the rapid transformation of marketing research and information analytics as we move ever deeper into the digital age. For example, the very nature of "TV" has changed dramatically. These days people rarely just sit and watch a TV program at the time it's broadcast. The on-demand world of streaming offers a dizzying array of viewing options through smart TVs, computers, and mobile devices. And at any given moment, people often split their attention across multiple devices and activities. They might simultaneously watch a live or time-delayed program on a TV, scan social media on a laptop or tablet, and converse with someone on a smartphone messaging app. Keeping track of such media behavior, let alone the reasons behind it, presents a marketing nightmare. Through its panels, however, Nielsen gets closer to those measures. Nielsen now employs panel technologies to track not just what each household is doing, watching, or listening to but what each individual is up to, regardless of the device, channel, or nature of the activity.

Nielsen's research services have grown to serve the challenging marketing information needs of a wide variety of clients in the rapidly changing digital environment. For instance, consider streaming giant Roku. Roku interfaces with 55 million active accounts (each of which may represent multiple users) through smart TVs, mobile apps, and its website. Roku users can any of these interfaces to stream video content from hundreds of platforms—from streaming giants such as Netflix, Hulu, Disney+, HBO Max, YouTube TV, Apple TV, and Amazon Prime to niche players such as Nosey with its smorgasbord of reality, court, and TV talk shows and HappyKids with its child-friendly entertainment and educational content. Roku offers free, premium subscription, and pay-per-view content as well as options for live and on-demand content. Given such complexity, how can Roku possibly provide accurate viewer behavior information to its content providers and advertisers?

For this monumental task, Roku employs a sophisticated box of Nielsen tools. Last year, Nielsen and Roku announced a strategic alliance that put tools like Nielsen's video automatic content recognition and dynamic ad insertion to work on Roku's content streams. More recently, Roku added Digital Content Ratings (DCR) to its portfolio of Nielsen tools. DCR tracks program and episode level ratings as well as content ratings for web pages and apps across all digital connected devices (PCs, smartphones, tablets, smart TVs, video game platforms, and others). With such tools, Nielsen and Roku can provide content providers and marketers with comprehensive insights into what, when, and how viewers are watching. Nielsen's partnership with Roku puts the research and analytics giant one step closer to its development of Nielsen ONE—a cross-media solution that will give advertisers and content providers a single measurement across linear and digital media.

Digging into Nielsen, the top U.S. marketing research and data analytics firm, provides an understanding of where the world of consumer information, insights, and research is headed in the ever-more-complex digital information environment.

As the huge digital wave threatens to swamp the marketing world, Nielsen is helping clients turn its research and media data into consumer insights that will guide their marketing strategies. For example, electronics and appliance maker LG recently turned to Nielsen for help in targeting its new LG Styler Steamer, a closet-like device that uses powerful steam technology to refresh, deodorize, and sanitize hard-to-wash items and fabrics. Given the product's premium price but broad appeal, LG's market researchers wanted to identify which audiences would align best with users in LG's social channels. Among the more than 1,000 consumer segments in its data portfolio, Nielsen identified Prosumers (tech early adopters), Tech Enthusiasts (gadget lovers), and Female Purchase Decision Makers (heads of household) as best fits. When tested against interest-based segments available through social media agencies, the Nielsen segments drove stronger results because Nielsen data include luxury, fashion, and tech enthusiasts who don't express an interest in such topics on social media.

In another case, when T-Mobile wanted to check the effectiveness of its multi-platform digital campaigns in reaching 18- to 44-year-olds, it chose Nielsen Digital Ad Ratings (DAR), which provides next-day online reach and effectiveness measurements for digital campaigns across social and video channels. Nielsen's DAR revealed specific social media platforms that were far more efficient in targeting the desired segment than the TV program platforms traditionally used by T-Mobile. Moreover, DAR's next-day insights let T-Mobile reallocate media spending to the most effective platforms on the fly rather than waiting for the campaigns to run their courses.

Thus, the nearly 100-year-old Nielsen still tirelessly gathers and analyzes marketing data, churning out reliable, trusted, and actionable insights. But the marketing information and analytics giant shows youthful vigor in developing new approaches that meet the challenges of the ever-more-complex digital marketing information environment. Nielsen strikes a good balance between strengthening its traditional research areas while rapidly evolving to address the emergence of new digital research technologies. As it has in the past, Nielsen will likely continue to shape marketing research and information well into the future.[1]

AS THE NIELSEN STORY highlights, keeping pace with today's dynamic customers and markets calls for marketing information approaches and platforms that are highly flexible, customized to marketer needs, and capable of spanning the digital and physical worlds. Companies also need an abundance of insights into competitors, resellers, and other marketplace actors and forces. Today, gathering mountains of data is easy. But more than just gathering information, companies must be adept at collecting the *right* data and at analyzing the data to ultimately glean useful and usable *customer and market information and insights*.

Author Comment | Marketing data by themselves have little value. The value is in the *customer and market insights* gained from the data and how marketers use these insights to make better decisions.

Marketing Information and Customer Insights

OBJECTIVE 4-1 Explain the importance of information in gaining insights about the marketplace and customers.

To create value for customers and build meaningful relationships with them, marketers must first gain deep insights into what customers need and want. Companies can use these customer insights, which often derive from good marketing information, to develop a competitive advantage.

Such customer and market insights, however, can be difficult to obtain. Customer needs and buying motives are often anything but obvious—often, customers themselves can't tell you what exactly they need and why they buy. To gain good customer insights, marketers must therefore effectively manage marketing information from a range of sources.

Marketing Information and Today's "Big Data"

In today's technology-intensive world, companies can source market and customer data in great quantities. The marketing world is exploding with data from a wealth of sources—not just from customer transactions and the company's marketing research but also from real-time sources such as social media, connected devices, and mobile platforms.

Consumers themselves now generate tons of data. Through smartphones, PCs, and tablets—via activities related to online browsing and blogging, apps and social media interactions, texting and video, and geolocation—consumers now offer a tidal wave of bottom-up data to companies and to each other.

Big data
The huge and complex data sets generated by today's sophisticated information generation, collection, storage, and analysis technologies.

In fact, marketing managers are now often overwhelmed by data. The concept of **big data** refers to the huge and complex data sets generated by today's sophisticated data generation, collection, storage, and analysis technologies. Last year, the people and systems of the world created, captured, copied, and consumed an estimated 74 zettabytes of data. (A zettabyte contains a *trillion* gigabytes.) The size of the global datasphere grew tenfold over the past 10 years and is expected to double in size over the next three years.[2]

Big data presents marketers with both big opportunities and big challenges. Companies that effectively tap big data can gain rich, timely customer insights. However, that is a daunting task. For example, when a large consumer brand such as Coca-Cola or Apple monitors online discussions about its brand in tweets, blogs, social media posts, and other sources, it might take in a stunning 6 million public conversations a day, adding to more than 2 billion a year. That's far more information than any manager can digest. And it requires sophisticated analytics to sort out what is or isn't important for gleaning customer insights.

Thus, marketers don't need *more* data; they need *better* data that lead to more useful information and insights. And they need to make better *use* of the data they already have. "When it rains, you can't just drink the water. It must be collected, purified, bottled, and delivered for consumption," observes a data expert. "Big data works the same way. It's a raw resource that is a few important steps away from being useful."[3]

Developing Customer Insights

Customer insights
Deep understandings of customers' stated and unstated needs and wants that become the basis for creating enduring customer value, engagement, and relationships.

The real value of marketing data lies in how they are used—in the **customer insights** that they provide. Based on such thinking, companies ranging from General Mills, Unilever, PepsiCo, and Starbucks to Google and GEICO have restructured their marketing information and research functions. They have created *customer insight teams* tasked with developing actionable insights from marketing data and working with marketing managers to apply those insights.

Consider General Mills, which markets more than 100 brands in over 100 countries, including multiple billion-dollar brands such as Betty Crocker, Cheerios, Nature Valley, Häagen Dazs, and Old El Paso. To successfully market such a huge portfolio of brands, General Mills must effectively manage an equally complex marketing information ecosystem. This task falls to the company's large Customer Insight Group, which taps into and coordinates countless sources of information to discover and disseminate customer and market insights to its marketing managers globally:[4]

Customer insights: The General Mills Customer Insight Group created "the HIVE" platform—a single shared, easily accessible ecosystem of information and insights. The HIVE has become a "one-stop shop" for customer and market insights that help the company achieve its mission of "making food people love."

Casimiro PT/Shutterstock

> General Mills's passion for customer insights is reflected in its Customer First strategy, under which it commits to "deeply understanding the needs and lives of consumers and moving quickly to meet those needs with our portfolio of brands." The goal is to create "purpose" brands aimed at solving customers' problems. The emergence of big data and digital media platforms has created a big problem for the General Mills Customer Insight Group—a deluge of uncoordinated information generated across countries, markets, teams, and brands. To address this problem, the company created "the HIVE" platform—a single shared, easily accessible, living, evolving ecosystem of information and insights for brand decision makers.
>
> On a single platform, the HIVE ecosystem integrates data from the company's primary research, digital monitoring, news feeds, and syndicated research sources such as databases from market research companies. Through the HIVE alone, managers who had previously used as many as 15 different logins and passwords to access different information and insights "spread far and wide" can now rely on a single, consolidated source. General Mills managers anywhere and everywhere can obtain a 360-degree perspective of customers and markets locally and globally. At General Mills, the HIVE has become a "one-stop shop" for customer and market insights that help the company achieve its mission of "making food people love."

The Marketing Information Ecosystem

Marketing information ecosystem (MIE)
People, processes, and assets dedicated to assessing managers' information needs, developing the needed information, and helping managers and decision makers apply that information to generate and validate actionable customer and market insights.

Companies must design effective marketing information collection and management ecosystems that yield timely and relevant insights. A **marketing information ecosystem (MIE)** consists of people, processes, and assets dedicated to assessing managers' information needs, developing the needed information, and helping managers and decision makers apply that information to generate and validate actionable customer and market insights.

Figure 4.1 shows that the MIE begins and ends with information users—primarily marketing managers but also internal partners such as operations managers, external partners such as suppliers and distributors, and others who need marketing information and insights. First, the MIE interacts with these information users to assess their needs. Next, it interacts with the marketing environment to develop needed information through internal archival data and company databases, market intelligence gathering activities, and marketing research. Finally, the MIE helps users analyze and use the information to develop actionable customer and market insights.

Author Comment | The marketing information ecosystem begins and ends with users—assessing their information needs and then delivering information and insights that meet those needs.

Assessing Information Needs and Developing Data

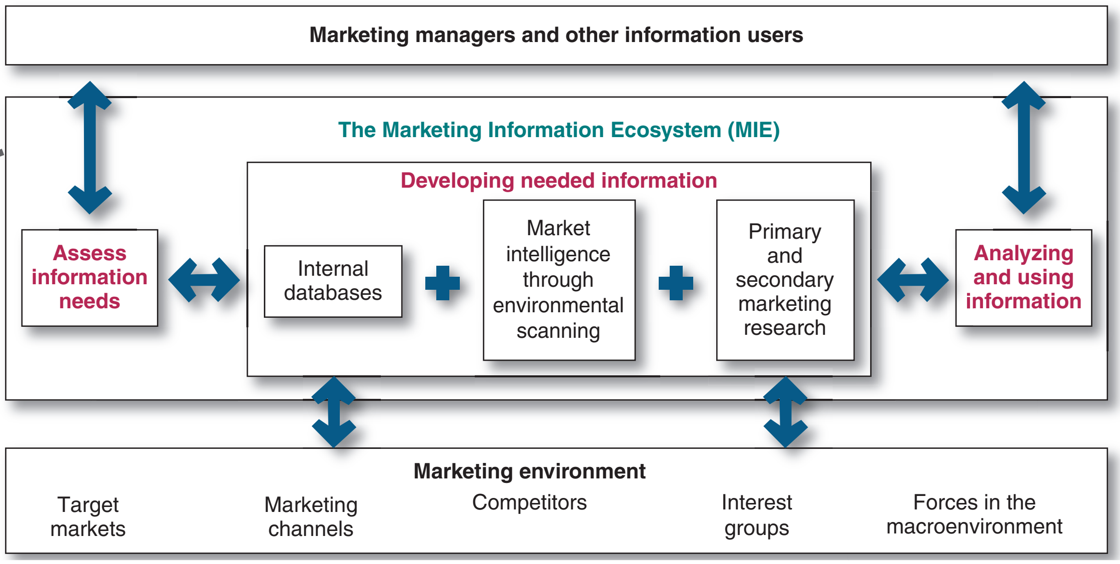
OBJECTIVE 4-2 Define the marketing information ecosystem and discuss its parts.

Assessing Marketing Information Needs

The marketing information ecosystem primarily serves the company's marketing and other managers. However, it may also serve external partners, such as suppliers, resellers, or marketing services agencies. For example, Walmart's Retail Link provides key suppliers with information on everything from store inventory levels to how many items they've sold in which stores in the past 24 hours.[5]

A good marketing information ecosystem balances the information users want against what they really need and what is feasible to offer. Some managers will ask for whatever information they can get without thinking carefully about what they really need. In this age of big data, other managers will want to collect vast amounts of digital data simply because they now can. But too much information can be as harmful as too little. In contrast, other managers may overlook asking for information they ought to have or may not know that certain useful information even exists. Ideally, the MIE must help managers define their information needs well, avoiding both an oversupply of irrelevant data and the scarcity of useful data.

The costs of obtaining, analyzing, storing, and delivering information can mount quickly. The company must decide whether the value of insights gained from additional information is worth the cost of providing it. In addition, as discussed in the General Mills example, the MIE must provide an easily accessible and searchable repository of data developed and kept by different parts of the company. This will ensure that the available data are used extensively and that research efforts are not replicated.



This chapter is all about managing marketing information to gain customer insights. And this important figure organizes the entire chapter. Marketers start by assessing user information needs. Then they develop the needed information using internal data, marketing intelligence, and marketing research processes. Finally, they make the information available to users in the right form at the right time.

FIGURE 4.1
The Marketing Information Ecosystem

Author Comment | The problem isn't *finding* data; in this "big data" age, the world is bursting with data from a glut of sources. The real challenge is to distill the *right* information from the *relevant* data—and turn it into valuable customer and market insights.

Developing Marketing Information

Marketers can obtain the needed information from *internal databases, market intelligence*, and *marketing research*.

Internal Databases

Internal databases
Collections of consumer and market information obtained from data sources within the company network.

Many companies build **internal databases** that compile consumer and market data from sources within the company network. The marketing department furnishes information on customer characteristics and preferences, in-store and online sales transactions and interactions, and web and social media site visits. The customer service department keeps records of customer satisfaction, inquiries, or service problems. The accounting department provides records of sales, costs, and cash flows. Operations reports on production, shipments, and inventories. The sales force reports on reseller reactions and competitor activities, and marketing channel partners provide data on sales transactions. Such information can provide powerful customer and market insights. However, companies must design the internal database structures and user interfaces carefully. The goal is to let managers access the data they seek without having to visit numerous, separate sources and without having to create complex database searches.

Internal databases usually can be accessed more quickly and cheaply than other information sources, but they also present some problems. Because much internal information is often collected for other purposes, it may be incomplete or in the wrong form for making marketing decisions. Data also age quickly; keeping the database current requires a major effort. Finally, managing and mining the mountains of information that a large company produces require highly sophisticated equipment and techniques. Still, when sophisticated analytical techniques are applied to well-structured internal databases containing the right kind of data, such systems can power new business models well suited to the digital world.

For example, Nordstrom's online personal styling clothing service—Trunk Club—has built a loyal following by leveraging the deep data about individual customer preferences and order histories stored in its databases:[6]

Internal data: Nordstrom's Trunk Club has built a loyal following by leveraging the deep data about individual customer preferences and order histories stored in its databases.
SHANNON STAPLETON/REUTERS/Alamy Stock Photo

Nordstrom's Trunk Club service lets customers work with an online stylist to have personalized selections of clothing—"Trunks"—shipped directly to their homes. The success of the service depends on a richly developed customer database. Customers begin with an online Style Quiz that captures information about their preferred styles, sizes, and budgets. They can upload pictures of their favorite clothing or "style swipe" left or right on the Trunk Club app to further refine their preferences. And they can chat online with Trunk Club stylists for advice in shaping their fashion profiles. Customers can then request Trunks—whenever the mood strikes them or scheduled to arrive at preferred intervals.

Based on this wealth of individual customer data—from the Style Quizzes, stylist interactions, and feedback on previous Trunks—a Trunk Club stylist team then assembles a personalized selection of clothing, along with styling and outfitting suggestions. Customers have 48 hours to edit the recommended items before the Trunk is shipped and five days after to evaluate the shipped items before keeping or returning them at no charge.

In the background, stylists and customers are aided in the selection process by a sophisticated artificial intelligence (AI) system designed by the Trunk Data Science Team. The AI platform constantly updates customer preferences with feedback provided on recommended Trunks. It can rank the hundreds of thousands of items in the Nordstrom catalog by order of predicted fit with a given customer's preferences. The platform includes a brand recommender that combines brand attributes, available brand purchase histories, and the customer's stated preferences to identify the best brand fits. Such internal data analytics don't replace the human touch of the stylists. Instead, they free the stylists "from being responsible for everything to being responsible for those steps that require that unique human touch and expertise that only a stylist can give."

Competitive Marketing Intelligence

Competitive marketing intelligence
The systematic monitoring, collection, and analysis of available information about competitors and developments in the marketing environment.

Competitive marketing intelligence is the systematic monitoring, collection, and analysis of available information about competitors and developments in the marketplace. The goal is to improve strategic decision making by understanding the consumer environment, tracking and assessing competitors' actions, and providing early warnings of opportunities and threats. Marketing intelligence techniques range from observing consumers—including competitors' customers—firsthand to quizzing the company's own employees, benchmarking competitors' products, carefully analyzing competitors' financial reports and filings, conducting online research, and real-time social media monitoring.

Good marketing intelligence can help marketers gain insights into how consumers talk about and engage with their brands. Such intelligence can also shed light on competitors' sources of competitive advantage and their likely future moves. In fact, some consulting firms have areas dedicated to gathering competitive intelligence for their clients. For example, Kroll's Competitor Intelligence aims to provide clients with intelligence covering competitors' business strategies and capabilities, sales strategies, intellectual properties, personnel, and antitrust issues.[7]

Firms can gather plenty of competitor intelligence on their own. Useful intelligence can be collected from people inside the company—executives, engineers and scientists, purchasing agents, and the sales force. The company can also obtain important intelligence from suppliers, resellers, and key customers. Further, today's marketers have an almost overwhelming amount of competitor information only a few keystrokes away. Intelligence seekers can pour through numerous online databases. Many are free. For example, the U.S. Securities and Exchange Commission's database provides a huge stockpile of financial information on public competitors, and the U.S. Patent Office and Trademark database reveals patents that competitors have filed. For a fee, companies can also subscribe to any of the more than 3,000 online databases and information search services, such as D&B Hoover's, LexisNexis, and Dun & Bradstreet.

In today's highly competitive environment, companies can use competitive marketing intelligence to gain early insights into competitors' strategies and to prepare quick responses. For example, Amazon's Competitive Intelligence arm routinely purchases merchandise from competing sites to analyze and compare their assortment, speed, and service quality. Samsung routinely monitors real-time social media activity surrounding the introductions of Apple's latest devices and quickly shapes its own marketing responses. Even as Apple is unveiling its much-anticipated device models, Samsung marketing strategists are huddled around screens in a war room, monitoring not only each new device feature but also the online consumer commentary flooding blogs and social media channels. As the real-time consumer and competitive data surge in, the Samsung team posts rapid responses. And within only a few days, just as Apple's new models are hitting store shelves, Samsung is already airing TV, print, and social media ads and responses that redirect the excitement toward its own devices.[8]

Other companies have set up state-of-the-art social media command centers that routinely monitor real-time brand-related and competitor-related social and mobile media activity. Such centers can scour the digital environment, analyze relevant conversations in real time to gain marketing insights, and respond quickly and appropriately (see Real Marketing 4.1). But marketing managers can also reap marketing intelligence by simply searching online. Says one marketing intelligence expert, "I believe that if everybody just took five meaningful hours and read every comment on every YouTube video, every Instagram, Twitter or LinkedIn post, about their business and then searched their brand in those ecosystems that they would get more value than their investments in [consultants] or focus groups."[9]

The intelligence and monitoring game goes both ways. Facing determined intelligence-gathering efforts by competitors, companies must protect their own information. Companies should conduct marketing intelligence investigations of themselves, looking for potentially damaging information leaks. They should start by "vacuuming up" all redundant information they can find in the public record, including job postings, court records, company advertisements and blogs, web pages, press releases, online business reports, social media site postings by customers and employees, and other sensitive information available to inquisitive competitors.

The growing use of marketing intelligence also raises ethical issues. Some intelligence-gathering techniques may involve questionable ethics. Clearly, companies should take

Real Marketing 4.1

Social Media Command Centers: Listening to and Engaging Customers in Social Space

A dozen people from different departments huddle in a glass-enclosed room, each facing a monitor, busily tracking critical happenings. A bank of screens on the wall in front of them displays continually shifting graphics of real-time mission-critical indicators. At different moments, people in the room react to intel extracted from the digital inputs. They scramble, collaborate, and initiate actions that respond to or take advantage of fast-changing challenges and opportunities facing the organization.

The situation room at the U.S. Department of Defense? Or maybe the strategic operations center at a national intelligence agency. Nope. It's the typical scene at a big brand's modern social media command center. Today's social space is alive with buzz about brands and related happenings and trends. As a result, many companies are now setting up state-of-the-art social media command centers with which they track or even help shape the constant barrage of social media activity surrounding their brands.

Organizations ranging from consumer products companies and financial services institutions to not-for-profit organizations are building social media command centers to harness the power of today's burgeoning social media chatter. Such centers employ state-of-the-art technologies to scour the digital environment, extract insights relevant to the company and its brands, and engage customers and strengthen customer–brand relationships.

Megaretailer IKEA uses social media monitoring to respond in real time to customer conversations and competitor activities. For example, when upscale French fashion house Balenciaga unveiled a new $2,100 oversized leather shopper tote bag, IKEA's Listening Hub tapped into social media conversations in which customers noted a striking resemblance between the new Balenciaga tote and IKEA's famous blue 99-cent FRAKTA tote. It was an obvious design knockoff. However, the buzz also showed that customers love the FRAKTA's versatile design and sturdiness and found it functionally superior. So rather than sending a "cease-and-desist" notice to Balenciaga for ripping off its design, IKEA embraced the moment by posting a hilarious ad, featuring its FRAKTA under the headline "How to identify an original IKEA FRAKTA bag" with a list of authenticity tests: "Shake it. If it rustles, it's the real deal"; "Throw it in the dirt. A true FRAKTA is simply rinsed off with a garden hose when dirty"; "The price tag. Only $0.99." Fans loved the response, and IKEA gained tons of viral coverage.

Most social media command centers go well beyond just listening and responding to consumer online exchanges. For example, Mastercard's digital intelligence command center—called the Conversation Suite—monitors, analyzes, and responds in real time to millions of online conversations around the world. It monitors online brand-related conversations across 43 markets and 26 languages. It tracks social networks, blogs, online and mobile video, and traditional media—any and every digital place that might contain relevant content or commentary on Mastercard.

At Mastercard's Purchase, New York, headquarters, Conversation Suite staff huddle with managers from various Mastercard departments and business units in front of a giant 40-foot LED screen that displays summaries of ongoing global brand conversations, refreshed every four minutes. A rotating group of marketing and customer service people spends two or three hours a day in the command center. "It's a real-time focus group," says a Mastercard marketing executive. "We track all mentions of Mastercard and any of our products, plus the competition."

Mastercard uses what it sees, hears, and learns in the Conversation Suite to improve its products and marketing, track brand performance, and spark meaningful customer conversations and engagement. Mastercard has even trained "social ambassadors," who can join online conversations and engage customers and brand influencers directly. "Today, almost everything we do [across the company] is rooted in insights we're gathering from the Conversation Suite," says another manager. "[It's] transforming the way we do business."

Marriott International, the world's largest hotel company, runs the equivalent of Mastercard's Conversation Suite with its own M Studio Live. The center mines social media feeds in real time, looking for trends and extracting useful customer insights. For example, M Studio Live feeds ideas to its in-house content studio, which uses them to produce short films and documentaries supporting the company's Marriott Bonvoy loyalty program across the 30 hotel brands in Marriott's global brand portfolio.

M Studio Live also engages customers in real time. As just one example, when M Studio Live personnel saw that a Bonvoy loyalty member was posting from the Renaissance Inn near the Coachella festival in Indio, California, they offered her VIP access to the event. The rest of the story unfolded naturally as the thrilled customer posted pictures from the festival to Instagram, Facebook, and Twitter, tagging Marriott and the Renaissance Inn. The goal of such customer engagements is to "surprise

Social media listening: IKEA's Listening Hub tapped into social media buzz showing that customers liked the brand's 99-cent FRAKTA shopping tote better than Balenciaga's high-priced design knockoff. Its hilarious response earned tons of viral coverage.

and delight," says the head of the M Studio Live centers. Customers receiving such perks are never told to post or what to post, says the executive. But "they become a brand ambassador for us." As a result, a single customer engagement can potentially reach hundreds and even thousands of consumers.

All kinds of organizations have now set up social media command centers, even not-for-profits. For example, the American Red Cross operates its Digital Operations Center in Washington, DC, which helps the humanitarian relief organization improve its responses to emergencies and natural disasters. The Red Cross got serious about monitoring social media after an opinion poll revealed that 80 percent of Americans expect emergency responders to monitor social networks and one-third presumed that they could get help during a disaster within an hour if they posted or tweeted a request.

The Red Cross Digital Operations Center broke new ground with an innovative digital volunteer program, adding thousands of trained volunteers around the country to help handle the massive volume of social media traffic that occurs during a disaster. The Digital Operations Center helps improve the Red Cross's everyday relief efforts, such as responses to an apartment fire in a large metropolitan area. Beyond scanning the social media space for actionable intelligence, Red Cross staff are also on the lookout for people out there who need information and emotional support.

But it's the major disasters that highlight the center's biggest potential. For example, during the week of Hurricane Sandy, one of the biggest natural disasters in U.S. history, the Digital Operations Center played a crucial role in directing Red Cross relief efforts. In addition to the usual data from government partners, on-the-ground assessments, and damage reports from traditional media, the center pored through and acted on millions of tweets, Facebook posts, blog entries, and photos posted online. Even a lack of social media activity was an important indicator. A social media "black hole" in a specific area probably meant that factors were preventing people in that area from tweeting and that they needed help.

So whether it's IKEA, Mastercard, Marriott, or the Red Cross, a social media command center can help marketers scour the digital environment, analyze brand-related conversations in real time to gain marketing insights, and respond quickly and appropriately. Ultimately, social media listening gives consumers another voice—another seat at the response table—to the benefit of both customers and the brand.[10]

advantage of publicly available information. However, they should not stoop to snoop. Companies must be particularly careful not to cross legal lines when gathering intelligence on competitors. For example, consider the recent feud between Google's Waymo self-driving car unit and Uber, which has its own self-driving car division.[11] Uber acquired a truck company called Otto, founded by Anthony Levandowski, a former self-driving car engineer at Google's Waymo unit. Lewandowski joined Uber as part of the acquisition. Lewandowski was later charged with jump-starting Uber's own self-car driving car development with trade secrets and staff that he brought along from Waymo. Uber settled the case after paying more than $244 million to Waymo. Companies can take advantage of the numerous legitimate intelligence sources now available to them. But there is no need to breach accepted codes of ethics—and certainly no excuse for breaking the law—in the pursuit of good intelligence.

Author Comment | Whereas marketing intelligence involves actively scanning the general marketing environment, marketing research involves more focused studies to gain customer insights related to specific marketing questions and decisions.

Marketing Research

OBJECTIVE 4-3 **Outline the role of marketing research and the steps in the marketing research process.**

In addition to collecting general marketing intelligence, marketers often need formal, clearly purposed studies that provide customer and market insights to inform specific marketing questions and decisions. For example, Starbucks may want to know how customers would react to a new breakfast item. Google may want to know how online and mobile searchers will react to a proposed website redesign. Or Samsung may want to know about how many and what kinds of customers will buy its next-generation folding smartphones. In such situations, managers will need marketing research.

Marketing research
The systematic design and execution of initiatives to collect, analyze, and report data, information, and insights relevant to a specific marketing situation facing an organization.

Marketing research is the systematic design and execution of initiatives to collect, analyze, and report data, information, and insights relevant to a specific marketing situation facing an organization. Companies use marketing research in a wide variety of situations. For example, marketing research gives marketers insights into customer motivations, purchase behavior, and satisfaction. It can help them to assess market potential and market share or measure the effectiveness of pricing, product, distribution, and promotion activities.

Some large companies have their own research departments that work with marketing managers on research projects. In addition, these companies—like their smaller counterparts—frequently hire outside research companies to consult with management on specific marketing problems and to conduct marketing research studies.

Sometimes firms simply purchase data collected by outside firms to aid in their decision making.

Traditional Marketing Research in Transition

In recent years, as a host of new digital data-gathering technologies have burst onto the scene, traditional marketing research has undergone a major transformation. Traditional mainstays such as in-person research surveys and focus groups, although still prevalent and powerful, are now being complemented by newer, more agile, more immediate, and less costly digital data gathering methods. These new approaches—ranging from real-time social media, website, and online surveys and feedback monitoring to mobile device tracking—are forcing a move away from a heavy reliance on traditional marketing research. "The market research industry, as we have known it for decades, is disappearing," proclaims one industry observer. "It is being absorbed into a rapidly transforming collection of market intelligence subdisciplines."[12]

Marketing research in transition: Traditional mainstays such as in-person research surveys and focus groups, although still prevalent and powerful, are now being complemented by newer, more agile, more immediate, and less costly digital data gathering methods.

Andriy Popov/123RF

Today's fast and agile decision making often calls for fast and agile marketing information and research—call it *just-in-time research*. In such situations, speed is critical. Marketing managers often have to make trade-offs between speed on one hand and research rigor and precision on the other. "If marketing managers can, at the tap of a button, see the views, clicks, likes, and shares of a new ad campaign, as well as listen to the roar—or silence, depending upon its success—of social media comments; then why would they be willing to wait four weeks for a [market research study's] bar chart to tell them that their spontaneous awareness has gone up?" asks an analyst. "Traditional research is in danger of being not only slower but also less insightful than other sources of information."[13] Marketing researchers must adjust to the new pace of information.

The recent COVID-19 pandemic has also put a damper on some traditional qualitative search methods, such as in-person surveys, focus groups, and immersion studies. Facing safety and social distancing concerns, in-person research came to a standstill, forcing marketers to shift even more toward digital data collection and insights tools. Traditional in-person methods have yet to fully recover, and many of these changes are here to stay.

Although its role is changing, traditional marketing research is both important and widely used. Traditional research approaches, although often more time-consuming and expensive, can allow for deeper, more focused probing, especially into the hows and whys of consumer attitudes and behavior. Thus, these approaches are a better fit for many marketing decisions where information quality and rigor are more important than speed, convenience, and lower cost.

The rise of new digital research platforms presents the marketing research industry with tremendous opportunities. When combined, the traditional and new digital approaches can greatly enhance the marketer's ability to gather, analyze, communicate, and gain insights from data about consumers and markets. The key for marketers is to blend these approaches into a unified marketing information ecosystem that yields deep and comprehensive marketing information and insights. New digital approaches can provide immediate and affordable access to real-time data on the whats, whens, wheres, and hows of consumer buying behaviors and their responses to marketing stimuli. That frees traditional marketing research approaches to dig more deeply and rigorously into the whys. Rather than substituting traditional methods, new approaches can complement and enhance them.

The marketing research process has four steps (see **Figure 4.2**): defining the problem and research objectives, developing the research plan, implementing the research plan, and interpreting and reporting the findings.

Defining the Problem and Research Objectives

Marketing managers and researchers must partner to define the problem and agree on research objectives. The manager best understands the decisions for which information is needed, whereas the researcher best understands the marketing research process that yields the required information. Defining the problem and research objectives is often the most difficult step. The manager may know that something is wrong without knowing the specific causes. If the problem is incorrectly defined, a lot of research effort will ultimately be wasted. Spending the time and effort to correctly define the research problem is almost always worth the investment.

In this age of big data, marketers might be tempted to simply turn their data scientists loose on mountains of big data in the search for problems and insights. But effective research calls for a blend of both well-directed and open-minded analysis. On the one hand, data analytics can be more effective when directed toward well-considered problems. The market researcher "must first ask smart questions," says one data expert, and then "wrangle the relevant data and uncover insights." On the other hand, says another expert, "you must approach it with an open mind and be willing to embrace new insights. A lot of this is about turning over rocks and looking for little moments of surprise. That's where you find the magic."[14]

Exploratory research
Marketing research to gather preliminary information that will help further define the research problems and suggest hypotheses.

Descriptive research
Marketing research to better describe market and consumer characteristics, such as the market potential for a product or the demographics and attitudes of consumers who buy the product.

Causal research
Marketing research to test hypotheses about cause-and-effect relationships.

After the problem has been carefully defined, the manager and the researcher must set the research objectives. A marketing research project might have one of three types of objectives. The objective of **exploratory research** is to gather preliminary information that will help further define the research problems and suggest hypotheses. The objective of **descriptive research** is to describe market and consumer characteristics, such as the market potential for a product or the demographics and attitudes of consumers who buy the product. The objective of **causal research** is to test hypotheses about cause-and-effect relationships. For example, would a 10 percent decrease in tuition at a private college result in an enrollment increase sufficient to offset the reduced tuition? Managers often start with exploratory research and later follow with descriptive or causal research.

Developing the Research Plan

The statement of the problems and research objectives guides the entire research process. Next, the researchers must determine the exact data needed, develop a research plan that describes the proposed research process, and present the plan to management. At a high level, the research plan outlines the management problems addressed and the research objectives. At a more tactical level, the plan details the proposed data sources, the specific research approaches, contact methods, sampling plans, and the instruments that researchers will use to gather new data. It might also lay out the analytical approaches to be applied to extract information and insights from the collected data.

The proposal should also include estimated research costs. The research plan should be presented in a *written proposal*. A written proposal clarifies the expectations of the various stakeholders. It is especially important when the research project is large and complex or when an outside firm carries it out.

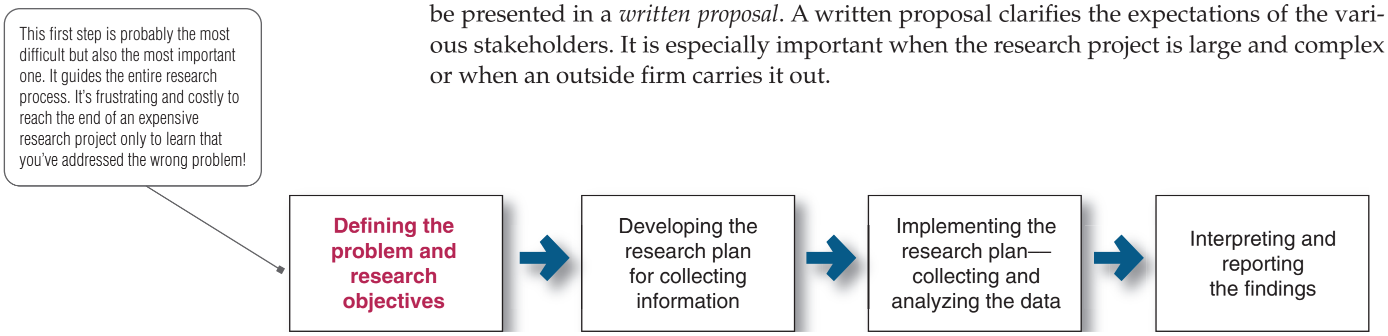


FIGURE 4.2
The Marketing Research Process

Research objectives must be translated into specific information needs. For example, suppose that Nordsee, the Germany-based seafood chain with 370 locations worldwide, wants to know how consumers would react to the addition of vegan fish to its menu. In Germany, around 6.5 million people are vegetarian and 2.6 million are vegan. According to estimates, about 2,000 vegetarians and 200 vegans are added daily. However, vegan offerings at fast-food chains are usually limited to sides, such as fries or salads with no cheese. Adding vegan meals could help attract new customers and help Nordsee become a dominant player for vegan offerings. The proposed research might call for the following specific information:

A decision by Nordsee to add "vegan fish" would call for marketing research that provides specific information.

Toni Genes/Shutterstock

- The demographic, economic and lifestyle characteristics of current Nordsee customers: Do current customers have family members who do not eat fish? Would Nordsee need to target a new segment of customers?
- The characteristics and usage patterns of the broader population of fast-food and fast-casual diners: What do they need and expect from such restaurants? Where, when, and how do they use them, and what existing quality, price, and service levels do they value? The new Nordsee offering would require strong, relevant, and distinctive positioning in the crowded fast-food market.
- Impact on the Nordsee customer experience: Would vegan fish offerings be consistent in quality with its famous fish burgers?
- Nordsee employee reactions to vegan fish: Would restaurant employees buy into such a non-traditional product? Would they be able to prepare and present it properly?
- Forecast of vegan fish sales and profits: Would vegan fish create enough new sales to make it a lasting and profitable menu item?

Nordsee's marketers would need these and many other types of information to decide whether to introduce vegan fish and, if so, the best way to do it.[15]

Secondary data
Information that already exists somewhere, having been collected for another purpose.

Primary data
Information collected for the specific purpose at hand.

To meet the manager's information needs, the research plan can call for gathering secondary data, primary data, or both. **Secondary data** consist of information that already exists somewhere, having been collected for another purpose. **Primary data** consist of information collected for the specific purpose at hand.

Gathering Secondary Data

Researchers usually start by gathering secondary data. The company's internal database provides a good starting point. However, the company can also tap into a wide assortment of external information sources.

Companies can buy secondary data from outside suppliers. For example, Nielsen sells shopper insight information from more than 900,000 participating stores around the world.. Experian Simmons carries out a full spectrum of consumer studies that provide a comprehensive view of the American consumer. The U.S. MONITOR service by Kantar Futures sells information on important social and lifestyle trends, helping companies to "Understand today, create tomorrow." And Kantar's Cultural Streetscapes can give marketers "an on-the-ground view of anything that's shaping the marketplace of tomorrow (and today): from broad societal shifts to breakthrough trends and unique consumer segments." These and other firms supply high-quality data to suit a wide variety of marketing information needs.[16]

Using *commercial online databases*, marketing researchers can conduct their own searches of secondary data sources. General database services such as ProQuest, EBSCO, and LexisNexis put an incredible wealth of information at the fingertips of marketing decision makers. Gartner offers a range of secondary industry-focused offerings, ranging from off-the-shelf blueprints to execute digital strategies in an industry to analyses of trends that are reshaping that industry. Gartner's secondary offerings cover the high-tech, education, energy, financial services, health-care, manufacturing, and retail industries, among others. Beyond commercial services offering information for a fee, almost every industry association, government agency, business publication, and news medium offers free information through their websites or apps.

Internet search engines can also be a big help in locating relevant secondary information sources. However, they can also be frustrating and inefficient. For example, a Popeye's marketer Googling "fast-food vegetarian chicken" would come up with more than 300,000 hits. Still, well-structured, well-designed online searches can be a good starting point to any marketing research project. Likewise, information on sites such as Wikipedia is not perfect but offers a good starting point for many research projects. Further, Wikipedia can also help the researcher find other official information sources.

Secondary data can usually be obtained more quickly and cheaply than primary data. Also, secondary sources can sometimes provide data an individual company cannot collect on its own—information that either is not directly available or would be too expensive to collect. For example, it would be too expensive for consumer brands such as Coca-Cola or Tide to conduct continuing retail store audits across numerous stores nationwide to find out about the market shares, prices, and displays of their own brands and competitors' brands. But those marketers can buy store sales and audit data from IRI, which provides data from tens of thousands of retail stores nationwide.[17]

Secondary data can also present challenges. Researchers can rarely obtain all the data they need from secondary sources. For example, Popeye's is unlikely to find existing information regarding consumer reactions to vegetarian chicken tenders in the fast-food setting. Even when data can be found, the information might not be very usable. The researcher must evaluate secondary information carefully to make certain it is *relevant* (fits the research project's needs), *accurate* (reliably collected and reported), *current* (up-to-date enough for current decisions), and *impartial* (objectively collected and reported).

Primary Data Collection

Secondary data can provide a good starting point for research and often help define research problems and objectives. In most cases, however, the company must also collect primary data. Designing a plan for primary data collection calls for decisions on *research approaches, contact methods*, and *sampling plans*. We discuss each step in the following sections.

Research Approaches

As described in **Table 4.1**, researchers today can employ a range of primary data collection approaches. We discuss each one in turn.

Observational research
Gathering primary data by observing relevant people, actions, and situations.

Observational Research. **Observational research** involves gathering primary data by observing relevant people, actions, and situations.

Researchers often observe consumer behavior to glean customer insights they can't obtain by simply asking customers questions. For instance, many new menu items at pizza giant Domino's come from its stores, where franchisees observe special requests from customers and then adapt existing offerings. The new menu ideas then come to corporate test kitchens, which the company calls its "pizza theater," where they are tested using the company's 12 "sensory booths." Each booth is outfitted with a slot for sliding pizza slices to participants and devices for getting feedback about product appearance, taste, and preferences. Beyond testing new products, Domino's also uses the observation booths to test improvements in existing products and reactions to ingredients from new suppliers.[18]

Marketers observe both what consumers do and what they say. As discussed earlier, marketers now routinely listen in on consumer conversations on social media, blogs, and websites. Such naturally occurring feedback can provide inputs that simply can't be gained through more structured and formal research approaches.

Table 4.1 | Primary Data Collection Approaches

Research Approach	Brief description
Observational research	Gathering deep insights by carefully observing consumers' relevant actions and activities.
Surveys and questionnaires	Gathering information about consumer knowledge, attitudes, preferences, and buying behavior by asking a targeted set of respondents a pre-selected set of questions.
Interviews	Gaining insights from targeted participants by engaging them in one-on-one conversations.
Focus groups	Inviting small, carefully selected groups of people to meet with a trained moderator for focused discussions about a product, service, or organization to gain subtle and interesting insights.
Customer insight communities	Creating a panel of customers—usually hosted online—that provides the company with insights and feedback on an ongoing basis.
Experimental research	Subjecting two or more matched groups of randomly chosen customers to different marketing stimuli and learning which stimuli are most effective by comparing the resulting behaviors across the groups.
Digital text analysis	Using artificial intelligence and machine learning techniques to automatically and continuously analyze the huge amounts of text data posted by consumers on social media, internet forums, company websites, and other digital platforms.
Digital, mechanical, and biosensors	Using smart digital and mechanical sensors to monitor consumer behavior and market developments.
Online tracking and targeting	Monitoring consumers by actively mining the rich veins of unsolicited, unstructured, "bottom-up" customer information coursing around the internet, then using that information to target customers with customized advertisements and offerings.

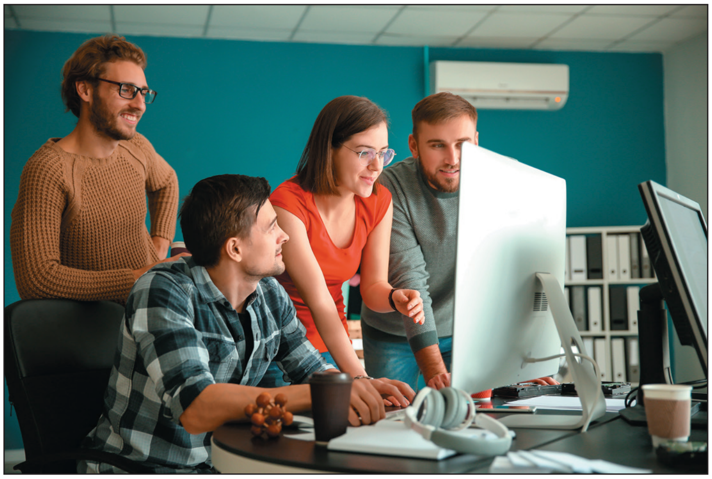
Ethnographic research
A form of observational research that involves sending observers to watch consumers—usually unobtrusively—in their "natural environments" as they go about their daily lives.

Many companies increasingly also use **ethnographic research**. Such research involves sending observers to watch consumers—usually unobtrusively—in their "natural environments" as they go about their daily lives. The observers might be trained anthropologists and psychologists or company researchers and managers. Consider Intuit, maker of Turbo Tax and QuickBooks financial software:[19]

> Most companies want to get close to their customers, but Intuit carries it to extremes. Under the company's "follow-me-home" program, small teams of Intuit employees visit customers' homes and offices to watch them experience the company's products in real life—everything from removing the shrink-wrap to downloading an app to applying the software. The teams don't interview the customers; they simply observe. After each visit, the teams debrief immediately. By observing what customers *do* versus what they *say*, they are able to uncover true pain points. Intuit conducts some 10,000 hours of follow-me-home visits a year. Every new employee that joins the company participates in a "follow-me-home" as part of an on-boarding training program. "The underlying reality is that you can't [always] believe what customers tell you," notes one observer. "Customer behavior is the truth." Says Intuit's former CEO: "What you get from a follow-me-home you can't get from a data stream. You've gotta look somebody in the eye and feel the emotion."

Observational and ethnographic research often yield deep insights that just don't emerge from traditional research questionnaires or focus groups. Whereas traditional research approaches seek to test known hypotheses and obtain answers to well-defined product or strategy questions, observational research can generate novel customer and market insights that people are unwilling or unable to provide. It provides a window into customers' unconscious actions and unexpressed needs and even needs customers themselves don't know they have.

However, some things such as attitudes, motives, or private behavior simply cannot be observed. Long-term or infrequent behaviors are also difficult to observe. Finally, observations can be difficult to interpret. Because of these limitations,



Ethnographic research: Under Intuit's "follow-me-home" program, teams of Intuit employees visit customers in their homes or offices to watch them use the company's products in real life.

Pixel-Shot/Shutterstock

researchers often use observation along with other data collection methods.

Surveys and Questionnaires. Long the backbone of traditional marketing research, **survey and questionnaire research** remains the most widely used method for primary data collection, whether administered in person, by phone, by email, or online. Such research is best suited for gathering descriptive information. A company that wants to know about consumers' knowledge, attitudes, preferences, or buying behavior can often obtain that information by asking them directly.

Surveys and questionnaires addressing almost any marketing question or decision can be conducted by phone or mail, online, or in person. Surveys and questionnaires can also be structured in different ways. Closed-ended questions include all the possible answers, and participants make choices among them. Examples include multiple-choice questions and scale questions. Open-ended questions allow respondents to answer in their own words. In a survey of airline users, Southwest Airlines might simply ask, "What is your opinion of Southwest Airlines?" Or it might ask people to complete a sentence: "When I choose an airline, the most important consideration is . . ." These and other kinds of open-ended questions often reveal more than closed-ended questions because they do not limit respondents' answers.

Survey and questionnaire research
Gathering primary data by asking people questions about their knowledge, attitudes, preferences, and buying behavior.

Open-ended questions are especially useful in exploratory research, when the researcher is trying to find out what people think but is not measuring how many people think in a certain way. Closed-ended questions, on the other hand, provide answers that are easier to interpret and tabulate.

The major advantage of survey and questionnaire research is its flexibility; it can be used to obtain many kinds of information in many different situations. Sometimes, it can be used to capture general consumer perceptions of an experience, such as a vacation in Singapore or owning a Lexus SUV. In other cases, it can be used to collect data to run specific marketing approaches. For example, Marriott might ask target consumers to rank their preferences for hotel configurations that incorporate its different hotel brands, types of beds, seaside versus marsh-facing locations, different dining experiences, and price levels. The results would help Marriott fine-tune specific hotel configurations for different segments.

Despite its many advantages, survey and questionnaire research presents challenges. Some of the problems are created by the researchers themselves. Researchers often phrase their questions in a way that makes it difficult for consumers to respond. For example, few consumers can respond accurately to a question like "How many pounds of chicken do you purchase annually?" The researcher might better ask about how often consumers eat chicken and how much they consume on each occasion—questions they can more likely answer. At other times, researchers may ask what are called "double-barreled" questions: "What are the most interesting and exciting things you did last month?" Consumers may be unsure about whether the researcher seeks experiences that were just interesting, just exciting, or both, resulting in difficult-to-interpret findings.

Other researchers may intentionally frame questions in a way that gets the responses they want. For example, suppose the TV network CBS ask the following question: "CBS is America's most-watched, most-popular network. What network channel do you watch most?" Such a loaded question would bias responses in favor of CBS. In survey and questionnaire research, researchers can often reap what they ask.

Other problems with survey and questionnaire research arise from respondent limitations and discomfort. People may be unable to answer questions because they cannot remember or have never thought about what they do and why they do it. People may be unwilling to respond to unknown interviewers or about things they consider private. Respondents may answer survey questions even when they do not know the answer, just to appear smarter or more informed. Or the answers may reflect "social desirability" bias—respondents giving what they think are pleasing or socially acceptable answers.

Busy respondents may not take the time to answer the questions accurately or may drop out of the process partway through.

Given these challenges and limitations, managers now increasingly avoid relying solely or heavily on survey- and questionnaire-based research to inform important marketing decisions. In addition, most researchers are recognizing the benefits of online surveys and questionnaires. Unlike paper-based surveys, these can be sent at low cost to thousands of potential respondents. They can be dynamically adjusted in response to inputs and responses can be directly stored in databases without additional transcription or coding.

Interviews
Gathering primary data by engaging participants in one-on-one, semi-structured, but open-ended conversations that can reveal deep or unexpected insights.

Interviews and Focus Groups. Through **interviews**, researchers engage participants in one-on-one, semi-structured, but open-ended conversations that can reveal deep or unexpected insights.

For example, before undertaking a major redesign of its retail stores, megaretailer Target might conduct individual interviews with loyal shoppers. The interviews would typically be structured around a set of preselected questions. These questions may relate to shoppers' demographics, reasons why they shop at Target, their usual "journey" through the store aisles, their favorite store features and experiences, their omnichannel shopping patterns that combine in-store and online shopping, and their ideas about how Target can improve the customer store experience. Trained interviewers interact with respondents and record their responses. The interviewers must be trained to conduct interviews in a neutral manner to avoid skewing responses in specific directions. Responses are best recorded in audio and video format to ensure that they are accurately and completely captured.

The classic notion of a market research "personal interview" involves an interviewer and respondent physically sitting across a table from one another. But in today's digital world, these individuals could well be connecting from opposite sides of the globe. Virtual conferencing platforms such as Zoom and Webex allow individuals to connect seamlessly online, with the full array of vocal and facial expressions captured and saved for later review and analysis.

Focus Groups. *Focus group research* consists of inviting small, carefully chosen groups of people to meet with a trained moderator to talk about a product, service, or organization. Participants normally are paid a small fee for attending. The moderator encourages free and easy discussion, hoping that group interactions will bring out deeper feelings and thoughts. At the same time, the moderator "focuses" the discussion—hence the name "**focus group**."

Focus group
A focus group involves inviting a small, carefully chosen group of people to meet with a trained moderator to discuss and exchange views about a product, service, or organization. The moderator keeps the discussion "focused" on important issues.

In traditional focus groups, researchers and marketers watch the focus group discussions from behind a one-way mirror and video-record sessions for later study. Today, through videoconferencing and internet technology, focus groups can be conducted virtually. Marketers in far-off locations can look in and listen and sometimes even participate as a focus group discussion progresses.

The focus group remains a major qualitative marketing research tool for gaining fresh insights into consumer thoughts and feelings. Researchers in focus group settings can not only hear consumer ideas and opinions, they can also observe facial expressions, body movements, group interactions, and conversational flows.

However, focus groups present some challenges. Participants in focus groups are not always open and honest about their real feelings, behaviors, and intentions in front of other people. Focus groups usually employ small samples to keep time and costs down; therefore, even a single poorly chosen participant can throw the discussion and the findings off track. Small sample sizes can make it hard to generalize the findings. Companies spend significant time and effort choosing participants to ensure that the group accurately represents the targeted market segment. Finally, the focus group moderator plays a critical role in guiding the discussion; therefore, a moderator must be selected and trained to be both skilled and unbiased. To keep bias from creeping in, companies often use experienced outside professionals to moderate focus groups.

Researchers often adjust focus group design to address these problems. Some companies change the environments in which they conduct focus groups to help consumers relax and provide more authentic responses. For example, Lexus hosts "An Evening with Lexus" dinners in customers' homes with groups of luxury car buyers to learn in an up close and personal way about why they did or did not buy a Lexus.

New focus group designs: Bizdaq utilizes focus group interviews to better understand and connect with their customers and establish credibility.

caia image/Alamy Stock Photo

Other companies use *immersion groups*—small groups of consumers who interact directly and informally with product designers without a focus group moderator present. Reexamining their chosen means of interaction with customers through learning processes can help companies understand their customers better and target them more effectively:

Bizdaq, established in the United Kingdom in 2014, connects entrepreneurs with potential buyers in a single, simple-to-utilize marketplace. The firm enables small to medium-sized business owners to sell their entire company online without having to go through a sales agent. After launching, Bizdaq faced a significant challenge in appealing to their target audience with offline marketing for a service that was online. Jonathan Russell, the company's CMO, dropped the original plan to communicate with customers online and instead urged employees to pick up the telephone and directly contact their initial adopters, a central target group of the organization, to better comprehend the demographic. After conducting focus group interviews, the company realized that trade publications are essential to small business owners. Bizdaq therefore invested strongly in trade publications and established trustworthiness through this link. Conducting focus group interviews and understanding the motivations, characteristics, and lifestyles of their customers helped the company significantly in their marketing efforts. Ultimately, Bizdaq's decision to get in touch with their target customers led to a 210 percent increase in customers and a significant return on investment.[20]

Even as focus groups have continued to thrive as a research tool, the digital world is strongly impacting how focus group discussions can be structured and conducted, as seen in the growth of **online focus groups**. For example, marketing research firm HARK Connect offers qualitative research platforms for online focus groups, one-on-one interviews, and user experience testing.

Online focus group
Gathering a small group of people online with a trained moderator to chat about a product, service, or organization and gain qualitative insights about consumer attitudes and behavior.

HARK Connect's Qual Tech platform offers end-to-end assistance in designing and conducting online focus group discussions. Clients can begin by having HARK Connect recruit and compensate an appropriate set of focus group participants from its U.S. panel of 80,000 consumers. A "tech concierge" helps screen participants, provides tech support, and attends the session to ensure a smooth experience. Remote participants engage seamlessly on the HARK Connect platform. Conversations can be translated live into any of 68 languages, allowing international participation. Participant conversations are captioned and translated in real time, letting all participants follow the discussion, even if they find a particular participant's accent difficult to follow. Likewise, HARK Connect generates transcripts in real time. The transcripts can be edited, translated, and tagged for easy search in the future. Relevant video clips from focus groups can be easily extracted and placed in reports. Client marketers can participate privately in a "backroom chat," discussing important insights in real time as they are revealed. And they can communicate privately with the focus group moderator in real time to nudge the discussion in desired directions.[21]

Although growing rapidly, online focus group research has its drawbacks. One major problem is selecting participants. As we discussed earlier, the small size of the focus group magnifies the negative effects of even a single poorly chosen participant.

Focus groups and interviews can add a personal touch as opposed to more numbers-oriented, big data–driven research. They can provide rich insights into the motivations and feelings behind the numbers and analytics. Things really come to life when you hear people say them. For that reason, focus groups are still one of the most widely used qualitative research tools.

Customer Insight Communities. In parallel with online interviewing and focus groups, many companies have now developed their own online "customer insight communities" from which they obtain customer feedback and insights. A **customer insight community** is an ongoing online company panel or community of engaged consumers who provide input and take part in research projects over time. These communities can be thought of as "ongoing focus groups." For example, consider Wolverine Worldwide, the producer of popular footwear brands such as Merrill, Sperry, Saucony, Chaco, Hush Puppies, Wolverine, and Keds:[22]

Customer insight community
An ongoing online company panel or community of engaged consumers who provide input and take part in research projects over time.

Staying ahead of ever-changing trends and customer preferences in the footwear industry requires quick and constant input from customers, employees, and other brand stakeholders. Rather than relying only on slower, traditional marketing research methods, Wolverine Worldwide maintains a 20,000-consumer-strong customer insights community that gives the company's brands instant access to customer opinions about its products and marketing efforts. Rather than simply gathering data about consumers, the customer insights community lets the company and its brands build relationships with them. "Fashion, and consumers themselves, are changing quickly," notes the head of Wolverine Worldwide's consumer insights and marketing intelligence group. "Insight communities allow us to bring the perspectives and needs of our consumers into the product development process early on." Beyond fueling product development and marketing innovations, tapping the insights community can be a potent competitive tool. Wolverine Worldwide regularly uses insights community feedback to garner support from retailers who might otherwise be skeptical. "Our insights communities have significantly enhanced our consumer centricity," concludes a senior marketing executive. "They enable us to speak with our customers almost instantaneously and are a valued resource across our family of brands." And, of course, when Wolverine Worldwide wants to conduct a formal focus group discussion, its insight community serves as a potential source of participants who are able and willing to pitch in.

Experimental research
Gathering primary data by selecting matched groups of participants, giving them different treatments, controlling unrelated factors, and checking for differences in group responses.

Experimental Research. Whereas observation, surveys, and interviews are well suited for exploratory research and descriptive research, **experimental research** is best suited for gathering causal information. Experiments involve selecting matched groups of participants, giving them different treatments, controlling unrelated factors, and checking for differences in group responses. Thus, experimental research tries to explain cause-and-effect relationships.

For example, before adding a new sandwich to its menu, McDonald's might use an experiment to test the effects on sales of two different prices it might charge. It could begin by choosing a set of 50 cities of roughly similar sizes and demographic compositions. It could introduce the new sandwich at one price in 25 cities randomly selected from those 50 cities and at the second price in the remaining 25 cities. If the groups of cities are generally comparable and if all other marketing efforts for the sandwich are the same, then differences in sales across the two groups could be confidently related to the prices charged.

Experimental research: Online experiments can be simple and inexpensive. For example, an online "A/B test" for Microsoft's Bing search engine formatting yielded performance-enhancing results in only hours.

One photo/Shutterstock

The digital environment allows for rapid and rigorous experimentation. Online controlled experiments can be simple and inexpensive to run with immediate and revealing results. Online "A/B testing" has become a way of life for marketers in many companies. For example, to test a possible change in the way its Bing search engine displays ad headlines, Microsoft conducted an online "A/B test" or "split-run test" in which one randomly chosen subgroup of users saw the old headline format (version A) while the other subgroup saw the new format (version B). Within only hours, the new headline variation was producing an astonishing 12 percent ad revenue increase without harming the user experience. Needless to say, Microsoft adopted the new format. Today, Microsoft and other digital companies such as Amazon, Google, Netflix, LinkedIn, and Facebook each conduct thousands of controlled experiments involving millions of users annually.[23]

Digital Text Analysis. The world is now awash with digital data generated by a variety of sources. Much of these data are routinely generated through activities such as customer browsing behavior and internet traffic flows. In parallel, much data are generated through the views and opinions that customers express online, on their mobile devices, in virtual communities, and on platforms such as Twitter and Facebook.

Twitter alone has more than 320 million active users and 187 million daily active users who post more than 200 billion tweets on Twitter each year. Facebook has more than 2.8 *billion* monthly active users. Facebook mobile users spend on average 57 minutes on the app per day, sharing news, views, photos, and videos. Other large digital platforms sport similar statistics.[24]

For marketers, identifying relevant digital text data and gaining insights from all those data are huge challenges. Even focusing on a brand's own digital followers can be daunting. For example, Starbucks has 11 million Twitter followers, 36 million Facebook followers, and tens of millions more on other social media such as Instagram. Digital text discussions and postings related to the brand can pile up by the minute. If embedded insights are not mined in a timely fashion, they may be lost forever. In addition to simply monitoring digital text traffic, brands often proactively ask followers to react to specific initiatives and ideas as a form of primary research—the resulting inputs must be collected and analyzed.

To physically analyze all these digital text data on a word-by-word or sentence-by-sentence basis is beyond human capabilities. However, artificial intelligence–driven **digital text analysis** is well suited to plowing through mountains of text data, identifying relevant posts and important trends, discerning underlying consumer sentiment, and, ultimately, highlighting key insights for marketing decision makers.

Digital text analysis
Using artificial intelligence–driven automated analysis to gain insights from large volumes of text data that are posted by customers on social media, internet forums, company websites, and other digital platforms.

Automated text analysis uses artificial intelligence and natural language processing to transform the unstructured text usually found in customer posts into structured data.[25] At a basic level, analysts might mine for recurring words and themes in the online data. For example, if a company is researching consumer perceptions of a recently introduced new product and words such as *expensive*, *overpriced*, and *overvalued* appear frequently in customer online discussions, that can signal the need for price adjustments.

Going further, digital text analysis can dig more deeply into the context of and meaning behind recurring words. Suppose the word *work* is found frequently in customer reviews of a software product. If the preceding context was “It saves time and helps teams,” that suggests positive feedback. But if the word is preceded by “Some advanced features” and followed by “only in one language (English),” that might suggest areas for improvement.

At a more advanced level, digital text analysis can help identify feedback themes, accurately classifying a statement such as “My product arrived two days late” under the theme of “Delivery Problems.” Digital text analysis can also include *sentiment analysis*, in which mined statements are then analyzed in terms of the expressed consumer sentiment—positive, negative, neutral, and beyond. More refined sentiment analysis can lead to classifications in terms of anger, disappointment, joy, resignation, and other, more subtle emotions.

Once set up, the digital text analysis platform can efficiently churn through mountains of posted text, sometimes in just seconds, yielding a range of insights. Marketers can use text analysis to quickly mine data relevant to a burning research issue. In fact, automated digital text mining can often be performed in near real time, alerting companies to brewing crises across the customer base and triggering quick reactions. For example, fitness technology maker Fitbit uses digital text analysis of online consumer posts to detect and correct product problems and consumer concerns:[26]

> Fitbit performed text analysis on a mass of more than 33,000 Twitter posts from customers sent to @FITBITSUPPORT over a six-month period. The findings highlighted specific problems related to each of the brand’s products. For example, the analysis identified recurring strap problems with the Fitbit Charged HR, including breakage, bubble formation, and peeling of the rubber stamp. It uncovered a major software-related problem with the Fitbit Blaze—the operating system would freeze at the logo screen, rendering the device inoperable. These digital text analysis insights helped Fitbit quickly understand and prioritize opportunities for product improvement. A director of community at Fitbit notes that the company uses text analysis and social media listening to “resolve all customer issues, provide customers with a little more delight from the brand, and give customers a really fast support experience.”

Digital text analysis: Fitbit applies digital text analysis to customers’ posts to identify and prioritize product improvement opportunities.
Rohane Hamilton/Shutterstock

Digital, Mechanical, and Biosensors. Researchers are increasingly using digital and mechanical sensors to monitor consumer behavior and market developments. For example, Nielsen Media Research attaches people meters to television sets in selected homes to record who watches which programs and has developed on-device meter panels to record user interactions with mobile devices. In fact, Nielsen's Portable People Meter (PPM) is worn like a pager and records hidden tones within a program's audio stream. This permits a comprehensive view of the consumer's exposure to all media across time, at home, in the car, or at the gym. In conjunction with its large consumer panels, Nielsen can use such technologies to give advertisers and networks a more complete picture of the reach of their programs and advertising.[27]

The use of internet-connected sensors and scanners—also called Internet of Things (IoT) devices—has proliferated across marketing.[28] Consider retailing. Retailers use checkout scanners to record shoppers' purchases and build a complete view of customer purchases over time, at both individual and aggregate levels. ● AWM's Smart Shelf technology employs artificial intelligence, computer vision, and machine learning to help retailers capture a range of shopper-related information at the store shelf. This information can include likely age range, gender, ethnicity, and even the expressed facial emotions—choosing from happiness, surprise, anger, disgust, fear, and sadness. Similarly, retail technology solutions firm Zebra's tracking technology provides real-time location and movement data for each item in a store and converts those data into actionable intelligence than can be used to run the store more efficiently.[29]

● **The use of internet-connected IoT sensors and scanners has proliferated in marketing research. AWM's Smart Shelf can help retailers capture a range of shopper-related information at the store shelf.**

Courtesy of Adroit Worldwide Media, Inc.

Today's big data, Internet of Things (IoT) world has produced a flood of information from internet-connected sensors and devices. There are now more than 26 billion IoT devices worldwide, not counting computers and phones. They include everything from retail sensors, supply chain monitoring networks, and movement alert signalers to smart TVs, smarthome devices, and in-car navigation systems. Internet-connected devices offer huge potential for gathering data on consumer movements, actions, and activities. In the future, technologies such as Amazon's Alexa, smart TVs, interactive store kiosks, or live interactive tools will offer startling opportunities to "read" users' emotions though audio and visual cues and react in real time. In fact, that's already happening.

Researchers also use a variety of physiological and neurological measures to gauge consumers' emotions and reactions. They apply *neuromarketing*, using EEG and MRI technologies to track brain electrical activity to learn how consumers feel and respond. Neuromarketing measures, often combined with *biometric* measures (such as heart rates, respiration rates, sweat levels, and facial and eye movements), can provide companies with insights into those aspects of their marketing and brands that excite or disappoint customers.

Online travel giant Expedia uses such devices in its "Usability Labs" to learn about the deep-down tensions and delights customers experience during their trip-planning journeys:[30]

> One fall morning, a young woman named Megan in suburban Seattle goes online to make travel plans for an upcoming family vacation in Belize. She pulls up online travel agency Expedia, checking for available flights. Her anxiety grows as she navigates the maze of alternatives and learns that the cheapest seats on the best flights are already booked. After eight minutes, without having decided on a flight, Megan explores hotels. She smiles as she finds what looks like a good place, but the smile turns to a frown as she finds it's not available on her planned travel dates. "That's so sad," she mutters. Through sweat and persistence, Megan finally finds a suitable flight and a pretty good place to stay. At that moment, a voice comes over a speaker to tell Megan that she's done.
>
> Megan is planning an actual trip, but she's doing it in Expedia's Usability Lab at company headquarters. The voice belongs to an Expedia user-experience researcher sitting in the next room with members of Expedia's hotel-shopping and activities-booking teams, observing Megan through a two-way mirror and monitoring her biometric responses. Megan is wired with sensors that record the smallest changes in her facial muscles, and an eye tracker follows Megan's gaze as she navigates the Expedia screen. On a similar screen in the next room, the researchers

can follow along: A yellow line highlights where Megan is looking; a green line tracks her smiles and delight; a red line tracks her furrowed brows that suggest tension and frustration.

Such lab results give Expedia's marketers deeper insights into the emotions of customers using its internet and mobile sites across its wide-ranging portfolio of travel-planning brands, from Expedia and Hotels.com to Hotwire, Trivago, and TripAdvisor. The insights drive everything from site design improvements to new or improved products that help reduce trip-planning tensions while increasing the pleasures. "The goal of Expedia's usability researchers is not only to make Expedia's various sites and mobile apps more efficient," says one analyst, "but also to make them an extension of the vacation fantasies that are always running in the back of our heads."

Although neuromarketing techniques can measure consumer involvement and emotional responses second by second, such brain-level measures can be difficult to interpret in isolation. Thus, neuromarketing is usually used in combination with other research approaches to gain a more complete picture of what goes on inside consumers' heads.

Online Tracking and Targeting. Today's marketing researchers are increasingly listening to and watching consumers by actively mining the rich veins of unsolicited, unstructured, "bottom-up" customer information already coursing around the internet. Whereas traditional marketing research provides logical consumer responses to structured research questions, online listening captures the passion and spontaneity of unsolicited, real-time consumer behavior and opinions.

Tracking consumers online might be as simple as scanning their reviews and comments on the company's brand site or on shopping and review sites such as Amazon.com or Yelp.com. Or it might mean using sophisticated online-analysis tools to deeply analyze the mountains of consumer brand-related comments and messages found in blogs or on social media sites. As discussed previously, many companies now excel at listening online and responding quickly and appropriately.

Marketers now have real-time access to a flood of online consumer information. It's there for the digging—what sites consumers visit, what searches they make, what apps they use, how they shop, what they buy, with whom they interact—digitally revealed as they navigate the internet.

Information about what consumers do while navigating the vast digital expanse can yield powerful marketing research insights. And marketers are busy mining those golden nuggets of insight. They routinely analyze online and mobile data in detail. On today's internet, a whole lot of marketers know a whole lot about you. By combining online and offline data, marketers can know your age, your gender, where you live, that you love dogs, what you bought recently at Amazon.com, and that you spent one hour and 21 minutes last Sunday morning browsing college basketball news and scores at ESPN.com.

Behavioral targeting
Using online consumer tracking data and analytics to target advertisements and marketing offers to specific consumers.

Then, in a practice called **behavioral targeting**, marketers use this information to target ads and offers to specific consumers. For example, if you do a Google search for a Samsung TV you're thinking about buying, you'll probably see an ad for that TV set on your next visit to Facebook or your favorite buying site. Or as you're shopping in one section of your local Walgreens, you might receive a real-time notification on your phone of a deal in another part of the store. Even further, marketers use *social targeting*, mining individual online social networking activity to target ads and marketing efforts. So, instead of just having a Zappos.com ad for running shoes pop up because you've recently searched for running shoes (behavioral targeting), you might see a shoe ad because a friend you're connected to via Instagram or Twitter just bought those shoes from Zappos.com last week (social targeting).

Online analytics, behavioral targeting, and social targeting are great for marketers as they work to mine customer insights from the massive amounts of consumer information swirling around the internet. Listening to and engaging customers online can provide valuable insights into what consumers are saying or feeling about a brand. Proponents claim that behavioral and social targeting benefit consumers—rather than harm them—by exposing them to more relevant ads and products.

The biggest question? You've probably guessed it—with all this digital monitoring, many critics worry about consumer privacy. At what point does sophisticated online research cross the line into unwelcome invasions of privacy? As behavioral and social targeting continue to grow and get smarter, marketers must be careful not to cross the thin line between understanding and serving customers better and abusing their rights to privacy.

On today's internet, a lot of marketers know a lot about you. Marketers use such insights to personalize offerings and online shopping experiences. But is this "just sophisticated marketing" or "just a little creepy"?

Rido/Shutterstock

Behavioral and social targeting can benefit consumers with more relevant ads and products, but if overdone or done badly, they can feel more than just a little creepy. As one social media manager states: "In some cases, these can be helpful—in others, it can get weird."[31]

Regulators and others are stepping in. The Federal Trade Commission (FTC) has recommended the creation of a "Do Not Track" system (the online equivalent to the "Do Not Call" registry), which would let people opt out of being monitored online. Such legislation has been slow to develop in the United States. However, the European Union has adopted a General Data Protection Regulation (GDPR), which sets strict standards for how companies around the world collect, process, and protect personal data on citizens of the European Union, regardless of where those companies are based. Companies that fail to comply face substantial fines, up to €20 million or 4 percent of their global sales, whichever is larger.[32]

California passed the California Consumer Privacy Act (CCPA), which strictly regulates how companies collect and used consumer data. The act gives consumers more control over the personal information that businesses collect about them, including the right to know what information is collected, to have companies delete their personal information, and to opt out of the sale of their personal information. CCPA also requires that companies give consumer notices explaining their privacy practices. Similar laws are sprouting up in other states. National guidelines will likely follow. One analyst notes that CCPA "strikes at the heart of how companies collect data on consumers and how they use that data." The act was recently amended and expanded by the California Consumer Rights Act (CCRA).[33]

Contact Methods

Primary data through interviews and surveys can be collected by mail, by telephone, by personal interview, or online. Each contact method has its own particular strengths and weaknesses.

Mail, Telephone, and Personal Interviewing. *Mail surveys and questionnaires* can be used to collect large amounts of information at a low cost per respondent. However, mail surveys and questionnaires are not very flexible; all respondents answer the same questions in a fixed order. Further, they are time-consuming and garner low response rates. Therefore, marketers are shifting to faster, more flexible, and lower-cost email, online, and mobile phone surveys.

Telephone interviews can yield information more quickly and are more flexible than mail questionnaires. Interviewers can explain difficult questions and, depending on the answers they receive, skip some questions or probe deeper on others. However, the associated cost per respondent is higher than with mail, online, or mobile questionnaires. Telephone interviews can also introduce interviewer bias—the way interviewers talk, how they ask questions, and other differences that may affect responses. Also, people often don't want to discuss personal questions with a live interviewer. Finally, in this age of do-not-call lists, promotion-harassed consumers, caller ID, and mobile phones, potential respondents are increasingly not answering or hanging up on telephone interviewers. As a result, telephone interviewing has declined in recent years.

Personal interviewing takes two forms: individual interviewing and group interviewing. *Individual interviewing* involves talking with people in their homes or offices, on the street, or in shopping malls. *Group interviewing* involves pulling together a group of carefully chosen respondents in a conducive setting to gain information and insights by leading them through a discussion. Such personal interviewing is flexible. Trained interviewers can guide interviews, explain difficult questions, and explore issues as the situation requires. They can show participants actual products, packages, advertisements, or videos and observe reactions and behavior. However, personal interviewing may cost three to four times as much as phone interviews.

As previously noted, the COVID-19 pandemic seriously disrupted the use of most personal forms of qualitative marketing research, such as up-close observation, personal interviewing, and in-person focus groups. COVID-19 has hastened the already-surging transition toward digital and online marketing research, which is not hampered by physical-distancing concerns. Even with this transition, however, personal contact methods remain important assets in the researcher's toolkit.

Online marketing survey research
Collecting primary marketing research data through internet and mobile surveys, online focus groups, and online panels and brand communities.

Online Marketing Survey Research. Increasingly, researchers are collecting primary marketing research data through **online marketing survey research**: internet and mobile surveys, online focus groups, and online panels and brand communities.

As discussed earlier, most of the traditional research survey approaches can now be implemented digitally. Online and mobile channels are well suited to *quantitative* research—for example, conducting marketing surveys and collecting data. Almost 94 percent of all Americans now use the internet and some 85 percent own a smartphone, making online a fertile channel for reaching a broad cross-section of consumers.[34] As response rates for traditional survey approaches decline and costs increase, the internet is quickly replacing mail and the telephone as the dominant survey data collection and interview platform.

Apart from online surveys and questionnaires, companies can create online panels that provide regular feedback or conduct online interviews or online focus groups. They can set up virtual shopping environments and use them to collect consumer feedback on new products and marketing programs.

Internet-based survey research offers many advantages over traditional phone, mail, and personal interviewing. Responses can be almost instantaneous, and because respondents themselves enter the information, researchers can tabulate, review, and share research data as the information arrives. The onset of the COVID-19 pandemic boosted online contact methods, as safety and social distancing concerns greatly restricted the use of personal contact methods.

But the most obvious and lasting advantages of online contact methods are speed and low costs. By going online, researchers can quickly and easily distribute surveys to thousands of respondents simultaneously via email or by posting them on selected online, social media, and mobile sites. Using the internet eliminates most of the postage, phone, interviewer, and data-handling costs associated with the other approaches. Moreover, sample size and location have little impact on costs. Once the questionnaire is set up, there's little difference in the costs associated with collecting data from 10 respondents or 10,000 respondents on the internet or from local or globally distant respondents.

Its low cost puts online research well within the reach of almost any business, large or small. In fact, with the internet and mobile channels, what was once the domain of research experts is now available to almost any would-be researcher. Even smaller, less sophisticated firms can use online survey services such as Google Surveys

Online research: Survey services such as Snap Surveys allow almost any business, large or small, to work with a range of survey templates—covering topics ranging from customer satisfaction to employee feedback—to create, publish, and distribute its own custom online or mobile surveys in minutes.

Reproduced with permission from Snap Surveys. www.snapsurveys.com

(www.google.com/analytics/surveys), Snap Surveys, Qualtrics, SurveyMonkey, and SurveyGizmo to create, publish, and distribute their own custom online or mobile surveys in minutes.

Online and mobile surveys also tend to be more interactive and engaging, easier to complete, and less intrusive than traditional phone or mail surveys. As a result, they usually attract higher response rates. The internet can also enable data collection from some hard-to-reach consumers—for example, the often-elusive teen, the single urban professional, the affluent suburban family, the working mother, the traveling executive, and the well-educated technophile. Such people are well represented online, and they can respond in their own space and at their own convenience.

Just as marketing researchers have rushed to use the internet for quantitative surveys and data collection, they are now also adopting *qualitative* online research approaches, such as online focus groups, digital text analysis, and blog and social network analysis. The internet can provide a fast, low-cost way to gain qualitative customer insights.

Sampling Plan

Sample
A fraction of the population selected for marketing research to represent the population as a whole.

Marketing researchers usually draw conclusions about large groups of consumers by studying a small sample of the total consumer population. A **sample** is a fraction of the population selected for marketing research to represent the population as a whole. Ideally, the sample should be representative so that the researcher can make accurate estimates of the preferences and behaviors of the larger population.

Designing the sample requires three decisions. First, *who* is to be studied (what *sampling unit*)? The answer to this question is not always obvious. For example, to learn about the decision-making process for a family automobile purchase, should the subject be parents, children or other household members, dealership salespeople, or all of these? Second, *how many* people should be included (what *sample size*)? Large samples yield more reliable results than small samples. However, larger samples can cost more, and managers usually don't need to sample the entire target market or even a large fraction of that market to obtain reliable results.

Finally, *how* should the people in the sample be *chosen* (what *sampling procedure*)? **Table 4.2** describes different kinds of samples. Using *probability samples*, each population member has a known chance of being included in the sample and researchers can calculate confidence limits for sampling error. But when probability sampling costs too much or takes too much time, marketing researchers often take *nonprobability samples* even though their sampling error cannot be measured. These varied ways of drawing samples have different costs and time limitations as well as different accuracy and statistical properties. The needs of the research project should guide the choice of sampling method.

Implementing the Research Plan

The researcher next puts the marketing research plan into action. This involves collecting, processing, and analyzing the information. Data collection can be carried out by the company's marketing research staff or outside firms. Researchers should watch closely to make sure that the plan is implemented correctly. They must maintain discipline and integrity in the context of data collection processes, data quality, budget, and timelines.

Researchers must also process and analyze the collected data to isolate important information and insights. They need to check data for accuracy and completeness, code them for analysis, tabulate the results, compute statistical measures, and, if needed, estimate empirical models.

Table 4.2 | Types of Samples

Probability Sample	
Simple random sample	Every member of the population has a known and equal chance of selection.
Stratified random sample	The population is divided into mutually exclusive groups or segments (such as age groups) and random samples are drawn from each group.
Cluster (area) sample	The population is divided into mutually exclusive but similar groups and the researcher draws a sample of the groups to interview. For example, if a region contains 50 towns with similar demographic compositions, the researcher surveys randomly chosen consumers within a sample of 10 randomly chosen towns.
Nonprobability Sample	
Convenience sample	The researcher selects the easiest population members from which to obtain information.
Judgment sample	The researcher uses his or her judgment to select population members who are good prospects for accurate information.
Quota sample	The researcher finds and interviews a prescribed number of people in each of several categories or segments.

Interpreting and Reporting the Findings

Market researchers must consolidate and interpret the findings, draw conclusions, and report them to management. They should help managers understand and apply the findings from the research. Researchers should avoid the temptation to overwhelm managers with numbers and fancy statistical techniques. Rather, they should present the insightful findings in a useful and usable way that facilitates robust decision making.

However, interpretation should not be left only to researchers. Although they are often experts in research design, statistics, and data science, the marketing manager may know more about the problem and the decisions that must be made. The best research means little if the manager unthinkingly accepts faulty interpretations from the researcher. Similarly, managers may be biased. They may only accept research findings that align with their worldview. In many cases, findings can be interpreted in different ways, and discussions between researchers and managers will help highlight the best interpretations. Thus, managers and researchers must work together closely when interpreting research results, and both must share responsibility for the research process and resulting decisions.

Analyzing and Using Marketing Information

OBJECTIVE 4-4 **Explain how companies analyze and use marketing information.**

Information gathered from internal databases, competitive marketing intelligence, and marketing research usually requires additional analysis. Managers may need help applying the information to gain customer and market insights that will improve their marketing decisions. This help may include advanced analytics to learn more about the relationships within and across data sets. Information analysis might also involve the application of analytical models that will help marketers make better decisions.

Once the information has been processed and analyzed, it must be made available to the right decision makers at the right time. In the following sections, we look deeper into analyzing and using marketing information.

Author Comment | We've talked generally about managing customer relationships throughout the book. But here, customer relationship management (CRM) has a much narrower data-management meaning. It refers to capturing and using customer data from all sources to manage customer interactions, engage customers, and build customer relationships.

Customer Relationship Management (CRM)

The question of how best to analyze and use individual customer data presents special problems. In the current *big data* era, most companies are awash in information about their customers and the marketplace. Still, smart companies capture information at every possible customer *touch point*. These touch points include customer purchases, sales force contacts, service and support calls, web and social media site visits, satisfaction surveys, credit and payment interactions, and market research studies—every contact between a customer and a company.

Unfortunately, this information is usually scattered widely across the organization or buried deep in separate company databases. To overcome such problems, many companies are now turning to **customer relationship management (CRM)** to manage detailed information about individual customers and carefully manage customer touch points to maximize customer loyalty.

Customer relationship management (CRM)
Managing detailed information about individual customers and using that information to carefully manage customer touch points to maximize customer loyalty.

With data pouring in from a range of sources, the key question that managers face is this: How should data from multiple streams be organized to facilitate effective marketing decision making? For companies that embrace CRM, the answer is clear. Data must be organized around individual customers. Incoming data should be structured so that all data directly or indirectly related to a customer are available from a single viewing point. For example, directly related data for one business customer may include detailed records of the customer's order history, information about sales visits and promotions offered over time, notes from the customer's call center calls, intelligence from the sales force about the customer's corporate buying process and key buying participants, and other information. Indirectly related data may include industry growth statistics, insights from focus groups conducted within the customer's target markets, performance measures for the customer's key competitors, and impending government regulations. CRM organizes all this direct and indirect information around the customer. It lets the company step back, obtain a 360-degree view of the customer relationship, and make decisions that create value for and reap value from the customer.

Today, CRM platforms from companies such as Salesforce.com, Oracle, Microsoft, and SAS provide sophisticated software and analytical tools that integrate customer data from all sources, analyze them, and apply the findings to build stronger customer relationships. For example, MetLife employs a CRM system that it calls "The MetLife Wall":[35]

> One of the biggest customer service challenges for MetLife's sales and service reps used to be quickly finding and getting to customer information—different records, transactions, and interactions stored in dozens of different company data locations and formats. The MetLife Wall solves that problem. The Wall uses a Facebook-like interface to serve up a consolidated view of each MetLife customer's service experience. The innovative CRM system draws customer data from 70 different MetLife systems containing 45 million customer agreements and 140 million transactions. It puts all of a given customer's information and related links into a single record on a single screen, updated in near real time. Now, thanks to The MetLife Wall—with only a single click instead of the 40 clicks it used to take—sales and service reps can see a complete view of a given customer's various policies, transactions, and claims filed and paid along with a history of all the interactions the customer has had with MetLife across the company's many touch points, all on a simple timeline. The Wall has given a big boost to MetLife's customer service and cross-selling efforts. According to a MetLife marketing executive, it's also had "a huge impact on customer satisfaction."

By using CRM to understand customers better, companies enhance customer service, develop deeper customer relationships, cross-sell products, customize offerings, and pinpoint and target high-value customers more effectively.

Big Data, Marketing Analytics, and Artificial Intelligence

As noted at the start of the chapter, today's big data can yield big results. But simply collecting and storing huge amounts of data has little value. Marketers must mine through the mountains of data for the gems that yield customer insights. As one marketing executive puts it, "It's actually [about getting] *big insights* from big data. It's throwing away 99.999 percent of that data to find things that are actionable." Says another data expert, "*right* data trumps *big* data."[36] That's the job of *marketing analytics*.

Marketing analytics consists of the analysis tools, technologies, and processes by which marketers dig out meaningful patterns in big data to gain customer insights, gauge marketing performance, and improve the customer experience. Marketers apply marketing analytics to the large and complex sets of data they collect from web, mobile, and social media tracking; customer transactions and engagements; and other big data sources.

Marketing analytics
The analysis tools, technologies, and processes by which marketers dig out meaningful patterns in big data to gain customer insights, gauge marketing performance, and improve the customer experience.

Netflix and big data analytics: While members are busy watching Netflix videos, Netflix is busy watching them—watching them very, very closely. Then it uses the big data insights to give customers exactly what they want.

Vantage_DS/Shutterstock

For example, Netflix uses sophisticated big data analytics to gain consumer insights, which it then uses to give customers exactly what they want:[37]

> Netflix streams more movie and program content by far than any other video service. Worldwide, Netflix's 209 million paid subscribers watch more than 6 billion hours of movies, TV programs, and original Netflix content each month. But while avid Netflixers are busy watching Netflix, Netflix is also busy watching *them*—very, very closely. Every day, Netflix tracks and parses member data on tens of millions of searches, ratings, and "plays." The company's bulging database contains every viewing detail for each individual subscriber—real-time data on what shows they watch, at what times, on what devices, at what locations, even when they hit the pause, rewind, or fast-forward buttons during programs. Netflix also employs experts to classify each video on hundreds of characteristics, such as talent, action, tone, genre, color, volume, scenery, and many, many others. Netflix supplements this already-massive database with consumer information purchased from Nielsen, Facebook, Twitter, and other sources.
>
> Using this rich base of big data, Netflix builds detailed individual subscriber profiles and then uses these profiles to tailor each customer's viewing experience and make personalized recommendations based on what they've watched. According to Netflix, there are 209 million different versions of Netflix, one for each individual subscriber worldwide. Netflix also uses the data to assess what additional content it should obtain or produce itself. "We always use our in-depth knowledge about what our members love to watch to decide what's available on Netflix," says a Netflix marketer. "If you keep watching, we'll keep adding more of what you love."

Rather than relying entirely on their own marketing analytics capabilities, many brands now rely on outside firms that specialize in applying sophisticated marketing analytics to gain customer insights and improve the customer experiences. This has given rise to a new customer experience management (XM) industry, consisting of firms, such as Kantar (see Real Marketing 4.2), that help brands manage the complexities of today's data collection and analysis. Marketing analytics consulting and services firm Qualtrics helps companies capture customer insights and act on them to create breakthrough customer, product, and brand experiences.

Artificial intelligence (AI)
Technology by which machines think and learn in a way that looks and feels human but with a lot more analytical capacity.

Such marketing analytics now often employ **artificial intelligence (AI)**, technology by which machines think and learn in a way that looks and feels human but with a lot more analytical capacity. Artificial intelligence has taken the marketing—and about everything else in the world—by storm. Marketers are now applying AI technologies for everything from big data analytics to engaging customers to crafting personalized advertising and selling efforts.

The engine behind AI's explosive growth is big data. Raw data are flowing in from everywhere: customer transaction and interaction data, web and social media data, news and environmental data, and data from more than 26 billion connected IoT devices. Companies need to make sense of all those data for their brands and consumers. Whereas the human mind simply can't grapple with today's glut of big data, machines can. However, more than just collecting and tabulating mountains of data, AI analyzes them at lightning speed to gain deep insights and apply them to accomplish designated tasks. AI learns as it goes along—the more data it ingests, the smarter and more accurate it gets.

Marketers use AI to assess, address, service, and sell to customers. In turn, AI can help customers manage their lives and their buying. It might be requesting a ride from Lyft via chat (Facebook Messenger or Slack) or voice (Amazon Echo's Alexa virtual assistant). Lyft's chatbot lets you know the current location of your driver along with a picture of the license plate and car model. At Amazon's shopping and video sites,

Real Marketing 4.2

Market Research Provides Actionable Insights in the Kingdom of Saudi Arabia

The last few years have amply demonstrated that severe and unexpected events can have dramatic effects on countries and their citizens. Reports from the World Bank confirm that most nations in the Global South will continue to experience economic challenges for several years, and these challenges will probably lead to extended tightening of their monetary policies, with emerging markets and developing countries suffering the follow-on effects. It may therefore be unwise for marketers to make assumptions about how customers are reacting to these changes based primarily on past experience. Real, current data and analysis by knowledgeable experts offer the best support for marketing decisions.

Kantar, one of world's leading agencies for marketing research, analysis, and consulting, collects consumer and market data and provides actionable recommendations to companies and organizations. One of their best-known services is their "BrandZ Top 100 Most Valuable Global Brands" report. While their head office is in London, they have more than 25,000 staff in over 70 offices around the world and provide data, analysis, and support to more than 90 countries.

According to Kantar, consumer attitudes and behaviors are changing more rapidly than ever—customer information that is more than six months old is probably already out of date and inaccurate. Companies that continue to adhere to traditional expectations of markets and consumer behavior may well be making poor marketing choices.

A good example of how up-to-date information can guide marketing decisions comes from the Kingdom of Saudi Arabia. The country is in the top 20 largest economies in the world by GDP and has a technologically savvy population whose shopping behavior and online habits are rapidly evolving. More than 60 percent of the population of 36 million are under 30, so the younger generations—millennials and Gen Z—are growing in economic importance while the country's economy transforms itself into something more diverse. Data collected in early 2022 revealed that 98 percent of the adult population uses the internet and more than 80 percent are active on social media.

An increasing number of Saudi consumers rely on computers and portable devices for their news and communication needs, and multi-channel marketing has emerged as an important tool to reach this audience. Multimedia campaigns are hardly new—marketers have used TV, newspapers, magazines, etc. in combination for many years—but effective campaigns spread across digital as well as traditional channels are a more recent development, and perhaps a more challenging one. Digital channels are often used alongside traditional media such as TV, with the content on each channel designed to appeal to the needs, interests, and behaviors of the target consumers.

In their "Media Trends and Predictions 2022" report, Kantar highlights the adoption of multimedia and multichannel digital marketing by many brands and observes that a choice of channels, on- and offline, will better engage users if monitored and adjusted to suit their reactions and preferences. However, choosing which combination of channels to use is not a decision to be made too easily; it should be based on research rather than guesswork to avoid expensive mistakes. Kantar has developed a unique cross-media analysis method that provides detailed and reliable information about how channels work together synergistically. These insights allow messages to be optimally designed and delivered across two or more carefully selected channels, with the assurance that the results will be superior to managing the channels individually.

With more than 20 million users in Saudi Arabia, the social media platform Snapchat has grown to be an essential channel for video marketing in the Kingdom. Kantar's research has identified it as the optimum choice to reach the largest number of consumers, beating YouTube. Snapchat KSA wanted to better understand the opportunities available for advertisers of fast-moving consumer goods (FMCG) aimed at children in order to make more targeted offers and thereby sell more advertising. Because many parents in Saudi Arabia use Snapchat to communicate with family members and friends and to stay up to date with news from their favorite brands, Snapchat KSA worked with Kantar to learn more about how parents of young children use Snapchat. Kantar conducted a 10-minute online survey where more than 800 Saudi Arabian parents were asked how their families make purchasing decisions and how important advertising is in helping them make those decisions. The findings were encouraging for Snapchat; 71 percent of Saudi parents use the channel, with 80 percent reporting that they are guided in their decision making

In Saudi Arabia, companies like Snapchat have learned that detailed market research are essential for quick, reliable, actionable results.

imageBROKER/Alamy Stock Photo

by advertising. Of those using Snapchat, 9 out of 10 reported feeling positive overall about the advertising they see, with 9 out of 10 also reporting that they performed some kind of action after viewing them, such as clicking on the ad (47 percent), looking for reviews online (47 percent), or talking to friends and family (53 percent). The information from Kantar's research allowed Snapchat KSA to provide potential advertisers with detailed and accurate suggestions for cross-channel campaigns.

Kantar also undertook research with Snapchat in Saudi Arabia to specifically cover multimedia use in a partnership with the Saudi branch of UM, a global media agency group. UM was interested because part of their service to clients is recommending the optimum selection and mix of marketing communication channels. STC, the Saudi state telecommunications and TV organization, wanted to get a message about their commitment to sustainability the best possible reach and performance during Ramadan in 2021. Kantar provided cross-media data on users and their reactions using a mix of research methods, including quantitative measurements from internet-use statistics (number of views, number of clicks or other responses, time spent on a site, etc.) and qualitative research through surveys about what people feel and how they react, revealing how people really live, their various relationships, and cultural attitudes and interactions.

AI was used both in the data collection, such as through automated chatbots that collected qualitative information, and in analyzing the massive quantities of data gathered to extract usable insights. A chatbot is an automated conversation system that employs text messages; it can ask and respond to questions and stores information gathered from consumers. The chatbot technology developed by Kantar uses advanced AI to manage this dialogue. Because respondents are familiar with the chat environment, they typically interact with the bot in a natural and open way, allowing reliable qualitative data to be obtained. This often provides vital insights into the best ways to interpret the huge amounts of quantitative data generated by customer's digital activities.

The results were surprising. The data revealed that customers responded to combined media much more than expected—nearly 90 percent of the target audience could be reached with a multimedia message. Using two or more platforms in concert also increased brand impact over what would normally be obtained by individual channel messages. For STC, using Snapchat alongside TV advertising generated an increase of 13.9 percent in reach compared to TV advertising alone, while accounting for half of the campaign's impact on STC's sustainability perception. The insights provided by Kantar's cross-media research allowed STC to use optimally selected media alongside its TV content. Snapchat in particular complements TV and other social channels such as YouTube to deliver incremental benefits. Thanks to Kantar's in-house expertise and research methodologies, STC, Snapchat KSA, and the UM agency all learned how to better design and deliver cross-media campaigns.

These experiences in Saudi Arabia show that it makes sense to conduct detailed, up-to-date market research. Using fresh research methodologies such as employing AI for data collection and analysis will help to get actionable results more quickly and more reliably.[38]

AI powers recommendations that help consumers decide what to buy and what to watch. Home Depot employs deep-learning algorithms that give customers who are shopping for bathroom or kitchen renovations relevant recommendations without their having to search aisles or catalogs for complementary fixtures and supplies. Walgreen's AI-powered seasonal Flu Index uses data from antiviral prescriptions to keep customers informed and inventories properly stocked at each of its more than 9,000 locations. And Sephora's Color IQ technology uses facial recognition AI to eliminate a huge customer pain point—trying to find the perfect shade of foundation and concealer by trial and error.

Artificial intelligence: The Starbucks "Deep Brew" AI program uses artificial intelligence to create personalized customer experiences and manage real-time customer interactions, based on everything from customers' past transactions and preferences to local traffic and weather conditions.

Elias Stein Illustration

The Starbucks AI program—called Deep Brew—does much more than just personalize orders and payment. It works behind the scenes in each store to help manage inventories, optimize store labor assignments, and perform other tasks so that employees don't have to, leaving them to spend more time helping customers. "It's not about robots that replace baristas," says Starbucks's CEO. "It's about tech that frees up baristas to be better and connect with customers." Starbucks's Deep Brew AI technology helps automate many aspects of store life, "not as a fleet of sandwich-toasting, latte-making robots, but more like an invisible, super-smart sidekick to the humans wearing the green aprons," says an analyst. "Behind the counter and behind the scenes, each little boost from AI will help save time—time partners can then spend on the most important parts of Starbucks: customers and coffee."[39]

AI does more than just serve customers. It also helps marketing managers shape marketing strategies and tactics. For example, IBM has a division called Watson Advertising, built around its AI supercomputer Watson, which first gained public recognition when it bested human contestants and won $1 million on *Jeopardy!* Watson can ingest hundreds of millions of pages of data each second. IBM has now turned Watson's talents toward marketing. For example, factoring in emotion, tone, language, sentiment, purchase history, and social media interactions, Watson can generate a psycholinguistic profile of an individual in milliseconds.

Using such analytics, Watson can give marketers precise, real-time views of customers and put the insights it learns into action, using its AI powers for everything from data analysis and media planning to audience targeting and actual content creation. According to one account:[40]

> As part of a Toyota campaign, for example, Watson became a copywriter, crafting messaging for the carmaker's Mirai model based on big data analysis of tech and science fans' interests. Earlier this year, it transformed into a doctor, promoting Theraflu while answering questions about various flu symptoms. For Campbell's, Watson put on its chef's hat, personalizing recipes within display ads using data about consumers' locations and what ingredients they had on hand. For a major partnership with H&R Block, Watson turned into a tax expert, deploying an AI smart assistant to help clients find tax deductions.

Despite all these remarkable applications, AI is still in its early stages. "We're still in the dawn of AI adoption," says a technology expert. "It's a new frontier and one that will redefine the relationship between consumers and brands." As an industry, AI will skyrocket from current annual revenues of $30 billion to more $299 billion worldwide by 2026. And that doesn't include the trillions of dollars' worth of retail sales that AI will facilitate. As Google's CEO suggests, AI "is more profound than fire or electricity." That's saying a great deal.[41]

The benefits of customer relationship management, big data analytics, and artificial intelligence don't come without costs or risks. The most common mistake is that managers can get buried in the big data but miss the big picture. Or they try to let machines make decisions rather than putting on their own thinking caps. But technology alone cannot build profitable customer relationships. Companies can't improve customer relationships by simply installing new software or applying more advanced analytical techniques. And the analytical techniques are only as good as the data fed into them. Technology can help inform, empower, and execute a marketing strategy. But marketing managers have to take the lead in crafting that strategy in the first place.

Distributing and Using Marketing Information

Marketing information has no value until it is used to make better marketing decisions. Thus, the marketing information system must make information readily available to managers and others who need it, when they need it. In some cases, this means providing managers with regular performance reports, intelligence updates, and reports on the results of research studies.

But marketing managers may also need access to nonroutine information for special situations and on-the-spot decisions. For example, a sales manager having trouble with a large customer may want a quick summary of the account's sales and profitability over the past year. Or a brand manager may want to get a sense of the amount of the social media buzz surrounding the recent launch of a new product. These days, therefore, information distribution involves making information accessible in a timely, agile, user-friendly way. Many firms use company *intranets* and internal CRM systems to facilitate this process. These systems provide ready access to internal data, intelligence, and marketing research information; customer transaction and experience information; shared reports and documents; and more. In addition, companies are increasingly allowing key customers and value-network members to access account, product, and other data on demand through *extranets*. Suppliers, customers, resellers, and select other network members may access a company's extranet to update their accounts, arrange purchases, and check orders against inventories to improve customer service.

Extranets: Zappos shares marketing information and insights with suppliers through its extranet. It considers suppliers to be "part of the Zappos family."

Zappos.com, Inc.

For example, online shoes and accessories retailer Zappos considers suppliers to be "part of the Zappos family" and a key component in its quest to deliver "WOW" through great customer service, so it treats suppliers as valued partners, including sharing information with them. Through its extranet, thousands of suppliers are given full access to brand-related Zappos's inventory levels, sales figures, and even profitability. Suppliers can also use the extranet to interact with the Zappos creative team and to enter suggested orders for Zappos buyers to approve.[42]

Thanks to modern technology, today's marketing managers can gain direct access to a company's information system at any time and from virtually anywhere. They can tap into the system from a home office, a customer location, an airport, or the local Starbucks—anyplace they can connect on a laptop, tablet, or smartphone. Such systems allow managers to get the information they need directly and quickly and tailor it to their own needs.

Author Comment | We finish this chapter by examining three special marketing information topics.

Other Marketing Information Considerations

OBJECTIVE 4-5 Discuss the special issues some marketing researchers face, including public policy and ethics issues.

This section discusses marketing information in two special contexts: marketing research in small businesses and nonprofit organizations and international marketing research. Then we look at public policy and ethics issues in marketing research.

Marketing Research in Small Businesses and Nonprofit Organizations

Just like larger firms, small businesses and not-for-profit organizations need market information and the customer insights that it can provide. However, large-scale research studies and sophisticated digital analytics are beyond their budgets and capabilities. Still, many marketing research techniques discussed in this chapter can be used by smaller organizations in a less formal and more frugal manner.

Small businesses can obtain much useful market and customer insight without spending a lot of money. Consider Oxfam Pakistan:[43]

> Oxfam has been active in Pakistan since 1973 with a mission to ensure that all its people, especially women and girls, are able to exercise their rights and have a safer community. It works closely with the government, think tanks, media, academia, and local groups to gain insights into social and humanitarian issues in Pakistan. Through this basic market research, they are able to support local partners or provide humanitarian assistance where it's needed most. One of their five-year projects, called Empower Youth for Work, ran a series of initiatives targeted at women and girls in rural areas to create opportunities for them to develop themselves and find sources of economic freedom. Under the tagline "I am more," the projects celebrated women's individuality, highlighting their ambitions, achievements, and contributions. The campaign included a digital series profiling women and their stories of determination and self-realization. It also involved theater performances titled "Ab Nahi" (which loosely translates as "no more") on ending violence and addresses from key Oxfam speakers and women rights activists to raise awareness about this important issue. As Oxfam in Pakistan shows, even a small investment in research, by leveraging partner relations, can yield important insights and lead to the development of practicable strategies.

Oxfam works closely with its partners to generate research for its many initiatives with little investment.

M4OS Photos/Alamy Stock Photo

Thus, small businesses and not-for-profit organizations can obtain good marketing insights through observation, secondary data searches, or informal surveys using small convenience samples. Also, many associations, local media, and government agencies provide special help to small organizations. For example, the U.S. Small Business Administration offers dozens of free publications and a website (www.sba.gov) that give advice on topics ranging from starting, financing, and expanding a small business to ordering business cards. Other excellent research resources for small businesses in the United States include the U.S. Census Bureau (www.census.gov) and the Bureau of Economic Analysis (www.bea.gov).

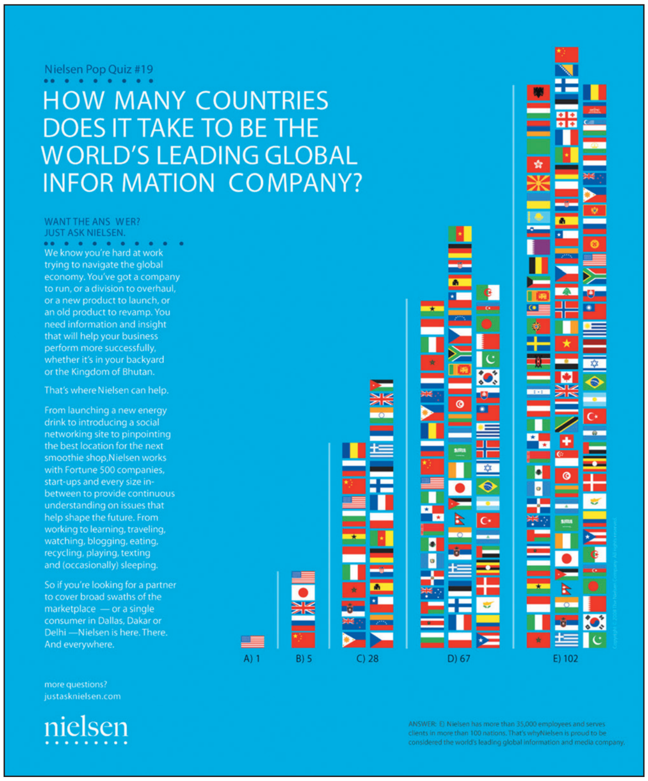
Finally, small businesses can collect a considerable amount of information at very little cost online. They can check out online product and service review sites, do searches on specific companies and issues, and scour competitor and customer web, mobile, and social media sites.

In summary, secondary data collection, observation, surveys, and experiments can all be used effectively by small organizations with small budgets. While these informal research methods are less complex and less costly, they still must be conducted with care. Managers must use the principles outlined in this chapter to think carefully about the objectives of the research, formulate questions in advance, recognize the potential biases introduced by smaller samples and less skilled researchers, and conduct the research systematically.[44]

International Marketing Research

International researchers follow the same steps as domestic researchers, from defining the research problem and developing a research plan to interpreting and reporting the results. However, these researchers must often deal with diverse markets in many different countries. These markets often vary greatly in their levels of economic development, cultures and customs, and buying patterns.

In many foreign markets, the international researcher may have a tough time finding good secondary data. Whereas U.S. marketing researchers can obtain reliable secondary data from dozens of domestic research services, many countries have almost no research services at all. Some of the largest international research services operate in many countries. For example, the Nielsen Company (the world's largest marketing research company) has offices in more than 100 countries, from Schaumburg, Illinois, to Hong Kong to Nicosia, Cyprus.[45] However, most research firms operate in only a relative handful of countries. Thus, even when secondary information is available, it usually must be obtained from many varied sources on a country-by-country basis, making the information difficult to combine or compare.



Some of the largest research services firms have large international organizations. Nielsen has offices in more than 100 countries.

Because of the scarcity of good secondary data, international researchers often must collect their own primary data. However, obtaining primary data may be no easy task. U.S. researchers can use current phone directories, email lists, census tract data, and any of several sources of socioeconomic data to construct samples. However, such information is largely lacking in many countries.

Once the sample is drawn, the U.S. researcher usually can reach most respondents easily via any of multiple platforms—by phone, by mail, in person, or through online, social, or mobile media. However, reaching respondents by mail or phone is often not so easy in other parts of the world. As a result, digital surveys have now become the major means for conducting international research. However, the adoption of online and mobile varies greatly worldwide. For example, PC and broadband internet access in emerging markets such as India, Africa, and Southeast Asia is low, but mobile phone penetration is high. Survey research in such markets must be designed specifically for mobile, with all its inherent limitations.

Cultural differences across countries can cause additional problems. Language is the most obvious obstacle. For example, questionnaires must be prepared in one language and then translated into the languages of each researched country. Responses then must be translated back into the original language. This adds to research costs and increases the risks of error and misinterpretation. Even within a given country, language can be a problem. For example, in India, English is the language of business, but consumers may use any of 14 "first languages," with hundreds of additional dialects.

Translating a questionnaire from one language to another is anything but easy. Many idioms, phrases, and statements mean different things in different cultures. For example, a Danish executive once noted, "Check this out by having a different translator put back into English what you've translated from English. You'll get the shock of your life. I remember [an example in which] 'out of sight, out of mind' had become 'invisible things are insane.'"[46]

Consumers in different countries also vary in their attitudes toward marketing research. People in one country may be very willing to respond; in other countries, nonresponse can be a major problem. Customs in some countries may prohibit people from talking with strangers. In certain cultures, research questions often are considered too personal. For example, in many Muslim countries, mixed-gender focus groups are taboo, as is videotaping female-only focus groups. In some countries, even when respondents are *willing* to respond, they may not be *able* to because of high functional illiteracy rates.

As global marketing grows, companies have little choice but to conduct international marketing research. While the costs and problems associated with international research may be high, the costs of not doing it—in terms of missed opportunities and mistakes—might be even higher. Once recognized, many problems associated with international marketing research can be addressed or avoided.

Public Policy and Ethics in Marketing Research

Most marketing research benefits both the sponsoring company and its consumers. Through marketing research, companies gain insights into consumers' needs, resulting in more satisfying products and services and stronger customer relationships. However, the misuse of marketing research can also harm consumers. Three major public policy and ethics issues in marketing research are intrusions into consumer privacy, consumer data security and protection, and the misuse of research findings.

Intrusions into Consumer Privacy

Many consumers feel positive about marketing research and believe that it serves a useful purpose. Some actually enjoy being surveyed and giving their opinions. However, others strongly resent or even mistrust marketing research. They don't like being interrupted by researchers. They worry that marketers are building huge databases full of personal information. Or they fear that researchers might use sophisticated techniques to probe our deepest feelings, track our internet and mobile device usage, or peek over our shoulders as we shop and then use this knowledge to manipulate our buying.

As a classic example, Target made some of its customers very uneasy a while back when it used their buying histories to figure out that they had a baby on the way, including eerily accurate estimates of the child's sex and due date:[47]

> Target gives every customer a Guest ID number, tied to his or her name, credit card, or email address. It then tracks the customer's purchases in detail, along with demographic information from other sources. By studying the buying histories of women who'd previously signed up for its baby registries, Target found that it could develop a "pregnancy prediction" score for each customer based on her purchasing patterns across 25 product categories. It used this score to start sending personalized books of coupons for baby-related items to expectant parents, keyed to their pregnancy stages.

The strategy seemed to make good marketing sense—by hooking parents-to-be, Target could turn them into loyal buyers as their families developed. However, the strategy hit a snag when an angry man showed up at his local Target store, complaining that his high school–aged daughter was receiving Target coupons for cribs, strollers, and maternity clothes. "Are you trying to encourage her to get pregnant?" he demanded. The Target store manager apologized. But when he called to apologize again a few days later, he learned that Target's marketers had, in fact, known about the young woman's pregnancy before her father did. It turns out that many other customers were creeped out that Target knew about their pregnancies before they'd told even family and close friends. And they wondered what else Target might be tracking and profiling. As one reporter concluded: "The store's bull's-eye logo may now send a shiver . . . down the closely-watched spines of some [Target shoppers]."

There are no easy answers when it comes to balancing marketing research benefits with privacy expectations. For example, is it a good or bad thing that some retailers use mannequins with cameras hidden in one eye to record customer demographics and shopping behavior in order to serve them better? Should we applaud or resent companies that monitor consumer posts on Facebook, Twitter, Instagram, YouTube, or other social media in an effort to be more responsive? Should we worry when marketers track consumers' mobile phone usage to issue location-based information, ads, and offers?

Increasing consumer privacy concerns have become a major problem for the marketing research industry. Consumers want to receive relevant, personalized offers that meet their needs, but they worry or resent that companies may track them too closely. The key question: When does a company cross the line in gathering and using customer data?

Failure to address privacy issues could result in angry, less cooperative consumers and increased government intervention. As a result, the marketing research industry is considering several options for responding to intrusion and privacy issues. One example is the Marketing Research Association's "Your Opinion Counts" and "Respondent Bill of Rights" initiatives to educate consumers about the benefits of marketing research and distinguish it from telephone selling and database building.[48]

Many major companies—including Facebook, Apple, Microsoft, IBM, American Express, and even the U.S. government—have now appointed a chief privacy officer (CPO), whose job is to safeguard the privacy of customers. In the end, however, if researchers provide value in exchange for information, customers will gladly provide it. For example, Amazon's customers don't mind if the firm builds a database of previous purchases in order to provide future product recommendations. This saves time and provides value. The best approach is for researchers to ask only for the information they need, use it responsibly to provide customer value, and avoid sharing information without the customer's permission.

Consumer Data Security and Protection

Today's large consumer databases can pose serious data security challenges for companies. Consumers trust companies to take adequate steps to protect the personal data they collect. However, in just the past few years, dozens of well-respected companies and brands have experienced major consumer data breaches, some affecting huge numbers of consumers.

● For example, Facebook has reported several major breaches that exposed the personal information of hundreds of millions of users, including people's personality classifications, social networks, and engagement on the platform; the most recent breach involved 533 million Facebook users. Major retailers such as Macy's, Saks Fifth Avenue, and Target have reported thefts of payment card information for millions of their customers. Credit reporting agency Equifax revealed a massive breach that exposed sensitive data on more than 146 million consumers, including passport numbers, Social Security numbers, and driver's license information. And a few years back, Yahoo! announced the most extreme of all data breaches, one affecting the personal information contained in more than 3 *billion* Yahoo! accounts.[49]

● **Consumer data protection: Consumer data breaches can erode consumer trust and damage hard-won customer–brand relationships. Companies must take consumer data security very seriously.**

mundissima/Shutterstock

Marriott International recently revealed that hackers had breached its Starwood reservation system and stolen personal information on up to 500 million customers:[50]

> Marriott-owned Starwood hotels (Sheraton, Westin, W Hotels, St. Regis, Aloft, and others) collects a treasure trove of information about guests: usually some combination of name, mailing address, phone number, email address, credit card numbers, Starwood

Preferred Guest ("SPG") account information, date of birth, gender, arrival and departure information, reservation dates, and communication preferences. For many, the information also includes travel history and passport numbers. The recent breach involved customers who made reservations for Starwood hotel brands over a four-year period. When the breach was discovered, Marriott took immediate steps to notify both authorities and customers. However, the damage had already been done to Marriott's reputation. "They can say all they want that they take security seriously, but they don't if you can be hacked over a four-year period without noticing," said one data privacy advocate. The data breach also cost Marriott in financial damages. In the United Kingdom alone, the UK Information Commissioner's Office fined the chain £18.4 million for damage done to 7 million UK citizens.

Such data security failures can harm consumers. But they can also do deep damage to companies and brands. First, they can be costly. For example, Equifax reported recovery costs of $400 million related to its data breach incident; Marriott faced substantial recovery costs and a host of immediate lawsuits. And given the size and duration of its massive data breach, Marriott may face hefty fines in Europe under thwe EU's General Data Projection Regulation (GDPR). Such incidents often lead to greater government intervention and regulation. But most important, the massive data security lapses erode consumer trust and harm hard-won customer–brand relationships. Thus, companies must take consumer data security very seriously.

Misuse of Research Findings

Research studies can be powerful persuasion tools; companies often use study results as claims in their advertising, promotion, and other marketing content. Today, however, many research studies appear to be little more than vehicles for pitching the sponsor's products. In fact, in some cases, research surveys appear to have been designed just to produce the intended effect. For example, a Black Flag survey once asked: "A roach disk . . . poisons a roach slowly. The dying roach returns to the nest and after it dies is eaten by other roaches. In turn these roaches become poisoned and die. How effective do you think this type of product would be in killing roaches?" Not surprisingly, 79 percent said effective.

Few advertisers openly rig their research designs or blatantly misrepresent the findings—most abuses tend to be more subtle "stretches." And disputes arise over the validity, interpretation, and use of research findings. Many research findings can be variously interpreted depending on the researchers' bias and viewpoints.

Recognizing that marketing research can be abused, several associations—including the American Marketing Association, the Marketing Research Association, and the Council of American Survey Research Organizations (CASRO)—have developed codes of research ethics and standards of conduct. For example, the CASRO Code of Standards and Ethics for Survey Research outlines researcher responsibilities to respondents, including confidentiality, privacy, and avoidance of harassment. It also outlines major responsibilities in reporting results to clients and the public.[51]

In the end, however, unethical or inappropriate actions cannot simply be wished or regulated away. Each company must accept responsibility for policing its own marketing research to protect consumers' best interests as well as its own.

Reviewing and Extending the Concepts

Objectives Review

To create value for customers and build meaningful relationships with them, marketers must first gain fresh, deep insights into what customers need and want. Such insights come from good marketing information. With the recent explosion of "big data" and digital technologies, companies can now obtain great quantities of data, often even too much. Consumers themselves are now generating a tidal wave of bottom-up data through their smartphones, PCs, and tablets via online browsing, apps and social media interactions, texting and video, and geolocation data. The challenge is to transform today's vast volume of consumer data into actionable customer and market information and insights.

OBJECTIVE 4-1 Explain the importance of information in gaining insights about the marketplace and customers.

The marketing process starts with a complete understanding of the marketplace and consumer needs and wants. Thus, the company needs to turn collected data into useful information and ultimately into meaningful *customer insights* by which it can produce superior value for its customers. The company also requires information on competitors, resellers, and other actors and forces in the marketplace. Increasingly, marketers are viewing information as an important strategic asset and marketing tool. Good information, well analyzed and used, not only helps the company make better decisions but also opens up new opportunities for growth and competitive advantage.

OBJECTIVE 4-2 Define the marketing information ecosystem and discuss its parts.

The *marketing information ecosystem* (*MIE*) consists of people, processes, and assets dedicated to assessing managers' information needs, developing the needed information, and helping managers and decision makers apply that information to generate and validate actionable customer and market insights. A well-designed marketing information ecosystem begins and ends with users.

The MIE first *assesses information needs.* The MIS primarily serves the company's marketing and other managers but may also provide information to external partners. Then the MIS *develops information* from internal databases, marketing intelligence activities, and marketing research. *Internal databases* provide information on the company's own operations and departments. Such data can be obtained quickly and cheaply but often need to be adapted for marketing decisions. *Marketing intelligence* activities supply everyday information about developments in the external marketing environment, including listening and responding to the vast and complex digital environment. *Market research* consists of collecting information relevant to a specific marketing problem faced by the company. Finally, the MIE helps users analyze and use the information to develop actionable customer and market insights.

OBJECTIVE 4-3 Outline the role of marketing research and the steps in the marketing research process.

In recent years, as a host of new digital data gathering technologies have burst onto the scene, traditional marketing research has undergone a major transformation. Traditional mainstays such as in-person surveys and focus groups, although still prevalent and powerful approaches, are now giving way to newer, more agile, more immediate, and less costly digital data gathering methods. Although its role is changing, however, traditional marketing research is still widely used and important.

The first step in the marketing research process involves *defining the problem and setting the research objectives*, which may be exploratory, descriptive, or causal research. The second step consists of *developing a research plan* for collecting data from primary and secondary sources. The third step calls for *implementing the marketing research plan* by gathering, processing, and analyzing the information. The fourth step consists of *interpreting and reporting the findings.* Additional information analysis helps marketing managers apply the information and provides them with sophisticated statistical procedures and models from which to develop more rigorous findings.

Both *internal* and *external* secondary data sources often provide information more quickly and at a lower cost than primary data sources, and they can sometimes yield information that a company cannot collect by itself. However, needed information might not exist in secondary sources. Researchers must also evaluate secondary information to ensure that it is *relevant, accurate, current*, and *impartial*.

Primary research must also be evaluated for these features. Marketers use any or all of several approaches for obtaining primary data: observation, surveys and questionnaires, interviews and focus groups, experiments, digital text analysis, digital and mechanical sensors, and online tracking. Each primary data collection method has its own advantages and disadvantages. Similarly, each of the various research contact methods—mail, telephone, personal interview, and online—has its own advantages and drawbacks. Recent mail, telephone, and in-person contact trends have resulted in a substantial shift toward digital contact methods.

OBJECTIVE 4-4 Explain how companies analyze and use marketing information.

Data gathered in internal databases and through marketing intelligence and marketing research need to be organized and analyzed. Many companies have now acquired or developed special software and analysis platforms—called *customer relationship management* (*CRM*) *platforms*—to integrate, analyze, and apply the mountains of data to gain a 360-degree view of individual customers. They apply *marketing analytics* to dig out meaningful patterns in big data, gain customer insights, and gauge marketing performance. Marketing analytics now often employ *artificial intelligence (AI)*. More than just using AI to cruch data, marketers are increasingly using it to assess, address, service, and sell to customers.

Marketing data have no value until they are converted into information and insights that can be used to make better marketing decisions. Thus, the MIE must make useful information and insights available to managers and others who make marketing decisions. In some cases, this means providing regular reports and updates; in other cases, it means making nonroutine information available for special situations and on-the-spot decisions. Many firms use company intranets and extranets to facilitate this process. Thanks to modern technology, today's marketing managers can gain direct access to marketing information at any time and from virtually any location.

OBJECTIVE 4-5 Discuss the special issues some marketing researchers face, including public policy and ethics issues.

Special marketing research situations arise when conducting research in small business, not-for-profit, or international situations. Marketing research can be conducted effectively by small businesses and nonprofit organizations with limited budgets. International marketing researchers follow the same steps as domestic researchers but often face challenges related to conducting research across countries with varying cultures, languages, and infrastructures. Companies also need to be sensitive to and proactively address the major public policy and ethical issues surrounding marketing research, including maintaining consumer privacy, securing and protecting consumer data, and preventing the misuse of research findings.

Key Terms

OBJECTIVE 4-1

Big data
Customer insights
Marketing information ecosystem (MIE)

OBJECTIVE 4-2

Internal databases
Competitive marketing intelligence

OBJECTIVE 4-3

Marketing research
Exploratory research
Descriptive research
Causal research
Secondary data
Primary data
Observational research
Ethnographic research
Survey and questionnaire research
Interviews
Focus groups
Online focus groups
Customer insight community
Experimental research
Digital text analysis
Behavioral targeting
Online marketing survey research
Sample

OBJECTIVE 4-4

Customer relationship management (CRM)
Marketing analytics
Artificial intelligence (AI)

Discussion Questions

4-1 What is the value of big data for marketers? (AACSB: Written and Oral Communication; Reflective Thinking)

4-2 Explain how internal databases differ from marketing intelligence. What are some advantages and disadvantages of both? (AACSB: Communication; Reflective Thinking)

4-3 Marketers make heavy use of both open-ended and closed-ended questions in questionnaires. What are some of the benefits or drawbacks of using each of these ways to ask questions? (AACSB: Communication; Reflective Thinking)

4-4 What is behavioral targeting? Provide an example of behavioral targeting. How are firms responding to consumers and public advocates that it is a form of stalking consumers? (AACSB: Communication; Reflective Thinking)

4-5 The marketing research process has several very distinct and important stages that need to be followed. In your opinion, which is the most important? Justify your view on this. (AACSB: Communication; Reflective Thinking)

4-6 Describe how small businesses and nonprofits can conduct marketing research despite their limited budgets. (AACSB: Written and Oral Communication; Reflective Thinking)

Critical Thinking Exercises

4-7 Listen to an episode of your choice of "The Marketing Insider: A Claritas Podcast" (accessed at https://claritas.com/claritas-podcast/). Prepare a response that describes the topic of the episode, its guests and their areas of expertise, and the topic study or studies that informed the discussion. Include the URL (link) to make it easy to share exactly what you listened to. Where did Claritas get the data that informed the insights in the discussion? (The episode may include more than one source of data.) What are the strengths and weaknesses of the types of data used? How is the information presented? How will people who hear the podcast likely respond based on the presentation? Provide one example of how the insight might be used by a marketer. (AACSB: Written and Oral Communication; Reflective Thinking)

4-8 Suppose you are research manager for a bank conducting market research for a new line of financial services products for lower-income consumers that will feature no account fees and high-yield savings accounts. You speculate that potential customers may be skeptical about your bank's claims because these perks are typically only offered to wealthy account holders with established credit. You decide to host an online focus group to gain customer insights into your bank's proposed new line of financial services products. You also want to obtain feedback on the launch campaign that your bank plans to run when introducing the new line. Who should be invited to the focus group, and why? What types of information will you want to obtain? Identify possible questions to present to the focus group. (AACSB: Written and Oral Communication; Reflective Thinking)

4-9 Go to Google Trends (trends.google.com). Assume you are a consumer goods marketer who oversees an in-home medical testing service. How could the Google Trends information help your company improve its understanding of its market? Conduct a search that could provide information that might increase profits. Explain what you searched and what insights you gained that could inform decision making. (AACSB: Written and Oral Communication; Use of IT; Reflective Thinking)

APPLICATIONS AND CASES

Digital Marketing Amore Pacific

Asia-Pacific beauty product provider Amore Pacific experienced sales and operating profit losses during the pandemic. The losses were particularly acute in its home market, South Korea, where it sells many whitening and anti-aging products. Looking for solutions, Amore Pacific conducted a survey of 1,500 consumers in its target audience. The survey results suggested that almost 80 percent of its consumers check online content before buying a beauty product. It also revealed young target consumers' interests in K-pop and other cultural movements. In response, Amore Pacific invested $2.7 million to purchase a beauty content creator network startup. The beauty media startup gave the company's marketers access to 250 video creators and influencers who specialize in beauty products.

4-10 How would a researcher at Amore Pacific determine if the results of its survey provided accurate estimates of the target market's thoughts and behaviors? (AACSB: Written and Oral Communication; Reflective Thinking)

4-11 How might a marketer like Amore Pacific use neuromarketing to better understand its customers? Would such an approach be more useful than surveys in assessing the effectiveness of messages and images from its new content creator/influencer network? How? (AACSB: Written and Oral Communication; Reflective Thinking)

Marketing Ethics TikTok

TikTok, known in China as Douyin, is a short-form video sharing app owned by Chinese parent company ByteDance. It was the world's fastest-growing app from 2020 to 2022. With more than 1.3 billion active users, TikTok is the world's most downloaded app. With a young, engaged user base, TikTok is a cultural powerhouse of internet superstars, brands, opinions, and data. However, given TikTok's widespread use and influence, its Chinese ownership raises concerns about user privacy. Data privacy expectations differ greatly between China and Western countries such as the United States and the EU nations. And although Douyin and TikTok operate on separate platforms, signaling that TikTok user data is protected from the Chinese government, concerns remain.

In 2020 alone, TikTok was implicated in data use scandals involving the improper collection of data from children, harvesting personal data on over a million users, and gathering user facial recognition data, all without user consent. Data privacy concerns also became a major issue of national security for the United States. In that year, then U.S. President Donald Trump moved to ban new TikTok downloads, and the U.S. Senate passed a bill to ban TikTok from all government-issued devices, fueling furious debate. A year later newly elected U.S. President Joe Biden formally lifted the Trump-era bans. TikTok users are thrilled that the bans are lifted, but others are still concerned about privacy, data collection, and data access.

4-12 If you used an app like TikTok, what information would you be comfortable giving the company access to and having tied to your identity? What information would you prefer not be tracked? What is the trade-off between access to the app's content and privacy? (AACSB: Written and Oral Communication; Use of IT; Reflective Thinking)

4-13 Is it ethical for marketers to gather massive amounts of data about everything a consumer does and to aggregate and repackage that information to create value for their business customers? What about creating value for governments? What types of protections do you value as a consumer? (AACSB: Written and Oral Communication; Ethical Reasoning)

Marketing by the Numbers Descriptive Research

As you read in the chapter, the objective of descriptive research is to describe things, such as the market potential for a product or the demographics and attitudes of consumers who buy the product. Three common statistics used in descriptive research are mean, median, and mode. From these simple statistics, marketers can learn from the multitude of data available what the average value of something is, such as the average time a consumer spends on a website or the average attitude toward their brand. That is the mean, found by adding up all the values and dividing by the number of data points added together. Marketers are also interested in the middle value (that is, median) because outliers may skew a mean high or low. To find the median, marketers order the values from highest to lowest and locate the value in the middle of the dataset. Finally, mode tells the marketing researcher how often a value occurs. Creating graphs like histograms of the data are useful for visually showing the frequency of each value. Use the following consumer attitude data, collected using an attitude statement ranging from 1 = "strongly dislike" to 5 = "strongly like" concerning the brand, to calculate descriptive statistics.

Consumer	Attitude toward Brand Score (1–5)
Aaliyah	2
Amelia	1
Chloe	5
Ethan	2
Jorge	3
Lucas	5
Misaki	2
Mohammed	4
Navita	2
Oliver	4

4-14 Calculate the mean, median, and mode for these data. (AACSB: Written and Oral Communication; Analytical Reasoning)

4-15 Create a histogram (that is, a bar chart) that shows the number of times each attitude score is given by a consumer in the data set. What conclusions can you draw from these descriptive statistics? (AACSB: Written and Oral Communication; Analytical Reasoning)

Company Case Bayer: Big Data for Customer Insights

Bayer Aktiengesellschaft, or Bayer AG, is a life sciences company and a global leader in healthcare and nutrition. Headquartered in Leverkusen, Germany, Bayer has a strong presence in Europe and more than 150 years of experience. To expand its operations, Bayer carefully examines the size of the market, determines its profitability, and analyzes the entry and exit barriers. Marketing information is vital for decisions on entering new markets and about adapting to existing ones, but Bayer must balance its information gathering against its policy on customers' data privacy as well as alignment with future operational objectives. When it comes to entering new markets, Bayer's analyses are based heavily on customer satisfaction and performance measures.

Reading the Customer's Mind

Bayer bases its various strategies on marketing information. Some of its markets are difficult to operate in; for example, pharmaceuticals involves multiple customers, distribution channels, purchasing arrangements and pricing methodologies, marketing techniques, and cost-control tools or prescription drug reimbursement systems. Gaining useful customer or marketplace insights from these various sources is challenging. Additionally, Bayer conducts research to discover new drugs and tests and validates their effectiveness and safety before introducing them to the market. As such, the company accumulates, analyzes, and stores vast amounts of clinical data from patients as well as healthy volunteers. Marketing information is also collected from laboratories and electronic devices but is automatically anonymized at the point of collection, following the guidelines and regulations created by local drugs administrations. Recently, Bayer deployed a microservices-based architecture for its data platform to enable easier and faster analysis of drug development data for the company's researchers.

Bayer operates mainly as a business-to-business (B-to-B) company, but in the pharmaceuticals market, its focus is on researching, developing, and marketing specialty-focused medicines to businesses as well as individual consumers. Its products are distributed to hospitals and general practitioners, who also deliver useful marketplace insights. But Bayer carefully examines all information gathered even before it distributes to these intermediaries. For example, for distribution of the allergy drug Claritin, Bayer uses third-party analytics to analyze global warming data so that it can model the supply based on weather and allergy trends.

Bayer's customer insights and marketplace data are processed based mainly on how specialized products are received within the pharmaceutical market. Healthcare division insights are communicated between Bayer and the brands to which its products are distributed. Coupled with a large geographical footprint, this results in an enormous store of insights and techniques that can be used in marketing mix decision-making, formulation of marketing strategy, as well as daily business operations.

Bayer has market- and customer-specific distribution channels for each segment in which it operates. Through a number of programs, such as its Patient-Focused Transformation of Customer Engagement, the company draws on the experiences and challenges of participants to support business transformation initiatives at the company with the objective of shifting mindsets, implementing new processes, building new skills, or changing target behaviors. This customer engagement model has transformed information gathering into a single customer-centric and patient-focused model.

The consumer health and pharmaceuticals segments are connected to a global pharmaceutical monitoring system that includes safety management teams and experts across various disciplines. To detect potential safety concerns early on and identify changes in the risk–benefit profile, such teams must evaluate internal benefits, safety data, marketing studies, clinical trials, external databases, and scientific publications. These are all entered into Bayer's pharmacovigilance database, which is used in market research to test the viability of new products and services based on the responses of potential customers. The company is constantly investing in R&D—which generates information—but each product must also comply with the relevant regulatory environment.

Diving Deeper for Insights

At Bayer, internal data is information about customers—current and potential—collected primarily from four major sources: sales, finance, human resources, and marketing. However, gaining trade insights from each segment can be challenging due to legal requirements, especially from sources such as patients. For example, to collect customer satisfaction data, the company must follow different standards for prescription medicines and for non-prescription medicines.

Bayer's marketing activities focus on the local needs of its customers, but these needs can vary significantly. The company's customer-focused marketing activities take this into account. For instance, working together with Kansas City–based Consumer Orbit, Bayer combines the data it generates with the firm's databases, resulting in a total of 63 trillion pieces of data that enable Bayer to build a model of its customer base and deliver tailored messages to its customers through their preferred communications platform.

However, customer needs may differ merely because each country or state has its own set of rules and laws. The company must adhere to laws and regulations dealing with marketing practices; global, regional, and local industry codes; customer privacy and protection of consumer information and data; and recommendation and promotion only of lawful uses (for instance, there should be no off-label promotion for medicinal products). Ongoing dialogues with customers enable the company to take such local and country-specific regulatory frameworks into account and deploy optimization measures.

Bayer analyzes customer satisfaction reports and customer complaints to compare the company's performance in the individual segments, optimize its measures, and safeguard its long-term business strategy. Various marketing research techniques ensure that directions for shaping and redefining its marketing strategy are on target. For instance, by using AI-driven diagnostic and treatment support for individual customers in the pharmaceuticals segment, the company accelerates the discovery of new drugs while combining processing power with the large data sets and advanced analytics available for marketing information. This allows Bayer to offer personalized testing and treatment as well as personalized online medical consulting that examines customers' lifestyles, health, and diet directly through a website.

On June 7, 2018, Bayer acquired 100 percent of the outstanding shares of the Monsanto Company. Bayer's strong position within the market is often contested by, for example, the fusion of Dow Chemical and Dupont, the two largest U.S. chemical groups. In crop science, Monsanto's position is more secure, so Bayer benefits from already present marketplace information and can outperform competitors. The acquisition strengthens Bayer's position as market leader in crop science; with the leading digital agriculture platform, Bayer now has better access to farmers than anybody else. The growing importance of data analysis and digital farming tools not only facilitates agronomic advice but also sales of seeds and pesticides.

Before taking any crucial decision, Bayer must determine in advance how the product works and what the market's regulatory environment is. For this purpose, the company collects external data to find out which market to enter and when is the best time to make an investment. This is where the big data from the Monsanto merger comes into play. Big data often opens new windows of opportunities; for instance, Bayer can now process terabytes of data into relevant information that helps farmers unleash their crops' full potential and achieve efficient yields that improve their financial results.

Big data is transforming agriculture to an almost overwhelming degree. Tractors and other farming devices equipped with sensors, mobile connectivity, and GPS; drones with infrared cameras and GPS patrolling the air and reporting on field conditions; satellites and phone apps monitoring soil and climate conditions—these are just a few sources of information. Recognizing the growing market for digital agricultural services, Bayer is increasingly employing data science methods in all R&D activities, bolstering its scientists' expertise with targeted data science learning programs. Bayer maintains a global network of R&D locations and employs about 17,300 researchers. In 2018, R&D investments increased by a nominal 16.5 percent to €5.2 billion. In addition, the company recently adopted data aggregation and direct partnerships with key vendors to further improve efficiencies.

Safeguarding Privacy

Bayer encapsulates its corporate values in what it calls the LIFE standard: Leadership, Integrity, Flexibility, and Efficiency. It is followed in the marketing of their products and services as well. For instance, its standards of Integrity are reflected in the care with which the company handles privacy when it comes to customer data. Bayer ensures that specialized service contractors who handle customers' personal data work closely with the company to process the data strictly within its regulations and directives and follow respective data processor agreements; the company also monitors these contractors regularly.

The company's corporate compliance policy on responsible marketing and sales details multiple measures that are taken to prevent any ethical issues. Bayer's lobbyists are required to act according to certain standards, such as national laws and the respective jurisdiction in which the country carries out all lobbying activities.

Bayer recognizes that it is part of a global community and has stated that only a joint effort will provide the technologies and services required to feed the global population in 2050. Making the most of available farmland, increasing production on a long-term basis, and making breakthroughs in healthcare requires vast amounts of data. Through its use of big data, gathered from its collaborations with research institutes, leading scientists, international organizations, and government bodies across all the segments it operates in, Bayer is well poised to fulfill that need.[52]

Questions for Discussion

4-16 What opportunities are created for Bayer from the big data coming from the four segments it operates in and from the Monsanto merger?

4-17 How does Bayer gather relevant marketing information to keep up with customer demands in the four segments?

4-18 How does Bayer manage the information gathered from the various stakeholders mentioned in this case?

4-19 How are the steps of the marketing research process followed at Bayer?

4-20 How does Bayer safeguard customer privacy in its marketing research?

5 Consumer Markets and Buyer Behavior

OBJECTIVES OUTLINE

OBJECTIVE 5-1 Define the consumer market and construct a simple model of consumer buyer behavior.

OBJECTIVE 5-2 Explore the four major factors that influence consumer buyer behavior.

OBJECTIVE 5-3 Understand the stages in the buyer decision process and the major types of buying decision behavior.

OBJECTIVE 5-4 Describe the adoption and diffusion process for new products.

CHAPTER PREVIEW

You've studied how marketers obtain, analyze, and use information to develop customer insights and assess marketing programs. In this chapter, we take a closer look at the most important element of the marketplace—customers. Marketing aims to engage customers and affect how they think and act. To affect the *whats*, *whens*, and *hows* of buyer behavior, marketers must first understand the *whys*. In this chapter, we look at *final consumer* buying influences and processes. In the next chapter, we'll study business-to-business marketplaces and the buyer behavior of *business customers*, customers that are companies rather than individual consumers. You'll discover that understanding buyer behavior is an essential but challenging task.

To get a better sense of the importance of understanding consumer behavior, we begin with Beyond Meat, a young startup that is trying to disrupt the huge meat industry by creating healthier, eco-friendlier, plant-based alternatives to beef, pork, and chicken. Beyond Meat is seeking "a better way to feed the planet." But to accomplish that mission, it must first change the long-held and deeply ingrained attitudes and behaviors of real-meat-loving consumers.

BEYOND MEAT: Changing Consumer Attitudes and Behavior, One Burger at a Time

In 2015, Beyond Meat—a startup specializing in plant-based meat substitutes—announced that it had developed a vegetarian burger patty with the look, taste, and texture of real beef. At first, most Americans were skeptical—the claim seemed too good to be true. But the launch of the Beyond Burger in grocery stores and fast-food chains is now viewed as a revitalization of the centuries-old meat substitutes industry. Today, numerous companies—large and small—are rushing to outdo each other with plant-based meat products that consumers can't tell from the real thing. Such products are now available through hundreds of thousands of retail and food-service outlets around the globe. Their success seems a foregone conclusion.

But even Beyond Meat—the largest and most successful of these ventures—faces many challenges ahead. First and foremost, Beyond Meat must convince meat-loving consumers that its products "taste just as good" as the real thing and, further, that the added benefits make it worth switching. Beyond Meat has a lofty mission: "By shifting from animal to plant-based meat, we can positively affect the planet, the environment, the climate, and even ourselves."

Eating healthier, fighting climate change, preserving natural resources, treating animals humanely—these issues will

Changing ingrained consumer attitudes and behaviors can be difficult. But Beyond Meat is off to a good start with its plant-based meat products. The Beyond Burger "cooks like a beef patty. It sizzles, it oozes. And sizzle, we know, is what sells."

davide bonaldo/Shutterstock

resonate with many consumers. But resolute real-meat lovers will be hard to convince. Will Beyond Meat be able to change deeply ingrained consumer perceptions, attitudes, and behaviors toward meat? Or will its products end up as little more than a flash in the frying pan?

Meat substitutes are anything but new. The Chinese developed tofu from soybeans more than 2,000 years ago, mostly for reasons of economics and resource availability. In more modern times, entrepreneurs like doctor and nutritionist John Harvey Kellogg of cereal fame developed meat replacements from nuts, grains, and soy for reasons of health and sustainability. It has long been recognized that producing meat in large quantities can have undesirable environmental consequences and that consuming large quantities of meat is not healthy for humans.

Yet after decades of exposure to tofu and other veggie products that proport to replace beef, chicken, and pork, most Americans—the highest per capita meat eaters in the world—still have an aversion to such products. Americans love their meat. So in its quest to change consumer attitudes and behavior, Beyond Meat took a unique approach. With veggie-meat products capturing only 3 percent of U.S. packaged meat sales, Beyond Meats targeted meat lovers, not vegetarians.

It all started with the right products. Beyond Meat used high-tech methods to isolate the molecules that make meat taste, feel, look, and smell the way it does and replaced those molecules with the same or similar ones from vegetables—protein from peas and other legumes, fats from cocoa butter and coconut oil, and carbs from potato starch and cellulose fibers. As a result, Beyond Meat's products appear to meet the taste test. "If the idea of building a juicy, tasty, 'I-can't-believe-it's a' veggie burger in a lab sounds totally sci-fi, then the future is here," said one food critic shortly after the brand's Beyond Burger hit the market. Said another, "It 'cooks' like a beef patty. It sizzles, it oozes. And sizzle, we know, is what sells."

Beyond Meat also used a marketing approach different from previous meat substitutes. Beyond Meat aimed its appeals directly at meat-loving Americans. It went straight to consumers with ads that employed all the sizzling, oozing visual flair for which big burger chains are famous. It fought for placement in the meat sections of grocery stores. And when grocery chains resisted, instead of pressuring to place Beyond Burger in their vegetarian or health food sections, Beyond Meat simply declined. Eventually, grocery chains came around. And the company also succeeded in getting its products on the menus at major restaurant chains.

Beyond Meat now markets a wide range of plant-based meat products, including the Beyond Burger, Beyond Beef, Beyond Sausage, Beyond Meatballs, and Beyond Chicken. Its products are available in 77,000 retail and restaurant outlets in 65 countries, including grocery stores like Whole Foods, Safeway, Publix, Target, and Walmart and restaurants such as Burger King, BurgerFi's, Carl's Jr, Subway, TGI Fridays, Dunkin', and KFC.

In the first few years following the debut of the Beyond Burger, Beyond Meat's revenues exploded with a stunning 202 percent annual growth rate over a four-year period. Perhaps the biggest indicator of Beyond Meat's potential is the slew of competing plant-based brands that have blossomed. Competitors range from Beyond Meat–like Impossible Foods to major food conglomerates such as Kellogg's, with its Incogmeato brand, and Hormel, with its Happy Little Plants brand.

But the big question remains: Despite its success so far, is Beyond Burger really succeeding in changing the perceptions, attitudes, behaviors, and hearts of meat-loving consumers? Last year, Beyond Meat's growth lost some of its sizzle, with annual sales increasing by only 36 percent. This year, Beyond Meat's revenues will likely grow by only half that amount.

Perhaps of greater concern, even as it has released "new-and-improved" versions of its products, reviews of Beyond Meat's products have cooled. Blind taste-test videos shared on the internet and social media reveal that tasters can consistently distinguish the meat substitutes from real meat. And although most reviewers say that Beyond Meat and Impossible Foods products aren't bad "for veggie meat," they also say that that they aren't quite ready to make the permanent swap. "The Beyond Burger doesn't exactly taste like beef but it does resemble a meat patty!" says one reviewer. Says another, "Beyond has a taste all its own, one

Beyond Meat is off to a great start in marketing plant-based alternatives to beef, pork, and chicken. But to succeed in the long run, the brand must first change the deeply held attitudes and behaviors of meat-loving consumers—no easy feat.

that's particularly hard to describe," adding that the texture is like "the crispy rice on the bottom of a pan, a delicacy in many cultures."

Beyond Meat and its competitors also face the challenge of higher prices—a Beyond Burger patty retails for more than double the price of beef. The brand's products do deliver on environmental claims. According to one expert, "Meatless meat can make a huge difference for the environment by almost every metric, including land use, water use, and fighting climate change." However, numerous experts and watchdogs also pose legitimate questions about health and sustainability claims of new plant-based meat substitutes.

Although it's true that veggie meats have none of the growth hormones or antibiotics commonly found in meats, are less likely to carry foodborne illnesses, and don't pose the cancer risks of red meat, most nutritionists point out that, in terms of calories and fat, a Beyond Burger has about the same health profile as a regular beef burger. Although Beyond Meats products have no cholesterol and contain some fiber, they also pile on the sodium and carbohydrates. And although these products are plant-based, they are also highly processed, something that health-conscious consumers don't often find attractive.

Beyond Meat is quick to point out that it is still far from achieving the "perfect" product. It continues to work toward making better products that please customers and fulfil its mission. And Beyond Meat is clearly off to a great start. But the wellsprings of consumer behavior run deep. Beyond Meat faces an uphill battle in changing the deeply held attitudes and behaviors of meat lovers. That kind of revolutionary shift will take a relentless effort not only by Beyond Meat but by the entire industry. Still, who knows? There just may come a day when customers pull up to the drive-thru at their favorite fast-food chain, order a burger or a beef taco, and be none the wiser or not care that Beyond Meat has taken animals off the menu.[1]

THE BEYOND MEAT EXAMPLE shows that factors at many levels affect consumer buying behavior. Buying behavior is never simple, yet understanding it is an essential task of marketing management. **Consumer buyer behavior** refers to the buying behavior of final consumers—individuals and households that buy goods and services for personal consumption. These final consumers combine to make up the **consumer market**. The American consumer market consists of more than 333 million people who consume more than $16 trillion worth of goods and services each year, making it one of the most attractive consumer markets in the world.[2]

Consumer buyer behavior
The buying behavior of final consumers—individuals and households that buy goods and services for personal consumption.

Consumer market
All the individuals and households that buy or acquire goods and services for personal consumption.

Consumers within a country and across the world vary tremendously in age, income, education levels, and tastes. They also buy an incredible variety of goods and services. How these diverse consumers relate with each other and with the world around them affects their product, service, and brand choices. We next explore the fascinating array of factors that affect consumer behavior.

Model of Consumer Behavior

Author Comment | Despite the simple-looking model in Figure 5.1, understanding the whys of buying behavior is very difficult. Says one expert, "The mind is a whirling, swirling, jumbled mass of neurons bouncing around . . ."

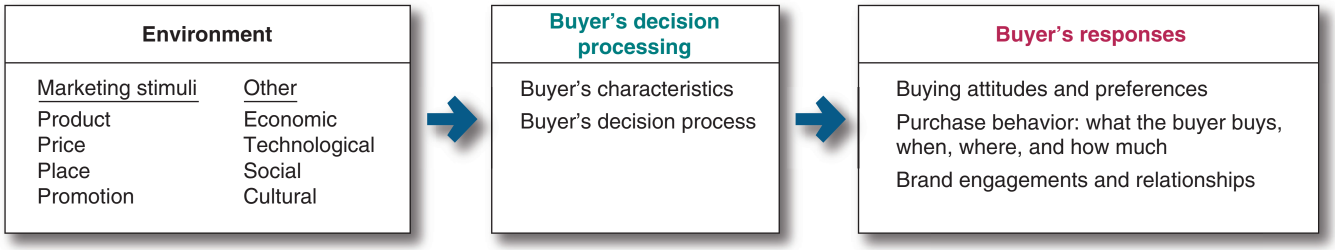
OBJECTIVE 5-1 Define the consumer market and construct a simple model of consumer buyer behavior.

Consumers make many buying decisions every day, and the buying decision process is the focal point of the marketer's effort. Most large companies research consumer buying decisions in great detail to answer questions about what consumers buy, where they buy, how and how much they buy, when they buy, and why they buy. Marketers mine mountains of big data on consumers to learn about their paths to purchase. But learning about the *whys* behind consumer buying behavior is not so easy—the answers are often locked deep within the consumer's mind. Often, consumers themselves don't know exactly what influences their purchases.

The central question for marketers is this: How do consumers respond to various marketing efforts the company might use? The starting point is the stimulus-response model of buyer behavior shown in **Figure 5.1**. This figure shows that marketing and other stimuli enter the consumer's decision processing and produce certain buyer responses.

Marketers want to understand how the stimuli are processed into responses inside the consumer's mind, which has two parts. First, the buyer's characteristics influence how he or she perceives and reacts to the stimuli. These characteristics include a variety of cultural, social, personal, and psychological factors. Second, the buyer's decision process itself affects behavior. This decision process—from need recognition, information search, and

FIGURE 5.1
A Model of Buyer Behavior



We can measure the whats, wheres, and whens of consumer buying behavior. But it's very diffcult to "see" inside the consumer's head and figure out the whys of buying behavior. Marketers spend a lot of energy and dollars trying to figure out what makes customers tick.

alternative evaluation to the purchase decision and postpurchase behavior—begins long before the actual purchase decision and continues long after. We look first at buyer characteristics as they affect buyer behavior and then discuss the buyer decision process itself.

Author Comment | Many levels of factors affect our buying behavior—from broad cultural and social influences to motivations, beliefs, and attitudes lying deep within us.

Characteristics Affecting Consumer Behavior

OBJECTIVE 5-2 Explore the four major factors that influence consumer buyer behavior.

Consumer purchases are influenced strongly by cultural, social, personal, and psychological characteristics, as shown in Figure 5.2. For the most part, marketers cannot control such factors, but they must take them into account.

Cultural Factors

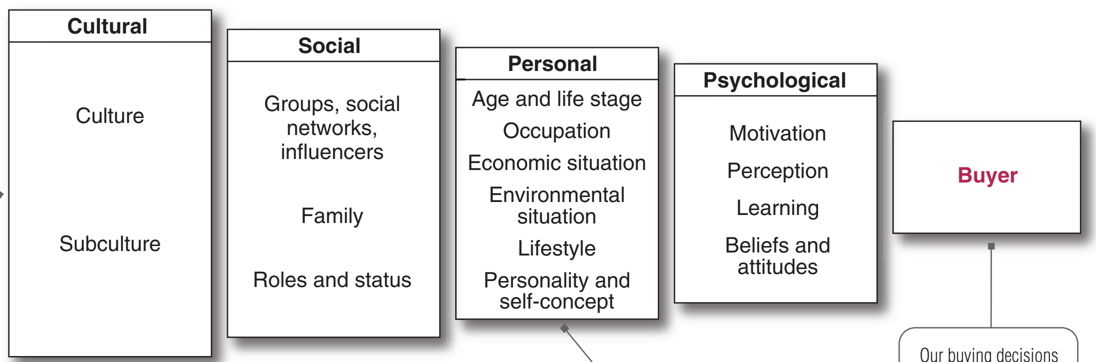
Cultural factors exert a broad and deep influence on consumer behavior. Marketers need to understand the role played by the buyer's *culture* and *subculture*.

Culture

Culture
The set of basic values, perceptions, wants, and behaviors learned by a member of society from family and other important institutions.

Culture has a strong effect on a person's wants and behavior. Human behavior is largely learned. Growing up in a society, children learn basic values, perceptions, wants, and behaviors from their families and other important institutions. A child in the United States is normally exposed to the following values: individualism, directness, informality, achievement and success, activity and involvement, time and its importance, material comfort,

FIGURE 5.2
Factors Influencing Consumer Behavior



Brands often supplement their already diverse general-market offerings with programs tailored to important subcultural segments, such as Hispanic Americans, Black Americans, and Asian Americans.

People's buying decisions reflect and contribute to their lifestyles—their whole pattern of acting and interacting in the world. For example, retailer Title Nine sells much more than just women's apparel. It sells an entire sports participation and activities lifestyle to "ordinary women capable of extraordinary things."

Our buying decisions are affected by an incredibly complex combination of external and internal influences.

and health and fitness. Every group or society has a culture, and cultural influences on buying behavior may vary greatly from both county to county and country to country.

Marketers are always trying to spot *cultural shifts* to discover new products that might be wanted. For example, the cultural shift toward greater concern about health and fitness has created a huge industry for health-and-fitness services, exercise equipment and clothing, organic foods, and a variety of diets.

Subculture

Subculture
A group of people with shared value systems based on common life experiences and situations.

Each culture contains smaller **subcultures**, or groups of people with shared value systems based on common life experiences and situations. Subcultures include nationalities, religions, racial groups, age cohorts, and geographic regions. Most brands and marketing campaigns today are *multicultural* in nature, inclusive of the diverse mix of subcultures that make up the American consumer marketplace. They appeal to consumer similarities across subcultural segments rather than differences. As one marketing executive puts it, "we believe in multicultural marketing because we believe serving a multicultural market."[3]

However, as with other types of market segments, subcultural groups usually exhibit some distinct needs and preferences. So marketers often supplement their diverse general-market offerings with additional products and programs tailored to specific subcultural segment needs. Examples of three important subculture groups in the United States are Hispanic American, Black American, and Asian American consumers.

Hispanic American Consumers. *Hispanic Americans* represent a large, fast-growing market. The nation's nearly 64 million Hispanic American consumers have total annual buying power of more than $2 trillion, accounting for 11 percent of all U.S. buying power. The U.S. Hispanic population will surge in coming decades, growing to represent nearly 29 percent of the total U.S. population by 2060.[4] Within the Hispanic American market, there exist many distinct subsegments based on nationality, age, income, and other factors. A company's product or message may be more relevant to one nationality over another, such as Mexicans, Costa Ricans, Argentineans, or Cubans.

Companies ranging from Toyota, McDonald's, AT&T, Walmart, and State Farm to Google, Amazon, L'Oréal, Twitter, and Major League Baseball have developed special targeting efforts for this fast-growing consumer segment. The initiatives have been wide-ranging. For example, for more than two decades, satellite TV service provider Dish Network has offered DishLATINO, a mix of English and Spanish channel options. "The Hispanic Community has always been our highest priority," says Dish Network at the website. And McDonald's undertakes multiple Hispanic-focused initiatives each year, operates several social media accounts in Spanish, and hosts a dedicated Spanish-language website (see www.mcdonalds.com/us/es-us.html). Last year, to celebrate the culture and collective pride of the Hispanic community, select McDonald's restaurants in communities with deep Latin roots—Miami, Houston and Los Angeles—launched *Ritmo y Color McDonald's* (Rhythm and Color McDonald's) experiences. Local visual artists transformed restaurants into vibrant expressions of their Hispanic roots, serving up music and art alongside some of today's hottest Latino musical and visual storytellers. The campaign kicked off in Miami's iconic Little Havana neighborhood, where a Cuban visual artist transformed a McDonald's restaurant with artwork titled "Havana Dreams."[5]

After research showed that Hispanic Americans represent 35 percent of active Twitter users versus 18.5 percent of the U.S. population, Twitter created an internal U.S. Hispanics team to help advertisers reach its large Hispanic American audience. Xfinity Comcast, for instance, used Twitter's bilingual targeting option during Hispanic Heritage

Marketing to Hispanic American consumers: Select McDonald's restaurants in communities with deep Latin roots—here, Miami's iconic Little Havana neighborhood—launched *Ritmo y Color McDonald's* (Rhythm and Color McDonald's) experiences, transforming local restaurants into vibrant expressions of their Hispanic roots.

Jeffrey Isaac Greenberg 2+/Alamy Stock Photo

Month to reach Hispanics who might be interested in its new bilingual remote control. And Nestlé's DiGiorno brand worked with Twitter's U.S. Hispanics team and the NFL on a football campaign with Spanish tweets. Twitter markets its ability to reach Hispanic American consumers to marketers across a wide range of industries.[6]

The Hispanic American community is known for its brand attachment and loyalty. An example is P&G's 123-year-old mentholated ointment Vicks VapoRub:[7]

> Vicks VapoRub recently went viral on Twitter when a Hispanic mother loaned her daughter a container of Vicks to use for her sick grandson. The container had an expiration date of January 1987. It was the same container that the grandmother had used on the daughter when she was young. Although P&G weighed in with a Tweet asking that consumers not use expired products, the ensuing Twitter storm highlighted and reinforced the Hispanic community's attachment to the brand. As one observer notes about Vicks VapoRub, the community "has mastered its application to help in the treatment of nearly everything. Seriously, everything." Says a recent #GrowingUpHispanic Tweet: "me: I just got hit by a truck. mom: 'ponte Vicks' (put on Vicks)." "This represents the fond memories of how our abuelitas [grandmothers] would often seek to cure our colds at home and passed it down to our parents, and now us to our children," says a senior Latino media executive. "The Hispanic community is known to have the strongest brand loyalty of any demographic. So, marketing to this group, if done in a genuine, authentic and organic way, offers brands a tremendous opportunity to capture and retain these audiences over time."

Black American Consumers. *Black Americans* represent another large and growing subcultural market segment. The nation's nearly 48 million Black consumers wield $1.6 trillion in annual buying power.[8] So, in addition to their multicultural general-market campaigns, many companies develop special products, appeals, and marketing programs for Black consumers—from carmakers like Ford, Toyota, and Hyundai to consumer products companies like P&G and Unilever. For example, P&G has long been the leader in marketing to Black consumers. In addition to product and marketing efforts tailored to Black consumers, however, P&G also supports a broader "My Black Is Beautiful" movement:[9]

> Created more than a decade ago by a group of African American women at P&G, the My Black Is Beautiful (MBIB) movement aims "to ignite and support a sustained national conversation by, for, and about Black women" and to "serve as the catalyst for a movement that effects positive change." Lately, the My Black Is Beautiful campaign has focused on issues of discrimination. It features an Emmy-winning video ad called "The Talk," which shows moving situations in which Black parents convey to their children the prejudices they will face in life. Other "The Talk" videos, posted on the My Black Is Beautiful website, show how real people have dealt with negative bias in their everyday lives. My Black Is Beautiful promotes the idea of Black beauty and culture. As stated on the MBIB website: "Our culture deserves to shine with abundance. All Black. All Beautiful. No Apologies." My Black Is Beautiful now offers a range of hair and skin care products under its Golden Milk and Blue Ginger brands, specially formulated to work well for Black hair and skin. My Black Is Beautiful campaigns don't directly promote P&G's role. However, they help build positive relationships between the company and Black consumers.

Targeting Black American consumers: P&G's "My Black Is Beautiful" campaign aims to spark conversation by, for, and about Black women to effect positive change. The campaign helps to build positive relationships between P&G brands and Black consumers.

Tasia Wells/Stringer/Getty Images

Asian American Consumers. *Asian Americans* now number more than 20 million, with annual buying power of $1.2 trillion. They are an affluent subsegment, with household incomes averaging 41 percent higher than the U.S. national average. Asian Americans are the nation's fastest-growing subcultural segment. Like the other subcultural segments, they are a diverse group. Chinese Americans constitute the largest group, followed by Filipinos, Asian Indians, Vietnamese, Korean Americans, and Japanese Americans. Yet, unlike Hispanic Americans, who all speak various dialects of Spanish, Asian Americans speak many different languages. For example, ads for the 2020 U.S. Census ran in languages ranging from Chinese and Japanese to Korean, Vietnamese, and Tagalog.[10]

As a result of this segment's size and unique characteristics, many firms supplement their general-market campaigns with segment-specific campaigns tailored to Asian American consumers. For example, insurer State Farm recently released two spots across digital platforms targeting different Asian American segments:[11]

> The first ad, a Mandarin-language spot called "Smart Living," provides a humorous take on cultural insights into the tech savviness of Asian Americans, who are leading adopters of smarthome technologies. The ad shows a young Asian American couple being terrorized by their Alexa-like home system called SAL gone awry. SAL closes the garage door on their car, turns on their in-home sprinkler system, and blasts them out with loud music. However, State Farm agent Amy Loh assures them that while State Farm can't fix SAL, it can certainly cover the home and auto damages. A second spot—"Intuition"—plays off Asian Indian cultural insights. When a young couple's Asian Indian parents visit and offer unwanted advice with comedic results, State Farm agent Anu Sethi gives them in-language advice and is there to help life go right. "This creative work strikes a balance of providing information while recognizing and respecting cultural nuances," says State Farm's advertising director. "We really want humor to drive these stories in a way our audiences could completely see themselves."

In their general-market campaigns, brands now often include a mix of subcultural groups representative of the broader consumer population. And, as discussed previously, marketers are increasingly targeting subcultures with tailored offerings. Beyond such initiatives, marketers must routinely audit everything from product designs to brand names and logos for both culture-related opportunities and insensitivities.

For example, addressing a long-overlooked, seemingly obvious opportunity, Johnson & Johnson's Band-Aid brand recently introduced non-white skin tone bandages in light, medium, and deep shades of brown and black to blend with a variety of skin tones. And responding to renewed calls for racial equality, several companies have renamed, repositioned, and reimaged well-known but culturally insensitive brands. For instance, Mars Food rebranded its Uncle Ben's Rice as Ben's Original, dropped the image of a Black man from its packaging, and distanced the brand from racial stereotypes rooted in slavery that had anchored it over its 80-year history. Similarly, Quaker Oats rebranded its Aunt Jemima pancake mixes and syrups as Pearl Milling Company products, named after the small mill that first produced the pancake products. Dryer's rebranded its Eskimo Pie ice cream bar as an Edy's Pie and dropped the "Eskimo" character on the box, admitting that the word *Eskimo* was a culturally insensitive reference to Indigenous people. And after 100 years, the farmer-owned Land O'Lakes dairy cooperative removed Mia, the kneeling Native American "butter maid," from its Land O'Lakes butter packaging.[12] The message is clear—marketers must proactively embrace diversity, equity, and inclusiveness in everything they do.

Embracing diversity, equity, and inclusiveness: Responding to renewed calls for racial equity, several companies have renamed, repositioned, and reimaged well-known but culturally insensitive brands. For example, Quaker rebranded its Aunt Jemima pancake mixes and syrups as Pearl Milling Company products, named after the small mill that first produced the pancake products.

Michael Neelon(misc)/Alamy Stock Photo

Social Factors

A consumer's behavior also is influenced by social factors, such as the consumer's *groups and social networks*, *family*, and *social roles and status*.

Groups, Social Networks, and Influencer Marketing

Reference group
A group that serves as a point of comparison or reference in shaping a person's attitudes or behavior.

Many groups influence a person's behavior. Groups to which a person belongs in a social context are called *membership groups*. These groups often directly influence consumer behavior. In contrast, **reference groups** serve as points of comparison or reference in shaping a person's attitudes or behavior, either directly through face-to-face interactions or indirectly through media such as the internet and social networks. Reference groups expose a person to new behaviors and lifestyles, influence the person's attitudes and self-concept, and create pressures to conform that may affect the person's product and brand choices. Marketers therefore try to identify and influence the reference groups of their targeted customer segments.

The importance of group influence varies across products and brands. It tends to be strongest when the product is visible to others whom the buyer respects. Marketers of brands subjected to strong group influence must figure out how to reach **opinion leaders**—people within a reference group who, because of special skills, knowledge, personality, or other characteristics, can socially influence others. Many marketers identify opinion leaders for their brands and direct marketing efforts toward them.

Opinion leader
A person within a reference group who, because of special skills, knowledge, personality, or other characteristics, can socially influence others.

Word-of-mouth influence can strongly influence consumer buying behavior. The personal recommendations of trusted friends, family, associates, and other consumers tend to be more credible than those coming from commercial sources, such as advertisements or salespeople. Most word-of-mouth influence happens naturally: Consumers start chatting with others or share online information about a brand they use or feel strongly about one way or the other. Rather than leaving it to chance, however, marketers often proactively create positive conversations about their brands.

Word-of-mouth influence
The impact of the personal recommendations of trusted friends, family, associates, and other consumers on buying behavior.

Influencer marketing involves enlisting established influencers or creating new influencers to spread positive information about a company's brands. For example, over the years, Nike has enlisted hundreds of well-known athletes to ply their influence in favor of the brand. The list includes a host of sports superstars ranging from NBA players such as Michael Jordan, LeBron James, and Kevin Durant to tennis megastars like Serena Williams and Rafael Nadal to golfing great Tiger Woods and soccer legend Cristiano Ronaldo.

Influencer marketing
Enlisting established influencers or creating new influencers to spread positive information about a company's brands.

Such influencers don't come cheap. Nike has signed both LeBron James and Cristiano Ronaldo to lifetime endorsement deals worth more than $1 billion. However, both megastars offer huge influencer credentials. James currently has 25 million Facebook fans, 50 million Twitter followers, and 107 million Instagram followers. Ronaldo boasts more than 270 million Instagram followers and over 500 million followers across Facebook, Instagram, and Twitter combined. His fan base generates nearly half a billion dollars in social media value annually for Nike. His Cristiano Ronaldo CR7 Collection of soccer cleats and apparel brings in hundreds of millions more in annual revenues. "In the case of Ronaldo," says one analyst, "Nike got off cheap."[13]

Companies today are spending billions of dollars annually on influencer campaigns. Brands love influencer marketing because it builds on existing relationships between influencers and their followers. For example, adidas partners with supermodel, socialite, and reality TV personality Kylie Jenner, the youngest of the Jenner–Kardashian clan. Jenner has amassed more than 300 million social media followers—207 million on Instagram alone. Jenner is one of Instagram's most lucrative influencers, commanding a cool $1 million per post. She keeps fans hooked with daily personal posts as well as posts for her own Kylie Cosmetics. Jenner signed on with adidas as a brand ambassador and the face of two new adidas lines: Falcon sneakers and the Coeeze collection of cropped hoodies, sweat suits, tees, and tights. Jenner now frequently posts images of herself wearing adidas products. Whether in the park with her daughter Stormi or on the go in her black Rolls-Royce with a custom pink interior, Jenner's looks and style in adidas apparel have inspired her fans and matched the brand's positioning beautifully.

However, not all influencer campaigns involve Kylie Jenner– or Cristiano Ronaldo–style celebrity *mega-influencers*. Far from it. As today's social media have democratized fame, many marketers have shifted towards *micro-influencers* with smaller, more focused audiences. Micro-influencers might include social media personalities, independent bloggers, or even actual brand users who share their product experiences with smaller online followings. Thus, along with internet mega-personalities stumping for big brands, you'll no doubt cross paths with the likes of climbers and skiers blogging for Patagonia, bikers blogging for Harley-Davidson, and foodies blogging for Whole Foods Market or Trader Joe's. Compared with mega-influencers, these micro-influencers often boast hyper-engaged audiences, more authentic content, and more affordable rates (see Real Marketing 5.1).

The key is to find micro-influencers who have smaller but strong and focused networks of relevant followers, a credible voice, and a good fit with the brand. For example, companies ranging from Walmart and McDonald's to Disney have tapped into an army

Real Marketing 5.1

Micro-Influencers: Sometimes Smaller Is Better

Influencer marketing is hotter than ever these days, but there's a big shift going on. Instead of paying top dollar to a small group of *mega-influencers* who promote their brands to tens or even hundreds of millions of admiring social media fans, many brands are now going smaller. They are partnering with a larger number of smaller *micro-influencers*, social media personalities, independent bloggers, or even actual brand users who share their product experiences with smaller online followings. Although more limited in reach (typically between 1,000 and 100,000 fans), these micro-influencers boast hyper-engaged audiences, more authentic content, and more affordable rates. That often gives brands more bang for their influencer buck.

Micro-influencers generally perform much better than their mega-influencer counterparts on perhaps the most important social media metric—engagement. In general, as the size of an influencer's fan base increases, engagement decreases. For example, brands pay former wrestler and big-hit actor Dwayne "The Rock" Johnson—the highest-paid influencer on Instagram—as much as a million dollars per post to promote their brands to his massive 225-million-strong Instagram following. But Johnson's follower engagement rate stands at only 1 percent. Similarly, most other mega-influencers have engagement rates in the low single digits. Micro-influencers, by contrast, bring in likes, shares, comments, and other engagements from their followers at high-single-digit or even double-digit percentage rates.

Micro-influencers achieve higher engagement rates for several reasons. For starters, fans view them as far more trustworthy than celebrities. A recent study revealed that Instagram users are 22 times more likely to have a conversation with a micro-influencer than with a macro-influencer, and 82 percent said they would be very likely to follow a micro-influencer's recommendation. People view micro-influencers as trusted peers rather than as famous people who are plugging products just because a brand is paying them to.

Micro-influencers are often just regular people with an expertise based on their vocation or avocation. They tend to come across as passionate, knowledgeable, and more authentic. "Micro-influencers aren't going to just throw the product, the price, and the benefit in your face," says a micro-influencer marketing specialist. "They're going to be a bit more candid and down-to-earth about the brands they partner with."

Software giant Adobe has for years leveraged the real voices of micro-influencers. It knows that a genuine testimonial is the best testimonial. For example, to promote its photo editing software, Adobe has recruited a panel of smallish lifestyle bloggers it calls the "Photoshop Elements Ambassadors." These imaging pros and hobbyists willingly and enthusiastically tell their audiences about their experiences using Adobe software and share their finished images. "All of the photos on my blog hold so many amazing memories from my life, so I strive to make them perfect and something I'm truly proud of," says blogger Tieka Ellis, as she demonstrates how to use the features of Photoshop Elements through a series of tutorials.

Adobe also seeks out independently generated content that showcases its products. For example, it scouts out TikTok videos created with its software, features them, and effectively turns them into mini tutorials. Adobe has only 190,000 followers on TikTok. But the hashtag #adobe has garnered 574 million views; #adobetok has grabbed another 1.4 million views.

Many startup companies initially benefit from the broad reach of big influencers in generating sales and followers but later migrate to micro-influencers to better connect with target customers. Consider swimwear brand Andie, a direct-to-consumer startup positioned on a body-positive brand image. Andie started out with an influencer program of one and then five major paid influencers per month. But by expanding to as many as 300 micro-influencers posting for the brand each month, Andie more than doubled its Instagram following in a year. The micro-influencer strategy extended the brand's monthly reach from around 100,000 people to more than 700,000 while also adding more authentic voices to its brand conversations. "Their followers look to these micro-influencers to make recommendations specific to their experiences," says an Andie marketer. As a result, the brand's average engagement rate increased from 2 percent to 7 percent.

Brands of all kinds are leveraging the authenticity of social media posts by micro-influencers who already use and love their products. For Nutella, this was especially easy because so many people already post comments and images of the decadent chocolate-hazelnut spread. To support the brand's 50th anniversary campaign, Nutella created a micro-influencer program to invite, curate, and amplify Nutella stories and content on social media. Across Facebook, Twitter, Pinterest, Instagram, and Tumblr, Nutella received more than 15,000 stories in just two days. From these submissions, it enlisted a team of micro-influencers to create more than 500 original stories on fun and tasty ways to enjoy Nutella. The stories ran on Nutella's feeds and on those of the influencers who created them. As part of a broader, carefully orchestrated PR and paid media campaign, these micro-influencer stories helped increase Nutella's online brand conversations by 15 percent, total engagement by 100 percent, and social media fan base by more than 500 percent.

Another reason companies are turning to micro-influencers is flexibility in focus. Mega-influencers have greater reach, but their content scatters across a wider variety of topics for a broader audience. Because micro-influencers have their own individual specialties, brands can focus them on specific niches. Or they can reach broader audiences by going after multiple niches and new segments.

Instead of paying top dollar to a small group of mega-influencers, many brands now are partnering with a larger number of smaller micro-influencers to give a more authentic, focused, and affordable voice to their brands.

Diego Cervo/Shutterstock

For example, using micro-influencers helped electrolyte beverage brand Cure Hydration identify and expand into new customer niches. Cure initially recruited about 125 people into its micro-influencer program with a focus on fitness and nutrition. As the brand grew, however, Cure sales and social data revealed additional customer niches—such as women seeking better hydration during pregnancy or breastfeeding as well as people suffering from headaches. As Cure discovered these new niches, it adjusted its micro-influencer recruiting accordingly.

In addition to higher engagement rates and more focused targeting, micro-influencers offer another big advantage—cost. Not surprisingly, micro-influencers cost a lot less than mega-influencers. As an influencer's follower count increases, so does the cost of a sponsored post. At more than $1 million per post, mega-influencers such as Dwayne Johnson or Kylie Jenner are extremes. But any highly sought-after celebrity commands hundreds of thousands of dollars per post. That's a big expense, even for established brands. For smaller companies, employing a top influencer for a single piece of content is an "all-in" strategy.

By contrast, 97 percent of micro-influencers on Instagram charge $500 or less per post, increasing to around $1,000 for influencers with 100,000 followers. So for the price of one Dwayne Johnson post, a brand can get maybe 1,000 to 2,000 micro-influencer posts. And given their authenticity and higher engagement rates, micro-influencers add up to an even better rate per *effective* exposure. Cure Hydration claims a micro-influencer return on investment that is six times greater than the standard mega-influencer arrangement.

Authenticity and engagement, flexibility and focus, affordability—it's no wonder that marketers are increasingly turning to micro-influencers to give voice to their brands.[14]

of social media moms as brand ambassadors. America's moms constitute a huge market; they are also heavy social media sharers and shoppers. At the same time, millions of moms maintain a blog or a presence on social media platforms like Instagram ("Instamoms"), Facebook, Twitter, Pinterest, and YouTube.

Disney has long recognized the power of moms in social media and the importance they play in planning family vacations. The company assembled a group called Disney Social Media Moms, roughly 1,300 carefully selected mom bloggers (and some dads), travel bloggers, and active Disney-focused social media posters:[15]

Micro-influencers: Recognizing the power of moms in social media, Disney assembled a group of micro-influencers called Disney Social Media Moms, about 1,300 carefully selected mom bloggers (and some dads), travel bloggers, and active Disney-focused social media posters who help sprinkle Disney's magical pixie dust on an important group of buyers.

Handout/Getty Images

Disney looks for influential moms who fit the brand's family-friendly focus, use social media heavily, and are active in their communities offline as well as online. An example is Wendy Wright, a homeschooling mother of two and a prolific blogger. Wendy describes herself as a "Disney nut" (she named her cats Mickey and Minnie), and she fills her blog with advice for planning Disney park visits, tips for holding Disney-themed parties, and reviews of Disney movies. Disney Social Media Moms aren't paid; they participate because of their passion and enthusiasm for all things Disney. However, they do receive special educational attention from Disney, inside information, and occasional perks. For example, every year, Disney invites some of its influencer moms and their families to Disney Creator Day Celebrations, one-week all-expense-paid land and sea conferences celebrating and educating important Disney mom influencers and their families. The Disney Social Media Moms are under no obligation to post anything about Disney, and the company doesn't tell them what to say when they do post. However, a single Creator Day Celebration event generates thousands of tweets, Instagram photos, and blog posts full of ride reviews, videos of families meeting Disney characters, and a host of overwhelmingly positive comments. These posts are ultimately viewed by millions of Disney lovers and their families as they dream about their own Disney vacations. The mom influencer effort costs the company relatively little but effectively taps the power of mom-to-mom influence to help sprinkle Disney's magical pixie dust on an important group of buyers.

Online social networks

Online social communities—blogs, online social media, brand communities, and other online forums—where people socialize and exchange information and opinions.

Other marketers shape influence by tapping into existing **online social networks**—online communities where people socialize and exchange information and opinions. Social networking communities range from blogs (Mashable, Engadget, Gizmodo) and business networking sites (Craigslist, Angi) to social media sites (TikTok, Facebook, Twitter, YouTube, Instagram, Snapchat, LinkedIn) and online shopping destinations (Amazon.com and Etsy) where buyer communities can exchange product information and reviews. Marketers can harness the power of these social networks to promote products, strengthen customer relationships, and become an integral, interactive part of consumers' conversations and lives. Looking into the future, we may even see the development of "metaverses"—3-D virtual or augmented reality environments where people can connect with friends, work, travel, and access educational opportunities through immersive virtual technologies. In such new digital worlds, customer avatars doubling as effective brand ambassadors hold great promise.[16]

Marketers are also developing employee-influencer programs that turn company employees into small-scale customer influencers. For example, at Valio, the largest dairy cooperative in Finland, workers share behind-the-scenes and on-the-job insights about life at the company via social media. Valio has its own Instagram page that the company uses to show customers what is going on at Valio or simply to share personal experiences based on the products. Both farmers and employees post pictures of happy cows, cute little calves, well-tended farms, and milk trucks making their way through the snow to customers. This provides a platform for the farmers and employees to engage with consumers and talk about their work, the production process, and how their cows are doing. A community manager says, "We wanted to show our customers what's going on at Valio: real-life stories told by our owners and our employees. With social media more popular than ever, we are convinced that social media channels are just the right way to communicate our message."[17]

We will dig deeper into online and social media as marketing tools in Chapter 17. Although much current influencer marketing discussion focuses on digital, mobile, and social media, many brand conversations still take place in face-to-face settings, so effective influencer marketing programs usually integrate offline and online strategies. Aside from formal influencers hired by the company, the goal is to get regular customers involved with brands, turn them into brand advocates, and help them share their brand passions and experiences with others in both their real and digital worlds.

Family

The family is the most important membership group and consumer buying unit in society. Marketers are interested in how various family members influence the purchase of products and services.

Family member involvement can vary widely by product category and by stage in the buying process. Buying roles have changed over time with evolving consumer lifestyles. For example, in the United States, in families composed of a husband, a wife, and some number of children, the wife has historically been considered the main family purchasing agent for food, household products, and clothing. But with more than 70 percent of all mothers now working outside the home and husbands doing a lot more of the family's purchasing, all this has changed in recent years. Recent surveys show that one-third of men do the majority of the house cleaning and 43 percent of men perform food preparation and cleanup activities. At the same time, women today purchase more than 50 percent of products traditionally considered in the male domain, including cars, electronics, and home-improvement products. In parallel, traditional male–female definitions of the family unit are themselves shifting. For example, same-sex couples and more fluid interpretations of gender and identity are becoming well accepted and often unremarkable in our daily lives.[18]

Such shifting roles signal a new marketing reality. Marketers who have traditionally sold their products mainly to women—such as groceries and personal care products—or mainly to men—such as consumer electronics and cars—are now targeting the opposite sex. For example, a recent Tide ad shows a dad with kids in a busy household doing laundry and lauding the benefits of Tide with Ultra Oxi for Stains. And a 90-second ad for Barbie, shown during an NFL playoff game, shows heartwarming scenes of dads and daughters playing together with Barbies. The ad concludes, "Time spent in her imaginary world is an investment in her real world."[19] In addition, marketers are broadening their definitions of "family" to include many different types of households, including single-parent families, same-sex households, multigenerational families, childless households, and others.

Children can strongly influence family buying decisions. Research has revealed that 9 in 10 parents said that their kids influenced their purchases. The percentage of decisions influenced varied across categories, ranging from 92 percent for toys and games and 88 percent for food and drink to 79 percent for travel and 74 percent for digital streaming. In fact, 36 percent of parents reported that their children influenced decisions for household purchases that were not explicitly made for the children themselves.[20]

Marketers across industries recognize such family influences in their marketing programs. For example, one ad for Honda's Odyssey minivan, titled "Keep the Peace," touts innovative features that satisfy the entire family. "When kids are happy, parents

Family buying influences: Children may weigh heavily on family purchases for everything from restaurants and vacation destinations to mobile devices and even car purchases.

Frame Stock Footage/Shutterstock

are happy, so the goal of this new campaign is to communicate that the all-new Honda Odyssey has the connectivity, functionality, flexibility, and fun-to-drive handling to keep everyone in the family happy," says a Honda marketer.[21]

Roles and Status

A person belongs to many groups—family, clubs, organizations, online communities. The person's position in each group can be defined in terms of both role and status. A role consists of the activities people are expected to perform according to the people around them. Each role carries a status reflecting the general esteem given to it by society.

People usually choose products appropriate to their roles and status. Consider the various roles a working mother plays. In her company, she may play the role of a brand manager; in her family, she may play the role of spouse and mother; at her favorite sporting events, she may play the role of avid fan. As a brand manager, she will buy the kind of clothing that reflects her role and status in her company. At the game, she may wear clothing supporting her favorite team. For marketers, such multiple roles and statuses create opportunities to attract a consumer with a portfolio of offerings that span different consumption and usage occasions but still reflect the core brand positioning. For example, women's fashion retailer Anthropologie offers clothing ranging from formal dresses to loungewear and jumpsuits.

Personal Factors

A buyer's decisions also are influenced by personal characteristics such as the buyer's *occupation, age and stage, economic situation, lifestyle*, and *personality and self-concept*.

Occupation

A person's occupation affects the goods and services they buy. Segmenting and targeting consumers by occupation can reveal some interesting opportunities. For example, Caterpillar/CAT, the world's leading manufacturer of construction machinery, offers rugged mobile phones made for tough and challenging work environments. In demanding surroundings like construction and heavy industry, normal smartphones are not durable, robust, or reliable enough. According to the device maker, consequential damage of handsets is a common problem for workers in these professions, leaving them unnecessarily burdened with out-of-pocket expenses. The CAT S61, for example, withstands extreme drops, is dust and waterproof, can be controlled with dry or wet gloves, and offers additional features for the trade, like thermal imaging or an indoor air quality monitor.[22]

Appealing to occupation segments: Caterpillar makes rugged, durable phones for construction and other heavy industries.

B Christopher/Alamy Stock Photo

Age and Life Stage

People change the goods and services they buy over their lifetimes. Tastes in food, clothes, furniture, and recreation are often age related. Buying is also shaped by the stage of the family life cycle—the phases through which families pass as they mature over time. Life-stage changes usually result from demographics and life-changing events—marriage, having children, purchasing a home, divorce, children going to college, changes in personal income, moving out of the house, and retirement. Marketers often define their target markets in terms of life-cycle stage and customize their offerings and marketing for each stage.

One of the leading life-stage segmentation systems is the Claritas PRIZM Lifestage Groups system. PRIZM classifies every American household into one of 68 distinct life-stage segments, which are organized into 11 major life-stage groups based on affluence, age, and family characteristics. The classifications consider a host of demographic factors such as age, education, income, occupation, family composition, ethnicity, and housing; and behavioral and lifestyle factors such as purchases, free-time activities, and media preferences.

The major PRIZM Lifestage groups carry names such as "Striving Singles," "Midlife Success," "Young Achievers," "Sustaining Families," "Affluent Empty Nests," and "Conservative Classics," which in turn contain subgroups such as "Bright Lights, Li'l City," "Kids & Cul-de-Sacs," "Gray Power," and "Big City Blues." The "Young Achievers" group, for example, consists of hip, single 20-somethings who rent apartments in or close to metropolitan neighborhoods. Their incomes range from working class to well-to-do, but the group tends to be politically liberal, listens to alternative music, and enjoys a lively nightlife.[23]

Life-stage segmentation provides marketers with a powerful tool to better find, understand, and engage consumers. Armed with these data, marketers can geographically target and even personalize campaigns based on evolving consumer needs and ambitions across their life stages.

Economic Situation

People's economic situations affect the wheres and whats of their shopping. Marketers watch trends in spending, personal income, savings, and interest rates. In today's value-conscious times, many companies have enhanced customer value by redesigning, repositioning, and repricing their offerings. For example, retail chain Target has emphasized the "Pay Less" side of its "Expect More. Pay Less." positioning promise over the past decade. And soon after Amazon purchased Whole Foods, it took a knife to the upscale grocery chain's high prices. To blunt the chain's "Whole Foods. Whole Paycheck." image, Amazon promised that the chain would offer "high-quality natural and organic food affordable for everyone." Amazon Prime members can scan a QR code on their Amazon app at a Whole Foods counter to gain access to a range of lower prices. This also facilitates the cross-selling of Amazon's Prime Membership program.[24]

Environmental Situation

Environmental circumstances can affect consumer attitudes and buying behaviors. People's physical, technological, and health circumstances will impact what products they buy, where and how they shop, and much more. Thus, d.light Solar has developed affordable solar-powered home lighting systems for the hundreds of millions of people in developing economies who don't have access to reliable power. And P&G developed a waterless line of shampoos and other hair care products that required no water for South African consumers facing severe water shortages.

The onset of the coronavirus pandemic caused major changes in many areas of consumer behavior. For example, brand loyalty dropped in many product categories as product shortages boosted the importance of availability and convenience over brand names. The pandemic sped up the shift toward online shopping across all age and demographic groups, supported by contactless pickup and delivery. More generally, consumers ate in and stayed in rather than eating out and going out, turning the restaurant, retailing, entertainment, and travel industries upside down. Many of these changes will be permanent. Marketers must be prepared to adjust quickly to major environmental disruptions.

Lifestyle

Lifestyle
A person's pattern of living as expressed in his or her activities, interests, and opinions.

People coming from the same subculture, economic group, and occupation may have quite different lifestyles. **Lifestyle** is a person's pattern of living as expressed in his or her psychographics. It involves measuring consumers' major AIO dimensions—*activities* (work, hobbies, shopping, sports, social events), *interests* (food, fashion, family, recreation), and *opinions* (about themselves, social issues, business, products). Lifestyle captures something more than the person's social class or personality. It profiles a person's whole pattern of acting and interacting in the world.

When used carefully, the lifestyle concept can help marketers understand changing consumer values and how they affect buyer behavior. Today's consumers don't just buy products; they buy the values and lifestyles those products represent. For

Lifestyles: The Body Shop markets much more than just beauty products; its cosmetics seek to embody the ethical consumerism lifestyle.

uk retail Alan King/Alamy Stock Photo

example, owning a Tesla aligns with a lifestyle of high-tech, eco-friendly luxury. The Patagonia brand is part of a socially conscious, outdoorsy lifestyle, consistent with the brand's mission to "build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis." For example, The Body Shop markets much more than just beauty products:

> The Body Shop's founder, Anita Roddick, had always been a strong advocate of ethical consumerism, human and animal rights issues, and environmental protection. When she made her first beauty products in 1976, she maintained this philosophy by using natural and non-animal-tested ingredients to make the products ethical and ecological statement pieces. As she grew her business, she continued to use her products as a platform for communicating more of her beliefs, like raising self-esteem in women. Although The Body Shop was bought by Brazilian cosmetics group Natura in 2017, its social and environmental commitment remains in its marketing DNA today.[25]

Personality and Self-Concept

Personality
The psychological characteristics that distinguish a person that are expressed in traits such as self-confidence, dominance, sociability, and adaptability.

Personality refers to the unique psychological characteristics that distinguish a person or group. Personality is usually described in terms of traits such as self-confidence, dominance, sociability, autonomy, defensiveness, adaptability, and aggressiveness. People's personalities can influence their buying behaviors. Therefore, marketers can apply personality traits to segment customers, unravel their behavior, and serve them better.

The idea is that brands also have personalities, and consumers are likely to choose brands with personalities that match their own. A *brand personality* is the specific mix of human traits that may be attributed to a particular brand. Researchers have identified five brand personality traits: *sincerity* (down-to-earth, honest, wholesome, and cheerful), *excitement* (daring, spirited, imaginative, and up-to-date), *competence* (reliable, intelligent, and successful), *sophistication* (glamorous, upper class, charming), and *ruggedness* (outdoorsy and tough).[26]

Most well-known brands are strongly associated with a particular trait: the Ford F150 with "ruggedness," Red Bull with "excitement," the *Washington Post* with "competence," Honest Tea with "sincerity," and Gucci with "class and sophistication." Many brands build their positioning and brand stories around such traits. For example, Ford's market-leading F-series pickup truck brand has long been positioned as "Built Ford Tough." Since 1979, the long-running tagline has conveyed quality, durability, and resilience, helping make the Ford F-series the best-selling car or truck in America.[27]

Brand personality: Ford's market-leading F-series pickup truck brand is positioned on toughness—Built Ford Tough—conveying quality, durability, and resilience.

Chuckld.photos/Alamy Stock Photo; Michael Wels/Alamy Stock Photo

Many marketers use a concept related to personality—a person's *self-concept* (also called *self-image*). The idea is that people's possessions contribute to and reflect their identities to the outside world—that is, "we are what we consume." Thus, marketers who understand the relationships between consumer self-concept and possessions can design and position products and services to appeal to specific personality types.

Hence, brands will attract people who are high on the same personality traits. For example, the MINI automobile has an instantly recognizable personality as a clever and sassy but powerful little car. MINI owners—who sometimes call themselves "MINIacs"—have a strong and emotional connection with their cars. More than targeting specific demographic segments, MINI appeals to personality segments—to people who are "adventurous, individualistic, open-minded, creative, tech-savvy, and young at heart"—anything but normal—just like the car.[28]

Psychological Factors

A person's buying choices are further influenced by four major psychological factors: *motivation, perception, learning*, and *beliefs and attitudes*.

Motivation

Motive (drive)
A need that is sufficiently pressing that the person seeks to satisfy it.

A person has many needs at any given time. Some are biological, arising from states of tension such as hunger, thirst, or discomfort. Others are psychological, arising from the need for recognition, esteem, or belonging. A need becomes a motive when it is aroused to a sufficient level of intensity. A **motive (or drive)** is a need that is sufficiently pressing that the person seeks to satisfy it. Psychologists have developed theories of human motivation. Two of the most popular—the theories of Sigmund Freud and Abraham Maslow—carry quite different meanings for consumer analysis and marketing.

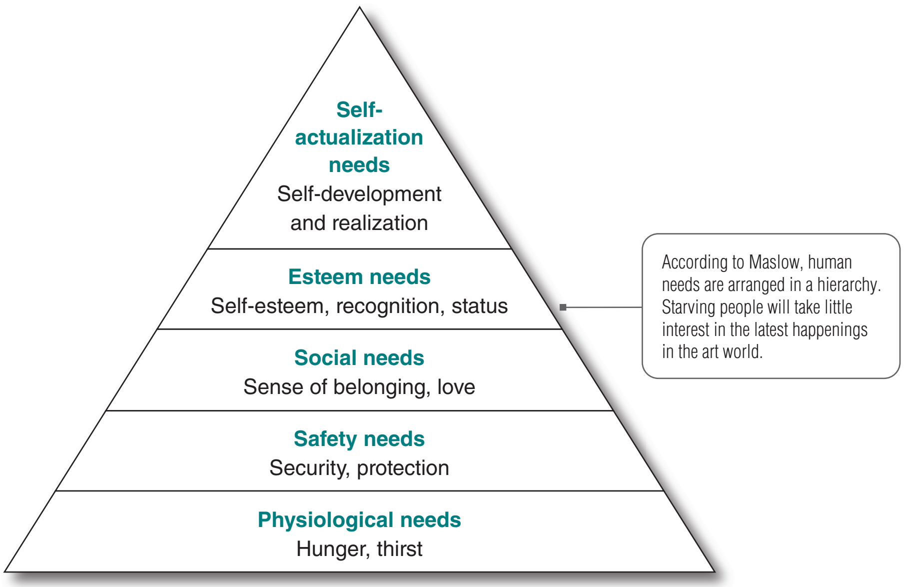
Sigmund Freud held that people are largely unconscious about the real psychological forces shaping their behavior. His theory suggests that a person's buying decisions are affected by subconscious motives that even the buyer may not fully understand. Thus, an aging baby boomer who buys a sporty BMW convertible might explain that he simply likes the feel of the wind in his thinning hair. At a deeper level, he may be trying to impress others with his success. At a still deeper subconscious level, he may be buying the car to feel young and independent again.

Consumers often don't know or can't describe why they act as they do. Thus, many companies employ teams of psychologists, anthropologists, and other social scientists to carry out *motivation research* that probes the subconscious motivations underlying consumers' emotions and behaviors toward brands. One ad agency routinely conducts one-on-one, therapy-like interviews to explore the inner workings of consumers' minds. Another company asks consumers to describe their favorite brands as animals or cars (say, a Mercedes versus a Chevy) to assess the prestige associated with various brands. And some companies employ even more esoteric approaches—such as hypnosis and dream therapy—to plumb the murky depths of consumer psyches. Although some of these projective techniques might seem unusual, an entire marketing research subfield called *interpretive consumer research* focuses on using such techniques to dig deep into consumer psyches.

In contrast to Freud's focus on the unconscious and subconscious, Abraham Maslow sought to explain why people are driven by particular needs at particular times. Why does one person spend a lot of time and energy on personal safety and another on gaining the esteem of others? Maslow's answer is that human needs are arranged in a hierarchy, as shown in **Figure 5.3**, from the most pressing at the bottom to the least pressing at the top.[29] They include *physiological* needs, *safety* needs, *social* needs, *esteem* needs, and *self-actualization* needs.

A person tries to satisfy the most important need first. When that need is satisfied, it will stop being a motivator, and the person will then try to satisfy the next most important need. For example, starving people (physiological need) will not take an interest in the latest

FIGURE 5.3
Maslow's Hierarchy of Needs



happenings in the art world (self-actualization needs) or in how they are seen or esteemed by others (social or esteem needs) or even in whether they are breathing clean air (safety needs). But as each important need is satisfied, the next most important need will come into play.

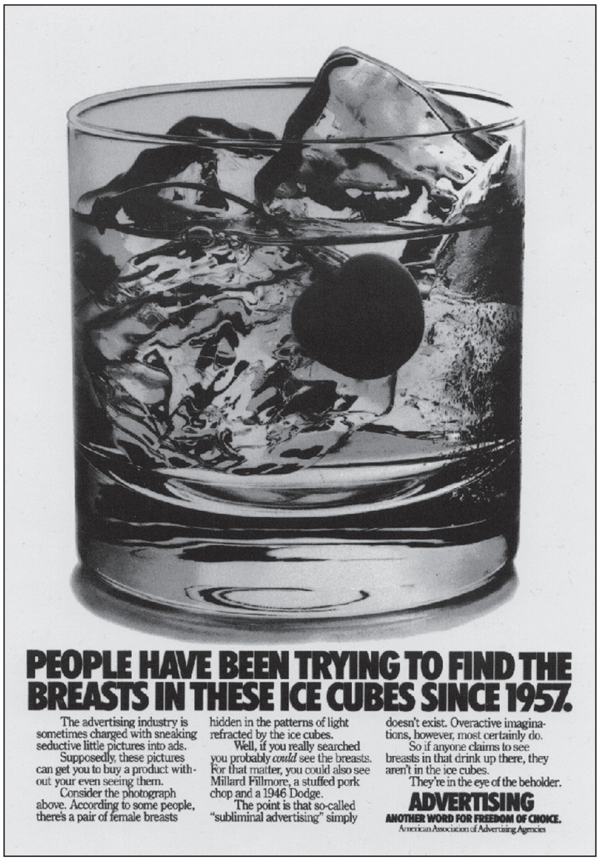
Marketers can apply Maslow's hierarchy of needs in two ways. First, they need to understand the level of needs a targeted customer segment is striving to fulfill. Marketing mix decisions related to product, pricing, placement or distribution, and promotion can then be designed to address that need level effectively. Second, in global marketing, customer segments across different countries and cultures may prioritize different needs. For example, many consumers in developing economies may focus less on higher-order needs and more on securing their physiological needs such as hunger and safety needs such as protection from the elements. Understanding these variations can help in customizing marketing strategy across global markets. Thus, when targeting its bathing soaps in developing economies in Southeast Asia, Unilever marketed its Lifebouy soap bar in a larger size with ingredients that dissolved more slowly, priced it lower, and positioned it as offering significant value for money. As a result, the brand's popularity in poor, rural areas shot through the roof.

Perception

A motivated people are ready to act. How they act is influenced by their perceptions of a situation. All of us learn from the flow of information through our five senses: sight, hearing, smell, touch, and taste. However, each of us receives, organizes, and interprets this sensory information in a unique way. **Perception** is the process by which people select, organize, and interpret information to form a meaningful picture of the world.

Perception
The process by which people select, organize, and interpret information to form a meaningful picture of the world.

People can form different perceptions of the same stimulus because of three perceptual processes: selective attention, selective distortion, and selective retention. People are exposed to a huge number of stimuli every day. For example, individuals can potentially be exposed to thousands of marketing stimuli daily—from TV and magazine ads to billboards to social media ads and smartphone posts.[30] People can't possibly pay attention to all the competing stimuli surrounding them. *Selective attention*—the tendency for people to screen out most of the information to which they are exposed—means that marketers must work especially hard to attract the consumer's attention.



This classic ad from the American Association of Advertising Agencies pokes fun at subliminal advertising. "So-called 'subliminal advertising' simply doesn't exist," says the ad. "Overactive imaginations, however, most certainly do."

American Association of Advertising Agencies

Even noticed stimuli do not always come across in the intended way. Each person fits incoming information into an existing mindset. *Selective distortion* describes the tendency of people to interpret information in a way that supports what they already believe. People tend to retain only information that supports their attitudes and beliefs. *Selective retention* means that consumers are likely to remember good points made about a brand they favor and forget good points made about competing brands. Because of selective attention, distortion, and retention, marketers must work hard just to get their messages through. Interestingly, although most marketers worry about whether their offers will be perceived at all, some consumers worry that they are being manipulated by marketing messages without even knowing it—through *subliminal advertising*. More than 50 years ago, a researcher announced that he had flashed the phrases "Eat popcorn" and "Drink Coca-Cola" on a screen in a New Jersey movie theater every five seconds for 1/300th of a second. He reported that although viewers did not consciously recognize these messages, they absorbed them subconsciously and bought 58 percent more popcorn and 18 percent more Coke. Suddenly advertisers and consumer-protection groups became intensely interested in subliminal perception. Although the researcher later admitted to making up the data, some consumers still fear that they are being manipulated by subliminal messages.

Numerous studies by psychologists and consumer researchers have found little or no link between subliminal messages and consumer behavior. Although recent brain-wave studies have found that our brains may register subliminal messages in certain circumstances, it appears that subliminal advertising simply doesn't have the power attributed to it by its critics.[31] One classic ad from the American

Association of Advertising Agencies pokes fun at subliminal advertising. "So-called 'subliminal advertising' simply doesn't exist," says the ad. "Overactive imaginations, however, most certainly do."

Interestingly, although subliminal messages might not influence human consumer behavior, they can affect the behavior of smart devices. Researchers have recently shown that they can send hidden commands, buried in music or other background noise and undetectable to the human ear, to Apple's Siri, Amazon's Alexa, and Google's Assistant. In experimental settings, the researchers have been able to secretly activate smart speakers and smartphones, getting them to dial phone numbers or open websites. "In the wrong hands, the technology could be used to unlock doors, wire money, or buy stuff online—simply with music playing over the radio," says an analyst. So far, it seems, such intrusions have happened only in research labs. But Amazon, Google, and other smart device makers are taking steps to protect users against such digital age subliminal commands.[32]

Learning

Learning
Changes in an individual's behavior arising from experience.

When people act, they learn. **Learning** describes changes in an individual's behavior arising from experience. Learning theorists hold that most human behavior is learned. Learning occurs through the interplay of drives, stimuli, cues, responses, and reinforcement.

A *drive* is a strong internal stimulus that calls for action. A drive becomes a motive when it is directed toward a particular *stimulus object*. For example, a person's safety and security might motivate him or her to look into buying a home security camera. The consumer's response to the idea of buying a camera is conditioned by the surrounding cues. *Cues* are minor stimuli that determine when, where, and how the person responds. The home security camera buyer might see one at a friend's home, see them while shopping at Best Buy, hear of a special sale price, see buyer reviews on Amazon.com, or discuss cameras with a friend. These are all cues that might influence a consumer's *response* to his or her interest in buying the product.

Suppose the consumer buys Google's Nest Cam outdoor security camera. If the experience is rewarding, the consumer will probably rely more and more on the camera and its associated app, and his or her response will be *reinforced*. If the consumer shops for additional outdoor or indoor security cameras or for other smarthome products, the probability is greater that he or she will buy the Nest brand. The practical significance of learning theory for marketers is that they can build up demand for a product by associating it with strong drives, using motivating cues, and providing positive reinforcement.

Beliefs and Attitudes

Belief
A descriptive thought that a person holds about something.

Through doing and learning, people acquire beliefs and attitudes. These, in turn, influence their buying behavior. A **belief** is a descriptive thought that a person holds about something. Beliefs may be based on real knowledge, opinion, or faith and may or may not carry an emotional charge. Marketers are interested in the beliefs that people formulate about specific products and services because these beliefs make up product and brand images that affect buying behavior. If some of the beliefs are wrong and prevent purchase, the marketer will want to launch a campaign to correct them.

Attitude
A person's consistently favorable or unfavorable evaluations, feelings, and tendencies toward an object or idea.

People have attitudes regarding religion, politics, clothes, music, food, and almost everything else. **Attitude** describes a person's relatively consistent evaluations, feelings, and tendencies toward an object or idea. Attitudes put people into a frame of mind of liking or disliking things, of moving toward or away from them. Our home security camera buyer may hold attitudes such as "Buy the best," "Home security requires the latest and most advanced technology," and "Google knows technology best." If so, the Nest camera would fit well into the consumer's existing attitudes.

Attitudes are difficult to change. A person's attitudes fit into a pattern; changing one attitude may require difficult adjustments in many others. Thus, a company should usually try to fit its products into existing attitude patterns rather than attempt to change attitudes. Of course, there are exceptions. Repositioning or extending a brand calls for changing attitudes. So does introducing an innovative new brand that counters conventional thinking. For example, consider market-leading women's shapewear brand SPANX. The brand

SPANX and founder Sara Blakely have fundamentally changed the way consumers think about clothing and their body shapes. It's not "foundationwear" anymore. "Shapewear is the canvas and clothes are the art."

now markets a full line of women's apparel, from underwear and hosiery to swimwear, shorts, skirts, and jeans. But to start, SPANX first had to change consumer attitudes about clothing, body shapes, and body-shaping "foundation garments":[33]

> SPANX's mission is "to help women feel great about themselves and their potential." It all started when SPANX founder Sara Blakely paid a premium price for a pair of designer slacks. Although they were her favorite pants, she rarely wore them. "Every time I would go to wear them, you could see the undergarment," Blakely recalls. "Regular underwear left a panty line. The thong wasn't a great solution—it also left marks that you could see." Blakely was not alone in her garment–body woes. For centuries, women had wrestled with how to get their bodies to fit into fashionable clothing. "Foundation garments" designed to deliver smooth and shapely figures have long earned a bad reputation as bulky, uncomfortable, and inconvenient. There had to be something that could smooth Blakely's shape to the point where she felt comfortable wearing the pants she loved.
>
> Blakely took matters into her own hands. She bought a sewing machine, created her own miracle garment, designed the packaging, and came up with the name "SPANX"—kind of funny, kind of naughty, all about the rear end, and a fit with her outgoing personality. With a quality product and a catchy brand name, it seemed that SPANX would fly off the shelves. It solved a real problem. But to succeed, Blakely first had to change basic retailer and consumer attitudes toward foundation garments. SPANX didn't fit into any existing garment category. Retailers wanted to put it in the hosiery department. Instead, Blakely convinced them to place it in racks near cash registers in women's ready-to-wear clothing departments, complete with "before and after" pictures. Putting SPANX in a new context caused customers to pause and break free of established mental boundaries.
>
> With no money to advertise, Blakely sent samples to every imaginable celebrity, hoping that some would start wearing SPANX and talk about the brand. Oprah Winfrey tried them on and became an instant believer. She sang the product's praises on her show and even selected SPANX as her favorite product of the year. With Oprah's endorsement, other A-list celebrities started strutting their SPANX-clad bodies across the media. Attitudes changed rapidly, and SPANX took off. Once something that nobody talked much about, foundation wear—now "shapewear"—became the new fashion trend and topic. SPANX has fundamentally changed the way people think about both clothing and their body shapes. In fact, it's not about "foundation garments" anymore. "Shapewear is the canvas and the clothes are the art," Blakely declares. "I know things are right on me by the way I feel."

We can now appreciate the many forces acting on consumer behavior. The consumer's choice results from the complex interplay of cultural, social, personal, and psychological factors.

Author Comment | The actual purchase decision is part of a much larger buying process—from recognizing a need through how you feel after making the purchase. Marketers want to be involved throughout the entire buyer decision process.

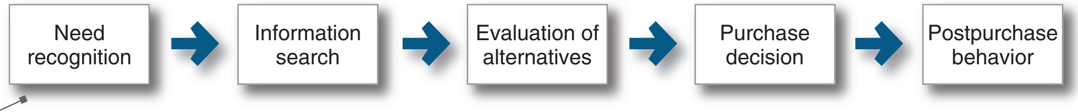
The Buyer Decision Process and Types of Buying Decision Behavior

OBJECTIVE 5-3 Understand the stages in the buyer decision process and the major types of buying decision behavior.

The Buyer Decision Process

Now that we have looked at the influences that affect buyers, we are ready to look at how consumers make buying decisions. Figure 5.4 shows that the buyer decision process consists of five stages: *need recognition, information search, evaluation of alternatives*, the *purchase decision*, and *postpurchase behavior*. Marketers need to focus on the entire buying process that begins long before—and ends long after—the actual purchase.

FIGURE 5.4
Buyer Decision Process



The buying process starts long before the actual purchase and continues long after. In fact, it might result in a decision not to buy. Therefore, marketers must focus on the entire buying process, not just the purchase decision.

Figure 5.4 suggests that consumers pass through all five stages with every purchase in a considered way. But buyers may pass quickly or slowly through the buying decision process. And in more routine purchases, consumers often skip or reverse some of the stages. Much depends on the nature of the buyer, the product, and the buying situation. A person buying a regular brand of toothpaste would recognize the need and go right to the purchase decision, skipping information search and evaluation. However, we use the model in Figure 5.4 because it shows all the considerations that arise when a consumer faces a new purchase situation.

Need Recognition

Need recognition
The first stage of the buyer decision process in which the consumer recognizes a problem or need.

The buying process starts with **need recognition**—the buyer recognizes a problem or need. The need can be triggered by *internal stimuli* when one of the person's normal needs—for example, hunger or thirst—rises to a level high enough to become a drive. A need can also be triggered by *external stimuli*. For example, an advertisement or a chat with a friend might get you thinking about buying a new car. At this stage, the marketer should research consumers to find out what kinds of needs or problems arise, what brought them about, and how they led the consumer to this particular product. Getting on the consumer's radar close to the point of need recognition can place the marketer in a good spot down the road.

Once the need is recognized, if there is an acceptable product near at hand, the customer might buy it then and there. Note that such decision making may not lead to the choice of a product that best fits the consumer's need, but rather to a *satisficing* choice—one that is "good enough." From a marketer's perspective, it is important for a brand to be at the top of the consumer's mind. Otherwise, the consumer may not even get around to evaluating it before choosing something else.

Information Search

Information search
The stage of the buyer decision process in which the consumer is motivated to search for more information.

If the consumer's drive is strong and there is no satisfying product near at hand, the consumer may undertake an **information search** related to the need. For example, once you've decided you need a new car, at the least, you will probably pay more attention to car ads, cars owned by friends, and car conversations. And you may actively search car brands and buying sites online, talk with friends, and gather information in other ways.

Consumers can obtain information from several sources. These include personal sources (family, friends, neighbors, acquaintances), commercial sources (advertising, salespeople, dealer and manufacturer web and mobile sites, packaging, displays), public sources (mass media, consumer rating organizations, social media, online searches and peer reviews), and experiential sources (examining and using the product). The relative influence of these information sources varies with the product and the buyer.

Traditionally, consumers have received the most information about a product from commercial sources—those controlled by the marketer. The most effective sources, however, tend to be personal. Commercial sources normally *inform* the buyer, but personal sources *legitimize* or *evaluate* products for the buyer. Few advertising campaigns can be as effective as a next-door neighbor leaning over the fence and raving about a wonderful experience with a product you are considering.

Increasingly, that "neighbor's fence" is a digital one. Today, consumers share product opinions, images, and experiences freely across digital and social media. Buyers can find an abundance of user-generated reviews alongside the products they are considering at sites ranging from Amazon.com or BestBuy.com to Yelp, TripAdvisor, and Epicurious. For example, Yelp's goal is "to connect people with great local businesses" by maintaining a huge, searchable collection of candid reviews from people who've used those businesses. Over the past decade, Yelpers have written more than 184 million reviews of local restaurants and stores, service business, arts and entertainment activities, and other services in cities across the nation and worldwide. Yelp

Information sources: Yelp's goal is "to connect people with great local businesses" by maintaining a huge, searchable collection of candid reviews from people who've used those businesses. "We know just the place," says Yelp.

Yelp, Inc.

has more than 178 million unique visitors per month seeking reviews and ratings across its desktop, mobile, and app platforms.[34] Although individual user reviews at Yelp and other sites vary widely in quality, an entire body of reviews often provides a reliable product assessment—straight from the fingertips of people like you who've actually purchased and experienced the product. "Reviews for anything you could need," says Yelp. "We know just the place."

As more information is obtained, the consumer can refine the search. Your car information search may shed light on several available brands. The information might help you drop certain brands from consideration. A company must design its marketing mix to make prospects aware of and knowledgeable about its brand. It should carefully identify consumers' sources of information and the importance of each source.

Evaluation of Alternatives

We have seen how consumers obtain and use information in their buying decision process. Next, marketers need to know about **alternative evaluation**—that is, how consumers process information to choose among alternative brands. Unfortunately, consumers do not use a simple and single evaluation process in all buying situations. Instead, several evaluation processes are at work.

How consumers go about evaluating purchase alternatives depends on the individual consumer and the specific buying situation. In some cases, consumers use careful calculations and logical thinking. At other times, the same consumers do little or no evaluating. Instead, they buy on impulse and rely on intuition. Sometimes consumers make buying decisions on their own; sometimes they turn to friends, online reviews, or salespeople for buying advice.

Consumers often go through two stages in evaluating alternatives. In the first stage, they start with a large **consideration set** that may contain 10 or more brands. They then narrow down that larger set into a smaller **choice set** of, say, five or fewer brands that they evaluate more carefully. Given the large number of brands in the consideration set, consumers typically use simple decision methods to form the choice set. For example, they may simply use perceived strength of the brand name to narrow down the choice set to brands that have sufficiently strong reputations. For example, in your car buying decision, you may narrow your choices to Toyota, Honda, and Chevrolet based on previous general experiences and what your friends and family think.

Alternative evaluation
The stage of the buyer decision process in which the consumer uses information to evaluate alternative brands.

Consideration set
The set of perhaps 10 or more brands that consumers begin evaluating in order to generate a smaller choice set.

Choice set
The smaller set of brands—say, five or fewer—that consumers carefully evaluate in order to make their final choice.

In the second stage, consumers make a single, final choice from the choice set. Here, consumers use more careful calculations and logical thinking. For example, once you have narrowed your choice set to three brands, suppose that you are primarily interested in four attributes—price, style, operating economy, and performance. By this time, you've probably formed beliefs about the relative importance of each attribute and about how each brand rates on each attribute. Clearly, if one car rated best on all the important attributes, the marketer could predict that you would choose it. However, the brands will no doubt vary in appeal across the attributes. By knowing the importance that you assigned to each attribute, the marketer could predict and affect your car choice more reliably.

Marketers should study consumers to find out how they evaluate brand alternatives. If marketers know what evaluative processes go on, they can take steps to influence the buyer's decision. Importantly, in the two-stage decision process outlined previously, if a brand does not make it into the consumer's choice set, the evaluation details won't matter. A strong brand image and clear positioning can be critical to earning a place at the consumer's final choice set.

Purchase Decision

Purchase decision
The buyer's decision about which brand to purchase.

In the evaluation stage, the consumer ranks brands and forms purchase intentions. Generally, the consumer's **purchase decision** will be to buy the most preferred brand, but two factors can come between the purchase *intention* and the purchase *decision*. The first factor is the *attitudes of others*. If someone important to you thinks that you should buy the lowest-priced car, then the chances of you buying a more expensive car are reduced.

The second factor relates to *unexpected situational factors*. The consumer may form a purchase intention contingent on expectations related to factors such as income, price, product benefits and availability. However, unexpected events may change the purchase intention. For example, the economy might take a turn for the worse, a close competitor might drop its price, or a friend might report being disappointed in your preferred car. The onset of the COVID-19 pandemic often disrupted supply chains and led to product stockouts, so consumers often had to settle for less-preferred products and brands. Thus, purchase intentions may not always translate into actual purchases.

Postpurchase Behavior

Postpurchase behavior
The stage of the buyer decision process in which consumers take further action after purchase based on their satisfaction or dissatisfaction.

Cognitive dissonance
Buyer discomfort caused by postpurchase conflict.

The marketer's job does not end when the product is bought. After purchasing the product, the consumer will be either satisfied or dissatisfied and will engage in **postpurchase behavior** of interest to the marketer. What determines whether the buyer is satisfied or dissatisfied? The answer lies in the relationship between the *consumer's expectations* and the product's *perceived performance*. If the product falls short of expectations, the consumer is disappointed; if it meets expectations, the consumer is satisfied; if it exceeds expectations, the consumer is delighted. The larger the negative gap between expectations and performance, the greater the consumer's dissatisfaction. This suggests that sellers should promise only what their brands can deliver so that buyers are satisfied. Some marketers push this even further, aiming to "underpromise but overdeliver."

Almost all major purchases, however, result in **cognitive dissonance**, or discomfort caused by postpurchase conflict. After the purchase, consumers are satisfied with the benefits of the chosen brand and are glad to avoid the drawbacks of the brands not bought. However, every purchase involves some compromise So consumers feel uneasy about acquiring the drawbacks of the chosen brand and about losing the benefits of the brands not purchased. Thus, consumers feel at least some postpurchase dissonance for every purchase.

Postpurchase customer satisfaction: Postpurchase customer satisfaction is a key to building profitable customer relationships. Most marketers go beyond merely meeting the customer expectations—they aim to delight customers.
Dusit/Shutterstock

Why is it so important to satisfy the customer? Customer satisfaction is a key to building profitable relationships with consumers—to keeping and growing consumers and reaping their customer lifetime value. Satisfied customers buy a product again, talk favorably to others about the product, pay less attention to competing brands and advertising, and buy other products from the company. Many marketers go beyond merely *meeting* the expectations of customers—they aim to *delight* customers.

A dissatisfied consumer responds differently. Bad word of mouth often travels further and faster than good word of mouth. It can quickly damage consumer attitudes about a company and its products. But companies cannot simply wait for dissatisfied customers to volunteer their complaints. Most unhappy customers never tell the company about their problems. Therefore, a company should measure customer satisfaction regularly. It should set up systems that *encourage* customers to complain. In this way, the company can learn how well it is doing and how it can improve.

By studying the overall buyer decision process, marketers can find ways to help consumers move through it. For example, if consumers do not perceive a need for a new product, advertising messages can trigger the need and show how the product addresses the need. If customers hold unfavorable attitudes toward a new product, marketers can design advertising campaigns that reshape consumer perceptions.

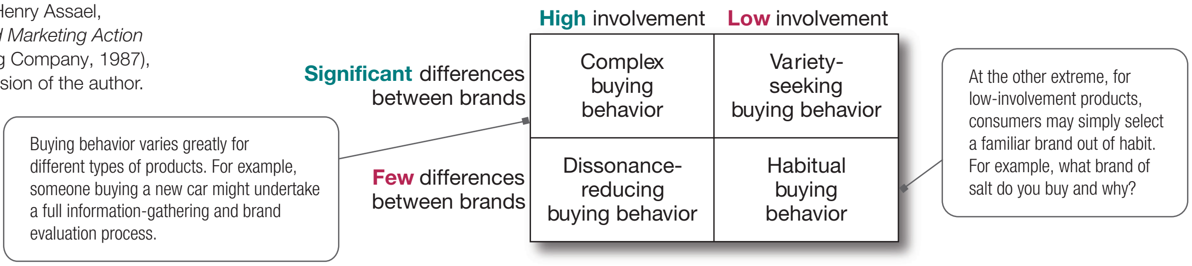
Author Comment | Some purchases are simple and routine, even habitual. Others are far more complex—involving extensive information gathering and evaluation—and are subject to sometimes subtle influences. For example, think of all that goes into a new car buying decision.

Types of Buying Decision Behavior

Buying behavior differs greatly for a tube of toothpaste, a smartphone, financial services, and a new car. More complex decisions usually involve more buying participants and more buyer deliberation. **Figure 5.5** shows types of consumer buying behavior based on the degree of buyer involvement and the degree of differences among brands.

FIGURE 5.5
Four Types of Buying Behavior

Source: Adapted from Henry Assael, *Consumer Behavior and Marketing Action* (Boston: Kent Publishing Company, 1987), p. 87. Used with permission of the author.



Complex Buying Behavior

Complex buying behavior
Consumer buying behavior in situations characterized by high consumer involvement in a purchase and significant perceived differences among brands.

Consumers undertake **complex buying behavior** when they are highly involved in a purchase and perceive significant differences among brands. Consumers may be highly involved when the product is expensive, risky, purchased infrequently, and highly self-expressive. Typically, the consumer has much to learn about the product category. For example, someone buying a new car might not know what models, attributes, and accessories to consider or what prices to expect.

This buyer will pass through a learning process, developing first beliefs about the product and then attitudes, and then make a thoughtful purchase choice. Marketers of high-involvement products must understand the information-gathering and evaluation behavior of high-involvement consumers. They need to help buyers learn about product-class attributes and their relative importance. They need to differentiate their brand's features, perhaps by describing and illustrating the brand's benefits through printed promotional materials or in-depth online information and videos. They must motivate store salespeople and the buyer's acquaintances to influence the final brand choice.

Dissonance-Reducing Buying Behavior

Dissonance-reducing buying behavior
Consumer buying behavior in situations characterized by high involvement but few perceived differences among brands.

Dissonance-reducing buying behavior occurs when consumers are highly involved with an expensive, infrequent, or risky purchase but see little difference among brands. For example, consumers buying carpeting may face a high-involvement decision because carpeting is expensive and self-expressive. Yet buyers may consider most carpet brands in a given price range to be the same. In this case, because perceived brand differences are not large, buyers may shop around to learn what is available but buy relatively quickly. They may respond primarily to a good price or purchase convenience.

After the purchase, consumers might experience *postpurchase dissonance* (after-sale discomfort) when they notice certain disadvantages of the purchased carpet brand or hear favorable things about brands not purchased. To counter such dissonance, the marketer's after-sale communications should provide evidence and support to help consumers feel good about their brand choices.

Habitual Buying Behavior

Habitual buying behavior
Consumer buying behavior in situations characterized by low consumer involvement and few significant perceived differences among brands.

Habitual buying behavior occurs under conditions of low-consumer involvement and little significant brand difference. For example, take baking flour. Most consumers have little involvement in this product category—they simply go to the store and reach for a brand. If they keep reaching for the same brand, it is out of habit rather than strong brand loyalty. Consumers appear to have low involvement with most low-cost, frequently purchased products.

In such cases, consumer behavior typically does not pass through the usual belief-attitude-behavior sequence. Consumers do not search extensively for information about the brands, evaluate brand characteristics, and make weighty decisions about which brands to buy. Because they are not highly involved with the product, consumers may not evaluate the choice, even after purchase. Thus, the buying process involves brand beliefs formed by passive learning, followed by purchase behavior, which may or may not be followed by evaluation.

To raise consumer involvement, King Author Baking Company offers dozens of varieties of differentiated flours and sets itself apart as responsibly sourced and quality "built on American wheat." "All flour is not created equal."

Duncan Selby/Alamy Stock Photo

Because buyers are not highly committed to any brands, marketers of low-involvement products with few brand differences often use price and sales promotions to promote buying. Alternatively, they can add product features, varieties, enhancements, or marketing content to differentiate their brands from the rest of the pack and raise involvement.

For example, baking flour is often seen as an uncomplicated, low-involvement product. But according to the King Arthur Baking Company, "all flour is not created equal."[35]

> King Arthur doesn't sell just plain old flour. It offers dozens of varieties of differentiated flours, ranging from good-old All-Purpose Flour to Organic White Whole Wheat Flour, Paleo Baking Flour, Grain-Free Coconut Flour, and Gluten-Free Measure for Measure Flour (one-to-one substitute for wheat flour). King Arthur sets its premium flours apart as responsibly sourced and "built on American wheat." Its rigorous quality standards mean that "our flour gives you the same results every time you bake." And King Arthur's mission goes well just making good flour. It wants to be "the ultimate resource and inspiration in the kitchen, to inspire connections and community through baking, and to use our business as a force for good." The brand increases customer involvement through several outreach, education, and marketing programs. One recent digital campaign invited customers to get involved with the brand by sharing photos of their baking creations with King Arthur brand GIFs and stickers on social media or trying out its brand "Crown" filter on Facebook and Instagram.

Variety-Seeking Buying Behavior

Variety-seeking buying behavior
Consumer buying behavior in situations characterized by low consumer involvement but significant perceived differences among brands.

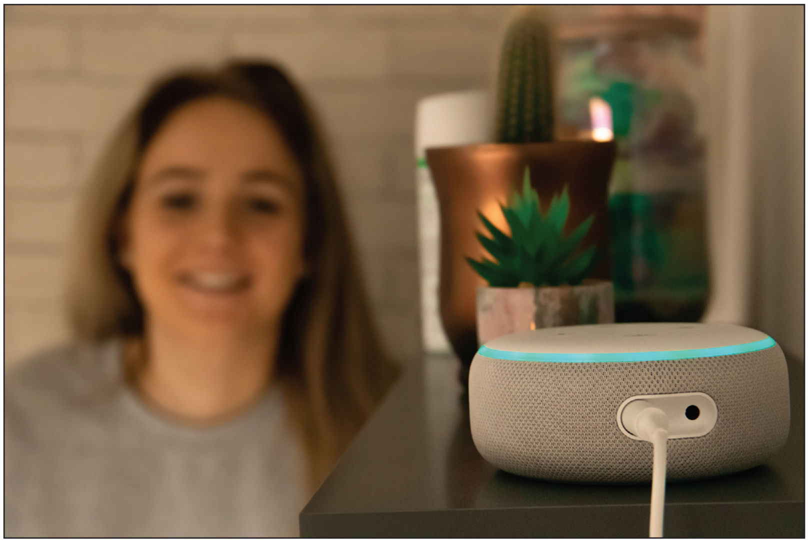
Consumers undertake **variety-seeking buying behavior** in situations characterized by low consumer involvement but significant perceived brand differences. In such cases, consumers often do a lot of brand switching. For example, when buying cookies, a consumer may hold some beliefs, choose a cookie brand without much evaluation, and then evaluate that brand during consumption. But the next time, the consumer might pick another brand out of boredom or simply to try something different. Brand switching occurs for the sake of variety rather than because of dissatisfaction or based on a deep evaluation of product differences and merits.

In such product categories, the marketing strategy may differ for the market leader and minor brands. The market leader will try to encourage habitual buying behavior by dominating shelf space, keeping shelves fully stocked, and running frequent reminder advertising. Challenger firms will encourage variety seeking by offering lower prices, special deals, coupons, free samples, and advertising that presents reasons for trying something new.

The Customer Journey

Customer journey
The sum of the ongoing experiences consumers have with a brand that affect their buying behavior, engagement, and brand advocacy over time.

Rather than viewing the buying process only as a specific set of stages, many marketers view it as a broader **customer journey**—as the sum of the ongoing experiences consumers have with a brand. Almost all discussions of the customer journey begin with customer brand awareness and end with the customer advocating the brand to others. However, customers rarely move consistently through any or all these stages. Rather, in their brand relationship-building journey, customers collect a portfolio of brand experiences. They move from touch point to touch point, sometimes circling back or moving off the path altogether. Under the customer journey concept, marketers focus not just on what customers do across the stages and touch points in the buying process but also on understanding and shaping the evolving customer experience.



The customer journey: By understanding the customer journey, marketers can work to create brand experiences that will result in positive purchase behavior, engagement, and brand advocacy over time.

Tyler Nottley/Shutterstock

The customer journey is unique to each customer. For example, while shopping at Amazon.com, customers might be exposed to a display ad for Amazon Echo smart speakers featuring the "Alexa" personal digital assistant. Ideally, a customer would become immediately interested, buy an Echo on the spot, install it at home, have positive experiences, and then later advocate it to others in a review at the Amazon site. However, some consumers might not even notice the Echo ad and end their customer journey there. Others might miss the ad but see an Echo in use at a friend's home, want one for themselves, and purchase it on Amazon.com. Or they might see the ad, be motivated to search and compare a range of smart speaker brands, and end up making an online purchase of a Google Home smart speaker instead. Still others may notice the Echo display ad on Amazon.com but visit a Best Buy store to learn more about smart speakers from the sales staff. Seeking higher audio quality, they may end up buying an Apple HomePod there. The consumer journey can influence not just which smart speaker is purchased and where but also initial expectations, product usage patterns, brand loyalty, and advocacy to others.

The sum of a customers' experiences throughout the customer journey will shape their continuing behavior and attitudes toward the brand. Beyond learning what paths customers are taking, marketers must dig deeper to learn the whys. To that end, marketers mine masses of consumer data to gain insights into the customer journey. For example, for customers who buy an Echo but never blossom into advocates, Amazon might discover that they've simply never learned about all the things that Alexa can do for them and how to make those things happen. To improve the Echo experience for such customers, Amazon sends them weekly "What's new with Alexa" emails announcing new features and suggesting new things to try.

"In an ideal world," concludes one analyst, "the journey people take to become loyal customers would be a straight shot down a highway: See your product. Buy your product. Use your product. Repeat. In reality, this journey is often more like a sightseeing tour with stops, exploration, and discussion along the way—all moments when you need to convince people to pick your brand and stick with it instead of switching to a competitor."[36] Thus, the marketer's goal is to deeply understand the ongoing customer journey, mapping customer touch points and experiences in detail. Following that, marketers can create brand experiences that result in increased purchases, engagement, and brand advocacy. Managing this journey has become even more important in the digital world, where online and mobile channels, social media, and big data–related artificial intelligence and machine learning applications have opened a wealth of opportunities to influence consumers across time and space (see Real Marketing 5.2).

New product
A good, service, or idea that is perceived by some potential customers as new.

Adoption process
The process through which an individual passes from first hearing about an innovation to final adoption.

Author Comment | Here we look at some special considerations in new product buying decisions.

The Buyer Decision Process for New Products

OBJECTIVE 5-4 Describe the adoption and diffusion process for new products.

We now look at how buyers approach the purchase of new products. A **new product** is a good, service, or idea that is perceived by some potential customers as new. It may have been around for a while, but our interest is in how consumers learn about products for the first time and make decisions on whether to adopt them. We define the **adoption process** as the process through which an individual passes from first learning about an innovation to final adoption. *Adoption* is the decision by an individual to become a regular user of the product.[37]

Real Marketing 5.2

L'Oréal: Creating a Seamless Customer Journey

The customer journey—the path along which customers decide to buy a brand, use it, stick with it, and tell others about it—is changing. Today, the journey is rarely a series of sequential steps toward purchase, use, and repurchase. Instead, in this age of digital immediacy, the customer journey is defined more by "micro-moments"—moments, say, when consumers turn to their mobile devices to search for, learn about, try, buy, or advocate something.

No brand knows this better than beauty and cosmetics giant L'Oréal. "Our consumers have evolved more in the past three years than in the 30 years prior," says one L'Oréal marketer. Facing the anytime-anywhere demands of today's customers in this era of "fast beauty," L'Oréal is committed to making the customer journey as immediate, seamless, and flowing as possible. It wants to anticipate each customer's every beauty need and provide effortless solutions at all places and times. To make this possible, L'Oréal has gone "digital first," investing deeply in technologies that make a L'Oréal customer's journey as full and fulfilling as possible.

One of L'Oréal's biggest leaps forward in its customer journey quest came eight years ago. The brand took the world by storm with Makeup Genius—an augmented reality (AR) "try-before-you-buy" app that coordinates online, in-home, and in-store touch points to create a hyper-customized, seamless, ongoing customer experience. Makeup Genius lessens the challenges customers face in sorting through, trying, and evaluating cosmetics products. Before Makeup Genius, if customers wanted to try on a shade of lipstick, eyeshadow, or any type of cosmetic product, they had to visit a store, sort through a massive set of options, and then apply, remove, and reapply samples. The process was inconvenient, uncertain, and subjective.

But with Makeup Genius, customers can try on thousands of different L'Oréal products virtually, anytime or anyplace, just by opening the app. Makeup Genius uses powerful facial recognition and AR technology to scan the user's face. From there, users can browse and scroll to quickly find options from the huge portfolio of L'Oréal products loaded into the app. With a single click, the app applies a selected option to the customer's live image, as if looking into a magic mirror. Users can move their faces side to side, up or down, making facial expressions as they wish. Although it is a standalone app, Makeup Genius even improves the in-store experience—customers can scan any product on the shelf and immediately see how it looks on their faces.

With Makeup Genius, users can select and sample individual products or complete looks. Trying different products and looks is as easy as point and click. Users can save the looks they like and share them via social media or messaging to get feedback from others. At any point in the process—at home, out with friends, in the store—Makeup Genius makes buying easy with a purchase option available at every step.

How accurate and realistic is Makeup Genius? Although makeup apps had been around for a while, Makeup Genius set itself apart by using high-tech facial recognition technology to capture facial points and features in real time. It works for all ethnicities, skin tones, and lighting conditions. Most users are mightily impressed. "It's amazing how well it works," says one user. "It really is just like you're looking in the mirror. You may even have a hard time convincing yourself you don't really have the makeup on." "Gone are the days of scribbling eyeliners and lipsticks on the back of your hand to test the color!" says another. "This app saves me money, time, and makes my makeup shopping experience faster, easier, and more entertaining.

The response to Makeup Genius exceeded even L'Oréal's expectations. Within two years, the app achieved 14 million downloads and allowed 260 million different product trials. And over the years, L'Oréal has continued to make improvements and refinements to Makeup Genius, including the addition of hair coloring products.

Still, the Makeup Genius app does not solve every customer concern. L'Oréal views the app as just one tool in its ongoing digital-first transformation. Facing potential disruption from competing startup brands and YouTube influencers, L'Oréal conducted extensive research into touch points in the customer journey, including the media channels that most influence customer choice and purchase decisions for beauty products today. The research team expected to find that television, Facebook, Instagram, and YouTube have the biggest impact. But the research showed that the in-store experience—including displays, beauty advisers, and product testers—is still the most important part of a cosmetic customer's journey.

So L'Oréal now makes in-store-like experiences more available virtually. For example, it acquired ModiFace, a leader in applying augmented reality and artificial intelligence for the beauty industry. Through this new technology, L'Oréal customers can now book livestreaming sessions with real beauty assistants who provide advice and apply products to customers remotely. "What we are doing with those technologies is to really mimic and recreate this really personal relationship you have with a beauty assistant at the counter," explains L'Oréal's chief digital officer. "She looks at you, understands you, has more [makeup] experience. You get into a really personal conversation so you can have a really personalized recommendation."

Beyond personalized assistance, L'Oréal is also tapping into livestream shopping. Using an app called Livescale, the beauty giant offers shoppable livestream experiences. These include live makeup tutorials in which customers can interact with the host, ask questions, learn about discounts, and purchase products directly, all as part of the same seamless

L'Oréal has invested deeply in technologies that make a customer's journey as full and fulfilling as possible. The ongoing aim is "to provide services to our consumers to help them discover, try, buy, and experience our brands."

Isaaack/Shutterstock

online experience. "Watching someone do a makeup tutorial live and being able to interact with them and ask questions is something that you can't do on a static YouTube video," says one skincare expert.

With each new technology, L'Oréal has inserted itself into more micro-moments of the customer journey. And the future holds even more customer journey-shaping allure. For example, L'Oréal recently unveiled Perso—an elegantly sculpted, AI-powered, digital home-beauty device about the size of a venti coffee tumbler. A Perso app uses L'Oréal's ModiFace technology to scan the user's face and evaluate their skin. With each scan, the app accounts for important environmental factors such as pollution, air quality, and humidity. It considers the user's top concerns, such as deep wrinkles, dark spots, pore visibility, or lack of radiance. And it can also color match with a user's clothing and shoes or with the latest trends.

The app then sends the results to the Perso device, which employs advanced robotics to create a precise mix of ingredients from a patented three-cartridge system. The resulting product is dispensed into a stylish makeup compact, ready for use. And with its AI brain, Perso gets smarter with each application. To date, Perso is available to consumers only as a lipstick generator for L'Oréal's Yves Saint Laurent brand. But L'Oréal intends soon to make the Perso device available as a three-in-one cosmetic device carrying products from more brands in its vast portfolio.

In terms of the customer journey, Perso may go further than any L'Oréal innovation to date. With a tiny factory on the customer's counter and AI helping the customer make decisions, Perso inserts L'Oréal right into the customer decision loop, reducing the need to evaluate options and creating an ongoing customer relationship. It's a master stroke in L'Oréal's efforts "to provide services to our consumers to help them discover, try, buy, and experience our brands.[38]

Stages in the Adoption Process

Consumers go through five stages in the process of adopting a new product:

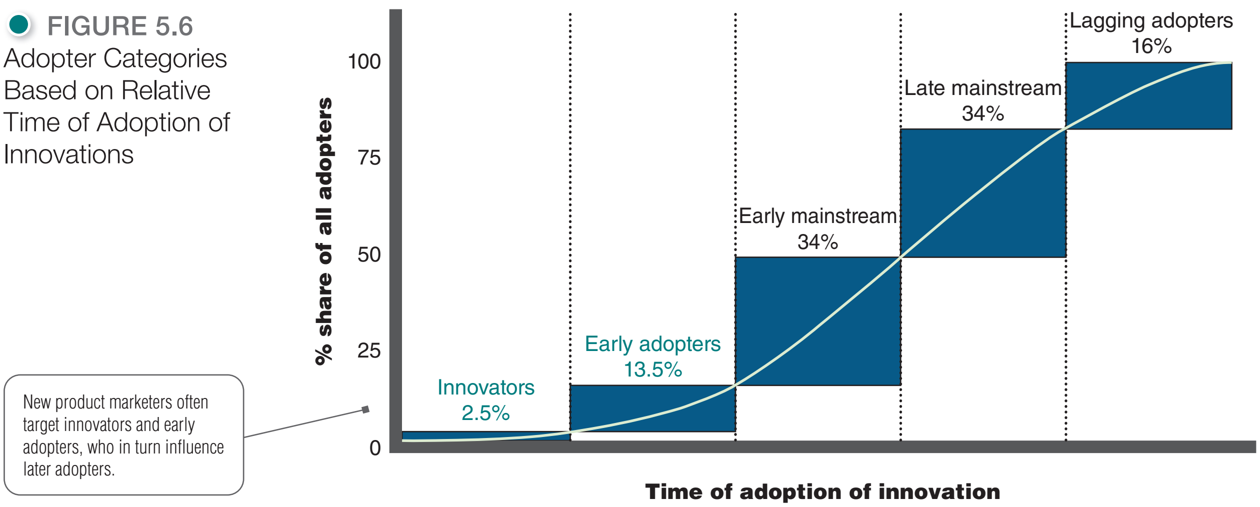
- *Awareness.* The consumer becomes aware of the new product but lacks information about it.
- *Interest.* The consumer seeks information about the new product.
- *Evaluation.* The consumer considers whether trying the new product makes sense.
- *Trial.* The consumer tries the new product on a small scale to improve his or her estimate of its value.
- *Adoption.* The consumer decides to make full and regular use of the new product.

This model suggests that marketers should think about how to help consumers move through these stages. For example, if a company finds that many consumers are considering its products but are still tentative about buying one, it might offer sales prices or special promotions that help get consumers over the decision hump. For instance, when Beyond Meat first entered the supermarket aisles, the company offered "Try Some Free" coupons for free packages of its Beyond Beef and Beyond Chicken products at local supermarkets. The promotion helped get interested consumers to take the next step and try the product.

Individual Differences in Innovativeness

People differ greatly in their readiness to try new products in a category. In each product area, there are "consumption pioneers" and early adopters. Other individuals adopt new products much later. People can be classified into the adopter categories shown in **Figure 5.6**.[39] As shown by the curve, after a slow start, an increasing number of

FIGURE 5.6
Adopter Categories Based on Relative Time of Adoption of Innovations



people adopt the new product. As successive groups of consumers adopt the innovation, it eventually reaches its maximum saturation level. Innovators are defined as the first 2.5 percent of buyers to adopt a new idea (those beyond two standard deviations from mean adoption time); the early adopters are the next 13.5 percent (between one and two standard deviations); and then come early mainstream, late mainstream, and lagging adopters.

The five adopter groups have differing values. *Innovators* are venturesome—they try new ideas at some risk. *Early adopters* are guided by respect—they are opinion leaders in their communities and adopt new ideas early but carefully. *Early mainstream* adopters are deliberate—although they rarely are leaders, they adopt new ideas before the average person. *Late mainstream* adopters are skeptical—they adopt an innovation only after a majority of people have tried it. Finally, *lagging adopters* are tradition bound—they are suspicious of changes and adopt the innovation only when it has become something of a tradition itself.

This adopter classification suggests that an innovating firm should research the characteristics of innovators and early adopters in their product categories and direct initial marketing efforts toward them.

Influence of Product Characteristics on Rate of Adoption

The characteristics of the new product affect its rate of adoption. Some products catch on almost overnight. For example, Apple's iPod, iPhone, and iPad flew off retailers' shelves at an astounding rate from the day they were first introduced. Others take longer. For example, all-electric cars were first introduced in the United States in 2010, led by models such as the Nissan Leaf and the Tesla Model S. However, although sales are now picking up quickly and will likely surge over the next decade, electric vehicles still account for only 4 percent of total U.S. automobile sales and 14 percent in Europe. It will likely be many years before they overtake gasoline-powered cars.[40]

Six key product characteristics influence an innovation's rate of adoption. Consider how those characteristics influence the adoption rate of all-electric vehicles:[41]

Relative advantage. The degree to which the innovation appears superior to existing products. All-electric cars require no gas and use clean, less costly energy. This will accelerate their rate of adoption. However, they have limited driving range before recharging and cost more initially, which will slow the adoption rate.

Compatibility. The degree to which the innovation fits the existing values, experiences, and behavioral patterns of potential consumers. Electric cars are driven the same way as gas-powered cars. However, they are not compatible with the current refueling network. Plug-in electric charging stations can be crowded and difficult to find. Increased adoption will depend on the development of a strong national network of recharging stations.

Complexity. The degree to which the innovation is difficult to understand or use. Electric cars are not different or complex to drive, which will help to speed up adoption. However, the "conceptual complexity" of the new technologies and concerns about how well they really work will slow adoption.

Trialability. The degree to which the innovation may be experienced or sampled on a limited basis before adopting. Consumers can test-drive electric cars, a positive for the adoption rate. However, current high prices to own and fully experience these new technologies will likely slow adoption.

Observability. The degree to which the use of the innovation and the potential outcomes of usage can be observed by or communicated to others. To the extent that electric cars lend themselves to demonstration and description, their use will spread faster among consumers.

Risk. The degree to which the customer perceives risk in purchasing the product. High perceived risk will slow adoption rates. Electric car companies can lower perceived risk by offering generous product return policies, providing accurate and deep knowledge about product capabilities, and ensuring a good fit with customer needs before making a sale.

Marketing managers must design their strategy so that the new product performs strongly along these six dimensions. This will increase the likelihood of success in today's highly competitive markets.

Reviewing and Extending the Concepts

Objectives Review

The American consumer market consists of more than 333 million people who consume more than $16 trillion worth of goods and services each year, making it one of the most attractive consumer markets in the world. Consumers vary greatly in terms of cultural, social, personal, and psychological makeup. Understanding how these differences affect consumer buying behavior is one of the biggest challenges marketers face.

OBJECTIVE 5-1 Define the consumer market and construct a simple model of consumer buyer behavior.

The *consumer market* consists of all the individuals and households that buy or acquire goods and services for personal consumption. The simplest model of consumer buyer behavior is the stimulus-response model. According to this model, marketing stimuli (the four Ps) and other major environmental forces (economic, technological, political, cultural) enter the consumer's decision processing. The consumer's characteristics and decision process itself ultimately produce observable buyer responses, such as brand choice, purchase location and timing, and brand engagement and relationship behavior.

OBJECTIVE 5-2 Explore the four major factors that influence consumer buyer behavior.

Consumer buyer behavior is influenced by four key sets of buyer characteristics: cultural, social, personal, and psychological. Although many of these factors cannot be influenced by the marketer, they can be useful in identifying interested buyers and shaping products and appeals to serve consumer needs better. *Culture* is the most basic determinant of a person's wants and behavior. *Subcultures* are "cultures within cultures" that have distinct values and lifestyles and can be based on anything from age to ethnicity.

Most brands and marketing campaigns today are multicultural in nature, inclusive of the diverse mix of subcultures that make up the American consumer marketplace. They appeal to consumer similarities across subcultural segments rather than differences. However, as with other types of market segments, subcultural groups usually exhibit some distinct needs and preferences. So marketers often supplement their diverse general-market offerings with additional products and programs tailored to specific subcultural segments such as Hispanic American, Black American, and Asian American consumers.

Social factors also influence a buyer's behavior. A person's *reference groups*—family, friends, social networks, and other influencers—strongly affect product and brand choices. The buyer's age, life-cycle stage, occupation, economic circumstances, personality, and other *personal characteristics* influence his or her buying decisions. Consumer *lifestyles*—the whole pattern of acting and interacting in the world—are also an important influence on purchase decisions. Finally, consumer buying behavior is influenced by four major *psychological factors*: motivation, perception, learning, and beliefs and attitudes. Each of these factors provides a different perspective for understanding the workings of the buyer's decision engine.

OBJECTIVE 5-3 Understand the stages in the buyer decision process and the major types of buying decision behavior.

When making a purchase, the buyer goes through a decision process consisting of need recognition, information search, evaluation of alternatives, purchase decision, and postpurchase behavior. The marketer's job is to understand the buyer's behavior at each stage and the influences that are operating. During *need recognition*, the consumer recognizes a problem or need that could be satisfied by a product or service in the market. Once the need is recognized, the consumer is aroused to seek more information and moves into the *information search* stage. With information in hand, the consumer proceeds to *alternative evaluation*, during which the information is used to evaluate brands in the choice set. From there, the consumer makes a *purchase decision* and actually buys the product. In the final stage of the buyer decision process, *postpurchase behavior*, the consumer takes action based on satisfaction or dissatisfaction.

Buying behavior may vary greatly across different types of products and buying decisions. Consumers undertake complex buying behavior when they are highly involved in a purchase and perceive significant differences among brands. Dissonance-reducing behavior occurs when consumers are highly involved but see little difference among brands. Habitual buying behavior occurs under conditions of low involvement and little significant brand difference. In situations characterized by low involvement but significant perceived brand differences, consumers engage in variety-seeking buying behavior.

More broadly, marketers must understand the *customer journey*—the sum of ongoing experiences consumers have with a brand. By understanding the customer journey, marketers can work to create brand experiences that will result in positive purchase behavior, engagement, and brand advocacy over time. The digital world provides a wealth of opportunities to enhance the customer journey at different points in time and space.

OBJECTIVE 5-4 Describe the adoption and diffusion process for new products.

The product *adoption process* is made up of five stages: awareness, interest, evaluation, trial, and adoption. New-product marketers must think about how to help consumers and organizations move through these stages. With regard to the *diffusion process* for new products, consumers respond at different rates, depending on consumer and product characteristics. Consumers may be innovators, early adopters, early mainstream, late mainstream, or lagging adopters. Each group may require different marketing approaches. Marketers often try to bring their new products to the attention of potential early adopters, especially those who are opinion leaders. Finally, six product characteristics influence the rate of adoption: relative advantage, compatibility, complexity, trialability, observability, and risk.

Key Terms

OBJECTIVE 5-1

Consumer buyer behavior
Consumer market

OBJECTIVE 5-2

Culture
Subculture
Reference group
Opinion leader
Word-of-mouth influence
Influencer marketing
Online social networks
Lifestyle
Personality
Motive (drive)
Perception
Learning
Belief
Attitude

OBJECTIVE 5-3

Need recognition
Information search
Alternative evaluation
Consideration set
Choice set
Purchase decision
Postpurchase behavior
Cognitive dissonance
Complex buying behavior
Dissonance-reducing buying behavior
Habitual buying behavior
Variety-seeking buying behavior
Customer journey

OBJECTIVE 5-4

New product
Adoption process

Discussion Questions

5-1 Define the consumer market and describe a simple model of consumer buyer behavior. (AACSB: Written and Oral Communication; Reflective Thinking)

5-2 What are the four major psychological factors that influence consumer buyer behavior? (AACSB: Written and Oral Communication; Reflective Thinking)

5-3 Provide examples of a situation in which environmental disruptions affected consumer attitudes and buying behaviors. (AACSB: Written and Oral Communication; Reflective Thinking)

5-4 What is the customer journey, and why do marketers need to understand it? Provide an example of a customer journey. (AACSB: Written and Oral Communication; Reflective Thinking)

5-5 What are the stages in the buyer decision process and the major types of buying decision behavior? (AACSB: Written and Oral Communication; Reflective Thinking)

5-6 How is need recognition triggered in the buyer decision-making process? Provide examples of the two different types of triggers. (AACSB: Communication; Reflective Thinking)

Critical Thinking Exercises

5-7 As a student, you will likely be invited to events with different dress codes and will need to dress appropriately. For example, different business occasions require different attire. Consider the differences between dressing for a business casual event (e.g., museum visit) and a business formal event (e.g., dinner with firm representatives after a career fair). How would the buyer decision process for a student preparing for an event with business casual attire differ from that of a student preparing for an event with business formal attire? How would you use this knowledge to develop an advertising plan for a clothing retailer, such as Banana Republic or Macy's, targeting young professionals? (AACSB: Written and Oral Communication; Reflective Thinking)

5-8 Assess the Beyond Meat brand of plant-based meat substitutes using each of the six characteristics identified in the chapter as especially important in influencing an innovation's rate of adoption. Given its performance on each of these characteristics, what could Beyond Meat's marketers do to increase the product's rate of adoption? (AACSB: Written and Oral Communication; Reflective Thinking)

5-9 Your manager suggests you do everything in your power to limit customer complaining. Make an argument about why your firm should encourage consumers to complain. (AACSB: Written and Oral Communication; Reflective Thinking)

APPLICATIONS AND CASES

Digital Marketing Blogvertorials

Bloggers can be highly influential. On the one hand, we read their pieces because we value their opinions and ideas, but on the other, do we really know their motivations? There is a growing trend for social media and public relations agencies to approach bloggers to get them to "blogvertize" on their behalf. The agencies also insist that such bloggers make no mention of the fact that they are being paid to make positive statements about certain products and services. In the United Kingdom, the Advertising Standards Authority (ASA) states that it is acceptable for a blogger to receive payment for a positive review, but the blogger has to be clear that they are advertising. The ASA suggests signposting paid-for posts. It argues that just like any other media, consumers need to be able to judge whether or not they are seeing an advertisement. The clear rules are that advertisements must be obviously identifiable as such and not likely to mislead.

5-10 Have you encountered this type of blog posting before? Was it clear that the post was an advertisement? How might the fact that the blogger is being paid for an opinion change your view? Write a brief report of your observations. (AACSB: Use of IT; Communication; Reflective Thinking)

5-11 Are there clear rules in your country concerning blogvertorials, such as the U.S. Federal Trade Commission's disclosure rules on using social media for the promotion of products and services? If yes, can the rules help in controlling blogvertorials written in other countries? What sanctions should be imposed on those who promote blogvertorials without flagging them as such? (AACSB: Communication; Reflective Thinking)

Marketing Ethics Limited Forms of Payment

Various retailers are limiting forms of payment, aligning with consumer trends toward either electronic forms of payment on the one hand (such as Cash App, PayPal, and Google Pay) or cash-only payments on the other (such as using cash and bank-to-bank transfers like Zelle). Many stores and restaurants contend that cashless makes transactions faster, reduces their risk of theft, and cuts costs associated with money management. Others argue that using cash-only and bank-to-bank payments increases retailer margins by reducing transaction fees charged to the retailer by each intermediary, including Visa and CashApp, in the payment process.

Critics of cashless retailers claim that they discriminate against consumers who avoid bank accounts and credit cards. This group often includes consumers with poor credit or undocumented immigrants. Critics of cash- and bank-to-bank-only retailers claim that they prevent consumers from using credit card fraud and theft protections and make consumers feel exposed because cash can be lost or stolen.

5-12 What factors are likely to influence whether consumers in your market choose to do business with a retailer that accepts electronic payments only versus one that accepts cash and bank-to-bank transfers only? (AACSB: Written and Oral Communication; Reflective Thinking)

5-13 Discuss the ethical challenges surrounding decisions to limit or restrict payment methods. (AACSB: Written and Oral Communication; Ethical Understanding and Reasoning)

Marketing by the Numbers Evaluating Alternatives

One way that consumers can evaluate alternatives is to identify important attributes and assess how purchase alternatives perform on those attributes. Consider the purchase of a tablet. Each attribute, such as screen size, is given a weight to reflect its level of importance to that consumer. Then the consumer evaluates each alternative on each attribute. For example, in the following table, price (weighted at 0.5) is the most important attribute for this consumer. The consumer believes that Brand C performs best on price, rating it 7 (higher ratings indicate higher performance). Brand B is perceived as performing the worst on this attribute (rating of 3). Screen size and available apps are the consumer's next most important attributes. The operating system is the least important.

	Importance	Alternative Brands		
Attributes	Weight (e)	A	B	C
Screen size	0.2	4	6	2
Price	0.5	6	3	7
Operating System	0.1	5	5	4
Apps available	0.2	4	6	7

A score can be calculated for each brand by multiplying the importance weight for each attribute by the brand's score on that attribute. These weighted scores are then summed to determine the score for that brand. For example, Score Brand A $= (0.2 \times 4) + (0.5 \times 6) + (0.1 \times 5) + (0.2 \times 4) = 0.8 + 3.0 + 0.5 + 0.8 = 5.1$. This consumer will select the brand with the highest score.

5-14 Calculate the scores for brands B and C. Which brand would this consumer likely choose? (AACSB: Communication; Analytic Reasoning)

5-15 Which brand is this consumer least likely to purchase? Discuss two ways the marketer of this brand can enhance consumer attitudes toward purchasing its brand. (AACSB: Communication; Reflective Thinking; Analytic Reasoning)

Company Case Harley-Davidson: Selling Freedom, Independence, Power, and Authenticity

Few brands engender such intense loyalty as Harley-Davidson. Harley buyers have a granite-like, unshakeable loyalty to the brand. Few people sport Yamaha, Kawasaki, or Honda tattoos. But a recent social media survey found that Harley-Davidson was the third-most tattooed brand, trailing only Disney and Nintendo—and each of those brands included hundreds of characters. Harley-Davidson riders don't want just any motorcycle—it's got to be a Harley.

Harley-Davidson sponsors numerous events including an anniversary celebration every five years in its Milwaukee, Wisconsin, hometown. This year's 120th anniversary celebration will kick off a new annual event, the Harley-Davidson Homecoming—a four-day festival with live music, food, and "moto-culture." About 100,000 to 200,000 fans from all over the world are expected to attend. The event will fill Milwaukee with the thunderous exhaust notes of tens of thousands of Harleys, riders swapping biker tales, and T-shirts proclaiming things like "Screw it, let's ride!" and "I'd rather push a Harley than ride a Yamaha."

Riding such intense emotions, Harley-Davidson has dominated the U.S. motorcycle market. The brand captures more than 45 percent of U.S. heavyweight motorcycle sales and a 31 percent share of all motorcycle sales despite commanding a price premium over competing lookalikes.

The Harley-Davidson Appeal

Harley-Davidson's marketers spend a great deal of time thinking about customers. They want to know who their customers are, what they think and how they feel, and why they buy a Harley-Davidson Road Glide rather than a Yamaha Star Venture, a Kawasaki Vulkan Voyager, or a Honda Gold Wing. What makes Harley buyers so fiercely loyal? These is a difficult question; even Harley owners may be unable to clearly articulate their motivations. But Harley-Davidson places top priority on understanding customers and what makes them tick.

Who rides a Harley-Davidson? You might be surprised by the answer. It's not the outlaw bad-boy biker that some people still associate with Harleys. The brand's motorcycles attract a different breed of bikers—older, more affluent, and better educated. Remove the helmets and the leathers of a hard-core Harley enthusiast and there's no telling whom you'll find. It might be a CEO, investment banker, gourmet chef, schoolteacher, or guy with tattoos and unruly hair.

The typical Harley customer is a 50-something married male with a median household income above $90,000. In fact, Caucasian boomers account for two-thirds of new Harley sales. But within that demographic, Harley's chief marketing officer notes: "Harley brings together all walks of life. You'll find a neurosurgeon talking and riding with a janitor. It's a family." And a big family it is. The Harley Owners Group (H.O.G.)—the official riding club of "Harley owners around the world, bound by a passion to ride"—is the largest manufacturer-sponsored riding group, boasting more than a million members from more than 90 countries. The brand's Facebook site has nearly 13 million followers and its Instagram account over 5 million more.

Harley-Davidson makes good bikes. But Harley customers are buying a lot more than that. Over the years Harley-Davidson has conducted seemingly endless surveys, focus groups, and interpretive studies that plumb the depths of customers' feelings about their Harleys. Beyond research, everyone connected with the Harley-Davidson brand—from the CEO and CMO to ad agency copywriters—attend biker events and immerse themselves deeply in the biker culture. They spend countless hours in the saddle to gain a firsthand understanding of what moves and motivates core customers.

Their findings are strong and consistent. No matter who they are, what they do, or where they come from, Harley-Davidson disciples share a common, deeply held attraction to the brand. The universal Harley appeals are these: freedom, independence, power, and authenticity. Beyond motorcycles, Harley-Davidson sells self-expression, lifestyles, aspirations, and dreams. "It's all about the experience," says an analyst, "one forged in heavy metal thunder, living free and peeling wheel down Route 66. It's an experience that allows middle-aged accountants to don black, studded leather and forget about debits and credits for a little while."

To core enthusiasts, a Harley is a part of who they are and where they want to go. A Harley renews the spirit and exudes freedom and independence. A popular line at Harley-Davidson is that "Thumbing the starter of a Harley does a lot more than fire the engine. It fires the imagination." The classic look, the throaty sound, the very idea of a Harley—all contribute to its mystique. Owning this "American legend" makes owners feel they own a slice of America.

The strong emotions and motivations underlying Harley consumer behavior are captured in a classic old Harley-Davidson print advertisement. The ad shows a close-up of an arm, the bicep adorned with a Harley-Davidson tattoo. The headline asks, "When was the last time you felt this strongly about anything?" The ad copy outlines the problem and suggests a solution: "Wake up in the morning and life picks up where it left off. . . . What once seemed exciting has now become part of the numbing routine. It all begins to feel the same. Except when you've got a Harley-Davidson. Something strikes a nerve. The heartfelt thunder rises up, refusing to become part of the background. Suddenly things are different. Clearer. More real. As they should have been all along. Riding a Harley changes you from within. The effect is permanent. Maybe it's time you started feeling this strongly. Things are different on a Harley."

Targeting New Customers

Although Harley-Davidson has dominated the U.S. motorcycle market for more than 100 years, the brand is faced with a classic problem. How does a brand maintain its appeal to its core customer while growing the brand's customer base? The majority of Harley-Davidson owners represent a narrow demographic. It's not a mystery—Harley makes big, loud motorcycles that are designed to let riders feel the vibrations of the road and the powertrain. These characteristics of Harley's motorcycles correspond to the brand's appeals of freedom, independence, power, and authenticity, appeals that are particularly attractive to the core Harley-Davidson customer.

For decades, pleasing its core customer has been enough. But as demographic trends shifted and boomers aged beyond motorcycle ownership, Harley-Davidson has struggled. In fact, it sold fewer motorcycles globally every year from a peak of 268,000 units in 2014 to just 180,000 in 2020, a 32 percent decline. While various factors can account for this, including the COVID-19 pandemic, a decline in the size of its core customer base combined with the brand's lack of appeal to other types of motorcycle customers is at the top of the list.

This is not surprising to Harley-Davidson. For years, the company has been aware that the brand will eventually wither if it doesn't recruit the next generation of Harley-Davidson buyers. In 1985, the median age of Harley buyers was 27. In 2003, it was 41. In 2018, it was 50. It doesn't take a data analyst to see where this trend is headed. The very customer segment that fueled the brand's rise also burdened the company with the reputation that Harleys are only for middle-aged white men. Thus, Harley-Davidson has fallen into a classic trap of veteran brands, that space between brand loyalists and future growth.

Recent research by Harley-Davidson revealed that millennials have very different motivations for buying motorcycles. Older, more affluent riders ride as a hobby and for recreation and are drawn to the brand's personality and values. Younger buyers are more interested in convenience, economy, and ecological benefits. The average purchase price of a Harley has risen to between \$25,000 and \$30,000, one that older, more affluent buyers can justify but younger buyers can't. And Harley's big bikes are not known for maneuvering in tight spaces or for minimizing carbon output.

For these reasons, the company has been making calculated efforts to extend the Harley-Davidson family beyond its core segment of older male buyers. In fact, the company is well into a strategic plan to recruit two million younger riders to the brand by 2027. It has crafted products and programs specifically designed to attract what it calls "outreach customers," segments such as young adults ages 18 to 34, women, Black consumers, and Hispanics.

Where products are concerned, Harley-Davidson has introduced multiple all-new motorcycle platforms, including its Street line of smaller, less expensive bikes, as well as the LiveWire—Harley's first all-electric motorcycle. Eight years ago, it introduced its Street models—smaller, lighter, more agile, and more efficient motorcycles designed for the riding needs of young urban riders. The Street 500 started at a base price of just \$6,700. And while smaller, these new motorcycles still carried the Harley mystique. However, citing supply chain issues and an effort to streamline operations, Harley discontinued its Street line last year, making its larger Nightster its entry-level bike with a base price of \$13,500. And three years into the production of its E-motorcycle, with sales showing promise, the company spun LiveWire off as an independent company. While Harley has introduced other models over the past few years that target nontraditional buyers, none appear to have gained traction.

Beyond trying to attract new customers with different motorcycles, Harley-Davidson has also introduced programs designed to attract nontraditional demographics to its classic models. For example, a few years ago, the company initiated a buyback program designed to attract new buyers by letting them get their feet wet in an entry-level model. The buyers could trade that bike in on an upgraded model within one year and get the original price paid on trade. Additionally, Harley-Davidson launched its Riding Academy, a dealer-led "learn-to-ride" program.

Last year, sales of Harley-Davidson models bounced back as unit sales increased by 8 percent, revenues by 31 percent, and profits by 500 percent. However, it's difficult to say how much this represents a bounce-back from COVID-19 pandemic shutdowns, as revenues were equal to pre-pandemic levels and unit sales were still down by 11 percent. There's no question that Harley-Davidson's brand is iconic and its appeal remains rock-solid for its core customer segment. But questions about Harley-Davidson's future remain.[42]

Questions for Discussion

5-16 Discuss the specific consumer behavior factors (for example, culture, family, occupation, attitudes) that account for Harley-Davidson's dominance of the U.S. motorcycle market.

5-17 With respect buying a motorcycle, discuss the buyer decision process for the classic Harley-Davidson buyer.

5-18 Explain the decline of Harley-Davidson's business over the past decade based on how the buyer decision process differs for millennials.

5-19 *Small group exercise*: As Harley-Davidson's core market ages and declines, how should the company attract new buyer generations? Consider the positioning of some of its product lines, how the company can encourage targeted customers to modify their (existing) buying decision process related to a motorcycle, and the marketing mix—product, price, place, and promotion.

6 Business Markets and Business Buyer Behavior

OBJECTIVES OUTLINE

OBJECTIVE 6-1 Define the business market and explain how business markets differ from consumer markets.

OBJECTIVE 6-2 Identify the major factors that influence business buyer behavior.

OBJECTIVE 6-3 List and define the steps in the business buying decision process.

OBJECTIVE 6-4 Discuss how online, mobile, and social media have changed business-to-business marketing.

OBJECTIVE 6-5 Compare the institutional and government markets and explain how institutional and government buyers make their buying decisions.

CHAPTER PREVIEW

In the previous chapter, you studied *final consumer* buying behavior and factors that influence it. In this chapter, we'll do the same for *business customers*—those that buy goods and services for use in producing their own products and services or for resale to others. As when selling to final buyers, firms marketing to businesses must engage business customers and build profitable relationships with them by creating superior customer value.

To start, let's look at LinkedIn. You probably know LinkedIn as the place to go for professional networking. What you may not realize, however, is that LinkedIn is also a powerful marketing platform for business-to-business marketers. With its hundreds of millions of professional networking members, Microsoft-owned LinkedIn has become an ideal site for marketers looking to engage business customers in a meaningful way. But LinkedIn's services don't sell themselves. LinkedIn's success rests on its skill in convincing businesses to use the platform. Thus, beyond being a great B-to-B marketing platform, LinkedIn must itself also be a great B-to-B marketer.

LINKEDIN: The Place to Be for B-to-B

Over the past decade, social selling has become the hottest trend in business-to-business (B-to-B) marketing. Today's B-to-B marketers can choose from any of dozens of digital and social media to engage business buyers and market their wares to other companies. But one social media platform stands out as the go-to B-to-B social selling leader. It's LinkedIn, the social network specifically designed to connect business professionals and to help them cultivate their businesses and careers.

LinkedIn boasts a fast-growing membership of 800 million business professionals in more than 200 countries. According to LinkedIn, four out of five of its members drive business decisions. Some 40 percent of LinkedIn members log on every day, seeking content that can change the way they do business. LinkedIn is visited more than 1.1 billion times each month, resulting in tens of billions of content impressions.

LinkedIn lets B-to-B marketers target business decision makers with a precision that other social networks just can't match. Along with basic demographic factors such as gender, age, income, and location, LinkedIn allows targeting by company industry, company size, company connections, job titles, job functions, job seniority, years of experience, skills, and various educational background factors.

With a fast-growing membership of more than 800 million business professionals, LinkedIn stands out as the go-to B-to-B social selling platform. It lets B-to-B marketers "market to who matters."

Alexandra Popova/Shutterstock

All that makes LinkedIn a prime platform for marketing to B-to-B audiences. "Marketing on LinkedIn helps you engage a community of professionals to drive actions that are relevant to your business," says LinkedIn. B-to-B marketers seem to agree. Among B-to-B companies using social media, 94 percent use LinkedIn. When it comes to B-to-B social media, LinkedIn absolutely dominates, accounting for more than 50 percent of all social traffic to B-to-B websites and blogs.

But LinkedIn's advantages don't sell themselves. LinkedIn's success rests on its convincing businesses to use the platform and helping them do that effectively. So at the same time that LinkedIn is a great B-to-B marketing platform, LinkedIn itself is a great B-to-B marketer. The giant professional social network skillfully markets itself to its own business customers as an ideal platform for engaging their customers. Then LinkedIn's marketers do everything they can to make social selling on LinkedIn easy and effective.

LinkedIn's Business Solutions group works arm in arm with business customers to help them create, execute, and monitor powerful B-to-B marketing campaigns using LinkedIn. It shows customers how they can tap into LinkedIn's huge professional audience to generate sales leads, drive website traffic, increase brand awareness, launch new products, strengthen customer relationships, recruit new employees, or any combination of the above.

LinkedIn promises its business customers "Success. Powered by relationships." Different sections of LinkedIn's Business Solutions website provide step-by-step advice to customers on how to use LinkedIn to Hire ("Attract talent and recruit candidates from the world's largest talent pool."), Market ("Market to the world's largest professional audience."), Sell ("Power your social selling efforts with real-time sales intelligence."), and Learn ("Develop talent and keep skills current with personalized online learning.").

Marketing on LinkedIn starts with setting up a free LinkedIn company page. The main company page serves as a brand-building tool within the LinkedIn community and a landing page for the company's LinkedIn ads and other content. Business marketers can then expand their page presence with LinkedIn Showcase Pages, linked subpages that focus on more specific company brands or target specific audience segments with content relevant to them.

For example, IBM's main LinkedIn page provides basic information about and links to IBM, along with job postings and interesting and informational posts about IBM products, programs, and developments. The main page also links to more than a dozen Showcase Pages focusing on various IBM divisions and initiatives, ranging from IBM Data and AI, IBM Cloud, and IBM Security to IBM Research, IBM Watson, and IBM Internet of Things. In all, worldwide, companies large and small offer some 30 million LinkedIn company pages.

Beyond LinkedIn pages, the company offers B-to-B marketers a broad portfolio of advertising options, including sponsored content, video ads, text ads, and personalized messages sent through its Sponsored InMail messaging system. The company also gives customers all the tools and assistance they need to create LinkedIn ads and content on their own through LinkedIn Campaign Manager—an all-in-one advertising platform. LinkedIn's Business Solutions page is crammed with testimonials and success stories of LinkedIn ad campaigns by companies of all sizes, from giants like parent company Microsoft, Salesforce, Mercedes-Benz, and American Express to smaller clients such as Utah State University.

For example, American Express in Australia used LinkedIn to target small to medium-sized business owners as customers for its small business funding products and services. With the help of LinkedIn, American Express created a campaign using sponsored content, sponsored InMail, and personalized dynamic display ads. "The targeting capabilities of the LinkedIn platform helped us to identify the right people and engage them with the right content at the right time," says an American Express digital marketer, enabling "us to not only sustain but grow the volume of quality leads." The LinkedIn campaign accounted for 55 percent of American Express's media-driven leads, and an amazing 22 percent of LinkedIn leads converted to customers.

In another example, Utah State University took advantage of LinkedIn's demographic targeting capabilities with a campaign designed to recruit high-caliber students to its graduate programs. The campaign consisted of LinkedIn display ads and Sponsored InMail carefully targeted to LinkedIn members by region, job title, and undergraduate degrees. The campaign converted an impressive 71 percent of clicks into requests for information and resulted in a 20-to-1 return on investment. "The ability to target our marketing efforts on LinkedIn by region, expertise, and career level made it possible to reach and engage with the precise audience we needed," says a Utah State marketer. The university also maintains an ongoing LinkedIn page with an active content feed and several Showcase Pages.

LinkedIn markets another powerful tool to its business customers. Called Campaign Manager, it helps

When it comes to online social selling, LinkedIn stands out as the go-to business-to-business social media platform. But at the same time that it's a great B-to-B marketing platform, LinkedIn is itself a great B-to-B marketer.

business customers manage their LinkedIn accounts, select target audiences, create content, and—importantly—track the performance of their LinkedIn campaigns. Using Campaign Manager, LinkedIn customers can see campaign performance metrics—such as impressions, ad demographics, click-through rates, and average cost per click—as they view their campaigns or downloaded as performance reports. LinkedIn's marketers know that nothing breeds customer loyalty like success. And Campaign Manager's metrics give most customers ample incentive to keep using the LinkedIn platform.

Thus, LinkedIn masters B-to-B marketing on two important levels. First, LinkedIn is a great B-to-B marketing platform for reaching business decision makers. Second, LinkedIn is itself a great B-to-B marketer. As a result, LinkedIn's fortunes are soaring within parent company Microsoft's digital empire. Over the past three years, LinkedIn's membership has grown 26 percent. In the five years since it was acquired by Microsoft, LinkedIn's revenues have nearly tripled. Clearly, for business marketers, LinkedIn is the place to be for B-to-B.[1]

IN ONE WAY OR ANOTHER, most large companies sell to other organizations. Companies such as IBM, Boeing, DuPont, Caterpillar, GE, and countless other firms sell *most* of their products to other businesses. Even large consumer products companies, which make products used by final consumers, must first sell their products to other businesses. For example, General Mills makes many familiar consumer brands—Big G cereals (Cheerios, Wheaties, Trix, Chex, Total, Fiber One), baking products (Pillsbury, Betty Crocker, Bisquick, Gold Medal flour), snacks (Nature Valley, Bugles, Chex Mix), Yoplait yogurt, Häagen-Dazs ice cream, and many others. But to sell these products to consumers, General Mills must first sell them to its wholesaler and retailer customers, who in turn serve the consumer market.

Business buyer behavior
The buying behavior of organizations that buy goods and services for use in the production of other products and services that are sold, rented, or supplied to others.

Business buying process
The decision process by which business buyers determine which products and services their organizations need to purchase and then find, evaluate, and choose among alternative suppliers and brands.

Business buyer behavior refers to the buying behavior of organizations that buy goods and services for use in the production of other products and services that are sold, rented, or supplied to others. It also includes the behavior of retailing and wholesaling firms that acquire goods to resell or rent to others at a profit. In the **business buying process**, business buyers determine which products and services their organizations need to purchase and then find, evaluate, and choose among alternative suppliers and brands. *Business-to-business* (*B-to-B*) *marketers* must do their best to understand business markets and business buyer behavior. Then, like businesses that sell to final buyers, they must engage business customers and build profitable relationships with them by creating superior customer value.

Author Comment | Business markets operate "behind the scenes" to most consumers. Most of the things you buy involve many sets of business purchases before you ever see them.

Business Markets

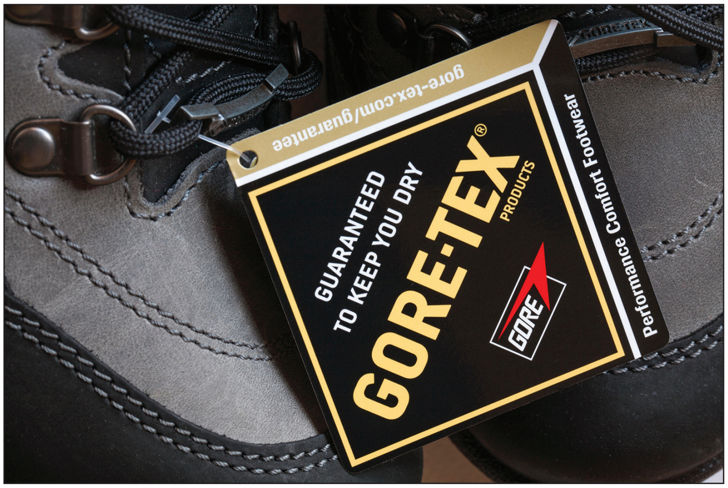
OBJECTIVE 6-1 Define the business market and explain how business markets differ from consumer markets.

The business market is *huge*. In fact, business markets involve far more dollars and items than do consumer markets. For example, think about the large number of business transactions involved in the production and sale of a single set of Goodyear tires. Various suppliers sell Goodyear the rubber, steel, equipment, and other goods that it needs to produce tires. Goodyear then sells the finished tires to retailers, which in turn sell them to consumers. Thus, many sets of *business* purchases were made for only one set of *consumer* purchases. In addition, Goodyear sells tires as original equipment to manufacturers that install them on new vehicles and as replacement tires to companies that maintain their own fleets of company cars, trucks, or other vehicles.

In some ways, business markets are similar to consumer markets. Both involve people who assume buying roles and make purchase decisions to satisfy needs. However, business markets differ in many ways from consumer markets. The main differences are in *market structure and demand*, the *nature of the buying unit*, and the *types of decisions and the decision process* involved.

Market Structure and Demand

The business marketer normally deals with *far fewer but far larger buyers* than the consumer marketer does. Even in large business markets, a few buyers often account for most of the purchasing. For example, when Goodyear sells replacement tires to final consumers, its potential market includes millions of car owners around the world. But its fate in business markets depends on getting orders from only a handful of large automakers.



Derived demand: To increase demand for Gore-Tex fabrics, Gore markets directly to buyers of the outdoor and athletic apparel brands made using its products and technologies. This ad tells runners that Gore-Tex technology is tested and "Guaranteed to Keep You Dry." Both Gore and its partner brands win.

Carolyn Jenkins/Alamy Stock Photo

Further, many business markets have *inelastic and more fluctuating demand*. The total demand for many business products is not much affected by price changes, especially in the short run. A drop in the price of leather will not cause shoe manufacturers to buy much more leather unless it results in lower shoe prices that, in turn, increase consumer demand for shoes. And the demand for many business goods and services tends to change more—and more quickly—than does the demand for consumer goods and services. A small percentage increase in consumer demand can cause large increases in business demand.

Finally, business demand is **derived demand**—it ultimately derives from the demand for consumer goods. For example, demand for Gore-Tex fabrics derives from consumer purchases of outdoor apparel brands made from Gore-Tex. If consumer demand for these products increases, so does the demand for the Gore-Tex fabrics they contain. Gore-Tex calls itself an "ingredient brand," one that "works with the world's best outdoor, athletic, and lifestyle brands to create high-performance products that upgrade your comfort and protection." So to boost demand for Gore-Tex, Gore advertises to final consumers to convince them of the benefits of Gore-Tex fabrics in the brands they buy. It also directly markets brands containing Gore-Tex—from Rukka, Merrell, Marmot, The North Face, Burton, and L.L. Bean to adidas, Under Armour, and New Balance—on its own web and mobile sites. As a result, consumers around the world have learned to look for the familiar Gore-Tex brand label, and both Gore and its partner brands win.[2]

Derived demand
Business demand that ultimately comes from (derives from) the demand for consumer goods.

Nature of the Buying Unit

Compared with consumer purchases, a business purchase usually involves *more decision participants* and a *more professional purchasing effort*. Often, business buying is done by trained purchasing agents who spend their working lives learning how to buy better. The more complex the purchase, the more likely it is that several people will participate in the decision-making process. Buying committees composed of technical experts and top management are common in the buying of major goods. Beyond this, B-to-B marketers now face a new breed of higher-level, better-trained supply managers. And these supply managers are well versed in today's digital, mobile, and social media technologies for finding and evaluating purchase alternatives. Therefore, companies must have well-trained marketers, salespeople, and digital support personnel to deal with these well-trained, technology-oriented buyers.

Types of Decisions and the Decision Process

Business buyers usually face *more complex* buying decisions than do consumer buyers. Business purchases often involve large sums of money, complex technical and economic considerations, and interactions among people at many levels of the buyer's organization. The business buying process also tends to be *longer* and *more formalized*. Large business purchases usually call for detailed product specifications, written purchase orders, careful supplier searches, and formal approval.

Finally, in the business buying process, the buyer and seller are often much *more dependent* on each other. B-to-B marketers may roll up their sleeves and work closely with customers during all stages of the buying process—from helping customers define problems to finding solutions to supporting after-sale operation. In the short run, sales go to suppliers who meet buyers' immediate product and service needs. In the long run, however, business-to-business marketers keep customers by meeting current needs *and* by partnering with them to help solve their problems. For example, aerospace giant Boeing doesn't just sell expensive airplanes to its business customers. It partners with them over the long haul to create customer success:

The business buyer decision process: More than just selling expensive airplanes to its business customers, Boeing wins buyers' business by building day-in, day-out, year-in, year-out problem-solving partnerships with them.

Stephen Brashear/Getty Images

Selling high-tech aircraft at $90 million to $440 million or more a copy in the rough-and-tumble worldwide commercial aircraft market is complex and challenging. A single big sale to an airline, air-freight carrier, government, or military customer can easily run into billions of dollars. On the customer side, buying a batch of jetliners involves dozens or even hundreds of decision makers from all levels of the buying organization and layer upon layer of subtle and not-so-subtle buying influences. So Boeing assigns an extensive team of company specialists—sales and service technicians, financial analysts, planners, engineers, and others—all dedicated to finding ways to help a large customer define its aircraft needs and make its operations more profitable. Boeing's customer problem-solving and sales process is nerve-rackingly slow—it can take two or three years from the first sales presentation to the day the sale is announced. And after getting the order, salespeople then must stay in almost constant touch to keep track of the account's equipment needs and to make certain the customer stays satisfied. Boeing's real challenge is to win buyers' business by building day-in, day-out, year-in, year-out partnerships with them based on close collaboration.

Supplier development
Systematic development of networks of supplier-partners to ensure an appropriate and dependable supply of products and materials for use in making products or reselling them to others.

In recent years, relationships between most customers and suppliers have been changing from downright adversarial to close and chummy. In fact, many customer companies are now practicing **supplier development**, systematically developing networks of supplier-partners to ensure a dependable supply of the products and materials that they use in making their own products or reselling to others. For example, Walmart doesn't have a "Purchasing Department"; it has a "Supplier Development Department." The giant retailer knows that it can't just rely on spot suppliers who might be available when needed. Instead, Walmart manages a huge network of supplier-partners that help provide the hundreds of billions of dollars of goods that it sells to its customers each year.

Author Comment | Business buying decisions can range from routine to incredibly complex, involving only a few or very many decision makers and buying influences.

Business Buyer Behavior

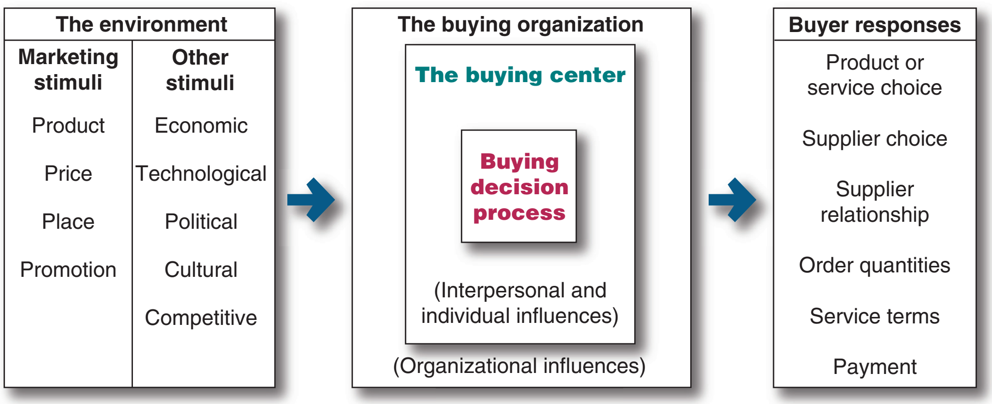
OBJECTIVE 6-2 Identify the major factors that influence business buyer behavior.

At the most basic level, marketers want to know how business buyers will respond to various marketing stimuli. **Figure 6.1** shows a model of business buyer behavior. In this model, marketing and other stimuli affect the buying organization and produce certain buyer responses. To design good marketing strategies, marketers must understand what happens within the organization to turn stimuli into purchase responses.

Within the organization, buying activity consists of two major parts: the *buying center*, composed of all the people involved in the buying decision; and the *buying decision process*. The model shows that the buying center and the buying decision process are influenced by internal organizational, interpersonal, and individual factors as well as external environmental factors.

FIGURE 6.1
A Model of Business Buyer Behavior

In some ways, business markets are similar to consumer markets—this model looks a lot like the model of consumer buyer behavior presented in Figure 5.1. But there are some major differences, especially in the nature of the buying unit, the types of decisions made, and the decision process.



The model in Figure 6.1 suggests four questions about business buyer behavior: What buying decisions do business buyers make? Who participates in the business buying process? What are the major influences on buyers? How do business buyers make their buying decisions?

Major Types of Buying Situations

Straight rebuy
A business buying situation in which the buyer routinely reorders something without modifications.

Modified rebuy
A business buying situation in which the buyer wants to modify product specifications, prices, terms, or suppliers.

New task
A business buying situation in which the buyer purchases a product or service for the first time.

There are three major types of buying situations.[3] In a **straight rebuy**, the buyer reorders something without any modifications. It is usually handled on a routine basis by the purchasing department. To keep the business, "in" suppliers try to maintain customer engagement and product and service quality. "Out" suppliers try to find new ways to add value or exploit dissatisfaction so that the buyer will consider them.

In a **modified rebuy**, the buyer wants to modify product specifications, prices, terms, or suppliers. The "in" suppliers may become nervous and feel pressured to put their best foot forward to protect an account. "Out" suppliers may see the modified rebuy situation as an opportunity to make a better offer and gain new business.

A company buying a product or service for the first time faces a **new task** situation. In such cases, the greater the cost or risk, the larger the number of decision participants and the greater the company's efforts to collect information. The new task situation is the marketer's greatest opportunity and challenge. The marketer not only tries to reach as many key buying influences as possible but also provides help and information. The buyer makes the fewest decisions in the straight rebuy and the most in the new task decision.

Systems selling (or solutions selling)
Buying a packaged solution to a problem from a single seller, thus avoiding all the separate decisions involved in a complex buying situation.

Many business buyers prefer to buy a complete solution to a problem from a single seller rather than buying separate products and services from several suppliers and putting them together. The sale often goes to the firm that engages business customers deeply and provides the most complete *system* for meeting a customer's needs and solving its problems. Such **systems selling (or solutions selling)** is often a key business marketing strategy for winning and holding accounts. For example, logistics firm UPS doesn't just deliver packages for its business customers, It partners with them to provide a full range of logistics solutions that help sharpen their logistics strategies, cut costs, and serve customers better. And industrial cleaning products company ChemStation provides a complete solution for its customers' cleaning problems:[4]

> ChemStation sells industrial cleaning chemicals to a wide range of business customers, ranging from car washes to the U.S. Air Force. Whether a customer is washing down a fleet or a factory, a store or a restaurant, a distillery or an Army base, ChemStation comes up with the right cleaning solution every time. It supplies thousands of environmentally friendly products in hundreds of industries. But ChemStation does more than just sell chemicals. First, ChemStation works closely with each individual customer to concoct a cleaning formula specially designed for that customer. It has brewed special formulas for cleaning hands, feathers, eggs, mufflers, flutes, perfume vats, cosmetic eye makeup containers, yacht-making molds, concrete trucks, oceangoing trawlers, and about anything else you can imagine. Next, ChemStation delivers the custom-made mixture to a tank installed at the customer's site. Finally, it maintains the tank by monitoring usage and automatically refilling the tank when supplies run low. Thus, ChemStation sells an entire system for dealing with the customer's special cleaning problems. As ChemStation puts it, the company "specializes in providing our customers with high-quality industrial cleaning chemicals using a unique system of delivery into refillable containers, bringing safety, convenience, and local service right to your door." Partnering with an individual customer to find a full solution creates a lasting relationship that helps ChemStation lock out the competition. Customers often think of ChemStation as more of a partner than a supplier.[5]

Participants in the Business Buying Process

Buying center
All the individuals and units that play a role in the purchase decision-making process.

Who does the buying of the trillions of dollars' worth of goods and services needed by business organizations? The decision-making unit of a buying organization is called its **buying center**. It consists of all the individuals and units that play a role in the business purchase decision-making process. This group includes the actual users of the product or service, those who make the buying decision, those who influence the buying decision, those who do the actual buying, and those who control buying information.

The buying center includes all members of the organization who play any of five roles in the purchase decision process.[6]

Users
Members of the buying organization who will actually use the purchased product or service.

Influencers
People in an organization's buying center who affect the buying decision; they often help define specifications and also provide information for evaluating alternatives.

Buyers
People in an organization's buying center who make an actual purchase.

Deciders
People in an organization's buying center who have formal or informal power to select or approve the final suppliers.

Gatekeepers
People in an organization's buying center who control the flow of information to others.

- **Users** are members of the organization who will use the product or service. In many cases, users initiate the buying proposal and help define product specifications.
- **Influencers** often help define specifications and also provide information for evaluating alternatives. Technical personnel are particularly important influencers.
- **Buyers** have formal authority to select the supplier and arrange terms of purchase. Buyers may help shape product specifications, but their major role is in selecting vendors and negotiating. In more complex purchases, buyers might include high-level officers participating in the negotiations.
- **Deciders** have formal or informal power to select or approve the final suppliers. In routine buying, the buyers are often the deciders or at least the approvers.
- **Gatekeepers** control the flow of information to others. For example, purchasing agents often have authority to prevent salespersons from seeing users or deciders. Other gatekeepers include technical personnel and even personal secretaries.

The buying center is not a fixed and formally identified unit within the buying organization. It is a set of buying roles assumed by different people for different purchases. Within the organization, the size and makeup of the buying center will vary for different products and for different buying situations. For some routine purchases, one person—say, a purchasing agent—may assume all the buying center roles and serve as the only person involved in the buying decision. For more complex purchases in large companies, the buying center may include 20, 30, or more people from different levels and departments in the organization.

The buying center concept presents a major marketing challenge. The business marketer must learn who participates in the decision, each participant's relative influence, and what evaluation criteria each decision participant uses. This can be difficult.

For instance, the medical products and services group of Cardinal Health sells disposable surgical gowns to hospitals. ● It identifies the hospital personnel involved in this buying decision as the vice president of purchasing, the operating room administrator, and the surgeons. Each participant plays a different role. The vice president of purchasing analyzes whether the hospital should buy disposable gowns or reusable gowns. If analysis favors disposable gowns, then the operating room administrator compares competing products and prices and makes a choice. This administrator considers the gowns' absorbency, antiseptic quality, design, and cost and normally buys the brand that meets requirements at the lowest cost. Finally, surgeons affect the decision later by reporting their satisfaction or dissatisfaction with the brand.

The buying center usually includes some obvious participants who are involved formally in the buying decision. For example, the decision to buy a corporate jet will probably involve the company's CEO, the chief pilot, a purchasing agent, some legal staff, a member of top management, and others formally charged with the buying decision. It may also involve less obvious, informal participants, some of whom may actually make or strongly affect the buying decision. Sometimes, even the people in the buying center are not aware of all the buying participants. For example, the decision about which corporate jet to buy may actually be made by a corporate board member who has an interest in flying and who knows a lot about airplanes. This board member may work behind the scenes to sway the decision. Many business buying decisions result from the complex interactions of ever-changing buying center participants.

● Buying center: Cardinal Health deals with a wide range of buying influences, from purchasing executives and hospital administrators to surgeons who actually use the products.
Ground Picture/Shutterstock

Major Influences on Business Buyers

Business buyers are subject to many influences when they make their buying decisions. Some marketers assume that the major influences are economic. They think buyers will favor the supplier who offers the lowest price or the best product or the most service. They concentrate on offering strong economic benefits to buyers. Such economic factors are very important to most buyers, especially in a tough economy. However, business buyers actually respond to both economic and personal factors. Far from being cold, calculating, and impersonal, business buyers are human and social as well. They react to both reason and emotion.

Today, most B-to-B marketers recognize that emotion plays an important role in business buying decisions. For example, you might expect ads promoting large trucks to corporate fleet buyers or independent owner-operators to stress matter-of-fact technical, performance,

Emotions play an important role in business buying. Peterbilt's marketing stresses performance factors such as efficiency. But it also stresses more emotional factors such as the raw beauty of Peterbilt trucks and the pride of owning and driving one. "Class Pays."

Roman Korotkov/Shutterstock

and economic factors. For instance, befitting today's tougher economic times, premium heavy-duty truck maker Peterbilt does stress performance—its dealer ads and online sites provide plenty of information about factors such as maneuverability, productivity, reliability, comfort, and fuel efficiency. But Peterbilt appeals to buyers' emotions as well. Its marketing content shows the raw beauty of the trucks, and the Peterbilt slogan—"Class Pays"—suggests that owning a Peterbilt truck is a matter of pride as well as superior performance. On the list of "enduring values" that "define the meaning of Peterbilt" is "Pride & Class"—"a passion for unrivaled performance, forged out of the heritage of the iconic brand and focused on inspired styling and a premium driver experience." In fact, the company recently reintroduced its Model 389 Pride & Class model package, with "unique styling and touches of understated elegance [that] truly set this truck apart from all others." Thus, when fleet buyers and owner-operators buy Peterbilt, they're buying more than a truck. They're buying iconic tradition, styling, and elegance.[7]

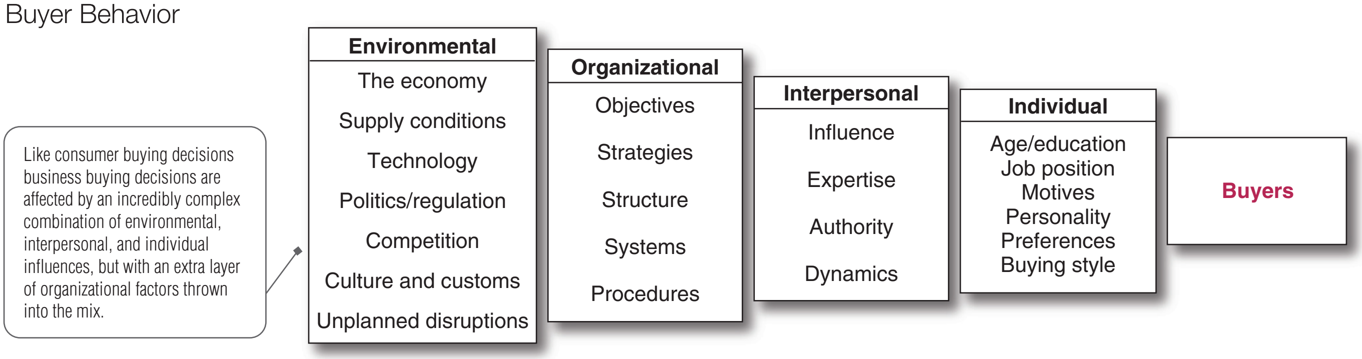
Figure 6.2 lists various groups of influences on business buyers: environmental, organizational, interpersonal, and individual. Business buyers are heavily influenced by factors in the current and expected *economic environment*, such as the level of primary demand, the economic outlook, and the cost of money. Another environmental factor is the *supply* of key materials. Business buyers also are affected by *technological*, *political*, and *competitive* developments in the environment. Finally, *culture and customs* can strongly influence business buyer reactions to the marketer's behavior and strategies, especially in the international marketing environment. The business buyer must watch these factors, determine how they will affect the buyer, and try to turn these challenges into opportunities (see Real Marketing 6.1).

Major environmental disruptions can also influence business buyers. For example, the COVID-19 pandemic dramatically changed how business buyers and sellers meet, interact, and make decisions. Work-from-home regimens and other social-distancing measures "forced B-to-B buyers and sellers to go digital in a massive way," says a report from consulting firm McKinsey & Company. Marketers stepped up technologies to digitally "self-serve" information to remote buyers and to engage buyers remotely though digital work sharing and conferencing. The use of remote meeting technologies such as Zoom and Microsoft Teams surged. Changes resulting from the pandemic are having a lasting impact on how B-to-B marketing is conducted. Both sellers and buyers have found that self-serve and remote interactions have made it easier, faster, and more convenient for buyers to get needed information, place orders, and obtain service, usually at less cost to the marketer. According to the McKinsey report, only about 20 percent of B-to-B buyers say they want to eventually return to pre-pandemic levels of in-person sales.[8]

Organizational factors are also important. Each buying organization has its own objectives, strategies, structure, systems, and procedures, and the business marketer must understand these factors well. Questions such as these arise: How many people are involved in the buying decision? Who are they? What are their evaluative criteria? What are the company's policies and limits on its buyers?

The buying center usually includes many participants who influence each other, so *interpersonal factors* also influence the business buying process. However, it is often difficult to assess such interpersonal factors and group dynamics. Buying center participants do not wear tags that label them as "key decision maker" or "not influential." Nor do buying

FIGURE 6.2
Major Influences on Business Buyer Behavior



Real Marketing 6.1

Bausch: Working with Business Buyers in Challenging Markets

Asia includes some of the world's biggest economies; Japan, China, and South Korea are in the top 10 by GDP. Yet most Western businesses see selling to consumers in Asia as a challenge due to the differences in culture and language, the time difference, longer shipping routes, unfamiliar legal and banking systems, and the layers of complexity added by import regulations and taxes. Selling B-to-B to companies and organizations in Asia can be even more daunting.

A family firm founded in 1953 in Cologne, Germany, Dr. Jean Bausch GmbH & Co. KG supplies dentists with materials and systems that reveal and measure occlusion, which is the contact that the teeth in the upper and lower jaw make with each other. Misaligned teeth can affect chewing, speech, aesthetics, and other functions of the mouth or even contribute to dental diseases. The firm's original product was a specially impregnated paper that, when bitten, reveals areas of high contact pressure. A small sheet of this "articulating paper" is placed in the patient's mouth, and when the patient bites on it, ink is transferred to the places where the upper and lower teeth meet. Articulating paper is invaluable to dentists, for whom identifying occlusion and deciding on its treatment is essential for both medical and cosmetic dental treatment. A more recent development is an electronic occlusion sensor that displays data on a tablet.

As Bausch's sales grew, the company expanded into other European countries, then to the rest of the world, mainly through local distributors. In 1973, it opened an office in New Hampshire, in the United States, followed by offices in Australia, Brazil, Japan, and, as recently as 2020, in South Korea. For a relatively small firm, establishing an office in another country is expensive and time-consuming, but it has the advantage of allowing local managers and staff to work with customers in their own language and within local traditions while increasing customer confidence in the supplier. Crucially, a local office remains fully under the financial control of the parent and is wholly focused on promoting and selling the parent brand, while a distributor is an independent company that frequently handles several brands, so selling through distributors often means competing for time and resources.

Over the many decades of supplying to dentists in Europe, Bausch developed a solid reputation for providing the best available tools for identifying occlusion. With Bausch, dentists had access to better quality information, leading to more successful treatments, which justified the brand's relatively high prices. When Bausch started marketing its products in Asia, it needed to build and consolidate this reputation locally. The brand chose to begin in Japan because of the large number of modern, well-funded dental clinics there—the country has more than 85 of them per 100,000 people, compared to 82 in Germany and 54 in the United Kingdom.

Japan has a relatively complex system for import and distribution of foreign products, with the traditional *keiretsu* system, which is centered on old, established trading companies and banks, still much in evidence. Japanese people prefer to do business face-to-face with people they know and trust, making it very difficult for foreigners to start dealing directly with Japanese clients. For this reason, most small and medium-size businesses choose to appoint a local Japanese agent who will interface with customers and assist with the transfer of money. This agent negotiates the contract and invoices the customer, and the supplier invoices the agent. A commission is paid by the supplier to the agent, which ranges from 5–10 percent for fast-moving consumer goods to 20 percent or more for technical and scientific products, where additional support must be provided to customers.

Bausch's products were already quite expensive, and such large mark-ups would make them uncompetitive, so Bausch chose to establish their own office in Osaka. Staffed by Japanese representatives with expert knowledge of dentistry, the Bausch office could effectively contact and deal with dental clinics across Japan. However, though well qualified for sales and technical support, the Bausch Osaka office did not have marketing expertise. After considering several possible partners, Bausch chose to work with Mondo Marketing, a multilingual marketing agency based in Tokyo that boasts local knowledge and language abilities in many Asian countries.

The agency began by using social media channels frequented by Japanese professionals, including Facebook, Twitter, and MIXI, to host discussions about occlusion and its treatment. MIXI is a wholly Japanese social-media platform with strong entertainment and gaming content. Mondo highlighted the technical competences of Bausch solutions, especially when compared with lower-cost competition, citing cases from Bausch's long experience. In parallel, advertisements were placed in trade journals. The combination of brand exposure and technical discussion convinced many Japanese dentists to try Bausch products. Sales began to grow, and Bausch soon developed a solid reputation. The use of reliable technical information, relevant case studies, and online discussion among professionals created trust and a strong, positive image of Bausch among Japanese dentists. Regular brand exposure, both online and in professional publications, has contributed to the company's steady growth in sales.

Once it was well established in Japan, Bausch turned to South Korea. Japan has both private clinics and dental departments in state hospitals, and about 70 percent of basic dental treatment, whether in a clinic or in a hospital, is covered by health insurance. People can pay more for more advanced treatments if they need to, such as better-looking and longer-lasting ceramic crowns instead of cheaper porcelain or metal. In South Korea, the dentistry profession is centered more on cosmetic treatments in private clinics, which are outside the state health system. Korean dental patients' financial priorities and purchasing behaviors are thus quite different.

in 2020, Bausch again laid the foundation for their entry into a foreign market by opening their own office in Seoul. The objective was not only to be sure the company could meet local requirements for importing and distributing its products but also to give customers confidence. Hired once again, Mondo Marketing used market behavior research to understand how cosmetic dental clinics make purchasing decisions. Based on their research, Mondo launched a campaign that included advertising and technical discussion on social media, a tried-and-tested approach in the West. Along with Facebook,

Bausch provides an example of how adapting to local buying behaviors can help establish a brand when entering a new market.

PaylessImages/123RF

Instagram, and YouTube, professional social channel LinkedIn was used to distribute useful information such as white papers and to encourage discussion, thereby spreading awareness. In parallel, sales staff from Bausch's Seoul office called on dental clinics and encouraged trials of their products. This personal contact also allowed comparison with competitive products and techniques that, through demonstrations of the superior performance of Bausch products, helped justify the higher prices. In South Korea, Bausch has begun successfully building a reputation for quality and reliability.

In China, dentistry is mainly available in the more developed urban areas and is still a long way from being accessible to everyone. Services range from those by local or peripatetic individuals, whose services are often limited to extractions and traditional treatments, to fully modern clinics catering to wealthy Chinese clients and international expatriates. Most Chinese people do not seek regular check-ups and only visit the dentist when they have a painful problem; the majority go to a hospital for treatment. Clearly, purchasing behavior for dental supplies such as expensive articulating materials is very different to that in other Asian countries. For a company entering this market, this was something to be studied and understood in detail.

Bausch also faced other challenges, such as the profusion of locally made, low-cost alternatives. Moreover, advertising of medical products in China is strictly regulated, so Bausch first had to be officially registered as a supplier, a lengthy and oblique procedure. Mondo Marketing was once again able to use their local knowledge and contacts to assist. Once legally approved as a supplier in China, Bausch chose to target the more Western-style clinics. Rather than a Bausch office, sales were managed through e-commerce sites, which are widely used in China by businesses and professionals to purchase supplies. Mondo Marketing chose to begin with a word-of-mouth social media campaign based on success stories. They used the Chinese networks Weibo and Baidu to distribute product information and drive discussions of techniques, and as YouTube is unavailable in China, local video marketing channel Youku was used to organically reach and engage with more dental professionals.

Organic reach happens when contact is established with viewers who find and view a brand's content themselves rather than through paid-for approaches. In Western countries, organic reach is usually supplemented or even replaced by paid reach such as influencers, but in China, industrial and technical users are targeted more effectively if good content is made available to them. Regular publication of articles, images, and videos has kept Bausch high in web search results and created an image of professionalism and technical competence.

Having achieved brand awareness and encouraged sales through e-commerce in China, Mondo Marketing has been able to leverage the same approach to engage Chinese-speaking dental practitioners in Asian territories like Taiwan and Malaysia. Channels like Weibo are even used by Chinese-speaking dentists in the United States and Canada, and these contacts provide more valuable data to add to that from the mainland, leading Bausch and Mondo Marketing to a still better understanding of the interests and needs of this widely spread network of clients.[9]

center participants with the highest rank always have the most influence. Participants may influence the buying decision because they control rewards and punishments, are well liked, have special expertise, or have a special relationship with other important participants. Interpersonal factors are often very subtle. Whenever possible, business marketers must try to understand these factors and design strategies that take them into account.

Each participant in the business buying decision process brings in personal motives, perceptions, and preferences. These *individual factors* are affected by personal characteristics such as age, income, education, professional identification, personality, and attitudes toward risk. Also, buyers have different buying styles. Some may be technical types who make in-depth analyses of competitive proposals before choosing a supplier. Other buyers may be intuitive negotiators who are adept at pitting the sellers against one another for the best deal.

Author Comment As with final consumers, the actual business purchase decision is part of a much larger buying process—from problem recognition to after-purchase performance review. B-to-B marketers want to be involved from beginning to end.

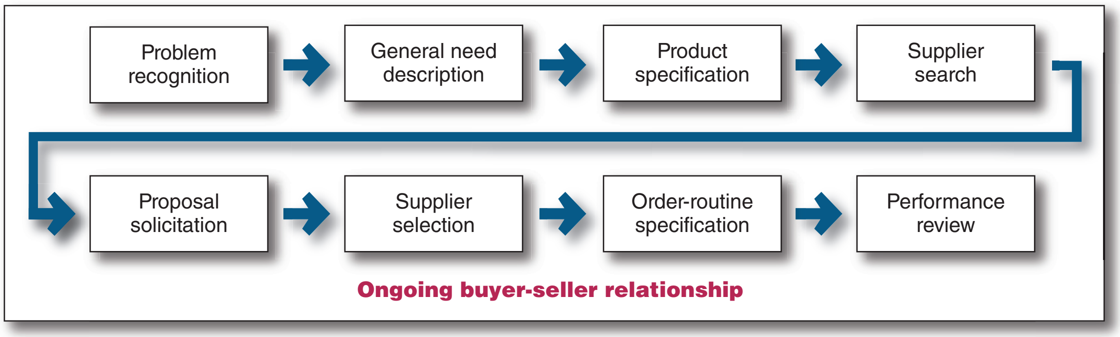
The Business Buyer Decision Process

OBJECTIVE 6-3 **List and define the steps in the business buying decision process.**

Figure 6.3 lists the eight stages of the business buyer decision process.[10] Buyers who face a new task buying situation usually go through all stages of the buying process. Buyers making modified or straight rebuys, in contrast, may skip some of the stages. We will examine these steps for the typical new task buying situation.

FIGURE 6.3
Stages of the Business Buyer Decision Process

Buyers facing new, complex buying decisions usually go through all of these stages. Those making rebuys often skip some of the stages. Either way, the business buyer decision process is usually much more complicated than this simple flow diagram suggests.



Problem recognition
The first stage of the business buying process in which someone in the company recognizes a problem or need that can be met by acquiring a good or a service.

Problem Recognition

The buying process begins when someone in the company recognizes a problem or need that can be met by acquiring a specific product or service. **Problem recognition** can result from internal or external stimuli. Internally, the company may decide to launch a new product that requires new production equipment and materials. Or a machine may break down and need new parts. Perhaps a purchasing manager is unhappy with a current supplier's product quality, service, or prices. Externally, the buyer may get some new ideas at a trade show, see an ad or website, or receive a call or email from a salesperson who offers a better product or a lower price.

● **Problem recognition: Salesforce's "Blaze your trail" ads show how it solves problems for some of its high-profile customers, such as Unilever and Intuit, suggesting that it can do the same for new customers.**
davidtran07/123RF

In fact, business marketers often alert customers to potential problems and then show how their products and services provide solutions. ● For example, CRM solutions firm Salesforce's "Blaze your trail" ads show how Salesforce solves problems for some of its high-profile customers, such as Unilever and Intuit, suggesting that it can do the same for new customers.[11] "Unilever is a Trailblazer," says one Salesforce ad headline. "How Intuit Gets a Better View of Their Customers," says another. "Running a business with millions of customers can be like [staffing] air traffic control," the ad continues. "How do you keep everyone on the right flight path? Intuit does it with Salesforce. The Customer Success Platform … gives employees the insights they need to work smarter. And apps connect customers to real-time help, right when they need it. What if you had a way to track every one of your customers, no matter where they were headed?"

General need description
The stage in the business buying process in which a buyer describes the general characteristics and quantity of a needed item.

General Need Description

Having recognized a need, the buyer next prepares a **general need description** that describes the characteristics and quantity of the needed item. For standard items, this process presents few problems. For complex items, however, the buyer may need to work with others—-engineers, users, consultants—to define the item. The team may want to rank the importance of reliability, durability, price, and other attributes desired in the item. In this phase, the alert business marketer can help the buyers define their needs and provide information about the value of different product characteristics.

Product specification
The stage of the business buying process in which the buying organization decides on and specifies the best technical product characteristics for a needed item.

Product Specification

The buying organization next develops the item's technical **product specifications**, often with the help of a value analysis engineering team. *Product value analysis* is an approach to cost reduction in which components are studied carefully to determine if they can be redesigned, standardized, or made by less costly methods of production. The team decides on the best product characteristics and specifies them accordingly. Sellers, too, can use value analysis as a tool to help secure a new account. By showing buyers a better way to make an object, outside sellers can turn straight rebuy situations into new task situations that give them a chance to obtain new business.

Supplier search
The stage of the business buying process in which the buyer tries to find the best vendors.

Supplier Search

The buyer now conducts a **supplier search** to find the best vendors. The buyer can compile a small list of qualified suppliers by reviewing trade directories, doing online searches, or phoning other companies for recommendations. Today, more and more companies are turning to the internet to find suppliers. For marketers, this has leveled the playing field—the internet gives smaller suppliers many of the same advantages as larger competitors. The newer the buying task and the more complex and costly the item, the greater the amount of time the buyer will spend searching for suppliers. The supplier's task is to get listed in major directories, create a robust online and social media presence, and build a good reputation in the marketplace. Salespeople should watch for companies in the process of searching for suppliers and make certain that their firm is considered.

Proposal Solicitation

Proposal solicitation
The stage of the business buying process in which the buyer invites qualified suppliers to submit proposals.

In the **proposal solicitation** stage of the business buying process, the buyer invites qualified suppliers to submit proposals. In response, some suppliers will refer the buyer to their website or promotional materials or have a salesperson call on the prospect. However, when the item is complex or expensive, the buyer will usually require a detailed written proposal or formal presentation from each potential supplier.

Business marketers must be skilled in researching, writing, and presenting proposals in response to buyer proposal solicitations. They should be skilled at connecting digitally with buyers to understand their needs and requirements. Proposals should be marketing documents, not just technical documents. Presentations should inspire confidence and should make the marketer's company stand out from the competition.

Supplier Selection

Supplier selection
The stage of the business buying process in which the buyer reviews proposals and selects a supplier or suppliers.

The members of the buying center now review the proposals and select a supplier or suppliers. During **supplier selection**, the buying center often will draw up a list of the desired supplier attributes and their relative importance. Such attributes include product and service quality, reputation, on-time delivery, ethical corporate behavior, honest communication, and competitive prices. The members of the buying center will rate suppliers against these attributes and identify the best suppliers.

Buyers may attempt to negotiate with preferred suppliers for better prices and terms before making the final selections. In the end, they may select a single supplier or a few suppliers. Many buyers prefer multiple sources of supplies to avoid being totally dependent on one supplier and to allow comparisons of prices and performance of several suppliers over time. Today's supplier development managers want to develop a full network of supplier-partners that can help the company bring more value to its customers.

Order-Routine Specification

Order-routine specification
The stage of the business buying process in which the buyer writes the final order with the chosen supplier(s), listing the technical specifications, quantity needed, expected time of delivery, return policies, and warranties.

The buyer now prepares an **order-routine specification**. It includes the final order with the chosen supplier or suppliers and lists items such as technical specifications, quantity needed, expected delivery time, return policies, and warranties. In the case of maintenance, repair, and operating items, buyers may use blanket contracts rather than periodic purchase orders. A blanket contract creates a long-term relationship in which the supplier promises to resupply the buyer as needed at agreed prices for a set time period.

Many large buyers now practice *vendor-managed inventory*, in which they turn over ordering and inventory responsibilities to their suppliers. Under such systems, buyers share sales and inventory information directly with key suppliers. The suppliers then monitor inventories and replenish stock automatically as needed. For example, most major suppliers to large retailers such as Walmart, Target, Home Depot, and Lowe's assume vendor-managed inventory responsibilities.

Performance Review

Performance review
The stage of the business buying process in which the buyer assesses the performance of the supplier and decides to continue, modify, or drop the arrangement.

In this stage, the buyer reviews supplier performance. The buyer may contact users and ask them to rate their satisfaction. The **performance review** may lead the buyer to continue, modify, or drop the arrangement. The seller's job is to monitor the same factors used by the buyer to make sure that the seller is giving the expected satisfaction.

In all, the eight-stage buying-process model shown in Figure 6.3 provides a simple view of the business buying as it might occur in a new task buying situation. However, the actual process is usually much more complex. In the modified rebuy or straight rebuy situation, some of these stages would be compressed or bypassed. Each organization buys in its own way, and each buying situation has unique requirements.

Different buying center participants may be involved at various stages of the process. Although certain buying-process steps usually do occur, buyers do not always follow them in the same order, and they may add other steps. Often, buyers will repeat certain stages of the process. Finally, a customer relationship might involve many different types of purchases ongoing at a given time, all in different stages of the buying process. And as Figure 6.3 shows, for most business customers, individual purchases are made within the framework of an ongoing, long-term customer relationship. The seller must manage the total *customer relationship*, not just individual purchases.

Author Comment As business customers shift rapidly toward digital buying practices, today's B-to-B marketers are now using a wide range of digital, mobile, and social media marketing approaches.

Engaging Business Buyers with Digital and Social Marketing

OBJECTIVE 6-4 Discuss how online, mobile, and social media have changed business-to-business marketing.

As in every other area of marketing, the explosion of information technologies and online, mobile, and social media has changed the face of the B-to-B buying and marketing process. In the following sections, we discuss two important technology advancements: *e-procurement and online purchasing* and *B-to-B digital and social media marketing.*

E-procurement and Online Purchasing

E-procurement
Purchasing through electronic connections between buyers and sellers—usually online.

Advances in information technology have dramatically affected the face of the B-to-B buying process. Online purchasing, often called **e-procurement**, has grown rapidly in recent years and is standard procedure for most companies today. In turn, business marketers can connect with customers online to share marketing information, sell products and services, provide customer support services, and maintain ongoing customer relationships.

Companies can do e-procurement in any of several ways. They can conduct *reverse auctions*, in which they put their purchasing requests online and invite suppliers to bid for the business. Or they can engage in online *trading exchanges*, through which companies work collectively to facilitate the trading process. Companies also can conduct e-procurement by setting up their own *company buying sites*. For example, GE operates a company trading site on which it posts its buying needs and invites bids, negotiates terms, and places orders. Or companies can create *extranet links* with key suppliers. For instance, they can create direct procurement accounts with suppliers such as Dell or Staples through which company buyers can purchase equipment, materials, and supplies directly. Staples operates a business-to-business procurement division called Staples Advantage, which serves the office supplies and services buying needs of businesses of any size, from 10 employees to the *Fortune* 1000.

Online procurement is standard procedure for most companies today, letting business marketers connect with customers online to sell products and services, provide customer support services, and maintain ongoing customer relationships.

icetray/123RF

Business-to-business e-procurement yields many benefits.[12] First, it shaves transaction costs and results in more efficient purchasing for both buyers and suppliers. E-procurement reduces the time between order and delivery. And an online-powered purchasing program eliminates the paperwork associated with traditional requisition and ordering procedures and helps an organization keep better track of all purchases. Finally, beyond the cost and time savings, e-procurement frees purchasing people from a lot of drudgery and paperwork. Instead, they can focus on more-strategic issues, such as finding better supply sources and working with suppliers to reduce costs and develop new products.

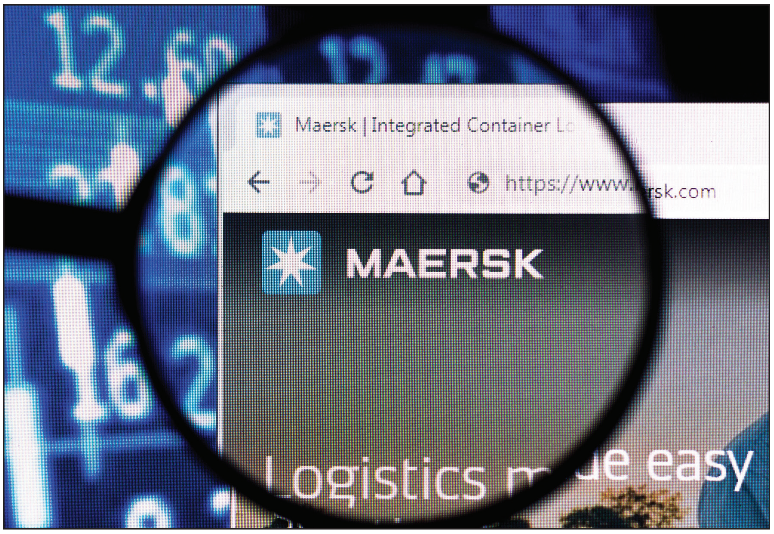
The rapidly expanding use of e-procurement, however, also presents some problems. For example, although the internet makes it possible for suppliers and customers to share business data and even collaborate on product design, it can also erode decades-old customer–supplier relationships. Many buyers now use the power of the internet to pit suppliers against one another and search out better deals, products, and turnaround times on a purchase-by-purchase basis.

Business-to-Business Digital and Social Media Marketing

In response to business customers' rapid shift toward online buying, today's B-to-B marketers are now using a wide range of digital and social media marketing approaches—from websites, blogs, mobile apps, email, e-newsletters, and proprietary online networks to mainstream social media such as LinkedIn, Facebook, Twitter, Instagram, YouTube, and TikTok—to engage business customers and manage customer relationships anywhere, anytime.

B-to-B digital and social media marketing
Using digital and social media marketing approaches to engage business customers and manage customer relationships anywhere, anytime.

B-to-B digital and social media marketing isn't just growing, it's exploding. Digital and social media marketing have rapidly become the new space for engaging business customers. Consider Maersk Line, the world's leading integrated container logistics company, serving business customers in 130 countries:[13]



Container shipping giant Maersk Line engages business customers through a boatload of digital and social media. "The goal is . . . to get closer to our customers."

rafapress/Shutterstock

> You might not expect much by way of new-age marketing from an old-line container shipping company, but think again. Maersk is one of the most forward-looking and accomplished B-to-B digital and social media marketers in any industry. Maersk has sailed full steam ahead into the social media waters with eight global accounts on primary social media networks including Facebook, LinkedIn, Instragram, Twitter, TikTok, and YouTube. Maersk has more than 3 million Facebook followers, making Facebook a platform for engaging a broad audience of customers and other stakeholders interested in the brand. On Instagram, the company shares customer and employee images and stories to help visualize the brand. On YouTube it posts informational and educational videos detailing Maersk Line's activities, services, and people. On TikTok, Maersk insiders—from captains and deck hands to truck drivers—post fun and engaging behind-the-scenes videos. Maersk's Twitter feed presents the latest news and events, creating conversation and buzz with and among its more than 91,000 Twitter followers. The company's LinkedIn account, with some 1.1 million followers, lets Maersk Line engage customers, opinion leaders, and industry influencers who share information and discuss industry challenges and opportunities with shipping and logistics experts. Why all this social media? "The goal is to use social media to get closer to our customers," says Maersk Line. "Social media is about engaging, not pushing."

Compared with traditional media and sales approaches, digital and social media can create greater customer engagement and interaction. B-to-B marketers know that they aren't really targeting *businesses,* they are targeting *individuals* in those businesses who affect buying decisions. And today's business buyers are always connected via their digital devices—whether it's computers, tablets, or smartphones.

Digital and social media play an important role in engaging these always-connected business buyers in a way that personal selling alone cannot. Instead of the old model of sales reps calling on business customers at work or maybe meeting up with them at trade shows, the new digital approaches facilitate anytime, anywhere connections between a wide range of people in the selling and customer organizations. It gives both sellers and buyers more control of and access to important information. B-to-B marketing has always been social network marketing, but today's digital environment offers an exciting array of new networking tools and applications.

Some B-to-B companies mistakenly assume that today's digital and social media are useful primarily to consumer products and services companies. But no matter what the industry, digital platforms of all kinds are being used in B-to-B marketing. For example, you wouldn't be surprised to know that consumer brands are using the youthful, fun, and quirky TikTok platform to connect with their consumers. But B-to-B marketers are also increasingly using TikTok to reach their business customers (see Real Marketing 6.2).

Real Marketing 6.2

B-to-B Brands on TikTok: Succeeding on Today's Hottest Social Media Platform

TikTok is all the rage in today's social media space. With its personalized feeds of quirky, short videos, the app is known for its broad and almost addictive engagement. TikTok exploded onto the social scene only six years ago. But its 656 million global downloads last year far outpaced download numbers for Instagram, Facebook, Snapchat, Zoom, or Spotify.

At more than 3.2 billion total downloads, TikTok is now the most downloaded app ever, beating out even Facebook. TikTok's audience skews young—32 percent of TikTok users are between 10 and 19 years of age; 41 percent are between 16 and 24. With its massive base of young, engaged users, it's no surprise that most consumer brands have added TikTok to their social media mixes.

Although short, catchy videos posted by business-to-consumer brands are common on TikTok, business-to-business (B-to-B) brands are less common there. But for the B-to-B marketers who've found TikTok, it can work very effectively. In fact, the most followed brand on TikTok, with 30 million followers, is Flighthouse—a large media company that partners with brands to produce viral social media content. Flighthouse's TikTok videos, aimed at influencing individuals within potential client companies, feature a crew of young people in game-show type settings. Funny, quirky, and infinitely sharable, these videos are more than just entertaining—they illustrate the types of content that Flighthouse can create for its client brands. Flighthouse's B-to-B strategy is working well. To date, its TikTok content has racked up 2.8 billion likes.

While Flighthouse's level of B-to-B TikTok success is more the exception than the rule, other B-to-B brands are cracking the code for connecting with TikTok audiences. As with any other social media platform, companies on TikTok must use it in the way it is being consumed by its audience. "People check Facebook, Instagram, and Twitter," says TikTok's general manager of global business solutions. "They watch TikTok like Netflix and Hulu." In fact, one recent study shows that 30 percent of U.S. TikTok users report watching less TV, streaming, and other video content since joining TikTok.

B-to-B brands making inroads on TikTok adhere to a simple rule. If they post on TikTok, they must have quality original video content. Knowing that people on TikTok turn to the app for entertainment, if they want to resonate with their intended audiences, B-to-B brands must deliver personal, creative, funny, or informative content.

One way to resonate with TikTok viewers is to capitalize on TikTok trends. B-to-B software marketer Adobe posted its first TikTok video less than a year ago using a popular TikTok trend of asking folks to "put a finger down if you. . . ." Adobe applied that trend to its products, such as Adobe Creative Cloud, in a way that was relevant to a key segment—image and video creators working in current and potential Adobe client businesses. Adobe's versions asks viewers to "put a finger down if you . . ." followed by things like ". . . draw," ". . . write," and ". . . think in pixels, frame rates, or beats per minute." Each request is paired with video of Adobe products in action. The last line of the video is the clincher: "If you put even one finger down, we're going to be good friends." That video has been viewed 1.3 million times to date and got Adobe off to a great start on TikTok.

In Adobe's second and most-viewed TikTok video, one with 2.5 million views, an Adobe spokesperson types and speaks the message "Hello! We are new here! Who is a creative TikToker we should know about? Tag them in the comments or stitch this video to show us." The sender's voice becomes progressively more chipmunk-like with each line—a clever and very TikTok-esque approach. But as in its first video and dozens of videos since, Adobe establishes its TikTok platform as a place where creators can not only learn more about how to create but also connect with other like-minded, talented people. By following trends and by sharing tips and stories from other creators, Adobe has grown a strong TikTok audience of more than 272,000 followers by genuinely helping and inspiring them, whether it's while working in an Adobe client business or starting and operating their own creative ventures.

Both Adobe and Flighthouse succeed on TikTok because they sell products and services that are of potential use to the TikTok user base of video creators. And that TikTok user base includes a significant proportion of people who use or might use Adobe and Flighthouse in the businesses they work for, operate, or own. Ultimately, business decisions are made by individuals or groups of individuals. Thus, content on TikTok appeals to individuals not just as end users but also as influencers within businesses—whether it's a creative within a brand team or an entrepreneur TikTok influencer.

Still other B-to-B brands are making their way onto TikTok with content that does not directly feature company products. Consider Shopify, the end-to-end e-commerce platform that helps independent businesses—large and small—sell their products online. Its business segments include a large proportion of small businesses and entrepreneurs. Shopify reaches this segment with TikTok content based on real-life stories of entrepreneurship and invention.

For example, you're no doubt familiar with those wacky, wavy, inflatable tube people that sit in front of used car dealerships, pizza places, and other types of retail businesses everywhere. Shopify recently posted a 39-second tribute to those arm-flailing promotional gizmos. It turns out that they were originally designed by a pair of famous artists for inclusion in the opening ceremonies of the 1996 Summer Olympics in Atlanta. Following the Olympics, the designers licensed the tubes to advertisers, and the rest is history. Other Shopify short clips spotlight the origins of computer dating, the first automatic dishwasher, and Rex Specs goggles for dogs, to name just a few.

These clever Shopify TikTok videos have been viewed by tens of thousands. Shopify's

Business-to-business marketers are increasingly using youthful, fun, and quirky TikTok videos to connect effectively with their business customers.

kovop58/Shutterstock

intent is to encourage would-be entrepreneurs who may be sitting on winning ideas to pursue their dreams and start those businesses. The indirect TikTok message is obvious—Shopify is there to help get a business off the ground by handling its online sales and marketing platform.

Taking a similar approach is Square, the digital payments company whose omnipresent point-of-sale card readers and payments processing services are helping millions of retailers run their businesses. TikTok's user base is full of people who either already run small businesses or want to start one. Square uses TikTok to interact with these young entrepreneurs while introducing them to the benefits of using Square. It invites small business owners already using its products to submit short videos of their business concepts in action. Square then reposts selected videos. The videos don't directly mention the payment giant's products. Instead, they demonstrate the variety of innovative applications already used by the Square community. They also present an attractive invitation—become a Square customer, submit a TikTok video, and both parties get more exposure and grow their audiences.

Using TikTok represents a social media strategy increasingly executed by B-to-B brands. TikTok messages may not directly focus on purchasing agents at client businesses. But they reach important individuals within TikTok's massive audience who influence or make purchase decisions within their businesses on the types of products and services the brands sell.

TikTok may not be the best platform for every B-to-B company. But brands such as Flighthouse, Adobe, Shopify, and Square are using it successfully by sticking to the social media marketing basics. These B-to-B TikTok pioneers have done the work of getting to know the TikTok audience, identifying and adhering to TikTok messaging trends, and creating original content that makes their products relevant to the TikTok audience. Using this formula, other B-to-B brands are sure to follow.[14]

Author Comment These two nonbusiness organizational markets provide attractive opportunities for many companies. Because of their unique nature, we give them special attention here.

Institutional and Government Markets

OBJECTIVE 6-5 Compare the institutional and government markets and explain how institutional and government buyers make their buying decisions.

Institutional Markets

Institutional market
Schools, hospitals, nursing homes, prisons, and other institutions that provide goods and services to people in their care.

The **institutional market** consists of schools, hospitals, nursing homes, prisons, and other institutions that provide goods and services to people in their care. Institutions differ from one another in their sponsors and their objectives. For example, in the United States Community Health Systems runs 89 for-profit hospitals in 16 states, generating $11.8 billion in annual revenues. By contrast, the Shriners Hospitals for Children is a nonprofit organization with 22 facilities that provide free specialized health care for children, whereas the government-run Veterans Affairs Medical Centers located across the country provide special services to veterans.[15] Each institution has different buying needs and resources.

Institutional markets can be huge. Consider the massive and expanding U.S. prisons economy. State taxpayers in the United States pay about $80 billion annually to keep prison facilities running, an amount greater than the GDP of 143 nations.[16] This market presents a unique opportunity for marketers of food, medical, maintenance, education, technology, security, and other products and services.

Institutional markets: KraftHeinz Foodservice helps institutional food service customers in any of several industries find creative meal solutions using its broad assortment of food and condiment brands. It helps them "Elevate Your Menu."

Courtesy of The Kraft Heinz Company

Many institutional markets are characterized by low budgets and captive patrons. For example, in the United States alone has almost 100,000 public schools. It costs more than $668 billion each year—$13,000 on average per student—to run those schools.[17] Unless students and teachers brown bag it, they have little choice but to eat whatever food the school provides. The school district purchasing agent who buys the food must adhere to strict nutritional guidelines to follow and is often constrained by a tight budget. Thus, food vendors can play an important role in helping such buyers to meet or exceed the guidelines and affordable prices.

Many marketers set up separate divisions to meet the special characteristics and needs of institutional buyers. For example, the KraftHeinz Foodservice division helps institutional food service customers in any of several industries find creative meal solutions using its broad assortment of food and condiment brands. And P&G's Professional Division markets professional cleaning and laundry formulations and systems to educational, healthcare, and other institutional and commercial customers.[18]

Government Markets

Government market
Governmental units—federal, state, and local—that purchase or rent goods and services for carrying out the main functions of government.

The **government market** offers large opportunities for many companies, both big and small. In most countries, government organizations are major buyers of goods and services. In the United States alone, federal, state, and local governments contain tens of thousands of buying units that purchase more than $2.3 trillion in goods and services each year.[19] Government buying and business buying are similar in many ways. But there are also differences that must be understood by companies that wish to sell products and services to governments. To succeed in the government market, sellers must locate key decision makers, identify the factors that affect buyer behavior, and understand the buying decision process.

Government organizations typically require suppliers to submit bids, and normally they award the contract to the lowest bidder. In some cases, a governmental unit will make allowances for the supplier's superior quality or reputation for completing contracts on time. Governments will also buy on a negotiated contract basis, primarily in the case of complex projects involving major R&D costs and risks and in cases where there is little competition.

Government organizations tend to favor domestic suppliers over foreign suppliers. A major complaint of multinationals operating in Europe is that each country shows favoritism toward its nationals despite superior offers that are made by foreign firms. The European Economic Commission is gradually removing this bias.

Like consumer and business buyers, government buyers are affected by environmental, organizational, interpersonal, and individual factors. One unique thing about government buying is that it is carefully watched by outside publics, ranging from Congress to a variety of private groups interested in how the government spends taxpayers' money. Because their spending decisions are subject to public review, government organizations require considerable documentation from suppliers, who often complain about excessive paperwork, bureaucracy, regulations, decision-making delays, and frequent shifts in procurement personnel.

Given all the red tape, why would any firm want to do business with the U.S. government? The reasons are quite simple: The U.S. government is the world's largest buyer of products and services—about $450 billion last year—and its checks don't bounce. The government buys everything from socks to stealth bombers.

Most governments provide would-be suppliers with detailed guides describing how to sell to the government. For example, the U.S. Small Business Administration provides on its website detailed advice for small businesses seeking government contracting opportunities (www.sba.gov/federal-contracting/contracting-guide/how-win-contracts). And the U.S. Commerce Department's website is loaded with information and advice on international trade opportunities (www.commerce.gov/work-with-us/grants-and-contract-opportunities).

In several major cities, the General Services Administration operates *Business Service Centers* with staffs to provide a complete education on the way government agencies buy, the steps that suppliers should follow, and the procurement opportunities available. Various trade magazines and associations provide information on how to reach schools, hospitals, highway departments, and other government agencies. And almost all of these government organizations and associations maintain internet sites offering up-to-date information and advice. Still, suppliers must master the system and find ways to cut through the red tape, especially for large government purchases.

Noneconomic criteria are playing a growing role in government buying. Government buyers are asked to favor depressed business firms and areas; small business firms; minority-owned firms; and business firms that avoid race, gender, or age discrimination. Sellers need to keep these factors in mind when seeking government business.

Many companies that sell to the government have not been very marketing oriented for a number of reasons. Total government spending is determined by elected officials rather than by any marketing effort to develop this market. Government buying has emphasized price, making suppliers invest their effort in technology to bring costs down. When the product's characteristics are specified carefully, product differentiation is not a marketing factor. Nor do advertising or personal selling matter much in winning bids on an open-bid basis.

Several companies, however, have established separate government marketing departments, including Boeing, Goodyear, and Raytheon. Other companies, such as global security and

Government markets: Some companies sell primarily to government buyers. Lockheed Martin makes almost all of its sales to or through the U.S. government.

VanderWolf Images/Shutterstock; Kristoffer Tripplaar/Alamy Stock Photo aerospace company Lockheed Martin, sell primarily to government buyers. Lockheed Martin receives more than two-thirds of its more than $65 billion in annual sales from the U.S. government as either a prime contractor or a subcontractor. The other third of its sales are primarily foreign military sales contracted though the U.S. government.[20] Such companies anticipate government needs and projects, participate in the product specification phase, gather competitive intelligence, prepare bids carefully, and build long-term, value-adding relationships with government buying centers.

Other companies have established customized marketing programs for government buyers. For example, Dell has specific business units tailored to meet the needs of federal as well as state and local government buyers. Dell offers its customers tailor-made Premier web pages that include special pricing, online purchasing, and service and support for each city, state, and federal government entity.

A great deal of the government's buying has gone online. The Federal Business Opportunities website (www.fbo.gov) provides a single point of entry through which commercial vendors and government buyers can post, search, monitor, and retrieve opportunities solicited by the entire federal contracting community. The three federal agencies that act as purchasing agents for the rest of government have also launched websites supporting online government purchasing activity. The General Services Administration, which influences more than one-quarter of the federal government's total procurement dollars, has set up a GSA Advantage! website (www.gsaadvantage.gov). The Defense Logistics Agency offers an Internet Bid Board System (www.dibbs.bsm.dla.mil) for purchases by America's military services. And the Department of Veterans Affairs facilitates e-procurement through its VA Advantage! website (https://VAadvantage.gsa.gov).

Such sites allow authorized defense and civilian agencies to buy everything from office supplies, food, and information technology equipment to construction services through online purchasing. The General Services Administration, the Defense Logistics Agency, and the Department of Veterans Affairs not only sell stocked merchandise through their websites but also create direct links between government buyers and contract suppliers. For example, the branch of the Defense Logistics Agency that sells 160,000 types of medical supplies to military forces transmits orders directly to vendors such as Bristol-Myers Squibb. Such online systems promise to eliminate much of the hassle sometimes found in dealing with government purchasing.[21]

Reviewing and Extending the Concepts

Objectives Review

Business markets and consumer markets are alike in some key ways. For example, both include people in buying roles who make purchase decisions to satisfy needs. But business markets also differ in many ways from consumer markets. For one thing, the business market is *huge*, far larger than the consumer market. Within the United States alone, the business market includes organizations that annually purchase trillions of dollars' worth of goods and services.

OBJECTIVE 6-1 Define the business market and explain how business markets differ from consumer markets.

The *business market* comprises all organizations that buy goods and services for use in the production of other products and services or for the purpose of reselling or renting them to others at a profit. As compared to consumer markets, business markets usually have fewer but larger buyers. Business demand is derived demand, which tends to be more inelastic and fluctuating than consumer demand. The business buying decision usually involves more, and more professional, buyers. Business buyers usually face more complex buying decisions, and the buying process tends to be more formalized. Finally, business buyers and sellers are often more dependent on each other.

OBJECTIVE 6-2 Identify the major factors that influence business buyer behavior.

Business buyers make decisions that vary with the three *types of buying* situations: straight rebuys, modified rebuys, and new tasks. The decision-making unit of a buying organization—*the buying center*—can consist of many different persons playing many different roles. The business marketer needs to know the following: Who are the major buying center participants? In what decisions do they exercise influence and to what degree? What evaluation criteria does each decision participant use? The business marketer also needs to understand the major environmental, organizational, interpersonal, and individual influences on the buying process.

OBJECTIVE 6-3 List and define the steps in the business buying decision process.

The business buying decision process itself can be quite involved, with eight basic stages: problem recognition, general need description, product specification, supplier search, proposal solicitation, supplier selection, order-routine specification, and performance review. Buyers who face a new task buying situation usually go through all stages of the buying process. Buyers making modified or straight rebuys may skip some of the stages. However, most B-to-B purchases are made within the framework of the broader, longer-term customer relationship. Companies must manage the overall customer relationship, which often includes many different buying decisions in various stages of the buying decision process.

OBJECTIVE 6-4 Discuss how online, mobile, and social media have changed business-to-business marketing.

Rapid advances in information and digital technology have given birth to "e-procurement," by which business buyers are purchasing all kinds of products and services online. The internet gives business buyers access to new suppliers, lowers purchasing costs, and hastens order processing and delivery. Today's business marketers also connect extensively with customers online and through digital, mobile, and social media to engage customers, share marketing information, sell products and services, provide customer support services, and maintain ongoing customer relationships.

OBJECTIVE 6-5 Compare the institutional and government markets and explain how institutional and government buyers make their buying decisions.

The *institutional market* consists of schools, hospitals, prisons, and other institutions that provide goods and services to people in their care. These markets are characterized by low budgets and captive patrons. The *government market*, which is vast, consists of government units—federal, state, and local—that purchase or rent goods and services for carrying out the main functions of government.

Government buyers purchase products and services for defense, education, public welfare, and other public needs. Government buying practices are highly specialized and specified, with open bidding or negotiated contracts characterizing most of the buying. Government buyers operate under the watchful eye of the U.S. Congress and many private watchdog groups. Hence, they tend to require more forms and signatures and respond more slowly and deliberately when placing orders.

Key Terms

Business buyer behavior
Business buying process

OBJECTIVE 6-1

Derived demand
Supplier development

OBJECTIVE 6-2

Straight rebuy
Modified rebuy
New task
Systems selling (solutions selling)
Buying center
Users
Influencers
Buyers
Deciders
Gatekeepers

OBJECTIVE 6-3

Problem recognition
General need description
Product specification
Supplier search
Proposal solicitation
Supplier selection
Order-routine specification
Performance review

OBJECTIVE 6-4

E-procurement
B-to-B digital and social media marketing

OBJECTIVE 6-5

Institutional market
Government market

Discussion Questions

6-1 What is business buyer behavior, and what do business-to-business (B-to-B) marketers do? (AACSB: Written and Oral Communication; Reflective Thinking)

6-2 How are business markets and consumer markets similar? How are they different? (AACSB: Written and Oral Communication; Reflective Thinking)

6-3 How are the major factors that influence business buyer behavior changing in today's business context? (AACSB: Written and Oral Communication; Reflective Thinking; Interpersonal Relations and Teamwork; Diverse and Multicultural Work Environments; Application of Knowledge)

6-4 Describe the steps in the business buying decision process. (AACSB: Written and Oral Communication; Reflective Thinking)

6-5 How is technology—including online, mobile, and social media—used in business-to-business marketing? (AACSB: Written and Oral Communication; Integration of Real-World Business Experiences)

6-6 What are institutional and government markets, and in general terms, how do they make their buying decisions? (AACSB: Written and Oral Communication; Reflective Thinking; Integration of Real-World Business Experiences)

Critical Thinking Exercises

6-7 Many companies employ procurement or purchasing experts dedicated to managing the firm's buying processes. Visit www.glassdoor.com/Salaries and www.indeed.com/salary to conduct a search of the salary ranges for "procurement specialist," "procurement manager," or similar positions in purchasing. Present your findings for local and national salaries. Next, do you think the importance of these positions will increase in the future? Explain your reasoning. (AACSB: Written and Oral Communication; Reflective Thinking; Application of Knowledge)

6-8 Major sports arenas in the United States want to expand their food offerings by including plant-based Beyond Meat burgers at their concessions stands. This would require that Beyond Meat establish a business relationship with Sysco, a large food products distribution company selling to large businesses such as sport arenas. Suppose you are part of a marketing team at Beyond Meat charged with establishing the Sysco account. What information would you provide to the people occupying each of the five roles in the Sysco buying center to help them decide to distribute your products? If your pitch is successful and Sysco expresses an interest in proceeding, what are the next steps in the buying process? (AACSB: Reflective Thinking; Application of Knowledge; Integration of Real-World Business Experiences)

6-9 Lenovo operates in four different kinds of markets: business-to-consumer (B-to-C) business-to-business (B-to-B), business-to-institution (B-to-I), and business-to-government (B-to-G). These distinct markets have different expectations from Lenovo. Consider the smart devices market. Go to www.lenovo.com/us/en/devices/ and look at how Lenovo approaches each market. What are the differences in how Lenovo markets to each of the different groups defined previously? Consider things such as positioning, variety, product specification, and customer support in your answer. (AACSB: Written and Oral Communication; Reflective Thinking; Application of Knowledge)

APPLICATIONS AND CASES

Digital Marketing E-Procurement and Mobile Procurement

Gone are the days of tedious, paper-laden, labor-intensive B-to-B procurement duties. E-procurement is changing the way buyers and sellers do business, specifically via mobile procurement that offers cloud-based platforms that reduce the search, order, and approval cycle. A recent study found that almost 70 percent of companies utilize some form of e-procurement, mobile procurement, or supply chain management applications. A leading industry platform, Coupa, provides a suite of cloud-based applications for finance, including accounts payable, sourcing, procurement, and expense management that allows customers full functionality from their mobile devices. Employees now enjoy the flexibility and time savings of viewing, approving, or denying requisitions, purchase orders, and invoices. One of Coupa's large retail clients claimed a reduction from 10 days to only 5 hours in its requisition-approval-process cycle by implementing Coupa's mobile procurement platform. Talk about savings! Visit www.coupa.com/software/procurement/ to learn more about how this company is revolutionizing the e-procurement and mobile procurement environments.

6-10 Discuss the advantages of e-procurement to both buyers and sellers. What are the disadvantages? (AACSB: Written and Oral Communication; Reflective Thinking; Application of Knowledge; Integration of Real-World Business Experiences)

6-11 Discuss the roles in the buying center that are impacted most by e-procurement and other forms of technology-enabled procurement. (AACSB: Written and Oral Communication; Reflective Thinking; Application of Knowledge)

Marketing Ethics Meals for Institutional Markets

Institutional decision-makers (such as schools and hospitals) are challenged to feed large numbers of people while meeting minimum nutrition standards set forth by various government entities. Because these institutions operate with constrained budgets and use buying centers, they often choose food vendors based on the lowest cost bids. However, in California, choosing vendors on costs alone is no longer standard operating procedure. For example, the Los Angeles Unified School District (LAUSD), the second largest school district in the United States, supplies meals for more than 650,000 students. The most basic tenet of the district's procurement services division mission is to provide good but cost-effective, nutritious meals at LAUSD schools. At the same time, however, California's public institutions must support at least two other statewide initiatives. First, the California Office of the Small Business Advocate (CalOSBA) requires that the district consider vendor race, gender, and other factors in its purchasing decisions. It seeks to increase the number of suppliers statewide that identify as being in a racial minority or as women, disabled, and veterans. Second, the California Global Warming Solutions Act of 2006 (GWSA) requires public agencies to slow down climate change by reducing greenhouse emissions. Thus, the choice of vendors requires LAUSD procurement officers to incorporate not just nutritional considerations but also costs, diversity, and environmental impact when managing the food and food services buyer process. (For details, see https://achieve.lausd.net/Page/12509.)

6-12 How would a LAUSD procurement officer incorporate CalOSBA's and GWSA's concerns as they move through the stages of the buyer decision process? (AACSB: Written and Oral Communication; Reflective Thinking; Application of Knowledge; Ethical Understanding and Reasoning)

6-13 What are the ethical considerations of prioritizing the four decision criteria: providing good nutritional meals, keeping procurement costs low, supporting CalOSBA's initiative, and abiding by the GWSA law? (AACSB: Written and Oral Communication; Reflective Thinking; Ethical Understanding and Reasoning)

Marketing by the Numbers From Gaming to Public Safety

Edgybees, formerly a drone gaming company, is applying augmented reality (AR) technology from gaming uses to public safety uses, with applications for the military and emergency first responders. New fifth-generation (or 5G) cellular technology has opened doors for companies like Edgybees to overlay real-time drone video feeds with geo-information layers such as maps, building layouts, and other data. Edgybees recently raised $6 million in venture capital funding. One market it wants to target is first responders. These business customers need more than just a product—they need a relationship with Edgybees to ensure that the latest technology is meeting their needs. Thus, Edgybees would need to visit customers at least twice per year, often for hours at a time. If Edgybees decides to go with its own sales force, each salesperson will earn $80,000 plus 8 percent commission on all sales. Refer to the Increase Distribution Coverage heading in Appendix 2: Marketing by the Numbers to answer the questions.

6-14 How many salespeople does Edgybees need if it wants to obtain 400 first-responder customer accounts, such as fire departments and police stations, which need to be called on twice per year? Each sales call lasts approximately 3 hours, and each sales rep has approximately 1,250 hours per year to devote to customers. (AACSB: Written and Oral Communication; Analytical Reasoning; Application of Knowledge)

6-15 If Edgybees realizes an overall contribution margin of 40 percent, as the company expands, by how much will sales have to increase to break even on each additional sales representative? (AACSB: Written and Oral Communication; Analytical Reasoning; Application of Knowledge)

Company Case Caterpillar: Creating Value for Industrial Customers

The heavy equipment industry is big business. Manufacturers like Caterpillar, Komatsu, John Deere, Hitachi, and Volvo sold $176 billion worth of engines and heavy-duty construction, mining, and power generation equipment last year. These machines pull precious resources out of the earth and help construct roads, bridges, and buildings that serve as the backbone of the world's infrastructure. It's a highly competitive industry with intensely value-conscious buyers.

These companies are giants, but Caterpillar towers above them all. For more than nine decades, Caterpillar has dominated the heavy equipment market. Its yellow tractors, crawlers, loaders, bulldozers, and trucks are a common sight worldwide. Caterpillar sells hundreds of different products in nearly 200 countries, with revenues topping $51 billion. COVID-19 has distorted supply chains and suppressed the construction industry in recent times, but even while Caterpillar's revenues have taken a hit, the company has outperformed the market. Its profits have been strong at 7 to 13 percent of sales. Year after year, the big Cat has led industry sales, taking 13 percent last year over number-two Komatsu's 10.4 percent.

Delivering Value for the Price

You might think that Caterpillar earns its position by competing on price. After all, heavy construction and mining equipment represents huge purchase outlays for industrial customers, and there are many competing products. But the opposite is true. Caterpillar dominates despite charging substantially higher prices than competitors. That's because Caterpillar understands what's important to its industrial customers. It knows that its customers focus on the total cost of ownership and not just initial purchase prices. They consider how much the equipment will cost to operate over the long haul in terms of fuel, routine maintenance, repairs, and downtime. Caterpillar has long stressed that its products yield the lowest total lifetime cost of ownership, noting in a recent press release: "By providing customers with expanded technology, services and repair/rebuild solutions, we are able to present them with a growing suite of solutions aimed at providing…affordable options to maintain their equipment and keep it at work." That's a powerful claim. By one estimate, the total cost of ownership on a medium-size piece of equipment is two to three times the initial purchase price. The ratio gets much higher with larger, more expensive equipment with very long life spans. Loyal Caterpillar customers know that while they pay more up front for a Cat, it will cost them less in the long run.

Making good on its promise starts with equipment reliability. Over the years, Cat has produced a steady stream of innovative, high-quality products. The company thoroughly engineers low cost of ownership into every piece of Cat equipment, from design through manufacturing. But perhaps even more important, Caterpillar has developed a global network of 160 outstanding independent dealers in 193 countries. These dealers employ an army of 157,000 people who help customers keep Cat equipment working.

According to a former Caterpillar CEO: "After the product leaves our door, the dealers take over. They're the ones who live with the product for its lifetime. They're the ones customers see. …They service a product frequently throughout its life, carefully monitoring a machine's health and scheduling repairs to prevent costly downtime. [They] create the image of a company that doesn't just stand *behind* its products but *with* its products, anywhere in the world. Our dealers are the reason that our motto—Buy the Iron, Get the Company—is not an empty slogan."

"Buy the Iron, Get the Company"—that's a powerful value proposition. It means that when customers buy Cat equipment, they become a member of the Caterpillar family. Caterpillar and its dealers work in close harmony to find better ways to bring value to customers. Dealers play a vital role across Caterpillar's operations, covering product design, configuration and sales, delivery, service, and customer feedback.

Minimizing Downtime, Maximizing Productivity

Caterpillar's exceptional service gives it a huge advantage in winning and keeping customers. Consider BHP Billiton, a Caterpillar customer that operates the huge Antamina copper and zinc mine in Peru. More than a mile in length, the mine sits 14,100 oxygen-deprived feet above sea level in the Peruvian Andes. Every hour of every day, Cat machines—giant trucks, mechanical shovels, scrapers, and other brutes—carve out massive amounts of minerals from the earth. All told, BHP uses more than $200 million worth of Caterpillar machinery at Antamina—and it will spend another $200 million servicing them over their working life. When equipment breaks down, BHP loses money fast. It gladly pays a premium price for machines and service it can count on. And it knows it can count on Caterpillar and its dealer network for superb support and long machine life.

For example, the BHP equipment at Antamina includes a fleet of 49 mammoth 250-ton Caterpillar series 793 trucks, 43-foot-high machines costing millions of dollars each, which are powered by a diesel engine with more oomph than a military tank. Thanks to initial quality and Caterpillar's unrelenting support, the 793s have an unmatched reputation for durability and longevity. "Our very first 793 truck, placed in service 27 years ago, is still in service delivering best-in-class cost-per-ton," says Caterpillar's global production manager. One of the longest-running 793s has amassed 173,000 operating hours—the equivalent of nearly 20 years—nonstop. And Caterpillar recently celebrated the production of the 5,000th Cat 793 Mining Truck, a milestone that far exceeds the production volume of any other 250-ton truck.

To make sure that its industry-leading dealers are delivering excellence, Caterpillar cultivates long-standing relationships with them. Caterpillar believes it should "share the gain as well as the pain." When global equipment markets are thriving, Caterpillar shares the profits with its dealers. But when markets hit hard times, Caterpillar shelters its dealers by absorbing much of the economic damage. During one global recession, Caterpillar lost almost $1 billion in just three years. While many competitor dealers struggled and failed, not a single Cat dealer shut its doors. And when the global economy picked up, Caterpillar's dealer partners were not just intact but in an even stronger competitive position.

Caterpillar's extraordinary dealer support extends to its parts delivery system, the fastest and most reliable in the industry. Through a vast global network of distribution centers and service facilities, Caterpillar guarantees parts delivery within 48 hours—from the Alaskan tundra to the deserts of Timbuktu. In contrast, competitors' customers often wait four or five costly days for a part. Making the best even better, Caterpillar recently introduced Yellowmark—the company's own brand of repair and replacement parts. Conveniently available through Cat dealers, Yellowmark parts are designed to serve customers looking for reliable, value-priced aftermarket parts. Says Caterpillar, "Yellowmark repair and replacement parts build on the current range of Caterpillar new and remanufactured solutions to provide more options to customers as they work to optimize the owning and operating costs of their fleets."

Justifying Higher Prices

Thus, Caterpillar doesn't try to meet or beat competitors' prices. Instead, it offers greater value that justifies its higher prices. When a customer once asked a Caterpillar dealer why it should pay $500,000 for a Caterpillar bulldozer when it could get an "equivalent" Komatsu dozer for $420,000, the Caterpillar dealer famously provided an analysis along these lines:

$420,000	Caterpillar's price if equivalent to the competitor's bulldozer
$50,000	Value added by Caterpillar's superior reliability and durability
$40,000	Value added by Caterpillar's superior service
$40,000	Value added by Caterpillar's lower lifetime operating costs
$20,000	Value added by Caterpillar's longer parts warranty
$570,000	Value-added price for Caterpillar's bulldozer
−$70,000	Discount
$500,000	Final price

So while the customer pays an $80,000 price premium for the Caterpillar, it's actually getting $150,000 in added value over the product's lifetime. The customer chose the Cat bulldozer.

Caterpillar doesn't rest on its laurels. The big equipment leader is constantly developing new and better products. In conjunction with its large Germany-based Zeppelin Baumaschinen dealer, which operates in 13 European countries, Caterpillar unveiled a record 20 new machines at a recent Bauma exhibition in Munich, Germany—the construction industry's largest trade show. These new Cat machines occupied 96,000 square feet of space, representing more than one-third of all items at the show. And with these new models, Caterpillar will continue to practice its enduring and tested value-added pricing strategy. Competitors should take note: No matter what price you charge relative to the competition—high, low, or in between—always deliver customers superior value and service for that price.[22]

Questions for Discussion

6-16 If Edgybees realizes an overall contribution margin of 40 percent, as the company expands, by how much will sales have to increase to break even on each additional sales representative? (AACSB: Written and Oral Communication; Analytical Reasoning; Application of Knowledge)

6-17 Discuss how a buying center team at a heavy equipment business customer might typically go through the buying decision related to earthmoving equipment.

6-18 What are the key differences in the roles of Caterpillar's dealers and the roles of retailers in markets for consumer packaged goods?

6-19 One Caterpillar customer noted that being with the company gave that customer "peace of mind." What enables Caterpillar to be in the "peace of mind" business?

6-20 *Small group exercise*: A large mine operator wants to order about $100 million of heavy earthmoving equipment. Caterpillar is competing for the order against Komatsu, Deere, and other giants, which have offered enticing bids priced 17 percent below Caterpillar on average. Drawing from the case and the chapter, prepare a list of concise but compelling reasons to help the Caterpillar sales team win the business.

7 Customer Value–Driven Marketing Strategy

Creating Value for Target Customers

OBJECTIVES OUTLINE

OBJECTIVE 7-1 Define the major steps in designing a customer value–driven marketing strategy: market segmentation, targeting, differentiation, and positioning.

OBJECTIVE 7-2 Discuss the major bases for segmenting consumer and business markets.

OBJECTIVE 7-3 Explain how companies identify attractive market segments and choose a market-targeting strategy.

OBJECTIVE 7-4 Discuss how companies differentiate and position their products for maximum competitive advantage.

CHAPTER PREVIEW

So far, you've learned what marketing is and about the importance of understanding consumers and the marketplace. We now delve deeper into marketing strategy and tactics. This chapter examines key customer value–driven marketing strategy decisions—dividing markets into meaningful customer groups (*segmentation*), choosing which customer groups to serve (*targeting*), creating market offerings that best serve targeted customers (*differentiation*), and positioning the offerings in the minds of consumers (*positioning*). The chapters that follow explore the tactical marketing tools—the four Ps—by which marketers bring these strategies to life.

To open our discussion of segmentation, targeting, differentiation, and positioning, let's look at social media giant Facebook, Inc. (now Meta Platforms). Given its huge reach, it would seem that the Facebook platform would—by itself—meet the needs of almost everyone everywhere. But Facebook/Meta knows that no one social media platform can be all things to all people. So over the years, it has developed a hugely successful portfolio of brands that target the diverse needs of different social media segments

FACEBOOK (META): Targeting the Diverse Needs of Different Social Media Segments

When it comes to social media, one size does not fit all. Instead, the social media space teems with different platforms that meet the special needs of specific user segments. Twitter is a microblogging site by which people can broadcast and share short messages with large audiences. Facebook is a social networking site that makes it easy for users to connect and share with family and friends online. YouTube is a video-sharing service where users can watch, like, share, comment on, and upload their own videos. TikTok is a short-form, video-sharing app that lets users create and share videos on any topic. LinkedIn is the world's largest professional online network. In this day and age, no one social media platform can hope to be all these things to all people.

Perhaps no company exemplifies this segmentation principle more than Facebook, Inc. (recently renamed Meta Platforms). It all started almost two decades ago with Facebook, the social media platform that still dominates. Facebook has some 2.9 billion active monthly users—almost 37 percent of the world's total population. Around the world, more than 1.8 billion Facebook members log on daily. People spend more collective time on Facebook than on any other website, uploading hundreds of millions of photos and videos and liking or sharing billions of pieces of content daily.

With its huge reach, it would seem that—social media–wise—the Facebook platform is meeting the needs of everyone everywhere. But Facebook, Inc. recognizes that no one platform can do that. Instead, it has built a portfolio of brands, each targeting the diverse needs of different social media segments.

Early on, Facebook became the model for a social media network—a place where friends and family meet, share their stories, display their photos, pass along information, and chronicle their lives. But as the platform grew, its interface remained a work in progress. The company added features to appeal to the varying needs of its rapidly diversifying user base. For example, it introduced Facebook Chat, an in-platform messaging service the let users more readily carry on conversations with other users or groups. As it became more popular, Facebook Chat morphed into the Messenger feature on the Facebook mobile app. Finally, Messenger became a standalone app, letting its overlapping but separate segment of users send, receive, and react to messages, photos, and videos without logging on to Facebook.

Thanks to successful segmentation and targeting, Facebook/Meta's four huge social media platforms—Facebook, Instagram, WhatsApp, and Messenger—now constitute four or the world's top five social media brands.

rvlsoft/Shutterstock

But as Facebook grew, seemingly without bounds, it became almost too common to be cool for some users. As its user base began "aging up," many teens and young adults started viewing Facebook as a place for the older generation. Although Facebook continued to grow, the younger generation—with its more visual and interactive orientations and broader set of social relationships—began shifting to newer social media that better served its interaction style.

To meet that growing threat, even as Messenger was taking shape, in 2012 Facebook made a bold move. It stunned the tech world by paying $1 billion to acquire photo-sharing app Instagram. The purchase price was widely considered to be much too high. Instagram was less than two years old, had only 13 employees, and had a mere 27 million users compared with Facebook's then 1 billion users. Besides, the critics claimed, Instagram was redundant to Facebook, which already provided multiple ways for users to share photos.

But Facebook's interest in Instagram was part of a much broader vision. At the time, social media startups such as Twitter, Snapchat, and Instagram were growing rapidly. Facebook recognized that its core platform could not fully satisfy the social media needs of all users and uses. Younger segments were flocking to the newer platforms, eager for a place where they could connect in their own styles and in places not frequented by their parents and other boomers.

With Instagram, Facebook acquired a platform with a young user base and brand image. It didn't matter that Instagram was at the time primarily a photo-sharing service. Rather than incorporating Instagram as just another feature, Facebook maintained the app as an independent brand with its own youthful personality and users. And it poured resources into developing Instagram into a more complete social media platform.

Facebook followed the Instagram acquisition with yet another shocker. It bought standalone messaging app WhatsApp for an astonishing $19 billion—a figure roughly equal to Facebook's total revenues in the previous year and representing about 10 percent of Facebook's total value at the time. Once again, many analysts questioned the wisdom of the acquisition, especially given that Facebook's own Messenger app had already grown quickly to 200 million users. But like Instagram, WhatsApp gave Facebook immediate access to new customer segments. WhatsApp boasted more than 450 million registered international users, most of whom were not on Facebook. And five-year-old WhatsApp was the fastest-growing company in history in terms of registered users. Facebook anticipated that WhatsApp would exceed 1 billion users within just a few years.

Facebook continues to develop each of its platforms with innovative features designed to meet the needs of different customers in varied ways. At the same time, Facebook is keeping a keen eye out for the "next big thing." What's next for Facebook? The company's recent restructuring suggests an exciting future. Facebook, Inc. is now Meta Platforms, which overarches its Facebook, Instagram, WhatsApp, and Messenger platforms.

But the "Meta" in the name signals that the new parent company intends to develop and dominate the "metaverse"—a network of 3D virtual reality worlds in which people socialize, recreate, learn, work, and shop. Moving toward that goal, Meta Platforms recently paid $2 billion for Oculus VR—a maker of virtual reality headsets. And it launched a beta version of Horizon Worlds, a virtual reality game world and independent platform designed to be accessed through Oculus VR products.

This may all seem very futuristic and sci-fi, but many tech experts think that the metaverse will be the next evolutionary phase of the internet. By one estimate, by 2026, 25 percent of people will spend at least one hour per day in the metaverse for work, shopping, education, socializing, or entertainment. Along with dozens of startups, many established tech giants are investing heavily in major metaverse futures. Among these are the likes of Google, Amazon, and Microsoft. In fact, Microsoft recently announced that

Facebook (Meta) has created a differentiated portfolio of social media platforms that meet the diverse needs of multiple consumer segments. So far, its segmentation strategy has paid off handsomely. What's next?

it will pay an eye-opening $75 billion to acquire video-game company Activision Blizzard as its gateway into the metaverse.

Facebook/Meta's efforts to create a differentiated portfolio of products that meet the diverse needs of multiple consumer segments continue to pay off handsomely. The success of Facebook, Instagram, WhatsApp, and Messenger has proven the merits of the social media giant's segmentation strategy and long since silenced the critics. Those platforms now constitute four or the world's top five social media brands. Combined, they boast 7.5 billion monthly active users, nearly half of the world's population. And the company's portfolio of segmented brands reaches 2.5 times as many users as its largest single brand—Facebook—can by itself. Facebook founder Mark Zuckerberg sums it up this way: "Our vision for Facebook is to create a set of products that help you share any kind of content you want with any audience you want."[1]

COMPANIES CANNOT APPEAL to all buyers in the marketplace—or at least not to all buyers in the same way. Buyers are too numerous, widely scattered, and varied in their needs and buying practices. And companies themselves vary widely in their abilities to serve different market segments. Companies that try to be everything to everybody end up being very little to anybody. Instead, like Facebook, companies must identify the parts of the market they can serve best and most profitably. They must design customer value–driven marketing strategies that build the right relationships with the right customers.

Moreover, today's new technologies—from big data analytics to digital and social media platforms—have greatly expanded marketers' capacity to understand and reach consumers on an individualized basis. Thus, companies have moved away from mass marketing and toward *target marketing:* identifying market segments, selecting one or more of them, and developing products and marketing programs tailored to each.

Marketing Strategy

OBJECTIVE 7-1 **Define the major steps in designing a customer value–driven marketing strategy: market segmentation, targeting, differentiation, and positioning.**

Figure 7.1 shows the four major steps in designing a customer value–driven marketing strategy. In the first two steps, the company selects the customers that it will serve. **Market segmentation** involves dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviors and who might require separate marketing strategies or mixes. The company identifies different ways to segment the market and develops profiles of the resulting market segments. **Market targeting (or targeting)** consists of evaluating each market segment's attractiveness and selecting one or more market segments to serve.

In the final two steps, the company decides on a value proposition—how it will create value for target customers. **Differentiation** involves actually differentiating the firm's market offering to create superior customer value. **Positioning** is often framed as the "battle for the mind of the consumer"—the quest for a market offering to occupy a clear, distinctive, and desirable place in the minds of target consumers—one that is not occupied by competing products. We discuss each of these four steps in turn.

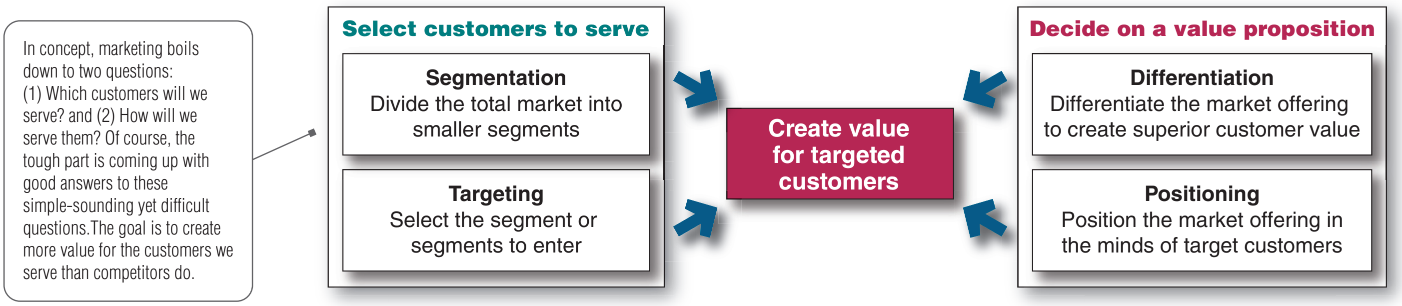
Market segmentation
Dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviors and who might require separate marketing strategies or mixes.

Market targeting (targeting)
Evaluating each market segment's attractiveness and selecting one or more segments to serve.

Differentiation
Designing the market offering to create superior customer value that is distinct from that offered by competitors.

Positioning
Creating a clear, distinctive, and desirable place for a marketing offer relative to competing products in the minds of target consumers.

FIGURE 7.1
Designing a Customer Value–Driven Marketing Strategy



Author Comment | Market segmentation addresses the first simple-sounding marketing question: What customers will we serve?

Market Segmentation

OBJECTIVE 7-2 Discuss the major bases for segmenting consumer and business markets.

Buyers can differ in their wants, resources, locations, buying attitudes, and buying practices. Through market segmentation, companies divide large, diverse markets into smaller, more homogeneous segments that can be reached more efficiently and effectively with products and services that match their unique needs. In this section, we discuss four important segmentation topics: segmenting consumer markets, segmenting business markets, segmenting international markets, and the requirements for effective segmentation.

Segmenting Consumer Markets

There is no single way to segment a market. A marketer has to evaluate different segmentation bases, alone and in combination, to find the best way to view market structure. Table 7.1 outlines bases that might be used in segmenting consumer markets. Here we look at the major *geographic*, *demographic*, *psychographic*, and *behavioral* bases.

Geographic Segmentation

Geographic segmentation Dividing a market into different geographical units, such as nations, states, regions, counties, cities, or even neighborhoods.

Geographic segmentation calls for dividing the market into different geographical units, such as nations, regions, states, counties, cities, or even neighborhoods. A company may decide to operate in one or a few geographically similar areas. Or it may operate in all areas but adjust for geographical differences in needs and wants. Companies are increasingly localizing their products, services, advertising, promotion, and sales efforts to fit the needs of individual regions, cities, and localities.

Many large retailers—from Target and Walmart to Kohl's and Staples—are now opening smaller-format stores designed to fit the needs of smaller markets not suited to their typical large suburban superstores. For example, Target's small-format, campus-focused store in Chapel Hill, NC, occupies just 22,000 square feet on the ground level of a multistory building along the main campus drag and employs just 50 staff. (An average Target superstore occupies 130,000 square feet and employs 150 to 200 people.) The Chapel Hill store is designed to fit the on-the-go, budget-conscious lifestyles of University of North Carolina students. And the assortment is carefully tailored to local patrons. Target has opened more than 150 small-format stores in crowded city centers, densely populated urban neighborhoods, and college campuses. In fact, of the 30 new stores Target opened last year, 29 were small-format or campus stores.[2]

Hyperlocal social marketing Location-based targeting to consumers in local communities or neighborhoods using digital and social media.

The surge in digital and mobile technology has given a boost to **hyperlocal social marketing**—location-based targeting to consumers in local communities or neighborhoods using digital and social media. Mazda, the Japanese multinational automaker, realized that car buyers do not travel beyond a certain maximum radius. Thus, the company used geographic data to maximize revenues and set up

Table 7.1 | Major Segmentation Bases for Consumer Markets

Segmentation Base	Examples
Geographic	Nations, regions, states, counties, cities, neighborhoods, population density (urban, suburban, rural), climate
Demographic	Age, life-cycle stage, gender, income, occupation, education, religion, ethnicity, generation
Psychographic	Lifestyle, personality
Behavioral	Usage occasions, benefits, user status, usage rate, digital proficiency, online activities, loyalty status

Hyperlocal social marketing: Mazda uses personalized ads for customers within a certain radius of a dealer.

Car Collection/Alamy Stock Photo

dynamically personalized mobile ads that would be triggered every time the user entered the radius of a local Mazda dealership. As a result, 20 percent of all targeted consumers interacted with the ad and were 53 percent more likely to make an inquiry at their local Mazda dealership.[3]

Alternatively, many major social media such as Facebook and Instagram let advertisers select audiences by geographic location. Companies can sign up with Google Maps to show their locations and ads in response to "near me" or "nearby" Google searches. For instance, a search of "auto repairs near me" brings up several ads for anything from your local Sears service center to local auto repair shops. If you search "hotels in Poughkeepsie, NY," the search results are topped by ads for Expedia.com, Booking.com, Tripadvisor.com, and KAYAK.com, followed by several specific hotel listings with site links and a map showing each location. Such hyperlocal targeting lets advertisers refine their marketing content to local consumer locations and localized search intent.

Demographic Segmentation

Demographic segmentation
Dividing the market into segments based on variables such as age, life-cycle stage, gender, income, occupation, education, religion, ethnicity, and generation.

Demographic segmentation divides the market into segments based on variables such as age, life-cycle stage, gender, income, occupation, education, religion, ethnicity, and generation. Demographic factors are the most popular bases for segmenting customer groups. One reason is that consumer needs, wants, and usage rates often vary strongly with demographic variables. Another is that demographic variables are easier to measure than other useful segmentation variables. Even when marketers first define segments using other bases, such as benefits sought or behavior, they must know a segment's demographic characteristics to assess the size of the target market and reach it efficiently.

Age and life-cycle segmentation
Dividing a market into different age and life-cycle groups.

Age and Life-Cycle Stage. Consumer needs and wants change with age. Some companies use **age and life-cycle segmentation**, offering different products or using different marketing approaches for different age and life-cycle groups.[4] For example, P&G's Crest 3D White Brilliance toothpaste targets older adults—it helps "to enhance their smile's beauty, using micro-cleansing whiteners to gently polish away surface stains." In contrast, Crest Pro-Health Jr. toothpaste targets young children by featuring packages adorned with *Frozen* and *Star Wars* characters and offering a Magic Timer App "to help even the most reluctant child to brush longer."

Marketers must guard against stereotypes when using age and life-cycle segmentation. Many traditional age-related expectations and boundaries are crumbling. For example, some people stereotype older adults as frail and homebound, but the reality is that many people well into their 80s and beyond enjoy active lifestyles full of tennis, travel, and social get-togethers. Similarly, whereas some 40-year-old couples are sending their children off to college, others are just beginning new families. Thus, age is often a poor predictor of a person's life cycle, health, work or family status, needs, and buying power.

Gender segmentation
Dividing a market into different segments based on gender.

Gender and Gender Identity. **Gender segmentation** has long been used in marketing clothing, cosmetics, toiletries, toys, and magazines. For example, P&G was among the first to use gender segmentation with Secret, a deodorant brand specially formulated for women, packaged and advertised to reinforce the feminine image. More recently, the men's personal care industry has exploded, and many cosmetics brands that previously catered mostly to women—from L'Oréal, Nivea, and Sephora to Unilever's Dove brand—now successfully market men's lines. For example, Dove's Men+Care believes that "Care makes a stronger man." The brand provides a full line of body washes, body bars, deodorants, face care, and hair care.

Going in the other direction, brands that have traditionally targeted men are now targeting women. For example, in the past, financial services marketing has typically skewed toward targeting men. However, research shows that women now control two-thirds of consumer spending, hold 40 percent of total global wealth, and are the main breadwinner in 49 percent of U.S. households. As a result, many financial services companies have increased their marketing to women. Consider Visa's "Money is changing" campaign targeting millennial women:[5]

> Visa's "Money is changing. So let's talk about it." campaign began with a comprehensive study that dug deeply into how millennial women feel, think, and experience money. The study showed that, despite their changing financial lives, many women were reluctant to discuss important money matters and experiences with friends and others. And all too often, despite women's many advances in investing, business, and other areas, current financial services marketing campaigns tended to focus on timeworn household spending and budgeting issues.
>
> Visa's "Money is changing" campaign created a platform that empowered women to have open, honest discussions about how money is changing for them. Visa brought the campaign to life through short videos on social media such as Facebook, Instagram, Twitter, Snapchat, and Pinterest. The videos featured conversational think pieces, candid interviews, influencer comments, and informational articles that sparked conversations about the most pressing financial issues today's women face. At the same time, traditional product ads showed how Visa's products fit seamlessly into women's changing worlds. "Money is changing" rang true with target consumers. Within the first 11 weeks, the campaign raised Visa's brand relevance among millennial women by 45 percent and produced a 33 percent increase in perceptions of Visa as an innovative brand.

Still other brands are introducing *gender-neutral* products that look beyond gender stereotypes and the notion that consumers make decisions based on gender. Many toy, clothing, cosmetics, and other marketers now offer brand experiences that embrace all gender identities. For example, Target eliminated its "pink" and "blue" aisles in 2015 and now sells gender-neutral lines such as the Toca Boca collection of back-to-school clothing, accessories, backpacks, and bedding that appeals to all children. And Danish toy company The LEGO Group announced recently that it will work harder to remove gender stereotypes from its products and marketing. "The benefits of creative play such as building confidence, creativity, and communication skills are felt by all children and yet we still experience age-old stereotypes that label activities as only being suitable for one specific gender," says The LEGO Group's chief marketing officer. "At The LEGO Group we know we have a role to play in putting this right." Says one consumer advocate, "We ask retailers to just say what the product is, not who it is for, and let children make choices about what to play with or read [or wear] based on interest, not gender stereotypes."[6]

Gender segmentation: Toy company LEGO Group announced recently that it will work harder to remove gender stereotypes from its products and marketing.

Creativa Images/Shutterstock

The concept of gender itself is becoming more fluid. There is a growing acknowledgment of the gap between gender and gender identity, which is defined as the personal sense of one's own gender. Gender identity can match the person's assigned sex or differ from it. Consequently, it becomes even more challenging to use gender as a segmentation dimension when designing products and customizing marketing.

In response to this increasingly complex and nuanced notion of gender, cosmetics and skin care marketers are introducing products that can be used by any gender. "Newer brands are entering the gate with gender fluidity already built in," says one analyst. By focusing on gender, marketers risk overlooking deeper insights into the roots of consumer behavior. Rather than targeting stereotypical gender roles, these products are "more inclusive, and they hit on more of the things that are important to younger consumers today, like 'sustainable' or 'clean' or 'genderless.'" According to the CEO of makeup brand We Are Fluide, "our whole belief is that gender is more of a constellation than an extreme of one or the other. If makeup is joyful and transformative and fun, nobody should be left out."[7]

Income segmentation
Dividing a market into different income segments.

Income. The marketers of products and services such as automobiles, clothing, cosmetics, financial services, and travel have long used **income segmentation**. Many companies target affluent consumers with luxury goods and convenience services. For example, credit card companies target affluent customers with premium cards that offer luxury and more perks but at hefty annual fees. For example, consider American Express:[8]

> The American Express Platinum card costs members $695 per year. It comes with perks such as special airport lounge access, airline fee credits, Uber credits, elite status at hotel and car rental chains, and extra bonus airline travel points. But for the really well heeled, American Express offers the Centurion Black Card, perhaps the world's most exclusive credit card. The Amex Centurion Black Card targets high-net-worth individuals who earn at least $1 million annually and charge at least $100,000 to $450,000 a year. Application is by invitation only, and cardholders pay an initiation fee of $10,000 plus $5,000 annually. Black Card members receive exclusive experiences—many kept secret—not available to Platinum Card holders. For example, it includes the Centurion Concierge, a kind of personal assistant who tends to every need, such as priority seating in hot restaurants, first-dibs on show tickets, and research for that exotic vacation. And, of course, the Amex Black Card comes with status and bragging rights that you just can't get with other cards.

Not all companies that use income segmentation target the affluent. For example, many retailers—such as the Dollar General, Family Dollar, and Dollar Tree store chains—target low- and middle-income groups. They primarily target families with annual incomes under $50,000. With their low-income targeting, dollar stores are the fastest-growing retailers in the nation.[9]

Psychographic Segmentation

Psychographic segmentation
Dividing a market into different segments based on lifestyle or personality characteristics.

Psychographic segmentation divides buyers into different segments based on lifestyle or personality characteristics. People in the same demographic group can have very different psychographic characteristics.

In Chapter 5, we discussed how the products people buy reflect their lifestyles. As a result, marketers often segment their markets by consumer lifestyles and base their marketing strategies on lifestyle appeals. For example, a number of home builders have cropped up in recent years to serve a growing "tiny homes" lifestyle segment.[10]

Lifestyle segmentation: Rocky Mountain Tiny Houses caters to the "tiny house" lifestyle segment of consumers seeking "a place of pride and comfort, yet one of simplicity and affordability." "Live Simply," advises the company.

ppa/Shutterstock

> The tiny house segment consists of consumers who don't buy into the traditional "American dream" of owning a big house and the lifestyle that goes with it. Instead, they seek simpler living, a more mobile and adventurous lifestyle, affordability, and a freedom from owning expensive assets. The tiny home movement builds on the notion that less is more. The typical tiny home contains 600 or fewer square feet of space, about one-fourth the size of the average U.S. home. Many are built on mobile platforms and called THOWs—tiny houses on wheels.
>
> Rocky Mountain Tiny Houses in Durango, Colorado, targets this segment. Its Shakalo home, priced at $62,000, captures the essence of tiny home design by maximizing usability while minimizing size. It is a compact 20 feet long with a bedroom on the second level; is made from durable, low-maintenance materials; features solar power and efficient heating and cooling systems; and comes with a 10-cubic-foot solar fridge in a well-featured kitchen. "Our philosophy is built on the notion that shelter should be a place of pride and comfort, yet one of simplicity and affordability," says the company. "Live Simply."

Marketers also use personality variables to segment markets. For example, Loews, a luxury-boutique hotel chain that offers high-level personal service, targets "personas" segments, such as "weekend explorer couples," "confident business travelers," "serious planners," "luxury jetsetters," "vacationing families," and "Loews loyalists." The chain creates personalized offers, messages, and media plans for each segment, keyed to stages of planning and staying at a Loews hotel—what Loews calls a "SmartJourney." For example, communications aimed at luxury jetsetters might start with an email offering opportunities to enhance their experiences with special room upgrades. Next come Loews mobile app notifications offering additional pre-stay options, such as reservations for fine dining. Once on site, the travelers in this persona group receive high-touch, personal attention tailored to their preferences, say, app notifications of a special "chef's tasting" or spa treatments. In the year following the start of the SmartJourney approach, Loews customer email engagement rates improved 40 percent, and rebookings were up 20 percent.[11]

Behavioral Segmentation

Behavioral segmentation
Dividing a market into segments based on consumer knowledge, attitudes, uses of a product, or responses to a product.

Behavioral segmentation divides buyers into segments based on their knowledge, attitudes, uses, or responses to a product. Many marketers believe that behavior variables are the best starting point for building market segments.

Occasion segmentation
Dividing the market into segments according to occasions when buyers get the idea to buy, actually make their purchase, or use the purchased item.

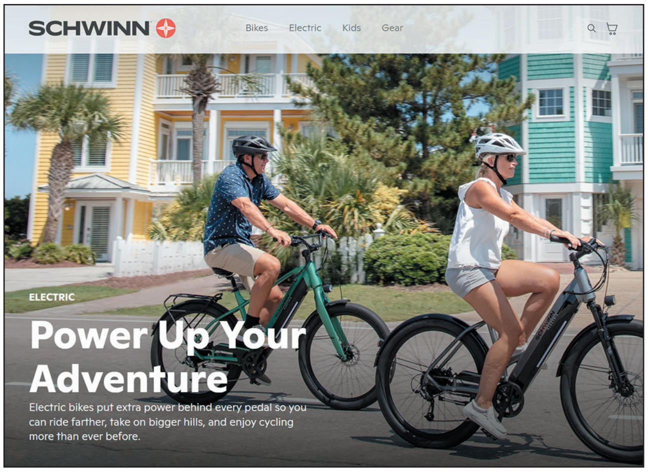
Occasions. Buyers can be grouped according to occasions when they get the idea to buy, actually make their purchases, or use the purchased items. **Occasion segmentation** can help firms build up product usage. Campbell's advertises its soups more heavily in the cold winter months. P&G boosts the marketing for its Vicks Nyquil, DayQuil, VapoRub, and VapoDrops remedies during the cold and flu season. Retailers ranging from Walmart, Target, and Macy's to Amazon feature back-to-school school sales each fall. And since 2003, Starbucks has welcomed the autumn season with its pumpkin spice latte (PSL). Sold only in the fall and now available in more than 50 countries, PSL is Starbucks's top-selling seasonal beverage of all time.[12]

Still other brands try to boost consumption by promoting usage during nontraditional occasions. For example, Nestlé gave its Maggi Noodles an interesting twist by positioning it as a two-minute snack in India. The Swiss giant faced challenges introducing the product in India in the 1980s, such as low consumer awareness of noodles as a food item and of the concept of packaged snacks. Consumer insights revealed that no instant hot snack options were available in the market and that children were more open to trying new food items than adults. Nestlé chose the brand name Maggi Two Minute Noodles to sell the instant snack concept. An ad was created showing a child asking his mother for a quick snack between meals—although the ad targeted children, Nestlé realized that mothers were important gatekeepers and would want to be involved in any meal preparation for their children. The ad showed the mother preparing the noodles and adding vegetables to the mix, appealing to the more health-conscious in its audience as well.[13]

Benefit segmentation
Dividing the market into segments according to the different benefits that consumers seek from the product.

Benefits Sought. A powerful form of segmentation is grouping buyers according to the different *benefits* that they seek from a product. **Benefit segmentation** requires finding the major benefits people look for in a product class, the kinds of people who look for each benefit, and the major brands that deliver each benefit. For example, people buying bicycles are looking for any of numerous benefits, from competitive racing and sports performance to recreation, fitness, touring, transportation, and just plain fun. To meet varying benefit preferences, Schwinn makes affordable, quality bikes in seven major benefit groups: cruisers, hybrid, mountain, road, electric, tricycles, and kids. Schwinn's *cruiser* bikes let you "Enjoy a relaxed ride with vintage charm. Cruisers are great for around the neighborhood or at the beach." *Mountain* bikes are "for riders who want a solid, rugged, and durable bike to ride over all surfaces." Schwinn *electric* bikes are for riders who want to "put extra power behind every pedal so you can ride farther, take on bigger hills, and enjoy cycling more than ever before."

In all, Schwinn makes dozens of lines of bikes, each designed for a specific benefit segment or subsegment. For example, Schwinn's Huron series cruisers (priced at an affordable $250 to $380) are steel-frame classic cruiser bikes with coaster brakes that sell at mass retailers. Riding "has never been easier and at such a great value." ● In contrast, Schwinn's high-end Coston DX models are "stylish sport hybrid e-bikes" (priced at $2,000) that can "Power up your adventure." "No matter what you're looking for," says Schwinn, "we've got a line of bikes for you."[14]



● **Benefit segmentation: Schwinn makes bikes for every benefit segment. "No matter what you're looking for," says Schwinn, "we've got a line of bikes for you."**

Used with permission of Pacific Cycle Inc

User Status. Markets can be segmented into nonusers, ex-users, potential users, first-time users, and regular users of a product. Marketers want to reinforce and retain regular users, attract targeted nonusers, and reinvigorate relationships with ex-users. Included in the potential user groups are consumers facing life-stage changes—such as new parents and newlyweds—who can be turned into heavy users. For example, to get new parents off to the right start, P&G makes certain that its Pampers Swaddlers are the diaper most U.S. hospitals provide for newborns and then promotes them as "the #1 choice of hospitals." And it promotes the brand to doctors to reinforce its position as the number-one pediatrician recommended brand.[15]

Targeting heavy users: The German budget hotel chain Motel One positions itself based on the tastes and tendencies of business travelers.

Schoening/Alamy Stock Photo

Usage Rate. Markets can also be segmented into light, medium, and heavy product users. Heavy users are often a small percentage of the market but account for a high percentage of total consumption. For instance, the German budget hotel chain Motel One orients everything toward the tastes and tendencies of its core of regulars and the specific cities where the hotels are located.[16]

> Motel One's brand experience convinces, inspires, and turns guests into fans. All of Motel One's 81 hotels, spread across 11 countries, have the same basic structure with only minor differences owing to regional factors. The heavy users Motel One concentrates on are business travelers. A lot of business travelers operate on a low budget and therefore prefer pocket-friendly but good-quality hotels. Motel One manages to offer a tempting price without compromising on quality. It combines high standards with functionality: with mobile work desks and free Wi-Fi, guests can work from anywhere. Hence, travelers have more flexibility, enough workspace, and a pleasant work atmosphere that lead to satisfied business travelers who then book the hotels regularly. Due to its attractive and reliable prices, consistent standards across its hotels, and central location relative to city centers, the hotel chain is also frequented by younger travelers, who may be classified as light and medium product users.

Loyalty Status. A market can also be segmented by consumer loyalty. Consumers can be loyal to brands (Tide), stores (Target), and companies (Apple). Buyers can be divided into groups according to their degree of loyalty. Some consumers are completely loyal—they buy one brand all the time and can't wait to tell others about it. Other consumers are somewhat loyal—they are loyal to two or three brands of a given product or favor one brand while sometimes buying others. Still other buyers show no loyalty to any brand—they either want something different each time they buy, or they buy whatever's on sale.

A company can learn a lot by analyzing loyalty patterns in its market. It should start by studying its own loyal customers. Highly loyal customers can be a real asset. They often promote the brand through personal word of mouth and social media. Instead of just marketing to loyal customers, companies should engage them fully and make them partners in building the brand and telling the brand story. Perhaps no organization does this better than wildly popular K-pop group BTS.

Some companies actually put loyalists to work for the brand. For example, athleisure apparel retailer Lululemon relies on a network of more than 1,300 ambassadors to champion the brand. Lululemon's ambassadors embody three pillars of what it calls "sweatlife"—they love to *sweat* and make a positive impact irrespective of their occupation; they are committed to personal, professional, and community *growth*; and they believe in *connecting* with others to build productive relationships. Lululemon's ambassadors fall into two categories. The company's 57 *global ambassadors* are renowned athletes, yogis, fitness trainers, and artists who are sweating to change the world. Its more than 1,300 *store ambassadors* are each associated with a retail outlet and are committed to making a difference in their local communities. Lululemon's ambassadors keep the company grounded to the local communities, help track the company's reputation and brand image, teach classes online and in stores, and provide feedback and collaborate on initiatives ranging from product design to store layouts.[17]

Using Multiple Segmentation Bases

Marketers rarely limit their segmentation analysis to only one or a few variables. Rather, they often use multiple segmentation bases in combination to identify smaller, better-defined target groups. Several business information services—such as Acxiom, Nielsen, Esri, and Experian—provide multivariable segmentation systems that merge geographic, demographic, lifestyle, and behavioral data to help companies segment their markets down to zip codes, neighborhoods, and even households. For example, VOX Cinemas in the UAE offers 12 different cinema experiences based on the preferences of its guests (see Real Marketing 7.1).

Real Marketing 7.1

VOX Cinemas: Movie Experiences for Everyone

VOX Cinemas is the Middle East's modern, innovative, and customer-focused cinema chain. It is the region's fastest-growing exhibitor, with over 500 screens spread across 58 locations. The company was created when the UAE's retail and entertainment conglomerate Majid Al Futtaim acquired Cinestar in 2012 in Dubai and renamed and rebranded it as VOX Cinemas. In less than a decade, the cinema has expanded from 50 screens to more than 500 screens across the region. In 2017, VOX received the Global Achievement in Exhibition Award and continues its expansion across different demographic and geographic markets.

Movie-going is a popular activity and entertainment for consumers in the UAE. Most of the big malls and entertainment districts have cinemas. The cinema sector in the UAE, like the country itself, has been going through rapid modernization. The early cinema days saw a few independent cinema houses, but from the late 1990s onward they were replaced by cinema chains and multiplexes built in shopping malls, especially in the city of Dubai. As one of the world's most modern cities, Dubai attracts regional and international tourists and offers unique entertainment destinations, retail establishments, shopping malls, and world-class cuisine. The development of various malls popularized the concept of an all-in-one-place style of shopping, dining, and cinema-going. VOX Cinemas developed many of its locations based on this particular behavior and lifestyle of cinema and mallgoers. The trend has also caught on in other countries like Qatar, Egypt, and Saudi Arabia. VOX views the Saudi market as the next big opportunity since the lifting of a 30-year ban on cinema in 2018. It is expected that the country will soon become one of the top ten global markets for cinema.

VOX Cinemas makes sure that everyone—children, the youth, the affluent, or the middle class—gets to experience a good time. The company attributes its success to three factors: first, the commitment and aspiration to set high standards and to deliver on them; second, the development of regional teams that work toward creating entertainment destinations that provide an escape to their customers from their daily lives to the wonderful world of cinema; and third, the ability to customize the cinema experience based on different customer groups. VOX therefore offers various price options ranging from $15 to $150, which allow it to cover the market effectively and position each offering based on the value and benefits provided.

VOX's many cinema experiences offered in Dubai include the following:

1. **The CRTL movie:** This is the region's first interactive movie experience that allows the viewers to control and decide the plot of the movie. In the Middle East, this is exclusively offered at VOX Cinemas in the UAE and Saudi Arabia and targets the more tech-savvy consumers, who can use a voting system on their phone to change the outcome of the story.
2. **VIP cinema experience in Dubai's WAFI Mall:** The VIP experience is Dubai's first 4K LED screen that offers an innovative dining and immersive experience. The luxury concept includes boutique-style décor, fine dining, and state of the art audio-visual technology. The experience targets affluent movie-goers who are looking for a complete entertainment package that includes food, atmosphere, and high-quality viewing and sound. Fine dining is offered at the opulent VIP lounge, The Spotlight at WAFI City. To increase the audience's comfort and luxury feel, the cinema offers a complimentary blanket and pillow.
3. **Snow Cinema at Ski Dubai:** VOX Cinemas has partnered with Ski Dubai to offer its guests a snowy cinema experience. Ski Dubai is the Middle East's first indoor ski resort constructed in a 22,500-square-meter space covered in real snow all year round. For people living in the desert with very warm temperatures most of the year, watching movies in the snow with a cozy blanket, gloves, beanies, hot chocolate, and a restaurant menu to order food from is a unique experience. This experience is particularly targeted at the more adventurous younger consumers. Guests under the age of 14 require supervision.
4. **Sensory-friendly film screenings:** This cinema experience offers an inclusive, safe, and comfortable environment for families with kids with sensory needs. The experience caters to this segment by providing a safe and comfortable environment by keeping the house lights on at dimmed levels throughout the duration of the movie, keeping the audio levels low, removing advertisements, and having a limited number of guests. Additionally, families are also allowed to bring their own food if they have any special dietary needs.
5. **Private cinema for family and friends:** VOX Cinemas offers private booking of cinemas so that guests can enjoy a movie of their choice with their friends and family or enjoy a private gaming session on the big screen. The cinema can be booked for up to 15 people with gourmet dining options and a private waiter for the guests.
6. **IMAX:** The IMAX cinema experience offers a larger-than-life curved screen for an exceptional immersive experience with a perfectly integrated sound system.
7. **MAX:** MAX offers a spacious cinema with a mega 20-meter-wide screen and premium seats with armrests, a side table, and extra legroom.
8. **GOLD:** This cinema experience offers extra luxury, indulgence, and comfort where guests enjoy movies accompanied by a diverse menu of decadent dishes.
9. **The Theater at VOX:** This offering blends the best of food and film where guests enjoy the movie with a fine dining experience from a Japanese gourmet menu.
10. **KIDS cinema:** This is especially targeted at children and focuses on animation, action, and adventure movies. These cinemas have a bright and colorful interior and are connected to party rooms where kids' birthday parties can be hosted.
11. **4DX:** 4DX cinemas are exclusive to VOX Cinemas in the Middle East. This experience is for guests who not only

VOX Cinemas has successfully targeted different segments of the UAE market by developing a wide range of cinema experiences which are tailored to consumer preferences.

Paul Gapper/Alamy Stock Photo

want to watch the movie but also want to *live* the movie. To bring the movie experience to life, VOX offers motion chairs and scent, wind, light, and water effects.

12. **Outdoor cinemas:** VOX also has options for the more outdoorsy users who would like to enjoy a movie under the stars. The cinema is decorated in a lounge-style fashion with couches and beanbags.

By following a customer value–driven marketing strategy, building partnerships, creatively segmenting the market, and positioning its offerings for different user groups, VOX has options for everyone and has developed an augmented cinema experience with a wide reach that caters to different user groups, movie types, and occasions. From the avid movie-goer who would like to decide the ending of the film, to the guest who likes to be served a four-course meal in the cinema, to a family with members who have special needs, VOX works hard to deliver its promise of providing great moments for everyone. As part of its vertical integration strategy, VOX also operates a regional film distribution business and has recently partnered with Odex to distribute Japanese anime films in the Middle East.

However, competition in the sector is increasing, with more players coming up with unique and differentiated experiences and location concepts. VOX faces competition from Reel Cinemas in the UAE, which has a portfolio similar to that of VOX. Reel Cinemas are part of the Emaar group, which operates many retail, real-estate, hospitality, and entertainment projects in the country. In line with the trends and the entertainment and lifestyle habits of consumers in the region, Reel Cinemas are also located in shopping malls or entertainment districts. Reel Cinemas also offer 10 different cinema experiences including Private Cinema, Dolby Cinema, Reel Platinum Suite, Reel Dine-In, Reel Premier, Reel Boutique, Reel Cinema KidsZania, Reel Junior, ScreenX, and MX4D. Novo Cinemas is another popular cinema chain in the UAE and operates around 15 locations across the Middle East. Additionally, other small cinemas cater to niche segments, offering specialized experiences like Cinema Akill, Dubai's first art-house cinema, which showcases art movie and film-making talent from around the world.[18]

For example, Acxiom's Personicx Lifestage system classifies U.S. households into one of 70 distinct clusters within 21 life stage groups.[19] Personicx segments carry colorful descriptive names such as "Summit Estates," "Skyboxes and Suburbans," "Toys and Tots," "Country Single," "Raisin' Grandkids," "Truckin' and Stylin'," "Farmland Families," "Downtown Dwellers," "Pennywise Mortgagees," and "Cartoons and Carpools."

Using Acxiom's Personicx segmentation system, marketers can paint a surprisingly precise picture of who you are and what you buy. Personicx clusters carry such colorful names as "Skyboxes and Suburbans," "Shooting Stars," "Soccer and SUVs," "Raisin' Grandkids," "Truckin' and Stylin'," Pennywise Mortgagees," and "Cartoons and Carpools."

Acxiom Corporation

Each segment has its own pattern of demographics, lifestyles, likes and dislikes, and purchase behaviors. Using the Personicx system, marketers can paint a surprisingly precise picture of who consumers are and what they might buy. For instance, the Personicx "Cartoons and Carpools" cluster consists of solidly middle-income, married, mid-30s couples with children of all ages. They lie very close to the national average in terms of income, education, and home values and provide comfortably for their families. "Cartoons and Carpools" consumers drive minivans and pickups, buy lots of clothes and shoes for their kids, and enjoy family activities such as visiting zoos, going to theme parks, and camping.[20]

Personicx and other such systems can help marketers to segment people and locations into marketable groups of like-minded consumers. Such rich segmentation provides a powerful tool for marketers of all kinds. It can help companies identify and better understand key customer segments, reach them more efficiently, and tailor market offerings and messages to their specific needs.

Segmenting Business Markets

Consumer and business marketers use many of the same variables to segment their markets. Business buyers can be segmented geographically, demographically (industry, company size), or by benefits sought, user status, usage rate, and loyalty status. Yet business marketers also use some additional variables, such as customer *operating characteristics, purchasing approaches, situational factors*, and *personal characteristics*.

Some companies serve both consumer and business markets. For example, Keurig has developed distinct marketing programs for various commercial segments, such as large and small offices, restaurant and food service operations, and hotel and hospitality establishments. Its Keurig Commercial group helps business customers in different segments to design their coffee service spaces, select the best Keurig systems and assortments, and learn how to operate and maintain them. It offers business customers customized turnkey solutions that fit their coffee service needs. For example, Keurig Commercial promises hotel and hospitality clients "full property solutions" that span their guest rooms, lobbies, lounges, and conference and meeting rooms.[21]

Global companies such as Caterpillar that operate across industries and countries segment their business markets in complex ways. With global sales of $41.7 billion, Caterpillar is the world's largest earthmoving equipment producer. But it also markets a wide range of other products and services, with 21 family brands in industries such as gas turbines, diesel-electric locomotives, financial services, and field-based digital solutions. Thus, segmentation at Caterpillar is a complex, multistage process.[22]

> Caterpillar first segments customers by the industries they operate in—mining and resource, energy and transportation, general construction, marine, and others. It further segments customers by where in the world they are located. Then, within industries and geographic locations, at a more local level, Caterpillar and its dealers break customers down by size into small, medium, and large customers. However, segmenting only by industry, location, and size overlooks the behavioral dimension of segmentation. So Caterpillar's customers can next be segmented as "Do it myself" (DIM), "Do it with me" (DIWM), and "Do it for me" (DIFM) customers. This need-based classification spans the range of needs from customers that want only to buy Caterpillar products (DIM) to those that what to partner with Caterpillar through its products and services (DIWM) to those that want a complete turnkey solution from Caterpillar (DIFM).
>
> Crossing this need-based classification with the small-medium-large size classification yields nine segments that provide a rich backdrop for evaluating customer potential. For example, Caterpillar would be interested in selling its products to all "Do it myself" customers, whether they are small, medium or large. Such transactions involve only the simple, upfront sale of high-margin products. In contrast, Caterpillar may decide not to do business with the small and medium-sized "Do it for me" customers who seek turnkey solutions. The time, effort, and costs of designing, delivering, and supporting such turnkey solutions for small and medium-sized customers will not likely be worth the financial returns. Caterpillar can similarly evaluate the potential of each of the nine segments to guide its marketing strategy.

Segmenting International Markets

Few companies have either the resources or the will to operate in all or even most of the countries that dot the globe. Although some large companies, such as Coca-Cola or Unilever, sell products in more than 200 countries, most international firms focus on a smaller set. Different countries, even those that are close together, can vary greatly in their economic, cultural, and political makeup. Thus, just as they do within their domestic markets, international firms need to group their world markets into segments with distinct buying needs and behaviors.

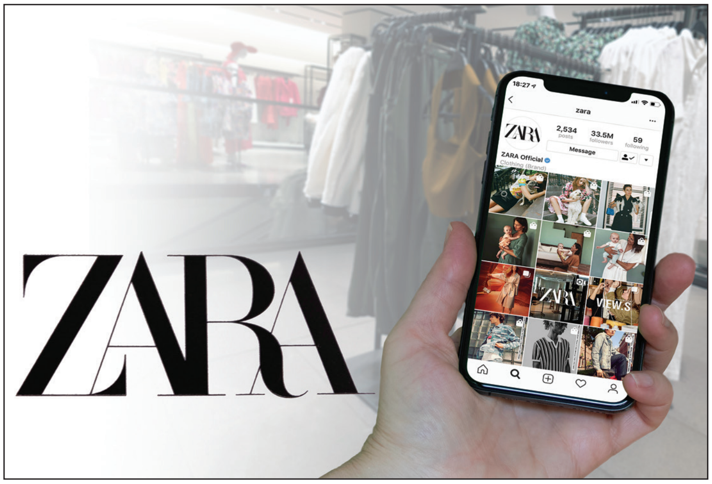
Companies can segment international markets using one or a combination of several variables. They can segment by *geographic location*, grouping countries by regions such as Western Europe, the Pacific Rim, South Asia, or Africa. Geographic segmentation assumes that nations close to one another will have many common traits and behaviors. Although this is sometimes the case, there are many exceptions. For example, some U.S. marketers lump all Central and South American countries together. However, the Dominican Republic is no more like Brazil than Italy is like Sweden. Many Central and South Americans don't even speak Spanish, including more than 200 million Portuguese-speaking Brazilians and the millions in other countries who speak a variety of indigenous languages.

World markets can also be segmented based on *economic factors*. Countries might be grouped by population income levels or by their overall level of economic development. A country's economic structure shapes its population's product and service needs and therefore the marketing opportunities it offers. For example, many companies are now targeting the BRICS countries—Brazil, Russia, India, China, and South Africa—which are fast-growing developing economies with rapidly increasing buying power.

Countries can be segmented by *political and legal factors* such as the type and stability of government, receptivity to foreign companies, monetary regulations, and amount of bureaucracy. *Cultural factors* can also be used, grouping markets according to common languages, religions, values and attitudes, customs, and behavioral patterns.

Segmenting international markets based on geographic, economic, political, cultural, and other factors presumes that segments should consist of clusters of countries. However, thanks to technologies such as social media, mobile phones, and satellite TV, today's marketers can define and reach segments of like-minded consumers no matter where in the world they are. Using **intermarket segmentation** (also called **cross-market segmentation**), marketers form segments of consumers who have similar needs and buying behaviors even though they are located in different countries.

Intermarket (cross-market) segmentation
Forming segments of consumers who have similar needs and buying behaviors even though they are located in different countries.



Intermarket segmentation: Today's technologies let fast-fashion retailer Zara target like-minded style-conscious but value-seeking consumers anywhere in the world they live.

Eyal Dayan Photography

For example, Zara—the world's largest fast-fashion retailer—targets fashion-conscious but value-seeking shoppers spread across cultures in over 96 countries. All of Zara's more than 2,500 stores and nearly 40 online marketplaces globally feature similar appeals, a kind of "reverse sticker shock" based on stylish, good quality, and constantly refreshed fashions offered at a fraction of the price of high-end brands. Beyond its stores, Zara leverages today's digital technologies to engage like-minded target consumers directly no matter where they live. For example, the brand has more than 49 million Instagram followers, 30 million Facebook followers, 1.5 million Pinterest followers, more than 1 million TikTok followers, and 96,000 YouTube subscribers. Connect with Zara from anywhere on the planet and you'll see the same appeals targeting the same kinds of customers.[23]

Requirements for Effective Segmentation

Clearly, there are many ways to segment a market, but not all segmentations are effective. For example, buyers of table salt could be divided into shorter and taller customers. But height obviously does not affect the purchase of salt. Furthermore, if all salt buyers bought the same amount of salt each month, believed that all salt is the same, and wanted to pay the same price, the company would not benefit from segmenting this market. Segmentation must build on inherent differences across customer needs and preferences.

To be useful, market segments must be

- ***Measurable.*** The size, purchasing power, and profiles of the segments can be measured.
- ***Accessible.*** The market segments can be effectively reached and served.
- ***Substantial.*** The market segments are large or profitable enough to serve. A segment should be the largest possible homogeneous group worth pursuing with a tailored marketing program. It would not pay, for example, for an automobile manufacturer to develop cars especially for people whose height is greater than seven feet.
- ***Differentiable.*** The segments are conceptually distinguishable and respond differently to different marketing mix elements and programs. If men and women respond similarly to marketing efforts for soft drinks, they do not constitute separate segments.
- ***Actionable.*** Effective programs can be designed for attracting and serving the segments. For example, although one small airline identified seven market segments, its staff was too small to develop separate marketing programs for each segment.

Author Comment | After dividing the market into segments, it's time to answer that first seemingly simple marketing strategy question we raised in Figure 7.1: Which customers will the company serve?

Market Targeting

OBJECTIVE 7-3 Explain how companies identify attractive market segments and choose a market-targeting strategy.

Market segmentation reveals the firm's market segment opportunities. The firm then has to evaluate the various segments and decide how many and which segments it can serve best. We now look at how companies evaluate and select target segments.

Evaluating Market Segments

In evaluating different market segments, a firm must look at three factors: segment size and growth, segment structural attractiveness, and company objectives and resources. First, a company wants to select segments that have the right size and growth characteristics. But "right size and growth" is a relative matter. The largest, fastest-growing segments are not always the most attractive ones for every company. Smaller companies may lack the skills and resources needed to serve larger segments. Or they may find these segments too competitive. Such companies may target segments that are smaller and less attractive, in an absolute sense, but that are potentially more profitable for them.

The company also needs to examine major structural factors that affect long-run segment attractiveness.[24] For example, a segment is less attractive if it already contains many strong and aggressive *competitors* or if it is easy for *new entrants* to come into the segment. The existence of many actual or potential *substitute products* may limit prices and the profits that can be earned in a segment. The relative *power of buyers* also affects segment attractiveness. Buyers with strong bargaining power relative to sellers will try to force prices down, demand more services, and set competitors against one another—all at the expense of seller profitability. Finally, a segment may be less attractive if it contains *powerful suppliers* that can control prices or reduce the quality or quantity of ordered goods and services.

Even if a segment has the right size and growth and is structurally attractive, the company must consider its own objectives and resources. Some attractive segments can be dismissed quickly because they do not mesh with the company's long-run objectives. Or the company may lack the skills and resources needed to succeed in an attractive segment. For example, the economy segment of the automobile market is large and growing. But given its objectives and resources, it would make little sense for luxury-performance carmaker Mercedes-Benz to enter this segment. A company should only enter segments in which it can create superior customer value and gain advantages over its competitors.

Selecting Target Market Segments

Target market
A set of buyers who share common needs or characteristics that a company decides to serve.

After evaluating different segments, the company must decide which and how many segments it will target. A **target market** consists of a set of buyers who share common needs or characteristics that a company decides to serve. Market targeting can be carried out at several different levels. ● **Figure 7.2** shows that companies can target very broadly (*undifferentiated marketing*), very narrowly (*micromarketing*), or somewhere in between (*differentiated or concentrated marketing*).

Undifferentiated Marketing

Undifferentiated (mass) marketing
A market-coverage strategy in which a firm decides to ignore market segment differences and go after the whole market with one offer.

Using an **undifferentiated marketing** (or **mass marketing**) strategy, a firm might decide to ignore market segment differences and target the whole market with one offer. Such a strategy focuses on what is *common* in the needs of consumers rather than on what is *different*. The company designs a product and a marketing program that will appeal to the largest number of buyers.

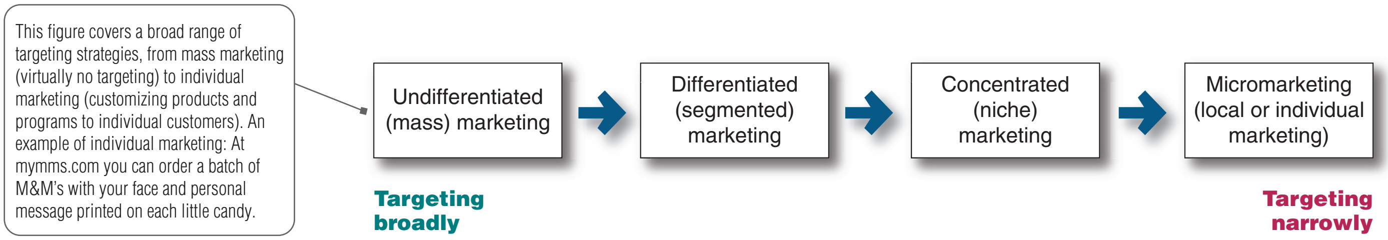
As noted earlier in the chapter, most modern marketers have strong doubts about this strategy. Difficulties arise in developing a product or brand that will satisfy all consumers. Moreover, mass marketers often have trouble competing with more-focused firms that do a better job of satisfying the needs of specific segments and niches. Finally, new digital technologies let marketers "have their cake and eat it too," targeting large numbers of consumers with more individually tailored marketing offers and messages.

Differentiated Marketing

Differentiated (segmented) marketing
A market-coverage strategy in which a firm targets several market segments and designs separate offers for each.

Using a **differentiated marketing** (or **segmented marketing**) strategy, a firm targets several market segments and designs separate offers for each. ● For example, the InterContinental Hotels Group (IHG) operates more than 6,000 hotels worldwide under 16 brands grouped into four collections—luxury and lifestyle, premium, essentials, and suite—each targeting different segments:[25]

● **FIGURE 7.2**
Market-Targeting Strategies



Differentiated marketing: The InterContinental Hotels Group (IHG) serves a wide range of customer segments through 16 differentiated hotel brands. It offers something for every travel segment, from the Holiday Inn (for customers looking for essentials) to Hotel Indigo (for those who want to be "part of the pulse and rhythm of a place").

atgof.co/Alamy Stock Photo; Radharc Images/Alamy Stock Photo

IHG's Six Senses, Regent, and Crowne Plaza brands target different luxury segments. Six Senses promises to "reawaken the senses of guests with wellness offerings and experiences that are out of the ordinary." The Vignette Collection and Hotel Indigo brands focus on customers seeking unique lifestyle experiences. Hotel Indigo, for example, aspires to be "part of the pulse and rhythm of a place, drawing on the story of its local area to inspire every aspect of the hotel, from intriguing design to distinctive local ingredients in our menus." IHG's Holiday Inn, Holiday Inn Express, and avid brands cater to customers looking for "essentials." The avid brand, for instance, champions "everyday travel at a fair price, meeting the needs of the guests who all too often have to pay more for things they don't need or compromise on the quality they expect." Staybridge Suites and Candlewood Suites target extended stay travelers: Candlewoods Suites offers "a more casual kind of longer stay, where you'll always feel at home, at your best, and really productive while on the road." Finally, IHG's Holiday Inn Club Vacations brand gives travelers a time-share option. In all, the IHG portfolio of brands offers something for every travel segment. Says the company, "Our diverse set of global destinations exist to broaden your choices, invite you to save or splurge, and encourage you with welcoming experiences at every arrival."

By offering product and marketing variations to segments, companies hope for higher sales and a stronger position within each market segment. Developing a stronger position within several segments creates more total sales than undifferentiated marketing across all segments.

But differentiated marketing also increases the costs of doing business. A firm usually finds it more expensive to develop and produce, say, 10 units of 10 different products than 100 units of a single product. Developing separate marketing plans for separate segments requires extra marketing research, forecasting, sales analysis, promotion planning, and channel management. Trying to reach different market segments with different advertising campaigns increases promotion costs. And having too many overlapping brands can confuse customers, and different brands might cannibalize each other's customers. For example, does IHG really need 16 different brands, many of which compete with each other in a given segment? Thus, a company must weigh the advantages against the disadvantages when deciding on how many brands it will offer and how differentiated they will be.

Concentrated Marketing

Concentrated (niche) marketing
A market-coverage strategy in which a firm goes after a large share of one or a few segments or niches.

When using a **concentrated marketing** (or **niche marketing**) strategy, instead of going after a small share of a large market, a firm goes after a larger share of one or a few smaller segments or niches. Consider niche-focused apparel company American Giant:[26]

American Giant makes and sells a limited line of American-made, back-to-basics apparel, sold only at its own web and mobile sites. It began in 2012 as an online startup selling high-quality sweatshirts at reasonable prices online (what *Slate Magazine* called "the best hoodie" ever). From the start, American Giant's back-to-basics approach focused on a few, high-quality, classic American-style products—such as the hoodie—with new technology like a double lining and ribbed panels at the shoulders and waist for improved functionality and durability. The company formed lasting relationships with American growers and mills to produce high-quality, American-made fabrics and apparel.

Although American Giant has expanded its lines to include basic styles of tees, work shirts, crew sweaters, polos, vests, jackets, and denim, it has stuck with the basics of simplicity, quality, durability, and value. For example, its first denim offering is a classic five-pocket, straight-leg, relaxed design jean—the 218 Straight—in one color, one fit, and one price. It's manufactured by a 173-year-old American textile company, Mount Vernon Mills, in Trion, Georgia. Beyond its product lines, American Giant's entire approach is pretty much a back-to-basics one. "American Giant does little or no marketing, has no retail outlets, does not chase trends, and pays premium wages to American labor to produce top-shelf quality products at a middle shelf price," says one analyst. When the COVID-19 pandemic struck, American Giant's made-in-America strategy paid off handsomely. Even while many apparel retailers struggled and some went bankrupt because of supply chain and retail constraints, American Giant has grown by 30 percent in each of the past two years. Although still tiny compared with major competitors such as Gap and Levi-Strauss, American Giant has grown explosively in its niche.

Concentrated marketing: Apparel company American Giant has grown explosively in its back-to-basics, made-in-America niche.

David Paul Morris/Bloomberg via Getty Images

Through concentrated marketing, the company achieves a strong market position because of its greater knowledge of consumer needs in the niches it serves and the special reputation it acquires. It can market more *effectively* by fine-tuning its products, prices, and programs to the needs of carefully defined segments. It can also market more *efficiently*, targeting its products or services, channels, and communications programs toward only consumers that it can serve best and most profitably.

Choosing the right value proposition is important and helps to connect with consumers by offering them unique brand differences. For example, Fila, an Italian sports brand, has reached out to Gen Z by offering affordable but stylish fashion sports footwear (see Real Marketing 7.2).

Many companies start as nichers to get a foothold against larger, more resourceful competitors and then grow into broader competitors. For example, Klarna started as a simple payment platform in Sweden; today it offers many services, such as instalment payments, invoice purchases, and instant transfers as a partner of various companies worldwide. Porsche began by building only sport cars but has grown since; Porsche Holding in Salzburg is one of the largest and most successful automobile retailers in Europe. Alibaba started by connecting Chinese manufacturers with Western buyers but has grown into a large corporation that controls approximately 80 percent of all Chinese e-commerce.[27] Sony began as a transistor radio company but grew to become now one of the world's largest electronics companies with interests ranging from movie production to PlayStation gaming consoles. More recently, Tesla broke into an auto industry dominated by well-established, deep-pocketed competitors by first concentrating on the narrow, high-tech, all-electric car market niche. But it now offers an ever-expanding line of electric vehicles across several automotive segments.

Concentrated marketing can be highly profitable, giving nichers an advantage in their corners of the market. At the same time, it involves higher-than-normal risks. Companies that rely on one or a few segments for all of their business will suffer greatly if the segment turns sour. Or larger competitors, threatened by successful nichers, may decide to enter the same segment with greater resources. For example, Coca-Cola's Venturing & Emerging Brands unit markets a cooler full of niche beverages. Its brands include Honest Tea (the nation's number one organic bottled teas, lemonades, and sparkling sodas), FUZE (a fusion of tea, fruit, and other flavors), Suja (the nation's leading organic and cold-pressured juice brand), Fairlife (ultra-filtered milk), and many others. Such brands let Coca-Cola compete effectively in smaller, specialized markets, and some will grow into future powerhouse brands. In fact, the Coca-Cola Venturing & Emerging Brands unit's mission is "to identify and nurture brands with billion-dollar potential." Each year, it sponsors a New Beverage Showdown in which innovative and promising new beverage startups pitch their brands in competition with others. The winner receives a $10,000 awareness-building advertising package.[28]

Micromarketing

Differentiated and concentrated marketers tailor their offers and marketing programs to meet the needs of various market segments and niches. At the same time, however, they do not customize their offers to each individual customer. **Micromarketing** is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and local customer segments. Rather than seeing a customer in every individual, micromarketers see the individual in every customer. Micromarketing includes *local marketing* and *individual marketing*.

Micromarketing
Tailoring products and marketing programs to the needs and wants of specific individuals and local customer segments; it includes local marketing and individual marketing.

Local marketing
Tailoring brands and marketing to the needs and wants of local customer segments—cities, neighborhoods, and even specific stores.

Local Marketing. **Local marketing** involves tailoring brands and promotions to the needs and wants of local customers. For example, Marriott's Renaissance Hotels has a Navigator program, which hyperlocalizes guest experiences at each of its more than 160 lifestyle hotels around the world:[29]

> Renaissance Hotels' Navigator program puts a personal and local face on each location by "micro-localizing" recommendations for guests' food, shopping, entertainment, and cultural experiences at each destination. The program is anchored by on-site Renaissance Hotels "Navigators" at each location. An example is Jennifer Portuhondo, a restaurant-loving Manhattanite at the Renaissance New York Times Square Hotel who "lives and breathes New York." Based on hours of intense training plus their own personal experiences and ongoing

Real Marketing 7.2

Fila Sneaks Back into Fashion

In many cities across the world, it is not uncommon now to see people out on the streets dressed in sports clothing as if they are headed to a yoga class, Pilates studio, or the gym—even if they aren't. Sports-based fashion like gym gear, yoga pants, workout clothes, and sneakers have entered the mainstream in the fashion and apparel industry worldwide.

This trend has given opportunities to many non-traditional sportswear brands, and people have started to take more fashion risks and experiment with brands they might not have purchased before.

Recent sports fashion trends have created newer segments with different value propositions for those who are enjoying the new styles, designs, and innovation, especially in athletic footwear. The sports shoe market can be divided into five segments with different value propositions for each target group:

- The **sports segment** is the traditional one, consisting of consumers who are actively and regularly involved in fitness or sports. They prefer well-known, higher-quality, higher-priced brands.
- The **elite sports segment** includes consumers who are committed to a particular sport like running, cycling, basketball, etc. They actively train for it, so they look for specialty shoes for their specific sports. The purchase is a high involvement one for them, and they tend to be loyal to their brand.
- The **everyday sneaker wearers segment** includes common sports shoe users. Sports shoes are part of their day-to-day lifestyle, but they are not particular about any specific sport. The main criteria they look for in sports shoes are comfort and good value for money. They prefer well-known brands, regarding them as safer, low-risk purchases.
- The **fashion sports market segment** is a developing segment that comprises young working adults and teenagers. They buy shoes for style, design, and brand image as a reflection of their social and self-identity. They want fashionable sports shoe brands, but not necessarily the brands their parents wore.
- The **budget-conscious segment** consists of consumers who buy inexpensive shoes. They look for low-priced footwear that have a sporty look. This segment mostly includes families, retirees, and consumers looking for an extra pair of shoes for casual, everyday wear.

The fashion sports market is a fast-growing segment widely referred to as "athleisure." Various social and demographic factors, like greater health consciousness, are driving the pursuit of more active lifestyle habits and, in turn, the popularity of athletic wear. The athleisure segment is particularly popular now as it involves easy assimilation of sports-related attire in people's wardrobes for casual and versatile use, a same-for-less value proposition. Established and new brands alike, including Under Armour, Lululemon, New Balance, Converse, Vans, Fila, and Champions, have widened their product offerings to cater to the needs of the various segments in the sports fashion market.

One of the brands that have benefited from the athleisure trend is the Italian sportswear brand Fila, which has reemerged as a popular fashion brand, particularly in the sneakers segment.

Fila was a popular sportswear brand in the 1990s but lost much of its market share to the growing dominance of the mainstream sports brands. However, in 2017–2018, the brand made a comeback by cutting its prices and reinventing itself as an on-trend fashion brand through effective brand positioning and targeting strategies. In a manner similar to adidas's turnaround, Fila positioned its brand at the crossroads of fashion and sports. This gave Fila a lot of visibility as its value proposition clicked well with younger consumers who wanted a trendy, athletic look.

There has been a retro revival wave for everything related to the 1990s: movies, TV shows, even cereal. Fila used to be a very popular and important brand during this decade, and the era's resurgence became a great opportunity for it to leverage the trend. Fila's Disruptor 2 line, especially popular among the younger segment, is part of the "ugly shoe movement" pioneered by the brand but adopted by high-fashion brands like Balenciaga and Fendi and celebrities like Kim Kardashian. It has become a point of pride for the company that the bulky shoe look, which it claims as part of its "DNA," has quickly become one of the most sought-after styles and made the brand an on-trend fashion essential. However, the company has stated that its future is not just about looking at past strategies and current trends; it aims to be a sports fashion brand that can balance past, present, and future.

Fila's repositioning and comeback efforts were successful because they were able to get the attention of target consumers. Referring to the story of the chunky shoe, from its popularity in the 1990s to its disappearance, to its reemergence in the market, the company said that its brand conversations have reinforced stories

Fila owes its resurgence not only to the retro wave but the brand's ability to create a narrative about its products.

sozon/Shutterstock

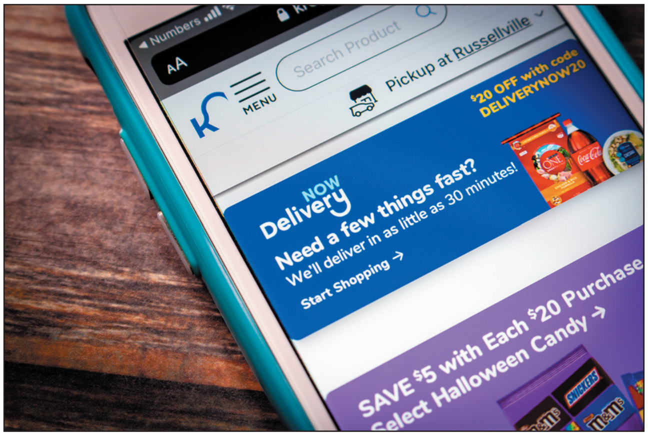
about the past to inspire the younger customer. Fila wants to offer a unique value to its customers by telling a fashion story—a sneaker from the past coming back in vogue again—and believes that footwear trends are evolving to suit brands' positioning as well as the value proposition of stylish, in-vogue trendy sports shoes at a lower price.

Fila has capitalized on the 1990s trends successfully as its sales and popularity continue to grow: the company reported a growth of 28 percent in its revenue to reach approximately $640 million in the last quarter of 2018. As of April 2021, Fila has seen a significant increase in its brand value to $2.7 billion and is one of the fastest growing brands in its category. Fila knows that its target customers are looking for more value and authenticity but also want to be more on-trend in their fashion statements. The company positions itself as a mid-market brand that is closer to its customers and therefore more focused on its target market selection—with smaller operational scales—and more flexible and responsive to trends. This is where Fila thinks it has an advantage over bigger companies, which take more time to catch on to trends. Millennials and Gen Z have shown a clear preference for casual clothing, which could drive the sportswear market in the coming years. Although established brands have key advantages, more experimental brands that have clear visions and disruptive concepts—like Fila—are better placed to be embraced by the younger market.

Although Fila has struck the right chord with the youth, it remains to be seen how lasting this popularity will be. Fila now operates in more than 70 countries and has been riding the popularity wave. However, it needs to do more to make its brand history and Italian brand heritage known and to be more than a 1990s trend brand.[30]

research, they work with guests personally to help them experience the hidden gems in the neighborhood of each hotel through their own experienced eyes.

In addition, Renaissance Hotels engages locals in each city to participate by inviting them to follow their local Navigator via social media as well as adding their own favorites to the system, creating each hotel's own version of Yelp. Navigators then cull through submitted tips and feature the best recommendations alongside their own for sharing on its web, mobile, and social media channels or in the hotel lobby on a tablet or in a printed Local Navigator Guide. The hotels also offer an R Navigator phone app that lets guests "uncover the most authentic hidden gems the city you're visiting has to offer. Eat, drink, shop and more—at locations handpicked and continually updated by our local Navigators themselves."



Local marketing: The Kroger app personalizes and optimizes the customer's experience in a preferred local store. Its Google Maps pickup service shares a pick-up customer's estimated time of arrival with the store so orders are ready for handover just when the customer arrives at the store.

Koshiro K/Shutterstock

Advances in communications technology have given rise to new high-tech versions of location-based marketing. Thanks to the explosion in smartphones and tablets that integrate geolocation technology, companies can now track consumers' whereabouts closely and engage them on the go with localized deals and information fast, wherever they may be. Retailers ranging from Kroger and Home Depot to Walgreens and Sephora have jumped onto the hyperlocal bandwagon. For example, grocery giant Kroger's app lets customers create their own shopping lists and provides aisle locations for items when they visit their preferred local stores. The app provides personalized in-store offers based on customer preferences and previous purchases. A barcode scanner in the app lets customers check item prices at the shelf. And Kroger recently partnered with Google to add new hyperlocal functionality—Google Maps pickup for online shoppers. With the customer's permission, Google Maps shares a pickup customer's location with the store along with an estimated time of arrival. This lets the store prioritize a customer's order and hand it over just when the customer arrives. The service also alerts shoppers as to when their orders will be ready and even reminds them when it's time to leave.

Local marketing has some drawbacks, however. It can drive up manufacturing and marketing costs by reducing the economies of scale. It can also create logistics problems as companies try to meet the varied requirements of different local markets. Still, as companies face increasingly fragmented markets and as new supporting digital technologies develop, the advantages of local marketing often outweigh the drawbacks.

Individual marketing
Tailoring products and marketing programs to the needs and preferences of individual customers.

Individual Marketing. In the extreme, micromarketing becomes **individual marketing**—tailoring products and marketing programs to the needs and preferences of individual customers. Individual marketing has also been labeled one-to-one marketing, mass customization, and markets-of-one marketing.

The widespread use of mass marketing has obscured the fact that for centuries consumers were served as individuals: The tailor custom-made a suit, the cobbler designed

Individual marketing: Based on images submitted by a customer using its smartphone app, FitMyFoot 3-D prints footwear that fits that customer and no one else.

FitMyFoot

shoes for an individual, and the cabinetmaker made furniture to order. Today, new technologies are permitting many companies to return to customized marketing. Detailed databases, robotic production and flexible manufacturing, and interactive technologies such as smartphone apps and online and social media have combined to let brands address and serve customers individually.

Companies these days are hyper-customizing everything from food, artwork, clothing, and sneakers to high-end luxury products. At one end of the spectrum, candy lovers can go to mymms.com and buy M&Ms with personalized messages or pictures embossed on each little candy. Using Skin Inc.'s diagnostic tool, customers can order customized My Daily Dose skin care products based on their unique skin, lifestyle, and environment profiles. FitMyFoot makes individually fitted sandals and insoles. Each customer uses the brand's Foot Science smartphone app to scan and transmit images of their feet to the company. Using hundreds of data points from the scans, FitMyFoot then creates a three-dimensional image of each foot and 3-D prints footwear that fits that customer and no one else. To personalize the product even more, FitMyFoot prints the customer's name on each sandal or insole.[31]

At the other extreme are "bespoke" luxury goods (a fancy word for "custom-made" or "made to order"). For the right price, well-heeled customers can buy custom-designed goods ranging from bespoke fashions and accessories by Hermès and Gucci to bespoke cars from Aston Martin or Rolls-Royce.[32]

Ninety-five percent of Rolls-Royce buyers customize their cars in some way. Customers can sit down with a Rolls-Royce Bespoke design team—color experts, leather-smiths, master woodworkers—in a lounge filled with images, materials, and other inspirational elements to design their own unique Rolls-Royces. Want to match the exterior paint and interior leather to your favorite pale pink leather gloves? No problem. One customer even wanted his car's interior trim to be made from a favorite tree that had recently fallen on his estate. After analyzing a sample, a Rolls-Royce artisan deemed the wood acceptable and the customer's tree will now live forever in the dash and door panels of his custom Rolls-Royce.

Beyond customizing products, marketers also personalize advertising messages, marketing offers, and service encounters on a one-to-one basis. Given today's data and analytics technologies, almost any customer engagement can be fine-tuned to individual customer characteristics, preferences, and behaviors.

Choosing a Targeting Strategy

Companies need to consider many factors when choosing a market-targeting strategy. Which strategy is best depends on the company's resources. When the firm's resources are limited, concentrated marketing makes the most sense. The best strategy also depends on the degree of product variability. Undifferentiated marketing is more suited for uniform products, such as grapefruit or steel. Products that can vary in design, such as cars or fashions, are more suited to differentiation or concentration. The product's life-cycle stage also must be considered. When a company introduces a new product, it may be practical to launch one version only, and undifferentiated marketing or concentrated marketing may make the most sense. In the mature stage of the product life cycle, however, differentiated marketing often works better.

Another factor is *market variability*. If most buyers have the same tastes, buy the same amounts, and react the same way to marketing efforts, undifferentiated marketing is appropriate. Finally, *competitors' marketing strategies* should be considered. When competitors use differentiated or concentrated marketing, undifferentiated marketing can be risky. Conversely, when competitors use undifferentiated marketing, a firm can gain an advantage by using differentiated or concentrated marketing, focusing on the needs of buyers in specific segments.

Socially Responsible Target Marketing

Smart targeting helps companies become more efficient and effective by focusing on the segments that they can satisfy best and most profitably. Targeting also benefits consumers—companies serve specific groups of consumers with offers carefully tailored to their needs. However, target marketing sometimes generates controversy and concern. The biggest issues usually involve the targeting of vulnerable or disadvantaged consumers with controversial or potentially harmful products.

For example, fast-food chains have generated controversy over the years by their attempts to target inner-city consumers. They've been accused of pitching their high-fat, salt-laden fare to low-income, urban residents who are much more likely than suburbanites to be heavy consumers. Similarly, big banks and mortgage lenders have been criticized for targeting consumers in poor urban areas with attractive home mortgages that they can't really afford.

Children are seen as an especially vulnerable audience. Marketers in a wide range of industries—from cereal, soft drinks, and fast food to toys, fashion, and social media—have been criticized for their marketing efforts directed toward children. Critics worry that enticing premium offers and high-powered advertising appeals will overwhelm children's defenses. For instance, YouTube has been accused by some consumer groups of profiting by enticing children into what one advocate calls an "ad-filled digital playground" where toy, theme park, and sneaker ads can surface alongside kid-oriented videos. YouTube's terms of use discourage children under 13 years of age from using the site, but most kids don't know about or ignore these conditions. "Google profits handsomely from selling advertising to kid-directed programs that it packages," says the advocate.[33]

Such digital technologies may make children even more vulnerable to targeted marketing messages. Traditional child-directed TV and print ads usually contain fairly obvious pitches that are easily detected and controlled by parents. However, marketing in digital media may be subtly embedded within the content and viewed by children on personal, small-screen devices that are beyond even the most watchful parent's eye. In digital platforms, the lines between educational, entertainment, and commercial content are often blurred. Thus, as children consume increasing amounts of online and digital content, experts advise close parental supervision of children using digital devices.

Sometimes a deep involvement with a product targeted to young customers can cross over the line and turn into an unhealthy obsession.[34] ● For example, some critics worry that teens may become addicted to video games, playing them for days on end until they become exhausted. The World Health Organization has added "gaming disorder"—defined as "excessive and irrepressible preoccupation with video games, resulting in significant personal, social, academic, or occupational impairment for at least 12 months"—to the International Classification of Diseases. Where should a company draw the line between promoting heavy use by targeting heavy users and addressing the harmful effects of such use? This question has no easy answers. But in an era of increased social responsibility, marketers must consider not just whether targeted consumers buy and like their products but also whether they use them wisely.

● **Socially responsible targeting: In this era of increased social responsibility, marketers must consider not just whether targeted consumers buy and like their products but also whether they use them wisely.**

Cagkan Sayin/Shutterstock

More broadly, the growth of the internet, smartphones, and other carefully targeted direct media has raised fresh concerns about potential targeting abuses. The internet and mobile marketing allow more precise targeting, letting the makers of questionable products or deceptive advertisers zero in on the most vulnerable audiences. Unscrupulous marketers can now send tailor-made, deceptive messages by email directly to millions of unsuspecting consumers. For example, the Federal Bureau of Investigation's Internet Crime Complaint Center website alone received almost 800,000 complaints last year.[35]

Today's marketers are also using sophisticated analytical techniques to track consumers' digital movements and to build amazingly detailed customer profiles containing highly personal information. Such profiles can then be used to hypertarget individual consumers with personalized brand messages and offers. However, with such targeting, marketers often walk a fine line between serving customers better and stalking them:

> How well does your smartphone know you? What stories could your laptop tell? Whatever you do—at work, at play, socializing, shopping—your phone, tablet, laptop, or desktop is almost always a part of the action. These devices go where you go, entertain you, connect you with

friends, take you browsing and shopping, feed you news and information, and listen in on even your most intimate voice, text, and email conversations. And more and more, these devices are sharing all that personal information with marketers. Companies have now developed sophisticated analytics that border on wizardry to extract intimate insights about consumers.

Marketers argue that using all of this up-close-and-personal information better serves both customers and a company. Customers receive tailored, relevant information and offers from brands that really understand and interest them. However, many consumers and privacy advocates are concerned that such intimate information in the hands of unscrupulous marketers can result in more harm than benefit. They often view big data and hypertargeting less as "serving consumers better" and more as "stalking" and "profiling" consumers. Although most consumers are willing to share some personal information if it means getting better service or deals, many consumers worry that marketers might go too far.

Thus, in target marketing, the issue often is less a matter of *who* is targeted but rather *how* and for *what*. Controversies arise when marketers attempt to profit at the expense of targeted segments—when they unfairly target vulnerable segments or target them with questionable products or tactics. Socially responsible marketing calls for segmentation and targeting that serve not just the interests of the company but also the interests of those targeted.

Author Comment | At the same time that a company is answering the first simple-sounding question (Which customers will we serve?), it must also be asking the second question (How will we serve them?).

Differentiation and Positioning

OBJECTIVE 7-4 Discuss how companies differentiate and position their products for maximum competitive advantage.

Product positioning
The way a product is defined by consumers on important attributes—the place it occupies in consumers' minds relative to competing products.

Beyond deciding which segments of the market it will target, the company must decide on a *value proposition*—how it will create differentiated value for targeted segments and what positions it wants to occupy in those segments. **Product positioning** is the way a product is *defined by consumers* on important attributes—the place the product occupies in consumers' minds relative to competing products. Products are made in factories, but brands happen in the minds of consumers.

In the automobile market, the Honda Fit and Nissan Versa are positioned on economy, Mercedes and Cadillac on luxury, Porsche and BMW on performance, and Tesla on technology. Your Visa card is "Everywhere you want to be"; with American Express, "Don't live life without it." Home-improvement retailer Lowe's says "Do it right for less"; at Home Depot, it's "How doers get more done." And whereas Apple Music gives you "All the ways you love music. All in one place," Spotify has "Music for every mood." Such simple-sounding statements form the backbone of a brand's value proposition.

Positioning: Spotify does more than just stream music. It gives you "Music for every mood."
rafapress/Shutterstock

Consumers are overloaded with information about products and services. They cannot reevaluate products every time they make a buying decision. To simplify the buying process, consumers organize products, brands, and companies into categories and "position" them in their minds. A product's position is the complex set of perceptions, impressions, and feelings that consumers have for the product compared with competing products.

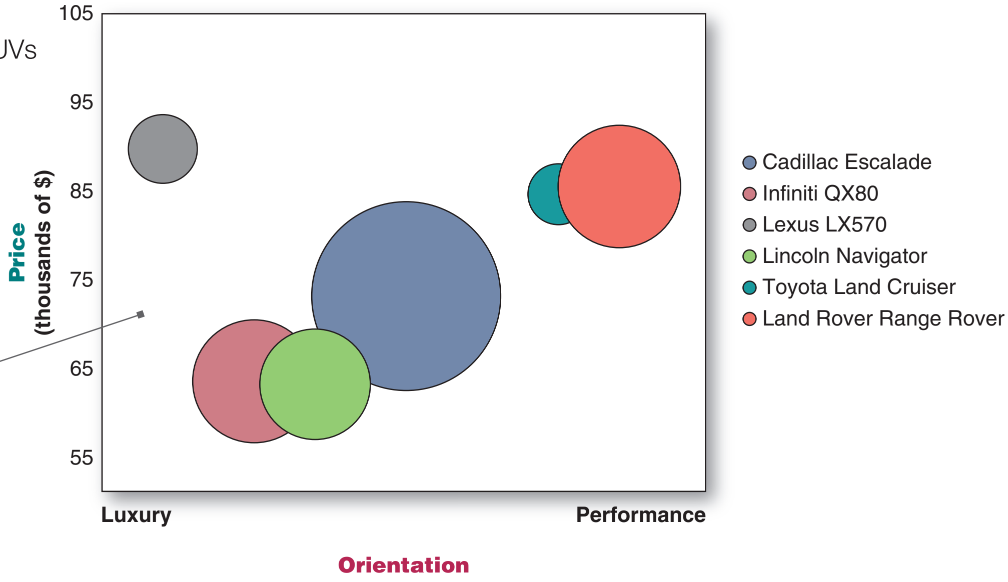
Consumers position products with or without the help of marketers. But marketers do not want to leave their products' positions to chance. They must *plan* positions that will give their products the greatest advantage in selected target markets, and they must design marketing mixes to create and support these planned positions.

Positioning Maps

In planning their differentiation and positioning strategies, marketers often prepare *perceptual positioning maps* that show consumer perceptions of their brands versus those of competing products on important buying dimensions. **Figure 7.3** shows a positioning map for the U.S. large luxury SUV market.[36] The position of each circle on the map indicates the brand's perceived positioning on two dimensions: price and orientation (luxury versus performance). The size of each circle indicates the brand's relative market share.

FIGURE 7.3
Positioning Map: Large Luxury SUVs

The location of each circle shows where consumers position a brand on two dimensions: price and luxury-performance orientation. The size of each circle indicates the brand's relative market share in the segment. Thus, Toyota's Land Cruiser is a niche brand that is perceived to be relatively expensive and more performance oriented.



Thus, relative to other luxury SUVs, customers view the market-leading Cadillac Escalade as a moderately priced, large, luxury SUV with a balance of luxury and performance. The Escalade is positioned on urban luxury, and in its case, "performance" probably means power and safety performance. You'll find no mention of off-road adventuring in an Escalade ad.

Choosing a Differentiation and Positioning Strategy

Some firms find it easy to choose a differentiation and positioning strategy. For example, a firm well known for quality in certain segments will go after this position in a new segment if there are enough buyers seeking quality. But in many cases, two or more firms will go after the same position. Then each will have to find other ways to set itself apart. Each firm must differentiate its offer by building a unique bundle of benefits that appeal to a substantial group within the segment.

Above all else, a brand's positioning must serve the needs and preferences of well-defined target markets. For example, although both Dunkin' and Starbucks are coffee and snack shops, they target very different customers who want very different things from their favorite coffee seller. Starbucks targets more upscale professionals and positions itself strongly as a sort of high-brow "third place"—outside the home and office. In contrast, Dunkin' targets everyday folks with a decidedly more low-brow kind of "America runs on Dunkin'" positioning. Yet each brand succeeds because it creates just the right value proposition for its unique mix of customers.

The differentiation and positioning task consists of three steps: identifying a set of differentiating competitive advantages on which to build a position, choosing the right competitive advantages, and selecting an overall positioning strategy. The company must then effectively communicate and deliver the chosen position to the market.

Identifying Possible Value Differences and Competitive Advantages

To build profitable relationships with target customers, marketers must understand customer needs and deliver more customer value better than competitors do. To the extent that a company can differentiate and position itself as providing superior customer value, it gains **competitive advantage**.

Competitive advantage
An advantage over competitors gained by offering greater customer value either by having lower prices or providing more benefits that justify higher prices.

But solid positions cannot be built on empty promises. If a company positions its product as *offering* the best quality and service, it must actually differentiate the product so that it *delivers* the promised quality and service. Companies must do much more than simply shout out their positions with slogans and taglines. They must first *live* the slogan. For example, Clorox positions its Glad trash bag as "Glad: The Toughest Trash Bag." But this positioning would ring hollow if its products didn't live up to the promise. So to prove its positioning claim, Glad ran a "Torture Test" campaign in which someone packed a Glad

Force Flex Plus kitchen trash bag full of garments and other items and checked it as normal baggage on a trip through 10 major U.S. airports. A 90-second ad video showed footage from hidden cameras as they followed the bag's tortuous ordeals at the hands of unforgiving baggage handlers throughout the journey. The bag emerged unscathed. "The bag made it," the ad concluded. "If it can handle this, it can handle your trash! Be happy, it's Glad."[37]

To find points of differentiation, marketers must think through the customer's entire experience with the company's product or service. An alert company can find ways to differentiate itself at every customer contact point in the customer journey. A company can differentiate itself or its market offering in any of many dimensions, including *product, services, channels, people*, or *image*.

Through *product differentiation*, brands can be differentiated on features, performance, or style and design. Thus, premium audio brand Bose positions its audio products on the innovative, high-quality listening experiences it gives users. Bose promises "better sound through research." And BMW positions itself as "The Ultimate Driving Machine" that's "designed for driving pleasure."

Beyond differentiating its physical product, a firm can also gain *services differentiation* through outstanding customer service. In the highly competitive luxury automobile market, Lexus stands out not just for its reliable cars but for the outstanding service quality its dealers provide.[38] Beyond taking care of customers' cars when they need servicing, Lexus dealers go to great lengths to take care of the customers themselves. For example, guest lounges in Lexus dealerships are luxuriously appointed and have well-equipped work areas, allowing customers to be both pampered and productive as they wait. There are even stories of some customers using Lexus dealership work areas to put in some quality work time even when their vehicles don't need to be serviced. And some Lexus Elite Dealerships take the customer experience to an even higher level by offering golf putting greens, golf swing simulators, and in-house spa services.

Firms that practice *channel differentiation* gain competitive advantage through the way they design their channel's coverage, expertise, and performance. In recent years, many brands have set themselves apart by selling only through direct-to-consumer (DTC) online channels, offering increased convenience and savings by cutting out retail intermediaries. Just a few examples include Glossier (skin care and beauty products), Harry's (shaving products), Warby Parker (eyewear), Casper (mattresses and bedding products), and Everlane (clothing).

Companies can also gain a strong competitive advantage through *people differentiation*—hiring and training better people than their competitors do. People differentiation requires that a company select its customer-contact people carefully and train them well. For example, East Coast supermarket chain Wegmans has long been recognized as a customer service champ with a cult-like loyalty among its shoppers. The secret to its extraordinary customer service lies in its carefully selected, superbly trained, happy employees, who personify Wegmans's commitment to customers: "Every Day You Get Our Best." For example, the chain's cashiers aren't allowed to interact with customers until they've had at least 40 hours of training. "We're committed to hiring good people who are passionate about food and ready to learn and grow with us," says a Wegmans store manager.[39]

Even when competing offers look the same, buyers may perceive a difference based on company or brand *image differentiation*. A company or brand image should convey a product's distinctive benefits and positioning. Developing a strong and distinctive image calls for creativity and hard work. A company cannot develop an image in the public's mind overnight by using only a few ads. If Ritz-Carlton means quality, this image must be supported by everything the company is, says, and does.

Symbols, such as the McDonald's golden arches, the colorful Google logo, the Twitter bird, the Nike swoosh, or Apple's "bite mark" logo, can provide strong company or brand recognition and image differentiation. The company might build a brand around a famous person, as Nike did with its Michael Jordan, LeBron James, and Serena Williams shoe and apparel collections. Some companies even become associated with colors, such as Coca-Cola (red), IBM (blue), or UPS (brown). The chosen symbols, characters, and other image elements must be communicated through advertising that conveys the company's or brand's personality.

Choosing the Right Competitive Advantages

Suppose a company is fortunate enough to discover several potential differentiations that provide competitive advantages. It now must choose the ones on which it will build its

Positioning on multiple competitive advantages: Land Rover positions its new Defender as combining its legacy off-road performance with state-of-the-art electronics and luxury on-road comforts.

anzheni/Shutterstock

positioning strategy. It must decide how many differences to promote and which ones.

How Many Differences to Promote. Many marketers think that companies should aggressively promote only one benefit to the target market. Former advertising executive Rosser Reeves, for example, said a company should develop a *unique selling proposition (USP)* for each brand and stick to it. Each brand should pick an attribute and tout itself as "number one" on that attribute. Buyers tend to remember number one better, especially in this overcommunicated society. Thus, Walmart promotes its unbeatable low prices and Burger King promotes personal choice—"have it your way."

Some companies position themselves on more than one differentiator. This may be necessary if two or more firms are claiming to be best on the same attribute. For example, Land Rover positions its recently relaunched Defender as combining the ultimate in off-road performance with the luxury and comfort for which the Land Rover brand is now known. The new Defender upholds the almost mythical tradition of the original Defender and its "Out of Africa" legacy. Early Defenders traversed the vast, undeveloped stretches of the African continent, going off-road to view the unending wildebeest migrations across the Savanna and to ply the rutted and muddy routes to access remote African villages. At the same time, the new Defender features state-of-the-art electronics and luxury on-road comforts. It's "tough on the road, easy on the eyes." According to the company, the Defender is about "honoring the vehicle's history while thoroughly remaining a Defender for the 21st century." Land Rover's challenge is to convince buyers that one brand can provide both off-road and luxury performance.[40]

Today, in a time when the mass market is fragmenting into many small segments, companies and brands are trying to broaden their positioning strategies to appeal to more segments.

Which Differences to Promote. Not all brand differences are meaningful or worthwhile, and each difference has the potential to create company costs as well as customer benefits. A difference is worth establishing to the extent that it satisfies the following criteria:

- ***Important.*** The difference delivers a highly valued benefit to target buyers.
- ***Distinctive.*** Competitors do not offer the difference, or the company can offer it in a more distinctive way.
- ***Superior.*** The difference is superior to other ways that customers might obtain the same benefit.
- ***Communicable.*** The difference is communicable and visible to buyers.
- ***Preemptive.*** Competitors cannot easily copy the difference.
- ***Affordable.*** Buyers can afford to pay for the difference.
- ***Profitable.*** The company can introduce the difference profitably.

Many companies have introduced differentiations that failed one or more of these tests. When the Westin Stamford Hotel in Singapore once advertised itself as the world's tallest hotel, it was a distinction that was not important to most tourists; in fact, it turned many off. Google failed in its major effort to establish its Google+ social network. Potential users found that it was neither distinctive from nor superior to Facebook and other social networks Google had hoped to challenge.

Thus, choosing competitive advantages on which to position a product or service can be difficult, yet such choices are crucial to success. Choosing the right differentiators can help a brand stand out from the pack of competitors. And clear positioning can guide the creation of an effective marketing mix that ultimately shapes the customer's experience with the brand.

Selecting an Overall Positioning Strategy

Value proposition
The full positioning of a brand—the full mix of benefits on which it is positioned.

The full positioning of a brand is called the brand's **value proposition**—the full mix of benefits on which a brand is differentiated and positioned. It is the answer to the customer's question "Why should I buy your brand?" BMW's "ultimate driving machine/designed for driving pleasure" value proposition hinges on performance but also includes luxury and styling, all for a price that is higher than average but seems fair for this mix of benefits.

Figure 7.4 shows possible value propositions on which a company might position its products. In the figure, the five green cells on the top and right represent winning value propositions—differentiation and positioning that give the company a competitive advantage. The red cells at the lower left, however, represent losing value propositions. The center cell represents at best a marginal proposition. In the following sections, we discuss the five winning value propositions: more for more, more for the same, the same for less, less for much less, and more for less.

More for More. *More-for-more* positioning involves providing the most upscale product or service and charging a higher price to cover the higher costs. A more-for-more market offering not only offers higher quality, it also gives prestige to the buyer. It symbolizes status and a loftier lifestyle. Four Seasons hotels, Patek Philippe watches, Starbucks coffee, Louis Vuitton handbags, Mercedes automobiles, SubZero appliances—each claims superior quality, durability, performance, or style and therefore charges a higher price.

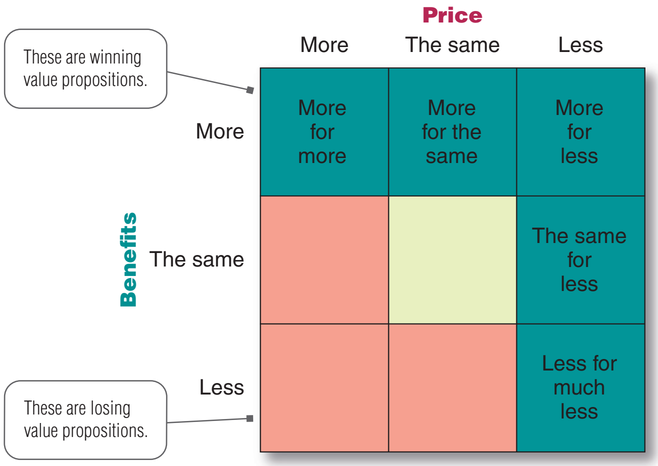
Similarly, the marketers of Hearts On Fire diamonds have created a more-for-more niche as "The World's Most Perfectly Cut Diamond." Hearts On Fire diamonds have a unique "hearts and fireburst"–patterned cut. When viewed under magnification from the bottom, a perfect ring of eight hearts appears; from the top comes a perfectly formed fireburst of light. Hearts On Fire diamonds aren't for everyone, says the company. "Hearts On Fire is for those who expect more and give more in return." The brand commands a 15 to 20 percent price premium over comparable competing diamonds.[41]

Although more-for-more can be profitable, this strategy can also be vulnerable. It often invites imitators who claim the same quality but at a lower price. For example, more-for-more brand Starbucks now faces "gourmet" coffee competitors ranging from McDonald's to the local corner coffee roaster. Also, luxury goods that sell well during good times may be at risk during crises and economic downturns when buyers become more cautious in their spending. For example, watches and jewelry sales fell by 25 percent during 2019–2020 because of the COVID-19 pandemic.[42]

More for the Same. A company can attack a competitor's value proposition by positioning its brand as offering more for the same price. For example, Target positions itself as the "upscale discounter." It claims to offer more in terms of store atmosphere, service, stylish merchandise, and classy brand image but at prices comparable to those of Walmart, Kohl's, and other discounters.

The Same for Less. Offering *the same for less* can be a powerful value proposition—everyone likes a good deal. Discount stores such as Walmart and "category killers" such as Costco, PetSmart, and DSW Shoes use this positioning. They don't claim to offer different or better products. Instead, they offer many of the same brands as department stores and specialty stores but at deep discounts based on superior purchasing power and lower-cost operations. Other companies develop imitative but lower-priced brands in an effort to lure customers away from the market leader. For example, Amazon's Kindle Fire tablets sell

FIGURE 7.4
Possible Value Propositions



for less than 40 percent of the price of Apple iPads or Samsung Galaxy tablets. Amazon claims that it offers "Premium products at non-premium prices."

Less for Much Less. A market almost always exists for products that offer less and therefore cost less. Few people need, want, or can afford "the very best" in everything they buy. In many cases, consumers will gladly settle for less-than-optimal performance or give up some of the bells and whistles in exchange for a lower price. Less-for-much-less positioning involves meeting consumers' lower performance or quality requirements at a much lower price.

For example, at ALDI grocery stores, customers pay super-low prices but must settle for less in terms of selection and services. ALDI offers a narrower selection with fewer national brands and does no promotional pricing or price matching—it just sticks with its efficient everyday very low prices. Customers bring their own bags (or purchase them from ALDI for a small charge), bag their own groceries (ALDI provides no baggers), and return shopping carts on their own (to get back a 25-cent deposit). "You can't eat frills," says ALDI, "so why pay for them?"

More for Less. Of course, the winning value proposition would be to offer *more for less*. Many companies claim to do this. And, in the short run, some companies can actually achieve such lofty positions. For example, when it first opened for business, Home Depot had arguably the best product selection, the best service, *and* the lowest prices compared with local hardware stores and other home-improvement chains.

Yet in the long run, companies find it very difficult to sustain such best-of-both positioning. Offering more usually costs more, making it difficult to deliver on the "for-less" promise. Companies that try to deliver both may lose out to more focused competitors. For example, facing determined competition from Lowe's stores, Home Depot must decide whether it wants to compete primarily on superior service or on lower prices.

All said, each brand must adopt a positioning strategy designed to serve the needs and wants of its target markets. *More for more* will draw one target market, *less for much less* will draw another, and so on. In any market, there is usually room for many different companies, each successfully occupying different positions. The important thing is that each company must develop its own winning positioning strategy, one that makes the company special to its target consumers.

Developing a Positioning Statement

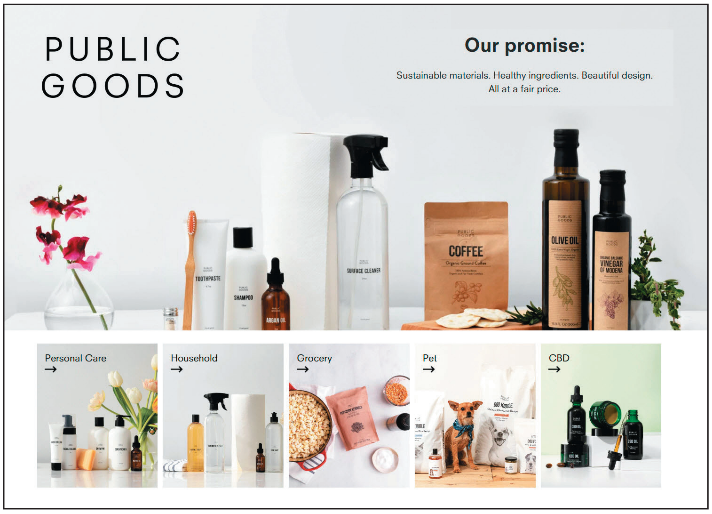
Positioning statement
A statement that summarizes company or brand positioning using this form: "**For** (target customers), **who** (unsolved customer needs), **our product is** (product description), **that provides** (key benefits). **Unlike** (key competing brands), **our product** (points of difference)."

Company and brand positioning should be summed up in a **positioning statement**, with a separate statement being developed for each brand. As set out by consultant Geoffrey Moore, the statement should follow this form: "**For** (target customer or segment), **who** (statement of unsolved customer needs), **our product is** (short but vivid description of the product), **that provides** (statement of key benefits—how the product solves customer problems). **Unlike** (key competing brands), **our product** (key points of difference)."[43] The first part of the positioning statement describes the brand's value proposition—why it makes sense for customers to buy the product. The second part highlights the competitive differentiation—why the customer should buy this brand rather than competing brands.

Here is how Moore applied the positioning statement to Disney theme parks: "**For** middle- and upper-income families, **who** work hard, need an escape, and want to provide their children a memorable experience, **our product is** a completely immersive park that transports people to a different place, **that provides** an experience that comes with everything a family needs to enjoy a vacation, all on the same property. **Unlike** Universal Studios, **our product** is more than an amusement park—we transport guests to a different, magical world altogether."

Here is another example using online retailer Public Goods: "**For** value-, health-, and convenience-seeking buyers, **who** want to make good choices when it comes to their health, society, and the environment, **our product/offering is** an online food and household goods store, **that provides** an assortment of healthy, sustainable, everyday essentials at a fair price. **Unlike** other retailers such as Amazon, Target, and Walmart, **our product/offering** allows customers to shop with the confidence that every item they buy is a good choice for them and for society."

How does Public Goods live up to its positioning? In what one analyst describes as "Trader Joe's meets Costco, with a splash of Brandless," Public Goods offers hundreds of



Positioning statement: Public Goods is positioned as an online food and household goods retailer that makes healthy, sustainable, everyday essentials accessible at a fair price.

Courtesy of Public Goods

its own-brand product items online and in CVS stores. For a $59 annual membership fee, customers can access ethically sourced household products, clean and healthy personal care products, and organic foods, all at very low prices. "We're committed to making healthier, more informed choices easy, affordable, and accessible to all," says Public Goods. The brand also believes in giving back by planting a tree for every order placed through its website.

Communicating and Delivering the Chosen Position

Once it has chosen a position, the company must take strong steps to deliver and communicate the desired position to its target consumers. All the company's marketing mix efforts must support the positioning strategy.

Positioning the company calls for concrete action, not just talk. If the company decides to build a position on better quality and service, it must first *deliver* that position. Designing the marketing mix—product, price, place, and promotion—involves working out the tactical details of the positioning strategy. Thus, a firm that seizes on a more-for-more position knows that it must produce high-quality products, charge a high price, distribute through high-quality dealers, and advertise in high-quality media. It must hire and train more service people, find retailers that have a good reputation for service, and develop sales and advertising content that supports its superior offer. This is the only way to build a consistent and believable more-for-more position.

Companies often find it easier to come up with a good positioning strategy than to implement it. Establishing a position or changing one usually takes a long time. In contrast, positions that have taken years to build can quickly be lost. Once a company has built the desired position, it must take care to maintain the position through consistent performance and communication. It must closely monitor and adapt the position over time to match changes in consumer needs and competitors' strategies. However, the company should avoid abrupt changes that might confuse consumers. Instead, a product's position should evolve gradually as it adapts to the ever-changing marketing environment.

Reviewing and Extending the Concepts

Objectives Review

In this chapter, you learned about the major elements of a customer value–driven marketing strategy: segmentation, targeting, differentiation, and positioning. Marketers know that they cannot appeal to all buyers in their markets—or at least not to all buyers in the same way. Therefore, most companies today practice *target marketing*—identifying market segments, selecting one or more of them, and developing marketing mixes tailored to each.

OBJECTIVE 7-1 Define the major steps in designing a customer value–driven marketing strategy: market segmentation, targeting, differentiation, and positioning.

A customer value–driven marketing strategy begins with selecting which customers to serve and determining a value proposition that best serves the targeted customers. It consists of four steps. *Market segmentation* is the act of dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviors and who might require separate marketing strategies or mixes. Once the groups have been identified, *market targeting* evaluates each market segment's attractiveness and selects one or more segments to serve. *Differentiation* involves actually differentiating the market offering to create superior customer value that is different from that provided by competitors. *Positioning* consists of carving out a unique space for the market offering in the minds of target customers. A customer value–driven marketing strategy seeks to build the *right relationships* with the *right customers*.

OBJECTIVE 7-2 Discuss the major bases for segmenting consumer and business markets.

There is no single way to segment a market. Therefore, marketers try different segmentation bases to see which yield the best segmentation opportunities. For consumer marketing, the major segmentation bases are geographic, demographic, psychographic, and behavioral. In *geographic segmentation*, the market is divided into different geographical units, such as nations, regions, states, counties, cities, or even neighborhoods. In *demographic segmentation*, the market is divided into groups based on demographic variables, including age, life-cycle stage, gender, income, occupation, education, religion, ethnicity, and generation. In *psychographic segmentation*, the market is divided into different groups based on social class, lifestyle, or personality characteristics. In *behavioral segmentation*, the market is divided into groups based on consumers' knowledge, attitudes, uses, or responses concerning a product.

Business marketers use many of the same bases to segment their markets. But business markets also can be segmented by business *demographics* (industry, company size), *operating characteristics, purchasing approaches, situational factors*, and *personal characteristics*. The effectiveness of the segmentation analysis depends on finding segments that are *measurable, accessible, substantial, differentiable*, and *actionable*.

OBJECTIVE 7-3 Explain how companies identify attractive market segments and choose a market-targeting strategy.

To target the best market segments, the company first evaluates each segment's size and growth characteristics, structural attractiveness, and compatibility with company objectives and resources. It then chooses one of four market-targeting strategies—ranging from very broad to very narrow targeting. The seller can ignore segment differences and target broadly using *undifferentiated* (or *mass*) *marketing*. This involves mass producing, mass distributing, and mass promoting the same product in about the same way to all consumers. Or the seller can adopt *differentiated marketing*—developing different market offers for several segments. *Concentrated marketing* (or *niche marketing*) involves focusing on one or a few market segments only. Finally, *micromarketing* is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations. Micromarketing includes *local marketing* and *individual marketing*. Which targeting strategy is best depends on company resources, the nature of the offering, product variability, product life-cycle stage, market variability, and competitive marketing strategies.

OBJECTIVE 7-4 Discuss how companies differentiate and position their products for maximum competitive advantage.

Once a company has decided which segments to enter, it must decide on its *differentiation and positioning strategy*. The differentiation and positioning task consists of three steps: identifying a set of possible differentiations that create competitive advantage, choosing advantages on which to build a position, and selecting an overall positioning strategy.

The brand's full positioning is called its *value proposition*—the full mix of benefits on which the brand is positioned. In general, companies can choose from one of five winning value propositions on which to position their products: more for more, more for the same, the same for less, less for much less, or more for less. Company and brand positioning are summarized in positioning statements that state the target segment and need, the positioning concept, and specific points of difference with respect to the competition. The company must then effectively communicate and deliver the chosen position to the market.

Key Terms

OBJECTIVE 7-1

Market segmentation
Market targeting (targeting)
Differentiation
Positioning

OBJECTIVE 7-2

Geographic segmentation
Hyperlocal social marketing
Demographic segmentation
Age and life-cycle segmentation
Gender segmentation
Income segmentation
Psychographic segmentation
Behavioral segmentation
Occasion segmentation
Benefit segmentation
Intermarket (cross-market) segmentation

OBJECTIVE 7-3

Target market
Undifferentiated (mass) marketing
Differentiated (segmented) marketing
Concentrated (niche) marketing
Micromarketing
Local marketing
Individual marketing

OBJECTIVE 7-4

Product positioning
Competitive advantage
Value proposition
Positioning statement

Discussion Questions

7-1 What is marketing strategy? (AACSB: Written and Oral Communication; Reflective Thinking)

7-2 Provide an example of how a company has used behavioral segmentation to segment its target market. Refer to Table 7.1. (AACSB: Written and Oral Communication)

7-3 What segmentation bases should a marketer consider when trying to segment a market located in a different country from the company's home market? (AACSB: Written and Oral Communication)

7-4 What are the requirements for effective market segmentation? (AACSB: Written and Oral Communication; Reflective Thinking)

7-5 Name some segmentation bases used for segmenting business markets but not consumer markets. (AACSB: Written and Oral Communication)

7-6 Why do firms need to make choices about how many and which competitive advantages to promote? (AACSB: Written and Oral Communication)

Critical Thinking Exercises

7-7 Companies ranging from Amazon and Best Buy to Macy's and Bed Bath & Beyond have made extensive use of price discounts with varying degrees of success. What positive and negative effects might price discounts have on marketing outcomes? Identify a company that uses discounts well and one that uses them poorly. (AACSB: Written and Oral Communication; Reflective Thinking)

7-8 Identify a product or service that you are familiar with but consider a niche product. You have been asked to come up with a strategy that aims to transform the product from niche to a more mass-market position. (AACSB: Communication; Reflective Thinking)

7-9 Combining segmentation bases can help provide maximum value to consumers. For example, the chapter discusses hyperlocal and occasion segmentation. These two segmentation bases can be combined to appeal to traveling families, whose food choices are often limited by the route, destination, and modes of travel. What are two competitive advantages of combining hyperlocal segmentation with occasion segmentation? (AACSB: Written and Oral Communication; Reflective Thinking)

APPLICATIONS AND CASES

Digital Marketing Using Social Media for Inclusive Hyperlocal Segmentation

In the summer of 2018, Aisha "Pinky" Cole founded Slutty Vegan, featuring signature burgers made fresh to order via Instagram and served from a mobile food truck in and around Atlanta. By October 2018, the first Slutty Vegan restaurant location opened. Three months later, a crowd of 1,200 gathered outside the restaurant in 45-degree-Fahrenheit weather, which is cold in Atlanta, for the grand opening. With a compelling name, a fun and upbeat vibe, and a robust social media presence across Instagram, Twitter, Facebook, and TikTok, the restaurant is now a national phenomenon and celebrity hotspot for vegans, omnivores, and flexitarians alike.

The brand's popularity is fueled by a clever combination of positioning, segmentation, and experimentation. It all begins by changing the narrative around vegan foods. A "slutty vegan," according to Cole, is someone who eats vegan but enjoys junk food "as long as it's not dead." Changing the perception of vegan food, especially in communities of color, which are often overserved by fast food and underserved by health food, is no small feat. To that end, Cole has strategically positioned food trucks and pop-up shops to appeal to people who are typically excluded from the vegan lifestyle. Opening the conversation on vegan food options for people who have never considered them in a community that has such high levels of hypertension, cholesterol, obesity, and a host of other food-based ailments is momentous.

7-10 Explore Slutty Vegan's website, social media presence, and press. What can you glean about how the firm segments the market and whom they target? (AACSB: Written and Oral Communication; Reflective Thinking)

7-11 Find a competing vegan or vegetarian restaurant in any of the cities where Slutty Vegan operates. How does Slutty Vegan differentiate itself from the competitor? And more specifically, how does Slutty Vegan's emphasis on digital marketing differentiate it from the competitor? (AACSB: Written and Oral Communication; Reflective Thinking)

Marketing Ethics Cameo: Do the Celebrity Connections Reinforce Gender Pay Gaps?

Cameo offers a platform for consumers and businesses to hire celebrities to create short, personalized videos. Last year, the platform facilitated 1.3 million transactions and signed on 10,000 celebrities, including athletes, musicians, actors, and media personalities, which brought its total talent pool to more than 40,000 celebrities. People have used Cameo to give employees pep talks, send birthday wishes, feel connected with stars, and even ask for a divorce. As a result of the platform's popularity, it earned a $1 billion valuation in a recent round of venture funding. However, a recent content analysis by Quartz indicates a wide disparity between the compensation of the 20 highest-paid male and female celebrities. Celebrities set their own rates, but Cameo gains more revenue from celebrities who charge a greater amount. Thus, Cameo has an incentive to feature male celebrities. Is Cameo's platform helping normalize and reinforce the gender pay gap?

7-12 Visit Cameo's website (cameo.com). How do the "Featured" celebrities relate to Cameo's value proposition and positioning? Do the prices and the way different celebrities are promoted on Cameo reinforce the idea that male celebrities are more valuable than female celebrities? Support your responses. (AACSB: Written and Oral Communication; Ethical Understanding and Reasoning)

7-13 Does Cameo have a responsibility to audit the celebrity rates and set policies that help minimize disparities between genders? Defend your position. (AACSB: Written and Oral Communication; Ethical Understanding and Reasoning)

Marketing by the Numbers At-Home Workouts

There are over 7,200 health and fitness clubs in the United Kingdom. Collectively, this means one in six of the UK population, or 10 million people, are members. Around 50 percent of the clubs are fitness-only centers with an annual turnover of nearly £2 billion. Most of the facilities are relatively small, with turnovers under £300,000.

The COVID-19 pandemic has had a drastic impact on the health and fitness market. Health and fitness clubs were shut down during the UK lockdowns, and even outdoor exercise was restricted. From March 2020 to April 2021, 52 percent of UK consumers were engaged in home workouts and 53 percent purchased products to aid their workouts at home. The average spend on the products was around £165. Of those that bought workout equipment, 31.7 percent had not exercised regularly before, and 76 percent claimed that they would continue to use the equipment after the pandemic had passed.

According to global data, the fact that remote work appeared to be a longer-term impact on working patterns made UK consumers much more confident about investing in higher-cost exercise machines and equipment from Amazon, Argos, and eBay, all of which benefitted from a high rise in demand. At the same time, the sales of "athleisure wear" increased, with consumers opting to wear this type of clothing at home for work as well as for their workouts. This increase in sales of casual clothing prompted the UK Office of National Statistics to add these and home exercise equipment to their basket of goods and services used to calculate the cost of living.

7-14 A home gym and athleisure wear retailer has a consumer catchment area of 70,000. Research suggests that 40 percent are interested in spending around £320 on equipment and clothing. Use the chain ratio method described in Market Potential and Sales Estimates in Appendix 2: Marketing by the Numbers to calculate the market potential for these products for the retailer. (AACSB: Analytical Thinking)

7-15 During the pandemic, adidas focused on direct sales to customers in the United Kingdom, and this approach paid off with 20.9 percent of consumers buying workout products from them—twice as much as from rivals such as Nike. Assuming the size of the sportswear market is 12 million and the average adidas trainer costs £56.60 and the average athleisure wear costs £52.70, calculate the market potential of this target market. (AACSB: Analytic Thinking).

Company Case Outschool: Personalized Education for All

In spring 2021, Amir Nathoo was at the helm of one of the most talked-about startups in the massive and fragmented educational technology (EdTech) industry. Just six years earlier, Nathoo and his partners had founded Outschool—a marketplace for live online classes for children taught via videoconference software. From the start, Outschool experienced robust growth. But as the COVID-19 pandemic shut down schools all over the world, demand for Outschool—like that of many EdTech platforms—exploded.

In 2019, Outschool sold $7 million in classes, a respectable figure that represented strong growth. The business offered 8,000 courses to 30,000 students. By 2021, Outschool's numbers had ballooned to $130 million in annual revenue, 100,000 course offerings, and 900,000 registered students. Outschool also turned a profit for the first time. What's more, Outschool had become a truly global operation with students in 174 countries. As Nathoo reflected on his young company's exponential growth, he also thought about its strong financial foundation—$230 million in venture funding and a valuation of $3 billion.

But the big question on Nathoo's mind was not about Outschool's past or how it had achieved so much success in so little time. Rather, it was about the future of the company and the industry that it had helped shape. Outschool is innovative and forward-thinking. But how should the company navigate in an environment that's in such a state of flux?

Finding the Gap

A successful software developer and part of various Silicon Valley startups, Nathoo was also the son of educators. Forming a company that centered on making education more accessible was always in the back of his mind. In analyzing the EdTech industry, Nathoo and his partners learned that there were hundreds if not thousands of companies offering some kind of online services. Characteristic of a young industry built on rapidly changing technologies, EdTech was a highly fragmented and disorganized industry, with few well-defined product and service categories. The industry included content providers, publishers, classroom management systems, and analytics and marketing tools, to name just a few. In the world of K–12 EdTech, platforms such as Schoology offered complete learning management systems targeting institutions as customers. App-based products like Duolingo focused on game-like instruction specific to a given discipline. Marketplaces like Teachers Pay Teachers provided places for buyers and sellers of course materials to come together. And the likes of Khan Academy provided video tutorials and personalized learning programs.

But among the many different products being offered at that time, Nathoo's team found one particular gap in the market. Online classes were nothing new, even in K–12 education. There were many Khan Academy clones offering pre-recorded content to massive audiences. And there were niche platforms like Juni Learning that offered live classes in specific disciplines—coding in Juni's case. However, few companies were offering real-time online courses to small groups of students. This was despite the fact that in 2015, all the technologies needed to offer remote live classes already existed, including the widespread availability of high-speed internet and 4G data plans.

Catering to the Underserved

With the core strategy of offering real-time courses for small groups of learners, Nathoo and his colleagues designed Outschool as a marketplace platform. This relieved Outschool of the enormous task of developing content, leaving that to the experts. Although it isn't a requirement to be a professional teacher, Outschool recruits instructors who have teaching experience or an expertise or passion they want to share with learners. To ensure safety and quality, applicants submit to background checks, submit a short video detailing why they want to be an instructor, and provide a proposal for each course. Once accepted, teachers are supported with training and professional development to ensure that each teacher is the best they can be. Typical of any marketplace, Outschool operates on a system of ratings and reviews. Thus, the better a teacher is at delivering their content, the more marketable they will likely be.

Outschool provides guidelines for setting parameters on length of class sessions (30 to 60 minutes is most common), number of class sessions in a series (from a single session to open-ended), number of learners per class (from one-on-one to groups of a dozen or more), and pricing. Prices start at $8 per class hour per learner and reach an average of $18, all dependent upon the nature of the course and the targeted age group, with Outschool taking a 30 percent fee.

"The format varies according to the class type," explains Nathoo. "So, for example, a debate class will be super interactive where a lot of it [is] focused on the kids actually doing and participating." Aside from these simple policies and the encouragement to make classes interactive, Outschool gives teachers autonomy to teach what they want, how they want, with the confidence that the marketplace will decide what works best.

The supply-side structure of Outschool automatically establishes a market that is constantly targeting offerings toward different types of learners. Within the K–12 grade levels, Outschool is open to all types of learners including students from traditional public schools, private schools, and homeschool environments. Outschool's system also gears content toward students and parents with different motivations. Some students are looking for education to supplement their learning in other curricula, some for classes to serve as the primary educational tool for a specific subject, and others for developing specific interests.

Students don't have to follow any overarching program, providing complete flexibility in choosing courses to meet individual needs. Parents and students shop for classes the way they would shop for anything else—browsing and searching by grade level, subject matter, class size, teacher ratings, and more. With so many courses offered, Outschool seems to offer something for everyone, from writing essays to playing the ukulele to raising chickens.

For example, 34-year-old Outschool instructor Jade Weatherington spent seven years teaching in the Minneapolis and Atlanta school systems. When she started teaching on Outschool, she created two courses—one in arts and crafts and the other in "Mastering the Five Paragraph Essay." The first month, she brought in just $32. But by the third month, Weatherington made nearly $5,000. As any good "seller" would, she listened to the feedback from students and parents, quickly realizing she needed to expand her class portfolio. So she quit her other gigs and put all her time into Outschool. "Parents would message me," she says, "and say, 'What's next?'" So she made "Mastering the Five Paragraph Essay, Part II." Parents then asked if she had semester-long essay writing classes, so she developed some. She also developed different variations of the class catering to kids at different grade levels as well as one-time intro classes that allowed students and parents the chance to try things out before committing to a multi-class course. Weatherington attributes the success and popularity of her courses to listening to students and parents, showing appreciation, and giving students full flexibility to write about topics that interest them. "I've learned a lot about Fortnite," she adds.

Giving kids access to classes they couldn't take in their local communities was exactly what Nathoo had in mind when he conceptualized Outschool. In addition to providing substantive educational content, "we wanted to offer the fun stuff," he says. That's why there are numerous classes with titles that contain pop-culture phenomena like "Harry Potter" and "Pokémon." For wizard-obsessed youths, Outschool offers Potter-based classes in writing, trivia, and improv. For Pokémon fans, there are classes in drawing, writing, and exercise and even one that explores PokéBugs—the bugs of Pokémon.

But at Outschool, it isn't "fun" for the sake of entertainment only. "Students actually start to see how serious subjects are linked to their interests, and they can also take subjects they would never really have exposure to in school like engineering, design, and architecture," says Nathoo. "So it makes them think, 'Learning isn't just about going to school and passing this test. This can and should be fun.'" In this manner, Outschool's course offerings not only teach, they broaden kids' horizons.

Outschool after COVID-19

As schools shut down in response to the COVID-19 pandemic, parents and students everywhere struggled to adjust to online school. As a result, Outschool's business grew exponentially and immediately. "It was a disaster," said user Juliet Travis of her fifth-grade son's sudden switch to remote learning. With the huge learning curve for teachers and students in sorting out tech challenges and scheduling, Outschool was a lifeline for people like Travis. "There was Fortnite Math and Dungeons and Dragons creative writing." Her son loved his classes and talked friends into signing up. Travis spent nearly $400 on Outschool in the first few months of pandemic-induced remote schooling and felt it was worth every penny.

As the reality of the pandemic began to sink in, Outschool responded immediately. In the first month of shutdowns, the platform rapidly onboarded 5,000 new teachers. Existing teachers rapidly expanded course offerings. While Jade Weatherington was doing well before COVID, her workload and income shot up dramatically. In March 2020 alone, she netted $42,000 on Outschool after the company took its 30 percent. "If you saw what my calendar looked like it was scary." Since then, things have leveled out for Weatherington to an average of $10,000 per month—double what she made pre-COVID-19.

But as U.S. schools reopened and education systems coast to coast prepared for a "return to normal" for fall 2021, people inside and outside the company raised the question of what would happen to the demand for Outschool's offerings. Although they expected that growth would slow, many were confident that the definition of "going to school" had been upended and that Outschool had received a permanent boost from the pandemic. "There are some who believe that COVID has been such a disruption to the educational system that there's going to be a large portion of the population that's going to choose hybrids or pods or different models," said Jennifer Carolan of Reach Capital, an Outschool investor.

Before the pandemic, 3.2 percent of U.S. K–12 students were homeschooled. By fall 2020, that figured had ballooned to 11.1 percent. And the homeschool population became much more diverse across ethnicities and socioeconomic classes. Many of those students have returned to public and private schools. But many of them, like Texas-based Sarahi Espitia's four children, have not. During the shutdown, Espitia joined a Latinos Homeschooling Facebook group, shared Spanish books and curriculum ideas, and taught her children more Mexican history than they learned in schools. Next year, she plans to keep teaching her kids at home.

Other parents are looking to blend the old with the new. "I prefer in-person classes for my son," says Travis. But there are no offerings for advanced Spanish in her son's public school system. Since her husband is Argentinian, the access to higher-level Spanish language learning on Outschool is at least one course offering she is going to continue pursuing.

While Outschool management is certainly concerned about post-pandemic business, it is also confident that the platform's strengths will retain a high percentage of current students and continue to grow. "There's still this fundamental underlying challenge, which existed before the pandemic and is worse now." Nathoo explains, "Do I believe that my kid is getting what they need in their education to lead a happy and successful life?" Outschool's course offerings are fun, unique, interactive, and social. They also make economic sense. A group violin class, for example, starts at about $10 per class hour compared to the more typical $50 an hour of local private lessons. And Outschool courses save parents and students time by eliminating transportation to on-the-ground options.

Prior to the pandemic, Outschool had a strong product. When the pandemic sent millions of schoolchildren home, Outschool's positioning was perfect for the situation. Along with companies like Peloton and Netflix, Outschool benefited from the crisis. But with the worst of the pandemic seemingly behind us, Peloton and Netflix have experienced massive corrections in demand, causing their stock prices to plummet. But such does not appear to be the case with Outschool. Demand for Outschool's services remains strong. More than 100 corporations have entered partnerships to provide Outschool classes for the children of employees. And as a demonstration of its "we're all in this together" attitude, Outschool recently paid bonuses to teachers, made donations to education-related nonprofit organizations, and offered unlimited free classes to schools that had to switch to online learning during the COVID-19 omicron variant wave.

The EdTech market as a whole is projected to reach $319 billion by 2025, more than triple the size of the pre-pandemic market. Nathoo and his colleagues are determined to do everything they can to make Outschool a big part of that growth. As they see it, Outschool has served one million children, but there are 1.3 billion children in K–12 throughout the world. "I don't see the future of education as being online. I see it as being hybrid," says Nathoo. "There should always be in-person learning, but we have this window into the rest of the world that we can use now."[44]

Questions for Discussion

7-16 There are approximately 48,000 emergency response vehicles operated by private ambulance companies, municipal fire departments, and hospitals. Assuming the price of the portable Lucid Robotic System is $22,000 and that only half of the emergency response vehicles would be equipped with a system, calculate the ambulance-related market potential for this product. (AACSB: Analytic Thinking)

7-17 Markets can be segmented along several dimensions. How did the founders of Outschool segment the market?

7-18 Which market targeting strategy did Outschool follow? Are there other market segments that Outschool could have targeted?

7-19 How should Outschool reshape its market strategy for a post-COVID, technology-intensive world?

7-20 *Small group exercise*: Digital marketing platform Mailchimp's positioning statement is as follows: "Mailchimp is an all-in-one Marketing Platform for small business. We empower millions of customers around the world to start and grow their businesses with our smart marketing technology, award-winning support, and inspiring content." Messaging platform Slack's positioning statement is as follows: "Slack is the collaboration hub that brings the right people, information, and tools together to get work done. From Fortune 100 companies to corner markets, millions of people around the world use Slack to connect their teams, unify their systems, and drive their business forward." Craft a positioning statement for Outschool.

8 Products, Services, and Brands

Building Customer Value

OBJECTIVES OUTLINE

OBJECTIVE 8-1 Define *product* and describe the major classifications of products and services.

OBJECTIVE 8-2 Describe the decisions companies make regarding their individual products and services, product lines, and product mixes.

OBJECTIVE 8-3 Explore the four characteristics that affect the marketing of services and the additional marketing considerations that services require.

OBJECTIVE 8-4 Discuss branding strategy—the decisions companies make in building and managing their brands.

CHAPTER PREVIEW

After examining customer value–driven marketing strategy, we now take a deeper look at the marketing mix: the tactical tools that marketers use to implement their strategies, engage customers, and deliver superior customer value. In this and the next chapter, we study how companies develop and manage products, services, and brands. Then, in the chapters that follow, we look at pricing, distribution, and marketing communication tools. The product and brand are usually the first and most basic marketing consideration. We start with a seemingly simple question: What *is* a product? As it turns out, the answer is not so simple.

To dig a little deeper into the question of "What is a product?," we begin by looking at one of Dubai's most popular tea cafés, the FiLLi Café, which introduced a different way of having tea and changed the tea-drinking habits of many in the United Arab Emirates. While the city was home to many premium coffee houses, its tea-drinking segment was only catered to by kiosk-style tea cafeterias where people would grab a cup of tea on the go. Tea was not served in a café-style venue where people could have tea and talk at leisure. FiLLi Café was the first to offer the tea café as a "product," engaging customers and creating value for them throughout the entire tea-drinking experience.

FILLI CAFÉ: A Tea Revolution

Starting with a single café and now having grown into a chain of stylish stores across the country with plans to go international, FiLLi Café has been a real trendsetter in the UAE. Today, FiLLi Café shines bright among the many international cafés in the UAE and is a much-sought-after destination among tea drinkers for its signature zafran tea. ("Zafran" is the Arabic, Hindi, and Persian word for saffron.)

FiLLi Café was founded in 2004 by Rafih FiLLi, a young entrepreneur from India who had come to the UAE to work in the retail sector but has since become one of the most successful entrepreneurs in the country through his now-famous zafran tea recipe. Sprinkling a few saffron flakes into boiling milk should be a simple and easy recipe for a refreshing cup of tea, but the more sophisticated formula developed by Rafih creates a uniquely aromatic flavored tea that has remained unmatched by those who have tried to replicate it. FiLLi's zafran tea has been the main driver of its growth and has played a vital role in its expansion. With the opening of more stores, FiLLi began adding more items to its menu, but the zafran tea remains its anchor and the main crowd puller.

The idea that led to FiLLi Café came to Rafih when he took over a cafeteria that was run by his father. The cafeteria was located near a beach, where many people would visit and have a casual cup of tea. Rafih did not just want to sell an ordinary cup of tea; he wanted to make it special and different. He decided to give a twist to the regular cup and came up with his own concoction of saffron-infused tea. The concept of saffron tea was not an instant hit. It took time for the market to accept a tea that was so flavorful. The customers who visited the café in its early days were intrigued by the different taste of the tea and wanted to know where the different flavor of the tea came from. Rafih initially tried many recipes, experimenting with different ratios and combinations of the ingredient to create the perfect mix. To popularize zafran tea, Rafih conducted extensive sampling, which began attracting regular visitors to the café and generated a lot of word-of-mouth publicity. People soon started thronging to the café and queued up to get their delicious cup of zafran tea. Unable to meet the growing demand from a single outlet, FiLLi decided to open more cafés in other parts of the city.

More than just tea, FiLLi Café in the UAE sells a "Tea n' Talk" experience of enjoying an aromatic cup of saffron tea while lounging with friends or family.

Rawpixel.com/Shutterstock

FiLLi Café did not want to be just another tea shop, nor did it want to compete with the premium cafés that primarily sold coffee. Dubai is home to many international café chains that offer a luxurious, high-end destination for the rich to visit and spend extravagantly. However, there were no cafés that catered to middle-class tea-drinking consumers. Tea was always seen as a beverage bought on the go from roadside shops instead of enjoying it while sitting in a café. Rafih sought to fill this gap with the launch of FiLLi café. Rafih wanted to create a café hangout environment and decided to price higher than the tea sold at regular tea shops but lower than the price levels in coffee houses. This was a turning point in the history of tea cafés in the UAE, as it became a successful idea that was copied by many.

The first FiLLi Café was launched by focusing on the middle class in a busy commercial and residential neighborhood. The store's fashionable décor matched international standards while the prices charged were one-third that of similar coffee houses. Rafih replicated a coffee-café model with a focus on tea and decided to position FiLLi Café as a "Tea n' Talk Café," a destination where customers could sit for hours, enjoying aromatic cups of tea in an environment where they could talk comfortably with friends and family. For regular visitors, the café has now become a second home and a hangout spot. FiLLi is seen as a contemporary brand and enjoys high customer loyalty, with more than 35 percent of guests returning every month.

The FiLLi brand is about a lot more than just making good tea. At its core, FiLLi offers an ambient atmosphere where patrons can unwind with friends and aromatic cups of tea.

Although Rafih prides himself on the unique tea brewed at FiLLi Café, he says that just having a good product is not enough. Even the best products need the right planning, branding, and marketing support. The FiLLi Café logo was designed to promote the "Tea n' Talk" concept and the orange color was used to emphasize the yellow and orange hues of saffron. At the center of the orange circle is an image of Rafih FiLLi surrounded by the words "Tea n' Talk" at the top and "Since 1991" at the bottom, tracing the origins of the brand to Rafih's father and his cafeteria.

As FiLLi Café grew, it started to add more food items like sandwiches, burgers, and wraps to its menu. All items in its menu follow a signature recipe and are prepared after experimenting with different tastes. The vibrant menu changes with the season and expertly combines local and international flavors. Central to the FiLLi experience is good taste, be it tea or any of its several other food items. This experience is enhanced by an ambient, fun, relaxed, and cozy environment. Be it a morning cup of tea, a break from work, a tea stop after work, or a late-night meet-up with friends, FiLLi welcomes its patrons to unwind and have a good time. The cafés are designed in a warm and friendly way that offers flexibility and freedom to the customers to use the space as it suits their moods, from stretching their legs to folding them on the comfortable sofas.

By 2020, there were around 30 outlets of FiLLi Café in the UAE, and it aimed to have 100 more across the country. During the COVID-19 pandemic, when in-dining was not allowed, the brand had to stop welcoming customers into its hangout lounges and focus on selling through take-out services and home deliveries only. However, as the city of Dubai was quick to control the spread of the coronavirus and reopen its public spaces, the café was happy to welcome its customers back inside. The brand has its eyes set on growing globally, and plans are underway to open outlets in Saudi Arabia, Bahrain, Qatar, and Mumbai as well as the United Kingdom and the United States.[1]

AS THE FILLI CAFÉ STORY SHOWS, in their quest to create customer relationships, marketers must build and manage products and brands that connect with customers. This chapter begins with a deceptively simple question: *What is a product?* After addressing this question, we look at ways to classify products in consumer and business markets. Then we discuss the important decisions that marketers make regarding individual products, product lines, and product mixes. Next, we examine the characteristics and marketing requirements of a special form of product—services. Finally, we look into the critically important issue of how marketers build and manage product and service brands.

Author Comment | As you'll see, this deceptively simple question has a very complex answer. For example, think back to the opening story. What is the FiLLi Café's "product"?

What Is a Product?

OBJECTIVE 8-1 Define *product* and describe the major classifications of products and services.

Product
Anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need.

Service
An activity, benefit, or satisfaction offered for sale that is essentially intangible and does not result in a customer's ownership of anything.

We define a **product** as anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need. Products include more than just tangible objects, such as cars, clothing, or smartphones. Broadly defined, products also include services, solutions, events, persons, places, organizations, and ideas or a mixture of these. Throughout this text, we use the term *product* broadly to include any or all these entities. Thus, an Apple iPhone, a Toyota Camry, and a Caffé Mocha at Starbucks are products. But so are a trip to Las Vegas, an investment solution from Charles Schwab, transportation services by an Uber driver, your Instagram account, and advice from your family doctor.

Because of their importance in the world economy, we give special attention to services. **Services** are a form of product that consists of activities, benefits, or satisfactions offered for sale that are essentially intangible and do not result in a customer's the ownership of anything. Examples include banking, hotel, airline travel, retail, wireless communication, and home-repair services. We will look at services more closely later in this chapter.

Products, Services, and Experiences

Products are a key element in the overall *market offering*. Marketing mix planning begins with building an offering that brings value to target customers. This offering becomes the basis on which the company builds profitable customer relationships.

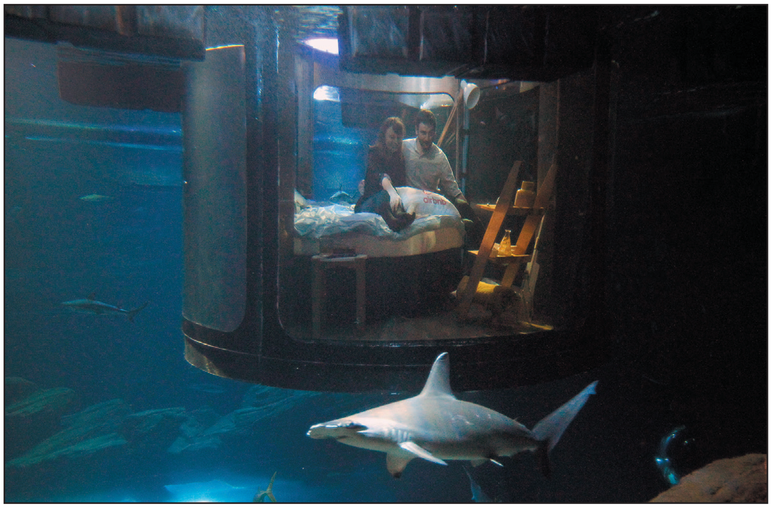
A company's market offering may include both tangible goods and services. At one extreme, the market offer may consist of a *pure tangible good*, such as soap, toothpaste, or salt; no services accompany the product. At the other extreme are *pure services*, for which the market offer consists primarily of a service. Examples include a doctor's exam and financial services. Between these two extremes, however, many goods-and-services combinations are possible.

Today, as products and services become more commoditized, many companies are moving to a new level in creating value for their customers. To differentiate their offers, beyond simply making products and delivering services, they are creating and managing

Customer experience
A market offering with a strong sensory or emotional component that plays out for the customer over time.

customer *experiences* with their brands or companies. **Customer experiences** are market offerings with a strong sensory or emotional component that play out over time. Great experiences involve a careful management of a customer's journey with the company, from beginning to end. The company's core product or service may be just one part of the experience.

Experiences have always been an important part of marketing for some companies. Disney has long manufactured dreams and memories through its movies and theme parks—it wants theme park cast members to deliver a thousand "small wows" to every customer. And Nike has long declared, "It's not so much the shoes but where they take you." Today, however, all kinds of firms are recasting their traditional goods and services to create experiences. For example, Airbnb doesn't just arrange room rentals, it creates travel *experiences* for people looking to escape their humdrum daily surroundings:[2]



Creating customer experiences: Airbnb's "Night At" program transforms iconic locations into unforgettable one-night experiences, everything from an underwater night's sleep with the sharks at a Paris aquarium (above) to a sleepover at Dracula's castle in Transylvania for Halloween.

Chesnot/Getty Images

You don't just rent a room through Airbnb, you buy into a "live-like-a-local" experience. "Airbnb has always been about unique experiences," says an Airbnb marketer. "Every hotel room in every hotel chain is the same. Airbnb is a home, and our stays are as different as the individual host." The travel company takes its experiences mantra to extremes with its "Airbnb Night At" program by which it transforms iconic locations into unforgettable one-night experiences. The brand has curated one-nighters in fun and extraordinary places ranging from Dracula's castle in Transylvania for Halloween, inside the Oscar Mayer "Wienermobile," and a stay in a cable car suspended high above the Swiss Alps to an underwater night's sleep with the sharks at a Paris aquarium and a sleepover in a VIP suite overlooking the home court in Chicago's United Center, home of the Chicago Bulls (complete with layup lessons from Bulls icon Scottie Pippen). It even partnered with Mattel to create a Malibu Barbie Dreamhouse stay for Barbie's 60th birthday. Although these "Night At" adventures are extremes, they emphasize Airbnb's positioning as a creator of out-of-the-ordinary travel experiences. "By casting 'experiences' as synonymous with 'travel,'" notes an industry analyst, "Airbnb is extending its brand identity."

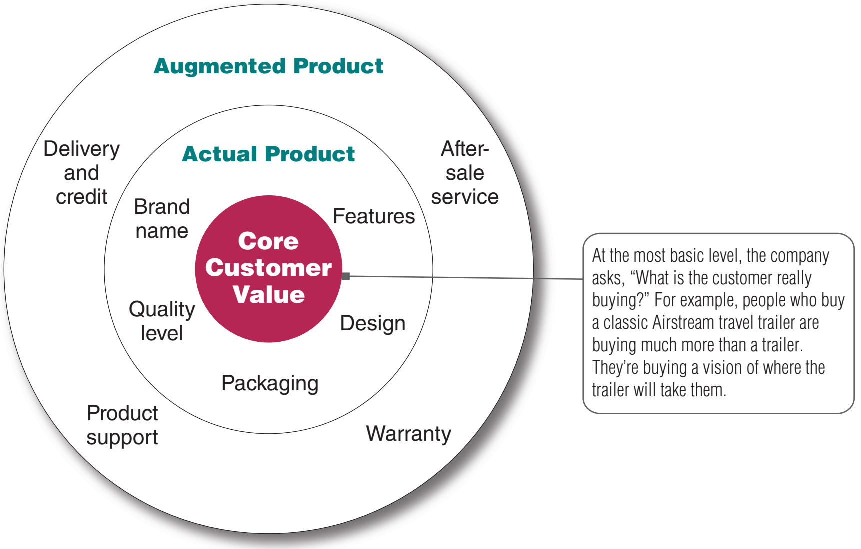
Levels of Product and Services

Product planners need to think about products and services on three levels (see **Figure 8.1**). Each level adds more customer value. The most basic level is the *core customer value*, which addresses the question: *What is the buyer really buying?* When designing products, marketers must first define the core, problem-solving benefits, services, or experiences that consumers seek. A person buying lipstick buys more than lip color. Charles Revson of Revlon saw this early: "In the factory, we make cosmetics; in the store, we sell hope." And people who buy a classic Airstream travel trailer are buying much more than just a stylish camper:[3]

With its shiny, riveted aluminum travel trailers and touring coaches, Airstream combines clean, modern designs with a throwback-to-the-1950s retro look. Airstream checks all the required boxes for quality, reliability, and finish. Its classic silver bullet–like trailers, carefully handcrafted and meticulously finished by passionate craftspeople, are renowned for being handed down across generations. More than 75 percent of the Airstreams built over nearly 100 years are still on the road today.

But people who buy an Airstream are buying more than just a quality trailer. They are buying a shared dream of where the trailer might take them. Airstream highlights the "shared passion between the employees who build our trailers, the owners who explore with them, and the young generation who hope to someday experience an adventure as great as the African Caravan." Airstream owners come from all kinds of backgrounds, but

FIGURE 8.1
Three Levels of Product



Core product: People who buy a stylish Airstream trailer are buying much more than just a stylish camper. They are buying a shared dream of where the trailer will take them.

Courtesy of AIRSTREAM

they share the company's aspirational commitment to "high adventure and faraway lands" and the desire to "lead caravans wherever the four winds blow . . . over twinkling boulevards, across trackless deserts . . . to the traveled and untraveled corners of the earth." No matter who they are, they share a deep sense of identification with the core of the Airstream brand.

At the second level, product planners must turn the core benefit into an *actual product*. They need to develop product and service features, a design, a quality level, a brand name, and packaging. For example, an Airstream trailer is an actual product. Its name, styling, features, parts, surface finish, and other attributes have all been carefully combined to deliver the core customer values of style and the pursuit of high adventure.

Finally, product planners must build an *augmented product* around the core benefit and actual product by offering additional consumer services and benefits. Thus, when consumers buy an Airstream, the company and its dealers give buyers a warranty and quick repair services when needed. On the Airstream Owners Hub, customers can shop for accessories ranging from an OXO Airstream Drawer Storage Bundle and an Airstream Roof Locker Dish Rack by YouCopia to an Airstream-branded license plate frame and plastic pink flamingos to complete the retro look. In addition, owners can access financial services and learn about the on-the-road lifestyle at the Airstream Academy.

Consumers see products as complex bundles of benefits that satisfy their needs. When developing products, marketers first must identify the *core customer value* that consumers seek from the product. They must then design the *actual* product and find ways to *augment* it to create customer value and a full and satisfying brand experience.

Product and Service Classifications

Products and services fall into two broad classes based on the types of consumers who use them: *consumer products* and *industrial products*. Broadly defined, products also include other marketable entities such as experiences, organizations, persons, places, and ideas.

Consumer Products

Consumer product
A product bought by final consumers for personal consumption.

Convenience product
A consumer product that customers usually buy frequently, immediately, and with minimal comparison and buying effort.

Shopping product
A consumer product that the customer, in the process of selecting and purchasing, usually compares on such attributes as suitability, quality, price, and style.

Specialty product
A consumer product with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort.

Unsought product
A consumer product that the consumer either does not know about or knows about but does not normally consider buying.

Consumer products are products and services bought by final consumers for personal consumption. Marketers usually classify these products and services further based on how consumers go about buying them. Consumer products include *convenience products, shopping products, specialty products*, and *unsought products*. These products differ in the ways consumers buy them and, therefore, in how they are marketed (see Table 8.1).

Convenience products are consumer products and services that customers usually buy frequently, immediately, and with minimal comparison and buying effort. Examples include laundry detergent, soft drinks, and fast food. Convenience products are usually low priced, and marketers place them in many locations to make them readily available when customers need or want them.

Shopping products are less frequently purchased consumer products and services that customers compare carefully on suitability, quality, price, and style. When buying shopping products and services, consumers spend much time and effort in gathering information and making comparisons. Examples include furniture, clothing, major appliances, and hotel services. Shopping product marketers usually distribute their products through fewer brick-and-mortar and online outlets but provide deeper sales support to help customers in their comparison efforts.

Specialty products are consumer products and services with unique characteristics or brand identifications for which a significant group of buyers is willing to make a special purchase effort. Examples include specific brands of cars, high-priced photography equipment, designer clothes, gourmet foods, and the services of medical or legal specialists. A Lamborghini luxury automobile, for example, is a specialty product because buyers are usually willing to travel great distances to buy one. Buyers normally do not compare specialty products. They invest only the time needed to reach and interact with brick-and-mortar and online dealers carrying the wanted brands.

Unsought products are consumer products that a consumer either does not know about or knows about but does not normally consider buying. Most major new innovations

Table 8.1 | Marketing Considerations for Consumer Products

	Type of Consumer Product			
Marketing Considerations	**Convenience**	**Shopping**	**Specialty**	**Unsought**
Customer buying behavior	Frequent purchase; little planning, little comparison or shopping effort; low customer involvement	Less frequent purchase; much planning and shopping effort; comparison of brands on price, quality, and style	Strong brand preference and loyalty; special purchase effort; little comparison of brands; low price sensitivity	Little product awareness or knowledge (or, if aware, little or even negative interest)
Price	Low price	Higher price	Highest price	Varies
Distribution	Widespread distribution in convenient physical and online stores	Selective distribution in specialized physical and online stores	Exclusive distribution in only one or a few outlets per market area and in a few highly specialized online stores	Varies
Promotion	Mass promotion by the producer	Advertising and personal selling by both the producer and resellers	More carefully targeted promotion by both the producer and resellers	Aggressive advertising and personal selling by the producer and resellers
Examples	Toothpaste and laundry detergent	Major appliances, televisions, furniture, and clothing	Luxury goods, such as Rolex watches or fine crystal	Life insurance and Red Cross blood donations

are unsought until consumers become aware of them through marketing. Classic examples of known but unsought products and services are life insurance, preplanned funeral services, and blood donations to the Red Cross. By their very nature, unsought products require a lot of promoting, personal selling, and other marketing efforts.

Industrial Products

Industrial product
A product bought by individuals and organizations for further processing or for use in conducting a business.

Industrial products are those products purchased for further processing or for use in conducting a business. Thus, the distinction between a consumer product and an industrial product is based on the *purpose* for which the product is purchased. If a consumer buys a lawn mower for use around home, the lawn mower is a consumer product. If the same consumer buys the same lawn mower for use in a landscaping business, the lawn mower is an industrial product.

The three groups of industrial products and services are materials and parts, capital items, and supplies and services. *Materials and parts* include raw materials as well as manufactured materials and parts. *Capital items* are industrial products that aid in the buyer's production or operations, including installations, machines on the factory floor, and accessory equipment. Capital items typically involve heavy investments and are used over many years. The final group of industrial products is *supplies and services*. Supplies include operating supplies and repair and maintenance items. Business services include maintenance and repair services and business advisory services. These services are typically intangible in nature.

Organizations, Persons, Places, and Ideas

In addition to tangible products and services, marketers have broadened the concept of a product to include other market offerings: organizations, persons, places, and ideas.

Organizations often carry out activities to "sell" the organization itself. *Organization marketing* consists of activities undertaken to create, maintain, or change the attitudes and behavior of target customers toward an organization. Both profit and not-for-profit organizations practice organization marketing. Businesses sponsor corporate marketing campaigns to market themselves, their images, and their ideals.

For example, outdoor apparel and gear marketer Patagonia does little or no advertising for specific products. Instead, its marketing promotes the company's environmental purpose and values, whether it's print ads promoting responsible consumption or an activist social media campaign to save the world's public lands. According to Patagonia's European marketing director, when someone buys something from Patagonia, "we want to make sure… they understand why we exist as a company, how we have chosen to bring that product into existence, what they need to use that product for and how they will—with our support—care for that garment." Patagonia's marketing is about more than just selling products. It's about "building a movement" based on the values it shares with its communities.[4]

People can also be thought of as products. *Person marketing* consists of activities undertaken to create, maintain, or change attitudes or behavior toward particular people. People ranging from presidents, entertainers, and sports figures to professionals such as doctors, lawyers, and architects use person marketing to build their reputations. And businesses, charities, and other organizations use well-known personalities to help sell their products or causes. For example, tennis superstar and entrepreneur Serena Williams earned $45 million last year from endorsements for brands ranging from Nike and Gatorade to Beats by Dre, Pepsi, and Chase Bank. Williams herself has become a marketable brand. She recently launched a fashion line—S by Serena—inspired by her own personal model of femininity, strength, and authenticity. "I want to be the brand," she says, "instead of just being the face."[5]

Place marketing involves activities undertaken to create, maintain, or change attitudes or behavior toward particular places. Cities, states, regions, and even entire nations compete to attract tourists, new residents, conventions, and company offices and factories. For example, Detroit's city website celebrates Detroit as "America's Great Comeback City" and promotes the best places to eat, things to do, and events to attend. Tourism Ireland tells travelers to "Fill your heart with Ireland—discover heart-warming moments and spectacular sights." It tells businesses, "Ireland, right place right time—our people and your business, a winning combination." And Tourism Australia partnered with six state and territorial tourism boards to market and fill the six "Best Jobs in the World": Chief Funster (New South Wales), Outback Adventurer (Northern Territory), Park Ranger (Queensland), Wildlife Caretaker (South Australia), Lifestyle Photographer (Victoria), and Taste Master (Western Australia). More than 330,000 people from 196 countries submitted more than 600,000 applications in response.[6]

Social marketing
The use of traditional business marketing concepts and tools to encourage behaviors that will create individual and societal well-being.

Ideas can also be marketed. In one sense, all marketing is the marketing of an idea, whether it is the general idea of brushing your teeth or the specific idea that Crest toothpastes "improve the health of your smile." Here, however, we narrow our focus to the marketing of *social ideas*. This area has been called **social marketing** and consists of using traditional business marketing concepts and tools to encourage behaviors that will create individual and societal well-being.

Many companies engage in social marketing to support ideas they believe in. Microsoft's "Make What's Next" campaign encourages girls to enter tech and science fields. The company promotes the program with inspirational ads, social media videos and events, and a dedicated website. The website also offers an experiential tool called Career Explorer, powered by professional networking site LinkedIn, that shows girls how to pursue their passions and skills in specific areas. "When we encourage girls to pursue science, technology, engineering, and math (STEM)," says Microsoft, "we double the potential to solve problems. If she stays in STEM, she could be the one to change the world."[7]

Social marketing programs cover a wide range of issues. Master Group Pakistan, a leading provider of mattresses and foam furniture, is a strong believer in the concept of giving back to society. Their brand, Master MoltyFoam, launched an initiative for installing so-called "billbeds" or billboards—of which there is an abundance in urban Pakistan—that advertise MoltyFoam during the day and can be flipped over and be converted into a foam bed at night by any of the half a million homeless people sleeping on the streets in major cities. A very large number of these homeless are inter-city or intra-city travelers who come to bigger cities from far-flung rural locations to bring their family or friends to hospitals or clinics for facilities that are not available in their villages. For laborers who work for meager wages during the day, rural workers who come to cities with their sick loved ones, and other homeless people, this initiative provides them with a comfortable surface to sleep on. This campaign won the Cannes Lions Award as well as national accolades for its societal marketing program. Another initiative by MoltyFoam, "Beti Bojh Nahi" ("a daughter is not a burden") focused on empowering women and enabling them to earn their own livelihoods through vocational training. The regional traditions of giving a dowry for a daughter's marriage and spending lavishly on weddings place huge financial burdens on families from lower income strata. This is often a source of social stigma for the family as well as the daughter, and the latter is sometimes forced to remain single due to lack of marriage funds. MoltyFoam's initiative funds wedding ceremonies and after the wedding, to help them earn a better living for their families, it provides vocational training such as sewing classes and field work classes—if the daughters have some basic education, teacher training may be offered to them as well.[8]

Social marketing involves much more than just advertising. It involves a broad range of marketing strategies and marketing mix tools designed to bring about beneficial social change.[9]

Author Comment | Now that we've answered the "What is a product?" question, we dig into the specific decisions that companies must make when designing and marketing products and services.

Product and Service Decisions

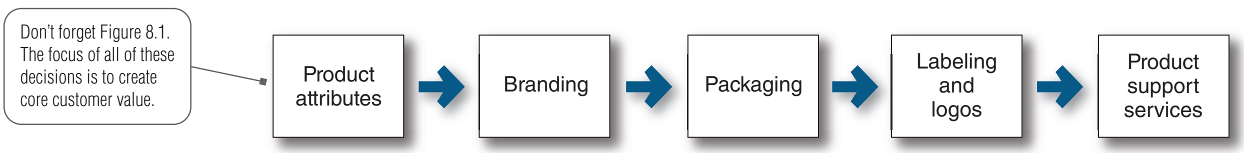
OBJECTIVE 8-2 Describe the decisions companies make regarding their individual products and services, product lines, and product mixes.

Marketers make product and service decisions at three levels: individual product decisions, product line decisions, and product mix decisions. We discuss each in turn.

Individual Product and Service Decisions

Figure 8.2 shows the important decisions in the development and marketing of individual products and services. We will focus on decisions about *product attributes, branding, packaging, labeling and logos*, and *product support services*.

FIGURE 8.2
Individual Product Decisions



Product and Service Attributes

Developing a product or service involves defining the benefits that it will offer. These benefits are communicated and delivered by product attributes such as *quality, features*, and *style and design*.

Product quality
The characteristics of a product or service that bear on its ability to consistently and reliably satisfy stated or implied customer needs.

Product Quality. **Product quality** is one of the marketer's major positioning tools. Quality affects product or service performance; thus, it is closely linked to customer value and satisfaction. In the narrowest sense, quality can be defined as "no defects." But most marketers go beyond this narrow definition. Instead, they define quality in terms of creating customer value and satisfaction. The American Society for Quality defines quality as the characteristics of a product or service that bear on its ability to satisfy stated or implied customer needs. Similarly, Siemens defines quality this way: "Quality is when our customers come back and our products don't."[10]

Companies can take any of several approaches to product quality. *Total quality management* (*TQM*) is an approach in which all the company's people are involved in constantly improving the quality of products, services, and business processes. For most top companies, customer-driven quality has become a way of doing business. Today, companies are taking a *return-on-quality* approach, viewing quality as an investment and holding quality efforts accountable for bottom-line results.

Product quality has two dimensions: level and consistency. In developing a product, the marketer must first decide on a *quality level* that will support the product's positioning. Here, product quality means *performance quality*—the product's ability to perform its functions. For example, a Rolls-Royce provides higher performance quality than a Chevrolet: It has a smoother ride, lasts longer, and provides more artisanship, custom design, luxury, and "creature comforts." Companies rarely try to offer the highest possible performance quality level; few customers want or can afford the high levels of quality offered in products such as a Rolls-Royce automobile or a Rolex watch. Instead, companies choose a quality level that matches target market needs and the quality levels of competing products.

Beyond quality level, high quality also can mean high levels of quality consistency. Here, product quality means *conformance quality*—freedom from defects and consistency in delivering a targeted level of performance. All companies should strive for high levels of conformance quality. In this sense, a Chevrolet can have just as much quality as a Rolls-Royce. Although a Chevy doesn't perform at the same level as a Rolls-Royce, it can just as consistently deliver the quality that customers pay for and expect.

B&B Hotels—the fast-growing economy hotel chain with a presence in France, Italy, Germany, and Spain—doesn't aspire to provide a luxury Four Seasons experience, but it consistently delivers on its promise to give customers the best price guarantee. Its locally owned and operated hotels provide an honest stay and reliable service. For consistently meeting and exceeding customer quality expectations, B&B Hotels received the German Customer Award in 2018. In 2019, it was awarded the top score and first-class ratings in the categories of recommendation, trust, and quality in the "Germany Test" conducted by Focus-Money, a European financial tester. Due to its own distinctive designs, useful additional services, and free SKY-TV, B&B Hotels continues to be one of the most successful hotel chains in the budget segment.[11]

Conformance quality: By consistently meeting and exceeding customer quality expectations, B&B Hotels earned the German Customer Award for highest customer satisfaction among the nation's economy hotels.

Peter Titmuss/Alamy Stock Photo

Product Features. A product can be offered with varying features. A stripped-down model, one without any extras, is the starting point. The company can then create higher-level models by adding more features. Features are a competitive tool for differentiating the company's product from competitors' products. Being the first seller to introduce a valued new feature is one of the most effective ways to compete.

How can a company identify new features and decide which ones to add? It should periodically survey buyers who have used the product and ask these questions: How do you like the product? Which specific features of the product do you like most? Which features could we add to improve the product? The answers to these questions provide the company with a rich list of feature ideas. The company can then assess each feature's *value* to customers versus its *cost* to the company. Features that customers value highly in relation to costs should be added.

A persistent challenge with asking customers what attributes they want is that customers typically want a lot of everything, all at a low price. Satisfying that demand does not make financial sense for companies. Therefore, companies often employ market research tools such as conjoint analysis to reveal what trade-offs customers are willing to make in terms of sacrificing some of one attribute for more of another and their willingness to pay more for higher performance on an attribute.

Product Style and Design. Another way to add customer value is through distinctive *product style and design*. Design is a larger concept than style. *Style* simply describes the appearance of a product. Styles can be eye catching or yawn producing. A sensational style may grab attention and produce pleasing aesthetics, but it does not necessarily make the product *perform* better. Unlike style, *design* is more than skin deep—it goes to the very heart of a product. Good design contributes to a product's usefulness as well as to its looks.

Good design doesn't start with brainstorming new ideas and making prototypes. Instead, it begins with observing customers, understanding their needs, and shaping their product-use experience. Product designers should think less about technical product specifications and more about how customers will use and benefit from the product. For example, consider PopSockets:[12]

> PopSockets, those back-of-the-phone buttons you see everywhere, didn't start in a big-company design lab. They began when a philosophy professor's iPhone earbuds kept getting tangled up in his pocket and he needed something to wrap his cord around. He observed that many others experienced this same problem, along with a boatload of other frustrations in handling and using their smartphones. So he invested his life savings, taught himself how to use 3-D design software, and set out to create a solution. After 100 tries, he came up with PopSockets. The collapsible, silver-dollar-size buttons in colorful, trendy designs are useful for a lot more than just cord storage. They're also handy for gripping the device, propping it up at an angle for hands-free use, and preventing drops and breaks by selfie takers. And now available in a dizzying and customizable variety of textures, colors, patterns, and images, they have evolved into fashion statements. Thanks to user-centered design, PopSockets has now sold more than 100 million of those doorknob-shaped gadgets.

Branding

Brand
A name, term, sign, symbol, or design, or a combination of these that identifies the products or services of one seller or group of sellers and differentiates them from those of competitors.

Perhaps the most distinctive skill of professional marketers is their ability to build and manage brands. A **brand** is a name, term, sign, symbol, or design or a combination of these that identifies the maker or seller of a product or service. Consumers view a brand as an important part of a product, and branding can add value to a consumer's purchase. Customers attach meanings to brands and develop brand relationships. As a result, brands have meaning well beyond a product's physical attributes.

A classic stunt by former bargain footwear retailer Payless dramatically illustrated the power of brands in shaping consumer perceptions:[13]

A classic stunt by former bargain footwear retailer Payless dramatically illustrated the power of brands in shaping perceptions. Fashion influencers paid as much as $645 for "Palessi" shoes that normally sold for less than $40.

Collective Brands Inc.

> As part of a viral advertising campaign to shift consumer perceptions of its brand, Payless and its marketing agency DCX Growth Accelerator created a fake luxury brand—Palessi. They put the fake name on a former Armani store in an upscale shopping mall, stocked the store with footwear that usually sold at Payless for $19.99 to $39.99, and invited 60 VIP fashion influencers to the made-up brand's launch party. With no idea that they were looking at discount wares, the fashionistas praised the design and fabrication of the Palessi shoes and paid as much as $645 for the footwear. "It's just stunning. Elegant, sophisticated," said one shopper of a normally low-budget stiletto heel. Payless rang up the sales but later gave the influencers their money back along with free shoes. The influencers' reactions, along with the priceless "gotcha moments" when they learned they'd been pranked, were captured in campaign ad videos. According to Payless's then-chief marketer, "the campaign aimed to remind shoppers that Payless strikes the right balance of stylistic relevance and affordability." Said an analyst, "The stunt indicates how powerful branding is in today's society."

Branding has become so strong that today hardly anything goes unbranded. Salt is packaged in branded containers, common nuts and bolts are packaged with a distributor's label, and automobile parts—spark plugs, tires, filters—bear brand names that differ from those of the automakers. Even fruits, vegetables, dairy products, and poultry are branded—Cuties mandarin oranges, Dole Classic salads, Wonderful Pistachios, Perdue chickens, Eggland's Best eggs, and Avocados From Mexico.

Branding helps buyers in many ways. Brand names help consumers identify products that might benefit them. Brands also say something about product quality and consistency—buyers who always buy the same brand know that they will get the same features, benefits, and quality each time they buy. Branding also gives the seller several advantages. The seller's brand name and trademark provide legal protection for unique product features that otherwise might be copied by competitors. Branding helps the seller to segment markets. For example, rather than offering just one general product to all consumers, Toyota can offer the different Lexus and Toyota brands, each with numerous subbrands—such as Avalon, Camry, Corolla, Prius, Yaris, Siena, Tundra, and Land Cruiser.

Finally, a brand name becomes the basis on which a whole story can be built about a product's special qualities. For example, the goal of Avocados From Mexico—a not-for-profit organization that represents both Mexican avocado growers and U.S. importers and packers—is to convince U.S. consumers that avocados are a must-have snack ("No Guac. No Game!"). It wants consumers to know that the Avocados From Mexico brand stands for great avocados that make for good times, good food, and good health. To promote the brand, the organization spends $20 million a year on advertising. As a result of such brand building, U.S. avocado sales have seen double-digit growth during the past few years, and the Avocados From Mexico brand now accounts for nearly 90 percent of all U.S. avocado sales.[14] We will discuss branding strategy in more detail later in the chapter.

Packaging

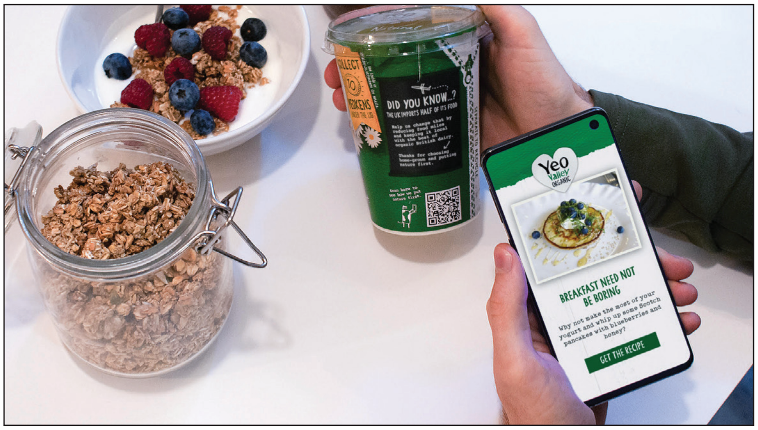
Packaging
Designing and producing the container or wrapper for a product.

Packaging involves designing and producing the container or wrapper for a product. Traditionally, the primary function of the package was to hold and protect the product. Companies paid little attention to packaging, doing what they needed to do to protect the protect at the lowest possible cost. Poorly designed packages have caused plenty of headaches for consumers and lost sales for companies. Think about all those hard-to-open packages, such as packaging with finger-splitting wire twist-ties or sealed plastic clamshell containers that cause "wrap rage" and send thousands of people to the hospital each year with lacerations and puncture wounds. Another challenge is overpackaging—as when a tiny USB flash drive in an oversized cardboard and plastic display package is delivered in a giant corrugated shipping carton. Overpackaging creates an incredible amount of waste, frustrating those who care about the environment.

This situation has shifted dramatically in recent times. Packaging has emerged as a potential driver of customer satisfaction and even competitive advantage. Increased competition and clutter on retail store shelves means that packages must now perform many sales tasks—from attracting buyers to communicating brand positioning to closing the sale. Not every customer will see a brand's advertising, social media pages, or other marketing content. However, all consumers who evaluate, buy, and use a product will interact regularly with its packaging. Thus, the humble package represents a prime marketing opportunity.

Companies realize the power of good packaging to create immediate consumer recognition of a brand. For example, an average supermarket stocks anywhere from 15,000 to 60,000 items; the average Walmart supercenter carries 142,000 items. And according to recent studies, 55 percent of shoppers decide what brand to buy while shopping, and 81 percent say they have tried something new because of the packaging. In this highly competitive environment, the package may be the seller's best and last chance to influence buyers. So the package itself becomes an important promotional medium.[15]

Innovative packaging can give a company an advantage over competitors and boost sales. Distinctive packaging may also become an important part of a brand's identity. For example, an otherwise plain brown carton imprinted with the familiar curved arrow from the Amazon.com logo—variously interpreted as "a to z" or even a smiley face—leaves no doubt as to who shipped the package sitting at your doorstep. Similarly, at a time when the potato chip aisle was saturated with brands featuring chips in rows of conventional plastic and foil bags, P&G created Pringles. It packaged the iconic brand in a now-familiar tubular can that stood out like a beacon on store shelves while at the same time protecting the contents from breakage and reducing storage and transportation costs. Now owned



Smart packaging: British dairy brand Yeo Valley Organic uses "always on" connected packaging across its full range of 90 organic products.

Courtesy of Sharp End

by Kellogg's, Pringles are offered in 25 flavors just in the United States alone and dozens more flavors across the more than 140 countries where the brand is sold.[16]

With today's technologies, packaging can even help brands interact directly with customers. Increasingly, brands are adopting *smart packaging*, such as using QR codes and other technologies to connect packaging to the internet. Scanning these codes connects consumers—in stores, at home, or anywhere else—with important product information or with brand experiences ranging from tutorials or recipe ideas to branded features, interactive games and sweepstakes, or ingredients and recycling information.

Smart packaging offers many advantages. For example, British dairy brand Yeo Valley Organic uses "always on" connected packaging developed by connected experience agency Sharp End across its full range of 90 organic products. Shoppers who scan the QR codes printed on Yeo Valley's packaging are taken to a web page introducing the brand's "Put Nature First" campaign, where they can also find product information and recipes or access informational and entertaining features. "The flexibility of QR codes is we can change the message remotely without needing to reprint the packaging," explains Yeo Valley Organic's managing director. "The communication potential is phenomenal. We can talk about anything from the recyclability of our packaging to how to use our products in recipes. And we can tailor every QR code specifically to a product." Connected packaging can also provide data on who buys and uses a product, creating further opportunities to build direct brand–consumer relationships.[17]

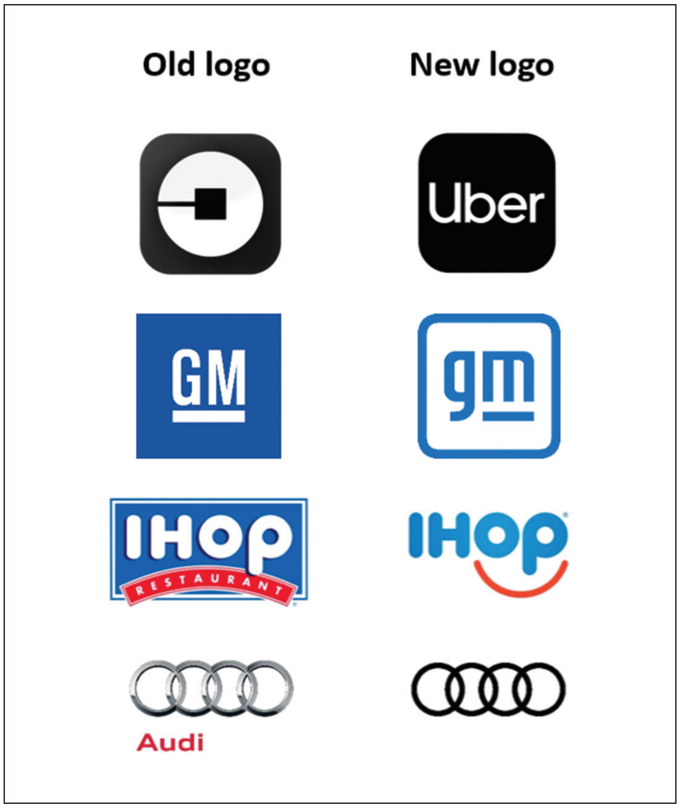
Product safety has also become a major packaging concern in recent years. Consider P&G's Tide PODS single-dose laundry detergent packets. To deter children from accidentally eating the colorful and candy-looking but toxic packets, P&G spent three years perfecting a Child-Guard Pack and Child Guard Tub. These packaging innovations likely saved P&G's Tide PODS and other unit-dose brands in the face of bad publicity related to children eating the visually enticing PODS.[18]

Labeling and Logos

Labels and logos range from simple tags attached to products to complex graphics that are part of the packaging. They perform several functions. At the very least, the label *identifies* the product or brand. The label might also *describe* several things about the product—who made it, where it was made, when it was made, its contents, how it is to be used, and how to use it safely. Finally, the label and logo help to *promote* the brand and engage customers. For many companies, labels and logos have become important elements in broader marketing campaigns.

Logos must be redesigned from time to time. Companies have always taken great care to craft simple, easily recognized logos that quickly identify their brands and trigger positive consumer associations. However, in today's digital world, brand logos are being asked to do much more. A logo is no longer just a static symbol placed on a printed page, package, TV ad, billboard, or store display. Instead, today's logos must also be capable of meeting the demands of an ever-more-diverse set of media. Text that comes through clearly in a print ad or billboard may be too small to read on a smartphone. A color that can be presented easily in the digital medium may be challenging to create on a physical medium like paper. Thus, many brands are adapting their logos to be easily reproducible and interpretable across diverse media. Further, companies may also use new logos to signal a positioning shift, to increase the brand's appeal to diverse audiences, or to connect more strongly with emerging generations of customers who may consider a brand and its logo to be dated. From Audi and Uber to GM and Burger King, it's out with the old and in with the new:

> Most logo changes focus on creating simpler, brighter, more modern designs that present better on digital screens and platforms. Burger King's new logo presents a simpler, friendlier, more modern retro vibe in a fresh identity—it's warmer and more appetizing. Uber replaced a blocky logo unveiled only two years earlier—dubbed the "smushed eyeball" by some observers—with a simpler one consisting of its name in white on a black background. The new logo is more easily recognized and works much better with expanded services such as Uber Eats. GM's new logo



Brand logo makeovers: Many companies are redesigning their logos to keep them in sync with the rapidly evolving digital times.

rvlsoft/Shutterstock, General Motors, International House of Pancakes, LLC, and Audi of America

is more modern and vibrant but also signals the carmaker's commitment to an all-electric-vehicle future. The brighter blue color evokes "the clear skies of a zero-emissions future," and the white space around the lowercase "m" suggests the shape of an electrical plug. The old IHOP logo had white letters on a blue field with a downward-curving red banner containing the word "restaurant." Now, IHOP's letters are blue on a white field, a design that stands out better against the white backgrounds on most web, mobile, and social media sites. The new logo also replaces the old frown-like "restaurant" banner with an upward curving red line under the "o" and the "p," creating a smiley face that adds a burst of happiness to the brand.

Many logos today are wordless, using only a brand symbol with no mention of the brand name at all. Think Apple, Twitter, Nike, and Airbnb. Carmaker Audi recently redesigned its logo, dropping the red Audi wordmark altogether. It turned its signature four 3D interlocking chrome rings to flat black and let the rings themselves become the logo. The new logo seems plainer but is also less restrictive and more interactive across today's digital formats, from screens inside the car to Audi's website, mobile apps, and even wearables.

Companies need to move carefully when changing their brand logos because customers often form strong connections to existing visual representations of their brands. Consider, for example, the feelings evoked by the logos of companies such as Google, Coca-Cola, Twitter, Apple, and Nike. Moreover, such changes often require a huge investment. For example, IHOP's seemingly simple logo redesign requires sweeping changes that touch almost every aspect of the company's operations. Just think of all the places you see IHOP's logo—from its advertising, web, and social media activities to the signs on and in its restaurants and the graphics on its corporate letterhead. These comprehensive changes call for significant investments of time and money.

There is also a long history of legal concerns related to labels and packaging. The Federal Trade Commission Act of 1914 held that false, misleading, or deceptive labels or packages constitute unfair competition. Labels can mislead customers, fail to describe key ingredients, or fail to include needed safety warnings. As a result, several federal and state laws regulate labeling. The most prominent is the Fair Packaging and Labeling Act of 1966, which set mandatory labeling requirements, encouraged voluntary industry packaging standards, and allowed federal agencies to set packaging regulations in specific industries. The Nutritional Labeling and Educational Act of 1990 requires sellers to provide detailed nutritional information on food products, and recent sweeping actions by the Food and Drug Administration (FDA) regulate the use of health-related terms such as *low fat*, *light*, *high fiber*, and *organic*. Sellers must ensure that their labels contain all the required information.

Product Support Services

Customer service is another element of product strategy. A company's offer usually includes some support services, which can be a minor part or a major part of the total offering. Later in this chapter, we will discuss services as products in themselves. Here, we discuss services that augment actual products.

Support services are an important part of the customer's overall brand experience. Good marketing doesn't end with making a sale. Keeping customers happy *after* the sale is the key to building lasting relationships. Keeping existing customers is as important to company growth as bringing in new customers. Cloud infrastructure company Rackspace Technology illustrates this principle in its business-to-business marketing:[19]

Rackspace Technology is a market leader in cloud-based storage and computing technology. It offers its business customers a range of services related to developing cloud-based strategies, deploying cloud-based applications, gaining insights from cloud data, and ensuring data and cloud infrastructure security. Rackspace regularly wins industry awards for what it calls the "Fanatical Experience" it provides its customers. The company notes: "We at Rackspace

Technology are absolutely obsessed with your success… This obsession has been part of our DNA for over 20 years. We call it Fanatical Experience and it means we're with you and for you, every step of the way."

A simple story captures the extent of this service excellence. A Rackspace employee was with a customer team during a marathon troubleshooting phone session when she heard one customer team member mention to another that she was hungry. The Rackspace employee discreetly ordered a pizza to be delivered to the customer team. To the surprise and delight of the customer team, the pizza arrived as the session continued. Importantly, the session kept going until the problem was resolved. Stories like this reinforce Rackspace's reputation for unmatched customer service in the burgeoning cloud storage and computing industry.

The first step in designing support services is to survey customers periodically to assess the value of current services and obtain ideas for new ones. Next, the company can take steps to fix problems and add new services that will both delight customers and yield profits to the company.

Many companies use a sophisticated mix of phone, email, online, social media, mobile, and interactive voice and data technologies to provide support services that were not possible before. For example, home-improvement store Lowe's offers a vigorous portfolio of customer services at both its store and online locations that makes shopping easier, answers customer questions, and handles problems. Customers can access Lowe's extensive support by phone, email (CareTW@lowes.com), website, mobile app, and Twitter via @LowesCares. The Lowe's website and mobile app link customers to a buying guide and a how-to library. In its stores, Lowe's has equipped employees with smartphones filled with custom apps and add-on hardware, letting them perform service tasks such as checking inventory at nearby stores, looking up specific customer purchase histories, sharing how-to videos, and checking competitor prices—all without leaving the customer's side.

Product Line Decisions

Product line
A group of products from a company that are closely related because they function in a similar manner, are sold to similar customer groups, serve similar customer needs, are marketed through the same types of outlets, or fall within given price ranges.

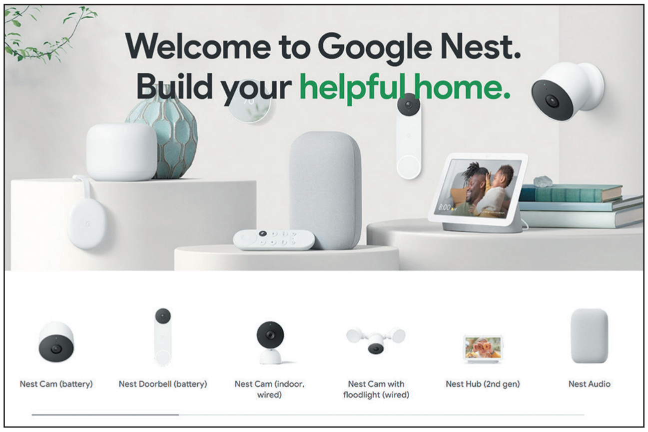
Beyond decisions about individual products and services, product strategy also calls for building a product line. A **product line** is a group of products that are closely related because they function in a similar manner, are sold to similar customer groups, serve similar customer needs, are marketed through the same types of outlets, or fall within given price ranges. For example, Nike produces several lines of athletic shoes and apparel. And Samsung offers full lines of consumer electronics, from TVs and smarthome devices to smartphones, tablets, and laptop computers.

The major product line decision involves *product line length*—the number of items in the product line. The line is too short if the manager can increase total profits by adding items; the line is too long if the manager can increase total profits by dropping items. Managers need to analyze their product lines periodically to assess each item's sales and profits and understand how each item contributes to the line's overall performance.

A company can expand its product line in two ways: by *line filling* or *line stretching*. *Product line filling* involves adding more items within the present range of the line. There are several reasons for product line filling: reaching for extra profits, satisfying dealers, using excess capacity, being the leading full-line company, and plugging holes to keep out competitors. However, line filling is overdone if it results in cannibalization (eating up sales of the company's own existing products) and customer confusion. Therefore, line filling should be done with care.

Product line stretching occurs when a company lengthens its product line beyond its current range. The company can stretch its line downward, upward, or both ways. Companies located at the upper end of the market can stretch their lines *downward*. A company may stretch downward to plug a market hole or to respond to a competitor's attack on the upper end. Or it may add lower-end products to attract new entry-level buyer segments.

For example, Mercedes stretched downward to capture entry-level buyers with its A-Class and C-Class sedans and GLA and GLB SUVs. With the A-Class sedan, "The virtue is in the value." Companies can also stretch their product lines *upward*. Sometimes, companies stretch upward to add prestige to their current products or to reap higher margins. For example, ride provider Lyft added Lyft Lux ("add a little luxury to your ride and arrive in style"). And ridesharing service Uber traded up with UberBlack ("high-end rides with professional drivers").



Product line stretching and filling: Through skillful line stretching and filling, Google Nest is positioning itself to more fully serve the smart homes of the future.

Google Nest is a trademark of Google LLC

As they grow and expand, many companies both stretch and fill their product lines. Consider Google Nest and its lines of smarthome devices. Google Nest began with a single smart thermostat that monitored and efficiently controlled home heating and cooling and then quickly added the Nest Protect smoke and carbon monoxide alarm. Next came a full line of Nest home security devices, including Nest Hello doorbell cameras, Nest Cam indoor and outdoor security cameras, and Nest key-free smart door locks, along with its Nest Aware subscription service that ties all the security devices together. More recently, the Google Nest line has expanded into smarthome connecting devices, including the Nest Mini and Nest Hub smart speakers and video displays, Nest Wifi routers, and Nest Audio components. Thus, through skillful line stretching and filling, Google Nest is positioning itself to more fully serve the smart homes of the future. "Welcome to Google Nest," says the brand. "Build your helpful home."

Product Mix Decisions

Product mix (or product portfolio) The set of all product lines and items that a seller offers for sale.

An organization with several product lines has a product mix. A **product mix (or product portfolio)** consists of all the product lines and items that a particular seller offers for sale. For example, Colgate-Palmolive is perhaps best known for its toothpaste and other oral care products. But, in fact, Colgate is a $17.5 billion consumer products company that makes and markets a full product mix consisting of many familiar lines and brands. Colgate divides its overall product mix into four major lines: oral care, personal care, home care, and pet care. Each product line consists of many brands and items.[20]

A company's product mix has four important dimensions: width, length, depth, and consistency. Product mix *width* refers to the number of different product lines the company carries. For example, Colgate markets a fairly wide product mix, consisting of dozens of brands that constitute the "Colgate World of Care"—products that "every day, people like you trust to care for themselves and the ones they love."

Product mix *length* refers to the total number of items a company carries within its product lines. Colgate carries several brands within each line. For example, its personal care line includes Softsoap liquid soaps and body washes, Tom's of Maine, Irish Spring bar soaps, Speed Stick deodorants, and Colgate toiletries and shaving products, among others. The Colgate home care line includes Palmolive and AJAX dishwashing products, Suavitel fabric conditioners, and Murphy Oil Soap cleaners. The pet care line houses the Hill's Science Diet pet food brand.

The product mix: Colgate-Palmolive's consistent product mix contains dozens of brands that constitute the "Colgate World of Care"—products that "every day, people like you trust to care for themselves and the ones they love."

Used with permission of Colgate-Palmolive Company

Product line *depth* refers to the number of versions offered of each product in the line. Colgate toothpastes come in numerous varieties, ranging from Colgate Total, Colgate Optic White, and Colgate Hydris to Colgate Sensitive, Colgate Enamel Health, Colgate with Charcoal, and Colgate Kids. Then each variety comes in its own special forms and formulations. For example, you can buy Colgate Total in regular, clean mint, advanced whitening, deep clean, total daily repair, or any of several other versions.

Finally, the *consistency* of the product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way. Colgate's product lines are consistent insofar as they are consumer products that go through the same distribution channels. The lines are less consistent insofar as they perform different functions for buyers.

These product mix dimensions provide the handles for defining the company's product strategy. A company can increase its business in four ways. It can add new product lines, widening its product mix. In this way, its new lines build on the company's reputation in its other lines. A company can lengthen its existing product lines to become a more full-line company. It can add more versions of each product and thus deepen its product mix. Finally, a company can pursue more product line consistency—or less—depending on whether it wants to have a strong reputation in a single field or in several fields.

From time to time, a company may also have to streamline its product mix to pare out marginally performing lines and to better align with its markets. For example, Ford Motors intends to drop sedans altogether to focus on a future where it sells only SUVs and trucks. And GM recently dropped several long-established sedan models—the Buick LaCrosse, Cadillac CT6, Cadillac XTS, and Chevrolet Cruze—as car-buyer preferences have shifted toward SUVs, crossovers, hatchbacks, and trucks. Further, as the market has shifted toward electric vehicles, GM dropped its plug-in electric hybrid sedan Chevy Volt to focus more on the Chevy Bolt EV and other all-electric models. It plans to offer 20 electric vehicle models by 2023, starting with Buick, Cadillac, Chevy, and GMC Hummer models. In fact, to align the product mix with environmental trends, GM plans to phase out gas-powered cars, trucks, and SUVs—even hybrids—altogether by 2035, selling only all-electric vehicles.[21]

Author Comment | As noted at the start of this chapter, services are "products," too—intangible ones. So all the product topics we've discussed so far apply to services as well as to physical products. However, in this section, we focus on the special characteristics and marketing needs that set services apart.

Services Marketing

OBJECTIVE 8-3 Explore the four characteristics that affect the marketing of services and the additional marketing considerations that services require.

Services have grown dramatically in recent years. They now account for more than 68 percent of the U.S. gross domestic product (GDP).[22] Service industries vary greatly. *Governments* offer services through courts, employment services, hospitals, military services, police and fire departments, the postal service, and schools. *Private not-for-profit organizations* offer services through museums, charities, churches, colleges, foundations, and hospitals. In addition, a large number of *business organizations* offer services—airlines, banks, hotels, insurance companies, consulting firms, real estate firms, retailers, medical and legal practices, entertainment and telecommunications companies, digital and social media platforms, and others.

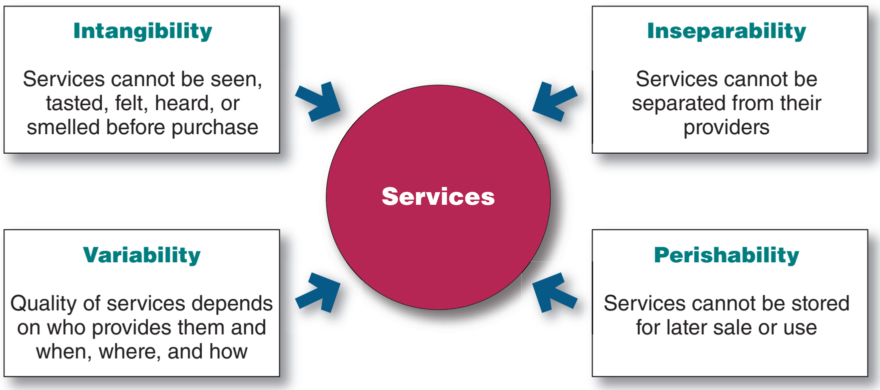
The marketing of services requires considerations beyond those of marketing purely tangible products. Some marketers call for adding three more Ps to the marketing mix to create the *7Ps of services marketing mix*—the 4Ps plus people, process, and physical evidence. The *people* element points to the fact that the service market offering is often tightly tied to the people who provide it. Service marketers should emphasize the expertise and qualifications of their providers. The *process* element recognizes that service experiences usually involve interconnecting elements that play out over time. Services marketers must develop efficient and effective service delivery processes that ensure a consistent standard of service quality, from anticipating customer needs through responding to customer feedback. Finally, the *physical evidence* element refers to the importance of providing tangible proof of quality in addition to intangible service attributes. For example, well-groomed, friendly customer service employees and well-maintained room interiors can influence customers' perceptions of their hotel-stay experience. In the following sections, we discuss the special circumstances that come into play in marketing services.[23]

The Nature and Characteristics of a Service

A company must consider four special service characteristics when designing marketing programs: intangibility, inseparability, variability, and perishability (see Figure 8.3).

FIGURE 8.3
Four Service Characteristics

Although services are "products" in a general sense, they have special characteristics and marketing needs. The biggest differences come from the fact that services are essentially intangible and that they are created through direct interactions with customers. Think about your experiences with an airline or Google versus Nike or Apple.



Using tangibles to enhance the service experience: Oberoi Hotels and Resorts carefully integrates tangible elements across the entire service journey. The Oberoi Udaivilas Resort in Udaipur, India, epitomizes this approach.

Martin Harvey/Alamy Stock Photo

Service intangibility means that services—unlike physical products—cannot be seen, tasted, felt, heard, or smelled before they are bought. For example, people undergoing cosmetic surgery cannot see the result before the purchase. Airline passengers have nothing but a ticket and a promise that they and their luggage will arrive safely at the intended destination, hopefully at the same time. To reduce uncertainty, buyers look for *signals* of service quality. They draw conclusions about quality from the place, people, price, equipment, and communications that they can see. Therefore, the service provider's task is to make the service tangible in one or more ways and send the right signals about quality. Oberoi Hotels and Resorts, originally based in India, does this spectacularly well:[24]

> Individual Oberoi properties are frequently ranked among the top five in the world by *Travel + Leisure* and other leading travel magazines. The global luxury hotel chain provides remarkably high levels of personalized service to its guests. To support the overall guest experience, Oberoi carefully integrates tangible elements across the entire service journey. It begins when guests first check into an Oberoi hotel. At the luxurious Maharaja's palace-themed Oberoi Udaivilas in Udaipur, India, for example, guests are welcomed with a shower of pleasantly scented rose petals. When entering their rooms for the first time, they may find a luscious chocolate truffle cake welcoming them. The hotel itself is meticulously designed, incorporating palatial architectural motifs from the erstwhile Kingdom of Mewar. While offering just 87 rooms, the Oberoi Udaivilas is spread over 50 acres of land that includes a 20-acre wildlife sanctuary. The rooms have private walled courtyards and Victorian bathtubs. In the gardens, peacocks flaunt vibrant, shimmering colors. Guests can experience a romantic dinner outdoors under a lakeside dome, with soft strains of music and a clear view of the Pichola Lake. They can venture out for a ride on the lake on a wooden boat with wine and canapés. They can ride on a camel or an elephant. Oberoi's strategic use of the tangibles elevates the service experience and makes it more emotional, differentiated, and memorable. As one guest notes: "Oberoi Udaivilas can be a case study on how to delight customers every time. They are the best in this." Not surprisingly, across 2,650 TripAdvisor reviews, the Oberoi Udaivilas receives an average rating of 5 stars on a 5-star scale.

Service intangibility
Services cannot be seen, tasted, felt, heard, or smelled before they are bought.

Physical goods are produced, then stored, then later sold, and then still later consumed. In contrast, services are first sold and then produced and consumed at the same time. **Service inseparability** means that services cannot be separated from their providers, whether the providers are people or machines. If a service employee provides the service, then the employee becomes a part of the service. And customers don't just buy and use a service; they play an active role in its delivery. Customer coproduction makes *provider–customer interaction* a special feature of services marketing. Both the provider and the customer affect the service outcome.

Service inseparability
Services are produced and consumed at the same time and cannot be separated from their providers.

Service variability means that the quality of services depends on who provides them as well as when, where, and how they are provided. For example, some hotels—say, Marriott—have reputations for providing better service than others. Still, within a given Marriott hotel, one registration-counter employee may be cheerful and efficient, whereas another standing just a few feet away may be grumpy and slow. Even the quality of a single Marriott employee's service varies according to their energy and frame of mind at the time of each customer encounter.

Service variability
The quality of services may vary greatly depending on who provides them and when, where, and how they are provided.

Service perishability means that services cannot be stored for later sale or use. Some doctors charge patients for missed appointments because the service value existed only at that point and disappeared when the patient did not show up. The perishability of services is not a problem when demand is steady. However, when demand fluctuates, service firms often have difficult problems. For example, when demand surges during the end-of-year holiday season, Amazon must ramp up its delivery capacity, as must parcel delivery firms such as UPS, FedEx, and the USPS. To meet such demand surges, Amazon hires thousands of its own seasonal drivers and supplies them with vans to help deliver parcels. Other service firms often engage in *yield management*—the design of pricing, advertising, and other strategies for better matching service capacity and demand. Thus, hotels and resorts charge lower prices in the off-season to attract more guests. Restaurants hire part-time employees to serve during peak periods. And airlines engage in intense dynamic pricing—it is not uncommon for

Service perishability
Services cannot be stored for later sale or use.

200 passengers on board a flight to have paid 50 different fares depending on when, where, and how they bought their tickets and perhaps even on their online browsing histories.

Marketing Strategies for Service Firms

Just like manufacturing businesses, good service firms use marketing to position themselves strongly in chosen target markets. Enterprise Rent-A-Car says, "You drive. We'll take care of the rest"; Zipcar offers "An alternative to car rental." At CVS Pharmacy, "Health is everything"; Walgreens meets you "at the corner of happy & healthy." And St. Jude Children's Hospital is "Finding cures. Saving children." These and other service firms establish their positions through traditional marketing mix activities. However, because services differ from tangible products, they often require additional marketing approaches.

The Service Profit Chain

Service profit chain
The chain that links customer satisfaction and profits for service firms with employee satisfaction.

In a service business, the customer and the front-line service employee *interact* to co-create the service. Effective interaction, in turn, depends on the skills of front-line service employees and on the support processes backing these employees. Thus, successful service companies focus their attention on both their customers and their employees. They understand the **service profit chain**, which links service customer satisfaction and firm profits with employee satisfaction. This chain consists of five links:[25]

- *Internal service quality.* Superior employee selection and training, a high-quality work environment, and strong support for those dealing with customers, which results in . . .
- *Satisfied and productive service employees.* More satisfied, loyal, and hardworking employees, which results in . . .
- *Greater service value.* More effective and efficient customer value creation, engagement, and service delivery, which results in . . .
- *Satisfied and loyal customers.* Satisfied customers who remain loyal, make repeat purchases, and refer other customers, which results in . . .
- *Healthy service profits and growth.* Superior service firm performance.

For example, supermarket chain Wegmans—a perennial customer service champion—has developed a cult-like customer following by putting its employees first:[26]

Wegmans customers absolutely love the place. The opening of a new Wegmans store is often heralded with customers lining up from early morning to be among the first to get in. One recent survey put Wegmans at number two in consumer perceptions among the 100 best known brands, behind only Amazon. Another survey placed Wegmans at number two on its list of Most Loved Brands, behind only Disney. "Every time I shop at Wegmans," says one customer, "the stores are filled with people happy to be shopping there." Says another customer, "I'd never move anywhere there isn't a Wegmans."

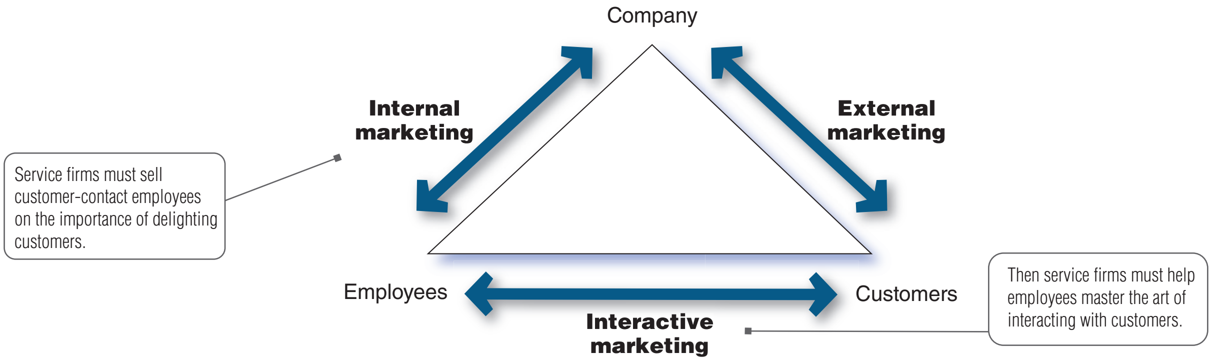
What's the secret behind Wegmans's avid and loyal customer following? "In order to be a great place to shop, we must first be a great place to work," declares a Wegmans marketing executive. A superior customer experience begins with superbly trained, happy employees. To that end, Wegmans invests $50 million each year on employee development and another $5 million for scholarships. It does not hesitate to send its cheese managers to France and Italy to learn about cheeses. It provides a flexible work environment and plenty of career advancement opportunities. Wegmans listens to employees and acts on their feedback—through Open Door Days, Huddles, Focus Groups, and a two-way Q&A blog. "It starts with our people, it really does," says a Wegmans store manager. "We are about people to the core and there's a saying, 'We are in the people business; we just happen to sell food.'" Not surprisingly, then, along with all its lofty customer satisfaction ratings, Wegmans has spent more than 20 straight years on the *Fortune* 100 Best Companies to Work For list, this year at number four, and six straight years at number one in the *Fortune* Best Workplaces in Retail list.

The service profit chain: Perennial customer service champion Wegmans knows that "In order to be a great place to shop, we must first be a great place to work."

Wegmans Food Markets Inc.

Services marketing requires more than just traditional external marketing using the four Ps. **Figure 8.4** shows that services marketing also requires *internal marketing* and *interactive*

FIGURE 8.4
Three Types of Services Marketing



Internal marketing
Orienting and motivating customer-contact employees and supporting service employees to work as a team to provide customer satisfaction.

Interactive marketing
Training service employees in the fine art of interacting with customers to satisfy their needs.

marketing. **Internal marketing** means that the service firm must orient and motivate its customer-contact employees and supporting service people to work as a team to provide customer satisfaction. Marketers must get everyone in the organization to be customer centered. In fact, internal marketing must *precede* external marketing. For example, Wegmans starts by hiring the right people and carefully orienting and inspiring them to give unparalleled customer service. The idea is to make certain that employees themselves believe in the brand so that they can authentically deliver the Wegmans promise to customers that "Every day we give our best."

Interactive marketing means that service quality depends heavily on the quality of the buyer–seller interaction during the service encounter. In product marketing, product quality often depends little on the nature of the transaction itself. But in services marketing, service quality depends on both the service deliverer and the quality of delivery. Service marketers, therefore, have to master interactive marketing skills. Thus, Wegmans hires only the people who fit the company's culture and coaches them carefully in the fine art of interacting with customers to satisfy their every need.

Today, as competition and costs increase and as productivity and quality decrease, more services marketing sophistication is needed. Service companies face three major marketing tasks: They want to increase their *service differentiation*, *service quality*, and *service productivity*.

Managing Service Differentiation

In these days of intense price competition, service marketers often complain about the difficulty of differentiating their services from those of competitors. To the extent that customers view the services of different providers as similar, they care less about the provider than the price. The solution to price competition is to develop a differentiated offering, delivery, and image.

The differentiated *offering* can include innovative features that set one company's offering apart from those of competitors. For example, Emirates added first-class suites to its Boeing 777 airplanes featuring door-to-ceiling sliding doors, closets for hanging clothes, wireless tablets with 2,500 channels, 32-inch TV screens, personal minibars, and "inspiration kits" containing moisturizing pajamas and skin care kits. Some retailers differentiate themselves with offerings that take you well beyond the products they stock. At any of several large REI stores, consumers can get hands-on experience with merchandise before buying it via the store's mountain bike test trail, gear-testing stations, a huge rock-climbing wall, or an in-store simulated rain shower.

Service companies can differentiate their service *delivery* by having more able and reliable customer-contact people, developing a superior physical environment in which the service product is delivered, or designing a superior delivery process. For example, CVS Health offers fast and convenient walk-in medical services through Minute Clinics in its own and Target stores, saving you a trip and long wait at the doctor's office for immunizations, treatment of minor illnesses, and other health-care needs. Minute Clinic gives you "The care you need on your schedule."

Finally, service companies also can work on differentiating their *images* through symbols and branding. Well-known service characters and symbols include the GEICO gecko, Apple's apple with a bite taken out, the blue Twitter bird, Starbucks's green mermaid,

Service differentiation: Service companies can differentiate themselves through service characters and brand symbols. KFC's Colonel Sanders is a popular cultural icon who helps the company cut through the fast-food advertising clutter.

David Parker/Alamy Stock Photo

McDonald's golden arches, KFC's Colonel Sanders, and Progressive Insurance's Flo. In the blistering summer of Dubai, when the schools are out and soaring temperatures move everything indoors, the smiling face of Modhesh turns up on billboards, signs, and malls. Modhesh is the Dubai tourism authority's summer mascot announcing the summer deals that attract tourism to the city's seasonal shopping extravaganza. Another popular feature in the UAE landscape is the camel that pops up on most souvenirs. Originally the logo of The Camel Shop, it has become a cultural icon and appears on most souvenirs from the UAE. Over the years, its family has grown to include Emirati girl and boy camels.[27]

Managing Service Quality

A service firm can differentiate itself by delivering consistently higher quality than its competitors provide. Like manufacturers before them, most service industries have now joined the customer-driven quality movement. And like product marketers, service providers need to identify what target customers expect in regard to service quality.

Unfortunately, service quality is harder to define and judge than product quality. For instance, it is harder to agree on the quality of a haircut than on the quality of a hair dryer. Customer retention is perhaps the best measure of quality; a service firm's ability to hang onto its customers depends on how consistently it delivers the expected value to them.

Top service companies set high service-quality standards. They watch service performance closely, both their own and that of competitors. They do not settle for merely good service—they strive for close-to-perfect service performance. A 98 percent performance standard may sound good, but using this standard, the U.S. Postal Service would lose or misdirect 394,000 pieces of mail each hour, and U.S. pharmacies would wrongly fill more than 1.4 million prescriptions each week.[28]

Unlike product manufacturers who can adjust their machinery and inputs until everything is perfect, service quality will always vary, depending on the interactions between employees and customers. As hard as they may try, even the best companies will have an occasional late delivery, burned steak, or grumpy employee. However, good *service recovery* can turn angry customers into loyal ones. In fact, outstanding service recovery can sometimes win more customer purchasing and loyalty than if things had gone well in the first place.

For example, in a study of repeat business, Marriott clustered customers' stays into three groups: nothing bad happened, something bad happened but Marriott fixed the problem, and something bad happened but Marriott did not fix it. The percentages of these three groups that intended to return were 89 percent, 94 percent, and 69 percent, respectively. Thus, the best outcomes were those where Marriott turned a negative into a positive.[29] This surprising outcome has been termed the "service recovery paradox." The findings suggest that service companies should train their frontline employees in the art of service recovery. Marriott teaches employees the LEARN method for recognizing disgruntled customers and addressing their concerns in positive ways. LEARN stands for *Listen* to the customer, *Empathize and show concern* for complaint, *Apologize* for the problem, *Resolve* the issue by fixing the problem, and *Notify* by following up with the guest to be certain that the problem was corrected to their satisfaction. By listening and taking positive action, Marriott employees can often turn upset customers into delighted ones.[30]

These days, companies can track and remedy customer service dissatisfaction by engaging social media such as Facebook, Instagram, and Twitter. As discussed in Chapter 4, companies now monitor the digital space to spot customer issues quickly and respond in real time. For example, Southwest Airlines has a dedicated team of 29 "social care" specialists who respond to roughly 80,000 Facebook and Twitter posts monthly. Southwest and other airlines have become adept at responding quickly to social media inquiries and comments. A recent study shows that Southwest's response time to customers on Twitter averages just 6 minutes and 36 seconds. A quick and thoughtful response can turn a dissatisfied customer into a brand advocate. Further, companies can use technology to automate service recovery, making it less reliant on human intervention.

Customer service quality: The social media provide opportunities to root out and remedy customer dissatisfaction with service. Southwest Airlines employs a team of "social care" specialists who respond very quickly to customer comments and concerns.

Courtesy of Southwest Airlines

For example, KLM, the Royal Dutch Airline, automatically offers coupons for food and beverages through its app for delays longer than three hours.[31]

Regardless of how it's measured, the best service providers understand that defining service quality always boils down to one thing: the customer experience. Take Mayo Clinic, for example. Even in the complicated health-care services industry, one characterized by bureaucracy and often criticized for putting profits before patients, Mayo Clinic delivers on a simple core value: the needs of the patient come first (see Real Marketing 8.1).

Managing Service Productivity

With their costs rising rapidly, service firms are under great pressure to increase service productivity. They can do so in several ways. They can train current employees better or hire new ones who will work harder or more skillfully. They can improve workplace culture and morale so their employees can contribute more strongly. They can increase the quantity of their service by giving up some quality. Finally, a service provider can harness the power of technology. Although we often think of technology's power to save time and costs in manufacturing companies, it also has great—and often untapped—potential to make service industries more efficient and productive.

A key approach to employing services technology involves customer self-service. Today's customers are increasingly able and willing to handle their own needs when empowered with technology. In the airline industry, customers can now book their own tickets, choose their seats and meals, and even check in online. In the grocery industry, customers can place orders and schedule delivery online. In the automobile industry, customers can configure their vehicles to the last nut and bolt online, work out financing, send their orders to dealerships, and have their vehicles delivered to their doors. In financial services, customers manage their own investments and retirement accounts online. In the hospitality sector, the Vdara Hotel and Spa in Las Vegas even uses robots for room service. Two delivery robots—named Fetch and Jett, designed to look like dogs—can remotely call an elevator, bring food items from the hotel's café directly to guests' rooms, and alert guests via automated phone messages before they arrive. The list goes on.[32]

At the same time, pushing too hard to increase productivity or cut costs can reduce a company's longer-run ability to innovate, maintain service quality, and respond to consumer needs and desires. For example, the Vdara in Las Vegas envisions using technology to eliminate front desks altogether, letting customers check in by phone. But automating such customer services might be risky if it reduces the hotel's human touch. That won't happen, says a marketing executive at MGM Resorts International, which manages the Vdara. More efficient check-in allows more personal service elsewhere. "The people that were at those front desks are still there," he says. "They're there to customize your journey, there to greet you at the car, and they're there to escort you to your room to make sure you have everything you need. You can't replace that engagement."[33]

Thus, in attempting to improve service productivity, companies must be mindful of how they create and deliver customer value. They should be careful not to take *service* out of the service. In fact, a company may purposely lower service productivity to improve service quality, in turn allowing it to maintain higher prices and profit margins.

Author Comment A brand represents everything that a product or service means to consumers. As such, brands are valuable assets to a company. For example, when you hear someone say "Coca-Cola," what do you think, feel, or remember? What about "Target"? Or "Instagram"?

Branding Strategy: Building Strong Brands

OBJECTIVE 8-4 Discuss branding strategy—the decisions companies make in building and managing their brands.

Some analysts see brands as *the* major enduring asset of a company, outlasting the company's specific products and facilities. In fact, for many companies, the value of the brand exceeds the value of all the tangible assets listed on their balance sheets. John Stewart, former CEO of Quaker Oats, once said, "If this business were split up, I would give you the land and bricks and mortar, and I would keep the brands and trademarks, and I would fare better than you." A former CEO of McDonald's declared, "If every asset we own, every

Real Marketing 8.1

Mayo Clinic: A Model for Service Quality

In 1864 in the remote town of Rochester, Minnesota, Dr. William Mayo opened a private medical practice. "Over the Union Drug Store on Third Street," the ad in the Rochester City Post stated, "with calls answered by day or night." Dr. Mayo grew his practice based on a simple concept that would become the foundation of modern services marketing: the needs of the patient (customer) come first.

Today, 73,000 Mayo Clinic employees across three major campuses and dozens of locations in several U.S. states care for more than 1.3 million patients annually who flock to the well-respected health-care provider from over 130 countries. Although Mayo Clinic has grown remarkably from its humble roots, the core focus on meeting patient needs remains a constant. As a result, Mayo Clinic has become a model of service excellence for hospitals and health-care systems everywhere. On its most recent "Best Hospitals" list, *U.S. News & World Report* ranked Mayo Clinic number one for the sixth year in a row. And in its third global ranking of the top 2,000 hospitals around the world, *Newsweek* crowned Mayo Clinic the World's Best Hospital—for the third time.

While such rankings are based partly on cold statistics such as mortality rates, surgical infections, and safety records—direct evidence of "making sick people well"—they also take customer service heavily into account. Mayo Clinic excels on both dimensions. But perhaps the best testaments to the quality of Mayo Clinic's unmatched health services come from patients themselves. "What I hear every day from patients and family members is that the minute they step onto a Mayo campus . . . they feel it right from the first person they speak with," says Mayo Clinic's CEO. "That patient focus and a relentless focus on quality goes all the way from the heart surgeons down to the cleaning staff."

Although lots of health-care organizations claim "patients first," for many it's more a cliché than a guiding principle. But Mayo Clinic practices what it preaches. From the time the clinic was created through a partnership with Franciscan nuns, Dr. Mayo and his two sons Dr. Will and Dr. Charlie were driven by "patients first" in everything they did. From the start, Mayo Clinic's structure, process, and people were designed to achieve that goal.

It starts with Mayo Clinic's team-based approach to patient care. Such a structure is often lacking within the individualistic medical profession. An oft-repeated story from Mayo Clinic's early days reflects the value the organization places on teamwork over individual status. When a patient once asked Dr. Will Mayo, "Are you the head doctor here?" He answered, "No, my brother's the head doctor. I'm the belly doctor." Says one analyst, the Mayo Clinic "explicitly shuns the star system, downplaying individual accomplishments in favor of organizational achievements."

At Mayo Clinic, patient teams draw from the collective expertise and knowledge within and across specialties, incorporating nurses, scientists, and technicians. "The wisdom of peers is greater than any individual," says Mayo's former chief administrative officer. "It's almost expected that if you see a patient with an issue you're unsure about, you pick up the phone and call a colleague—either within your specialty or another specialty—and seek out insight." Further, in the best interests of patients, teams pair a lead physician with an administrative partner, ensuring that patient care is driven more by medical sense than by dollars and cents.

Importantly for patients, Mayo Clinic's team-based, integrative approach makes the clinic a one-stop shop. All too often, today's increased medical specialization creates a health-care environment in which providers work in different locations and don't communicate. If a patient is seeing different specialists for different problems, chances are good that most of these doctors don't know that the patient is seeing the others. And even if they know, they aren't likely to have records of the other doctors' treatments or recommendations. Further, patients are all too often overwhelmed by the process of coordinating doctor appointments and lab visits, which can span multiple facilities across days or weeks.

Not so at Mayo Clinic. At Mayo, patients check in once and get what they need without having to push, make additional appointments, or run all over town for lab tests. Seeing multiple doctors and getting the necessary tests is often completed within hours, not days. And when they see a patient, every physician at Mayo has digital access to the patient's medical records and results. In fact, more than 110 years ago, long before digitized records, Mayo Clinic was the first to establish a standardized patient information system. Thanks to this integrative process, "problems get solved, and this is what attracts people," says the administrator. Mayo solves the totality of the customer's problem, not just part of it, quickly and caringly.

Mayo Clinic knows that, beyond its structure and process, people are its most important asset in delivering on its patients-first promise. It takes great care in selecting, training, and supporting its physicians and staff. Mayo Clinic isn't the right place for everyone. Mayo looks for people who fit well with its patient-centered mission and teamwork environment. Its recruitment procedures are thorough and effective. For every position, passion and compassion are as important as competence and skill. The interview experience requires a two- to three-day visit.

Once hired, new Mayo Clinic employees—whether cleaning staff, accountants, technicians, or brain surgeons—go through an orientation process designed to instill its patient-first mantra. They complete a three-year probationary period with the decision to retain made collectively by staff, ensuring a fit with the Mayo culture. With five schools in its internal education system, Mayo Clinic prepares and shapes employees in the Mayo way of doing things, helping them become members of the Mayo Clinic family.

Importantly, at Mayo Clinic, all professionals and staff are compensated on a salary-only basis. Elsewhere in the medical field, doctors are often paid on a piecemeal basis, with bonuses or incentives for certain procedures or treatments. Such systems promote patient volume, often at the expense of

By putting patients first, Mayo Clinic has become a model of service excellence for health-care systems everywhere. *U.S. News & World Report* ranked Mayo Clinic number one on its "Best Hospitals" list for the sixth year in a row. And *Newsweek* crowned it the World's Best Hospital for three straight years.

tofino/Alamy Stock Photo

patient care. Mayo sees the salary-only approach as essential to maintaining its patient-first collaborative culture. There are no economic incentives to retain rather than refer a patient to another doctor or to pursue a treatment plan that favors income over the patient's well-being. And at Mayo, there is no financial penalty for spending more time with a patient or for assisting other physicians.

It's no surprise that employee satisfaction and retention at Mayo are much higher than average for the medical industry or for large companies in general. The Mayo health system ranks high on most "best companies to work for" lists, including the number three spot on *Forbes'* most recent "Best Large Employers" list. This high degree of employee satisfaction translates readily into outstanding patient experiences. Happy, satisfied staff result in happy, satisfied patients.

In turn, happy patients result in superior financial performance. Whereas the average U.S. hospital barely breaks even, the nonprofit Mayo Clinic runs a surplus, averaging 6 percent over the past four years. It invests this surplus in research, technology, and personnel development, along with actively supporting numerous charities and subsidizing patient care expenses.

Mayo Clinic understands the challenges of balancing money against mission. It stays focused on the phrase "No money, no mission." But the quality-of-care side of Mayo keeps in perspective that the correlate is also true: "No mission, no need for money." Thus, the essence of Mayo Clinic as an outstanding service provider is summed up well in its mission statement and values. "Mayo Clinic's mission is to inspire hope and contribute to health and well-being by providing the best care to every patient through integrated clinical practice, education, and research. Our primary value is 'The needs of the patient come first.'"[34]

building, and every piece of equipment were destroyed in a terrible natural disaster, we would be able to borrow all the money to replace it very quickly because of the value of our brand.... The brand is more valuable than the totality of all these assets."[35]

Thus, brands are powerful assets that must be carefully developed and managed. In this section, we examine the key strategies for building and managing product and service brands.

Brand Equity and Brand Value

Brands are more than just names and symbols. They are a key element in the company's relationships with consumers. Brands represent consumers' perceptions and feelings about a product and its performance—everything that the product or the service *means* to consumers. In the final analysis, brands exist in the heads of consumers. As one well-respected marketer once said, "Products are created in the factory, but brands are created in the mind."[36]

Brand equity
The differential effect that knowing the brand name has on a customer's emotions, attitudes, and behaviors related to the product or its marketing.

A powerful brand has high *brand equity*. **Brand equity** is the differential effect that knowing the brand name has on a customer's emotions, attitudes, and behaviors related to the product and its marketing. It's a measure of the brand's ability to capture consumer preference and loyalty. A brand has positive brand equity when consumers react more favorably to it than to a generic or unbranded version of the same product. It has negative brand equity if consumers react less favorably than to an unbranded version.

Brands vary in the amount of power and value they hold in the marketplace. Some brands—such as Coca-Cola, Nike, Disney, Apple, McDonald's, Harley-Davidson, and others—become larger-than-life icons that maintain their power in the market for years, even generations. Other brands—such as Amazon, Tesla, Instagram, Airbnb, Headspace, and Zoom—create fresh consumer excitement and loyalty. Ultimately, brands win in the marketplace not simply because they deliver unique benefits or reliable service. Rather, they succeed because they forge deep connections with customers.

Consumers' relationships with brands: To devoted Instagram users, the brand stands for much more than just a photo sharing service. It means growing closer to friends and family through shared experiences in the moment.
Lorenzo Di Cola/NurPhoto/Getty Images

People really do have relationships with brands. For example, to the world's more than 2 billion monthly active Instagram users worldwide, the Instagram brand stands for something much more than just a photo and video sharing service. Instagram stands for sharing important moments with friends through pictures as they happen. It means growing closer to friends and family through shared experiences in the moment, whether it's a new puppy, someone getting married, a child's first steps, a teenager's solo performance at a recital, or seeing a beautiful double rainbow in Hawaii.[37]

Ad agency group WWP's BrandAsset Valuator measures brand strength along four consumer perception dimensions: *differentiation* (what makes the brand stand out), *relevance* (how consumers feel it meets their needs), *knowledge* (how much consumers know about the brand), and *esteem* (how highly consumers regard and respect the brand). Brands with strong brand equity rate high on all four dimensions. The brand must be distinct, or consumers will have no reason to choose it over other brands. However, the fact that a brand is highly differentiated doesn't necessarily mean that consumers will buy it. The brand must stand out in ways that are relevant to consumers' needs. Even a differentiated, relevant brand is far from a shoo-in. Before consumers will respond to the brand, they must first know about and understand it. And that familiarity must lead to a strong, positive consumer-brand connection.[38]

Brand value
The total financial value of a brand.

Thus, positive brand equity derives from consumer feelings about and connections with a brand. A brand with high brand equity is a valuable asset. **Brand value** is the total financial value of a brand. Measuring such value is difficult. However, according to one recent assessment of the world's most valuable brands, the brand value of Amazon is a whopping $684 billion, with Apple at $612 billion, Google at $458 billion, Microsoft at $410 billion, Tencent at $240 billion, and Facebook at $226 billion. Following these brands in terms of global value are Alibaba, Visa, McDonald's, and Mastercard.[39]

High brand equity provides a company with many competitive and financial performance advantages A strong brand increases an existing customer's willingness to pay, allowing the company to charge a higher price. Customers expect stores to carry strong brands—this gives the company more leverage in bargaining with resellers. A strong brand attracts competitors' customers and non-customers to the company, helping build sales and market share. A powerful brand carries high credibility, making it easier for the company to launch line and brand extensions. A strong brand induces customer loyalty, helping the company defend against low-priced brands and competitors' price attacks. Increased loyalty also serves as a barrier to potential competitors entering the market. Finally, a strong brand stabilizes the company's cash flows over time. It brings momentum and customer goodwill, helping the company get through lean times.

Above all, however, a powerful brand forms the basis for building strong and profitable customer engagement and relationships. The fundamental asset underlying brand equity is *customer equity*—the value of customer relationships that the brand creates. A powerful brand is important, but what it really represents is a profitable set of loyal customers. The proper focus of marketing is building customer equity, with brand management serving as a major marketing tool. Companies therefore need to think of themselves not just as portfolios of brands but also as portfolios of customers.

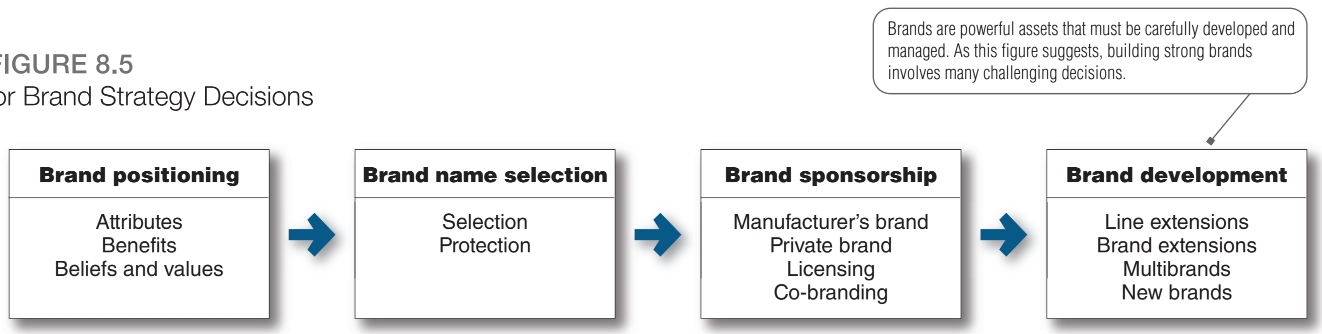
Building Strong Brands

Branding poses challenging decisions to the marketer. **Figure 8.5** shows that the major brand strategy decisions involve *brand positioning*, *brand name selection*, *brand sponsorship*, and *brand development*.

Brand Positioning

Marketers need to position their brands clearly in target customers' minds. They can position brands at any of three levels.[40] At the lowest level, they can position the brand on *product or service attributes*. For example, FedEx can position itself on attributes such as

FIGURE 8.5
Major Brand Strategy Decisions

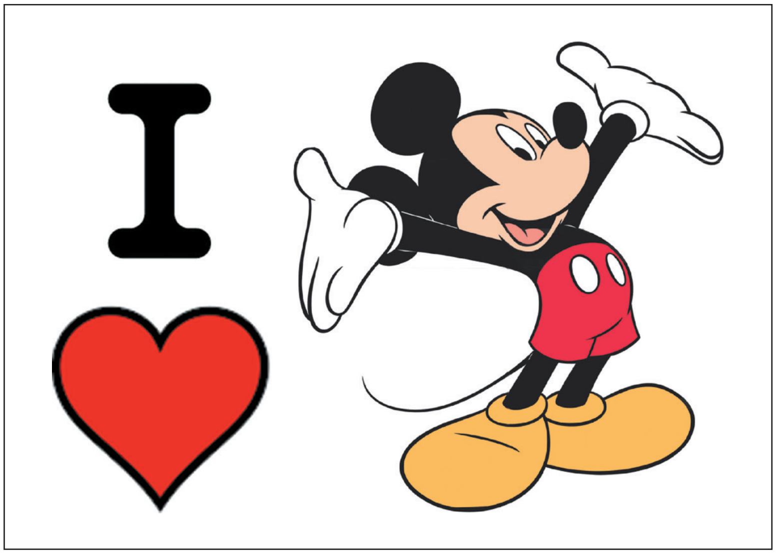


speed, reliability, quality, and convenience of package delivery. However, competitors can easily copy attributes. More important, customers are not interested in attributes as such—they are interested in what the attributes will do for them.

A brand can be better positioned by associating its name with a desirable *benefit*. Thus, FedEx can go beyond product attributes and talk about benefits such as the peace of mind in knowing that packages will be delivered where and when they must be. For example, for years, FedEx built its positioning around the slogan "When it absolutely, positively has to be there on time." Some successful brands positioned on benefits are FedEx (guaranteed on-time delivery), Walmart (save money), and Instagram (capturing and sharing moments).

The strongest brands go beyond attribute or benefit positioning. They are positioned on strong *beliefs, values,* and feelings, thereby engaging customers on a deep, emotional level. For example, FedEx's more recent "What we deliver by delivering" campaign goes beyond pragmatic attributes and benefits. It shows that the brand is about more than efficient package deliveries; it's about what those package deliveries mean to the people shipping and receiving them. For instance, one soft and sentimental ad—titled "The Tortoise & The Hare"—tells the story of a young girl's joy when her beloved stuffed tortoise is returned to her by FedEx after being left behind in a motel on a family vacation. Another ad—titled "Memories"—shows a young man receiving a FedEx package containing an old family photo album and being transported back to a quaint 1920s-era European wedding ceremony, presumably that of his immigrant grandparents. "To us, it's not just about packages and pallets," says the company, "it's about what we do for people and communities."[41]

Brands that connect with consumers on an emotional level can inspire substantial loyalty. Brands like Disney, Apple, Nike, Coca-Cola, Starbucks, Google, and LEGO have achieved this status with many of their customers. Customers don't just like these brands; they have strong emotional connections. For example, consider Disney. As one Walt Disney World Resort regular affirms: "I have a deep love and bond to all things Disney. Walking down Main Street and seeing Cinderella's castle for the first time always makes my heart jump. It's a moment I can guarantee and rely on. A constant in my life. No matter what I'm going through... suddenly the world is filled with magic and wonder and possibilities all over again and I feel a wave of happiness flow over me and a smile creep back onto my face easily, not forced or painted on. A real, true smile."[42]



Brand positioning: Brands like Disney form strong emotional connections with customers. Says one Disney World Resort regular: "I have a deep love and bond to all things Disney."

Art of Drawing/Alamy Stock Photo

When positioning a brand, the marketer should establish a mission for the brand and a vision of what the brand must be and do. A brand is the company's promise to deliver a specific set of features, benefits, services, and experiences consistently to buyers. The brand promise must be clear, simple, and honest. Motel 6, for example, offers clean rooms, low prices, and good service but does not promise expensive furnishings or large bathrooms. In contrast, the Ritz-Carlton offers luxurious rooms and a truly memorable experience but does not promise low prices.

A critical insight related to building brands is that, across attributes, benefits, and beliefs and values, the world's most appealing brands typically have both a strong "cold side" and a strong "hot side" to them. The cold side targets the mind of the customer and emphasizes the rational aspects of the brand. The hot side targets the heart of the customer and emphasizes the emotional aspects of the brand. Consider how premium watch brand Rolex incorporates both the cold and the hot sides into its brand:[43]

> Rolex seeks to be the most recalled luxury watch brand in the world. In terms of attributes, on the rational side, Rolex accentuates its luxury product features—the premium materials and artisanship with which each watch is made, the ability of the watch to hold value over decades, and the watch's accuracy and fine movements. On the emotional side, Rolex accentuates the fact that,

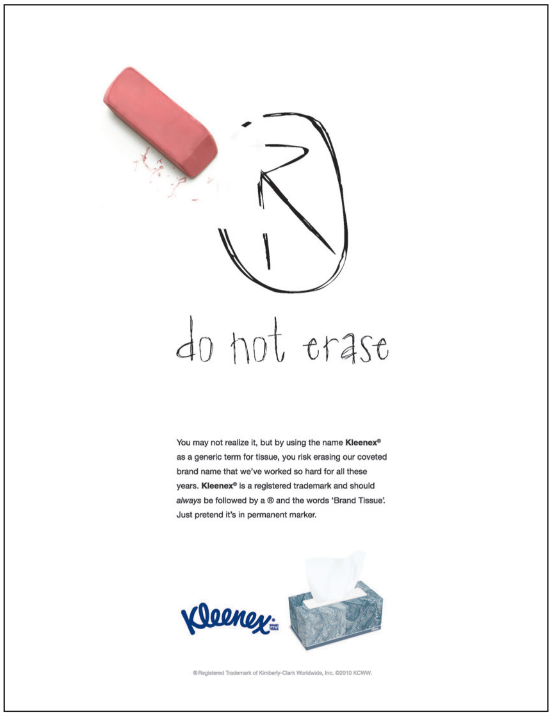
while it is a status symbol, it radiates an understanded, classic style. When it comes to benefits, on the rational side, Rolex highlights its focus on quality, innovation, and design. On the emotional side, it highlights the feelings of status and success in which Rolex wearers bask. Finally, in terms of beliefs and values, on the rational side, Rolex emphasizes the notion of wisely investing in a long-lasting, ageless asset. On the emotional side, it underscores that, when wearing a Rolex, a person joins the ranks of the many illustrious people who've worn the iconic brand over the years, from financier Warren Buffet, sports legends Roger Federer and Tiger Woods, and entertainers Jennifer Aniston and hip-hop artist Jay-Z to world figures such as Barack Obama, John F. Kennedy, Martin Luther King Jr., and even Winston Churchill.

Brand Name Selection

A good name can add greatly to a product's success. However, finding the best brand name is a difficult task. It begins with a careful review of the product and its benefits, the target market, and proposed marketing strategies. After that, naming a brand becomes part science, part art, and a measure of instinct.

Desirable qualities for a brand name include the following: (1) It should suggest something about the product's benefits and qualities: Beautyrest, Slimfast, Facebook, Airbnb, Headspace. (2) It should be easy to pronounce, recognize, and remember: iPad, Zoom, Tide, Jelly Belly, Twitter, JetBlue. (3) The brand name should be distinctive: Panera, Swiffer, Zappos, Nest, Beats by Dre. (4) It should be extendable—Amazon.com began as an online bookseller but chose a name that would allow expansion into other categories. (5) The name should translate easily into foreign languages: Coca-Cola translates in Chinese to "Ke Kou Ke Le," which means "tasty fun." (6) It should be capable of registration and legal protection. A brand name cannot be registered if it infringes on existing brand names.

Choosing a new brand name is hard work. After a decade of choosing quirky names (Yahoo!, Google) or trademark-proof made-up names (Novartis, Aventis, Accenture), today's style is to build brands around names that have real meaning. For example, names like Silk (soy milk), Method (home products), Smartwater (beverages), Zoom (video conferencing service), and Instagram (photo-sharing app) are simple and make intuitive sense. But with trademark applications soaring, *available* new names can be hard to find. Try it yourself. Pick a product and see if you can come up with a better name for it. How about Moonshot? Tickle? Purple? Treehugger? Avocado? Simplicity? Calm? Bearhug? Google them and you'll find that they are already taken.



Protecting the brand name: This ad asks advertisers and others to always add the registered trademark symbol and the words "Brand Tissue" to the Kleenex name, helping to keep from "erasing our coveted brand name that we've worked so hard for all these years."

Once chosen, the brand name must be protected. Many firms try to build a brand name that will eventually become identified with the product category. Brand names such as Kleenex, JELL-O, BAND-AID, Scotch Tape, Velcro, Formica, Xerox, Magic Marker, Post-it Notes, and Ziploc have succeeded in this way. However, their very success can also dilute the brand's unique identity and may threaten the company's rights to the name. Many originally protected brand names—such as cellophane, aspirin, nylon, kerosene, linoleum, yo-yo, trampoline, escalator, thermos, and shredded wheat—are now generic names that any seller can use.

To protect their brands, marketers present them carefully using the word *brand* and the registered trademark symbol. For example, a recent Kleenex ad advises advertisers and others that the name Kleenex should always be followed by the registered trademark symbol and the words "Brand Tissue." "You may not realize it, but by using the name Kleenex® as a generic term for tissue," says the ad, "you risk erasing our coveted brand name that we've worked so hard for all these years."

Companies often go to great lengths to protect their names and brand symbols. For example, insurance company Travelers zealously pursues companies that infringe in even the slightest way on its familiar trademarked red umbrella symbol. It once threatened a tiny consulting firm in Anchorage, Alaska—Human Resource Umbrella—with legal action for hanging an umbrella above the two *l*'s in its name. Such actions might seem unneeded, but they are serious business to Travelers. "Mary Poppins might want to consider lawyering up," quips one industry lawyer.[44]

Brand Sponsorship

A manufacturer has four sponsorship options. The product may be launched as a *national brand* (or *manufacturer's brand*), as when Samsung and Kellogg sell their output under their own brand names (the Samsung Galaxy tablet or Kellogg's Frosted Flakes). Or the manufacturer may sell to resellers who give the product a *private label* (also called a *store brand*). Although most manufacturers create their own brand names, others market licensed brands. Finally, two companies can join forces and *co-brand* a product. We discuss each of these options in turn.

National Brands versus Store Brands. National brands (or manufacturers' brands) have long dominated the retail scene. In recent times, however, increasing numbers of retailers and wholesalers have created their own **store brands (or private labels)**. Store brands have been gaining strength for decades, but recent years have seen a store-brand boom.

Store brand (or private label)
A brand created and owned by a reseller of a product or service.

Many large retailers skillfully market a deep assortment of store-brand merchandise. For example, at thrifty grocery chain ALDI, more than 90 percent of sales come from private labels such as Baker's Choice, Friendly Farms, Simply Nature, and Mama Cozzi's Pizza Kitchen. Even online retailer Amazon has developed a stable of private labels, including AmazonBasics (mostly electronics), Amazon Elements (nutritional supplements), Strathwood (outdoor furniture), GoodThreads (menswear), and Denali (tools).

Once known as "generic" or "no-name" brands, today's store brands have shed their image as cheap knockoffs of national brands. Store brands now offer much greater selection, and they are rapidly achieving name-brand quality. In fact, retailers such as Target and Trader Joe's are out-innovating many of their national-brand competitors. ● ALDI even offers a "no risk, all reward" Twice As Nice Guarantee on its store brands. "We've designed and tested our brands to meet or exceed the national brands in taste and quality," says the retailer. "If for any reason you are not 100% satisfied with the quality of any product, we will gladly replace the product AND refund your money." As a result, consumers are becoming loyal to store brands for reasons besides price. In some cases, consumers are even willing to pay more for store brands that have been positioned as gourmet or premium items. Beyond just price and value, the customer experience has become an important motive behind store brand success (see Real Marketing 8.2).

In the so-called *battle of the brands* between national and store brands, retailers have many advantages. They control what products they stock, where they go on the shelf, what prices they charge, and which ones they will feature in local promotions. Retailers often price their store brands lower than comparable national brands and feature the price differences in side-by-side comparisons on store shelves. Although store brands can be hard to establish and costly to stock and promote, they often yield higher profit margins for the reseller. And they give resellers exclusive products that cannot be bought from competitors, resulting in greater store traffic and loyalty. Retailer Trader Joe's, which carries approximately 90 percent store brands, largely controls its own brand destiny rather than relying on producers to make and manage the brands it needs to serve its customers best.

● **Store brand quality: ALDI offers a "no risk, all reward" Twice As Nice Guarantee on its store brands. "We've designed and tested our brands to meet or exceed the national brands in taste and quality."**

Keri Miksza

To compete with store brands, national brands must sharpen their value propositions, especially when appealing to today's more frugal consumers. Many national brands are fighting back by rolling out more discounts and coupons to defend their market shares. In the long run, however, leading brand marketers must compete by investing in new brands, new features, and quality improvements that set them apart. They must design strong advertising programs to maintain high awareness and preference. And they must find ways to partner with major distributors to find distribution economies and improve joint performance.

Licensing. Most manufacturers take years and spend millions to establish their own brand names. However, some companies license names or symbols previously created by other manufacturers, names of well-known celebrities, or characters from popular movies and books. For a fee, any of these can provide an instant and proven brand name.

Apparel and accessories sellers pay large royalties to adorn their products—from blouses to ties and linens to luggage—with the names or initials of well-known fashion innovators such as Calvin Klein,

Real Marketing 8.2

Store Brands: Price Is Important, but It's More about the Customer Experience

Store brands are hotter than ever, grabbing market share from national brands in categories ranging from groceries and apparel to household goods, consumer electronics, and tools. Saving money is part of the reason. But gone are the days when store brands were little more than cheap, no-name knockoffs. Today's store brands often equal national brands in quality, and they are backed by retailers with reputations that match or exceed those of national brand manufacturers. For example, with which do you have a closer relationship, Kraft or Trader Joe's? Wrangler or Target?

Beyond offering good value, large retailers offer something else that brand-name manufacturers can't—shopping convenience and selection across a wide range of products. Store brands help take the work out of buying. Today's shoppers are often overwhelmed with options. Store brands can reduce the time and mental effort needed to make brand choices. For example, Costco affixes its highly successful Kirkland Signature brand to products in a dozen or more categories, from food and clothing to health and beauty items, household and cleaning goods, and even pet supplies. So whether you're buying laundry detergent, baby wipes, organic chicken stock, or a no-iron dress shirt, brand choice at Costco is easier.

Similarly, a single trip to Target brings customers face-to-face with a broad selection of store brands that includes Good & Gather and Market Pantry (food and grocery), A New Day (women's apparel), Everspring (eco-friendly household essentials), Threshold (premium home goods), Room Essentials (budget-friendly home goods), Goodfellow & Co (menswear), JoyLab (women's fashion performance), Cat & Jack (children's apparel), and Up & Up (low-priced essentials in various categories). If you like Target, chances are good that you will like its store brands, too.

Whereas Target struggled for many years in the murky retail market, its store brands have been a beacon. Target now boasts 48 private-label brands, many of them billion-dollar-a-year brands. For example, A New Day and Cat & Jack became billion-dollar brands within their first year. Good & Gather all-natural grocery products became a 2,000-item, multibillion-dollar brand in just 16 months. And the All in Motion activewear and sporting goods brand, launched just one year ago, is now Target's tenth billion-dollar brand. Over the past five years, Target's revenues have shot up 34 percent, and its successful store brand strategy is one of the biggest reasons.

The COVID-19 pandemic gave already-fast-growing private-label brands an additional boost. Supply shortages in many product categories led consumers to try more store brands, only to learn that they like them. And the uncertain economy made the lower prices of store brands even more appealing.

Unlike the early days, consumers have learned to trust major store brands, just as they trust the stores that sell them. For example, customers flock to Trader Joe's because of its store brands, which are about all that the trendy retailer sells. Trader Joe's sells novel brands that you just can't get anywhere else, at great value for the price and backed by a no-questions-asked refund policy.

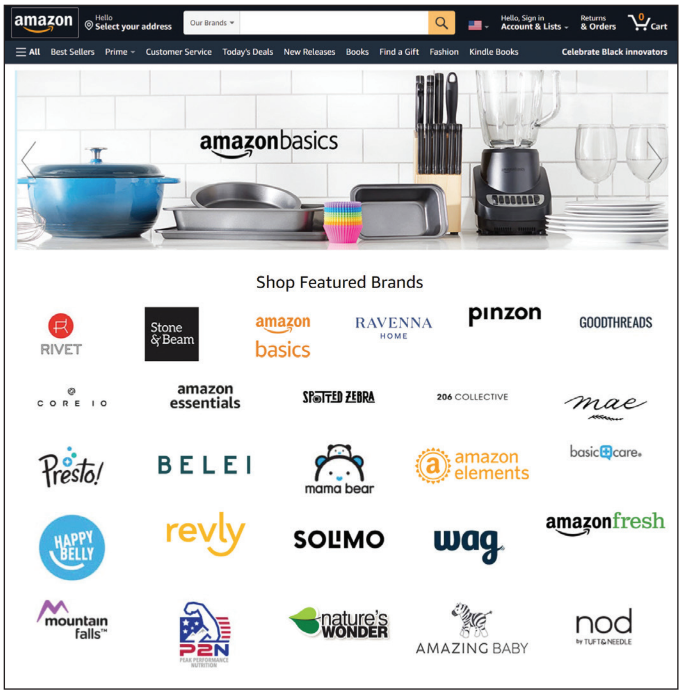
Are Trader Joe's brands really as good as national brands? In many cases, they are produced by the same manufacturers. Trader Joe's makes very few if any of the products it sells. Instead, it partners with third-party producers, many of them national brand manufacturers who agree to sell some of their products under Trader Joe's labels. Although the retailer is notoriously tight-lipped about the identity of its suppliers, analysts have sleuthed out likely makers of many Trader Joe's products. These include Wonderful Pistachios, Naked Juice, Bakkavor hummus, Kayem Foods chicken sausage, Stacey's Pita Chips, Stonyfield Farm yogurt, and big conglomerates like ConAgra (maker of Hunt's brand foods). But Trader Joe's fans don't think of the retailer's wares as "generics" sourced elsewhere. They think of them as Trader Joe's brands, special brands you can only get there.

When it comes to marketing their brands, retailers have another big advantage over name-brand marketers—direct customer access and control over the customer experience. Perhaps no retailer knows this better than Amazon. Amazon launched its first store brand—Pinzon bath and bedding products—just over 13 years ago. Since then, Amazon has launched a blitz of private-label brands in almost every imaginable category. Today, Amazon sells more than 22,600 unique products across 111 of its own brands, tripling its store brand count in just two years.

The strategy makes good sense. Once on Amazon.com, customers have access to a broad selection of Amazon store brands that reduce buying uncertainty and make filling their shopping carts a lot easier. Why spend time evaluating a long list of brands when you can just buy an AmazonBasics cable or batteries or bath towel and trust that you'll be getting good quality and value (confirmed by customer reviews)?

AmazonBasics is Amazon's bread-and-butter store brand. It covers a wide range of everyday electronics and household items, from electronics accessories and batteries to bedsheets, bath towels, knife sets, and yoga mats. The Amazon Essentials brand covers basic clothing items. And Amazon Elements includes vitamins, supplements, and other health-related items, pitched as "Premium products. Transparent origins."

But Amazon is now moving rapidly beyond Basics, Essentials, and Elements



Store brands: Amazon has launched a blitz of private labels in almost every imaginable category. Why spend time evaluating a long list of brands when you can just buy an AmazonBasics product and trust that you'll be getting good quality and value (confirmed by customer reviews)?

toward store brands with more fashion and flair. Its more recently launched store brands include the likes of Cursive (wine), Aplenty (natural foods), Ravenna (home furnishings), Mae (intimate apparel), Core 10 (women's athleisure line), 206 Collective (shoes), basic+care (over-the-counter medications), Spotted Zebra (children's clothing), Revly (vitamins, supplements, and nutrition products), and Belei (skin care products).

Despite their newness, many of Amazon's store brands are soaring. For example, AmazonBasics brand batteries now outsell name-brand Duracell. And Amazon Elements Baby Wipes and Mama Bear diapers are posing a challenge for Pampers and Huggies. Amazon's store brands are helping the online retailer dominate in other unexpected categories as well. For example, including sales of its own and national brands, Amazon surpassed Walmart last year to become the nation's largest apparel and footwear retailer, capturing 35 percent of apparel sold online in the United States and 12 percent of all apparel.

It's easy to understand the dramatic growth of store brands that have Amazon in the name: AmazonBasics, Amazon Essentials, and Amazon Elements. When shoppers see the trusted Amazon name on an everyday product, they believe that they'll get good quality at a fair price. Amazon Prime will deliver it to their doorsteps within a few hours or a few days, and if they have issues with the product, Amazon will fix things without question.

But for store brands that don't include its name, Amazon must build customer trust, satisfaction, and advocacy. In its usual fashion, with such store brands, Amazon is putting the customer experience before short-term profits. As just one example, Amazon representatives recently met with fashion designer Jackie Wilson to discuss making a women's knit top that would be sold under an Amazon private label. Wilson later reported that Amazon's quality specifications are on par with those of name-brand apparel sellers. "They are not concerned at all about how many units they sell, and they're not focused on margins," says Wilson, whose company makes clothing for Kohl's, American Eagle Outfitters, and JCPenney. "They're concerned about customer satisfaction. They want five-star reviews."[45]

Tommy Hilfiger, Gucci, or Armani. Sellers of children's products attach an almost endless list of character names to clothing, toys, school supplies, linens, dolls, lunch boxes, cereals, and other items. Licensed character names range from classics such as Sesame Street, Disney, Star Wars, Scooby Doo, Hello Kitty, SpongeBob SquarePants, and Dr. Seuss characters to the more recent Doc McStuffins, Monster High, Frozen, and Minions. And currently, numerous top-selling retail toys are products based on television shows and movies.

Name and character licensing has grown rapidly in recent years. Annual retail sales of licensed products worldwide have grown from only $4 billion in 1977 to $300 billion today and a projected $413 billion by 2027. Licensing can be a highly profitable business for many companies. For example, Nickelodeon's hugely popular SpongeBob SquarePants character by itself has generated some $12 billion worth of endorsement deals over the past 15 years. ● Disney is the world's biggest licensor with a studio full of popular characters, from the Disney Princesses and Disney Fairies to heroes from *Toy Story*, *Frozen*, and *Star Wars* and classic characters such as Mickey and Minnie Mouse. Disney characters reaped a reported $54 billion in worldwide licensed merchandise sales last year.[46]

Co-branding
The practice of using the established brand names of two different companies on the same product.

Co-branding. **Co-branding** occurs when two established brand names of different companies are used on the same product. Co-branding offers many advantages. Because each brand operates in a different category, the combined brands create broader consumer appeal and greater brand equity. For example, Uber partnered with Spotify to let you control the music during your Uber ride. Sherwin-Williams and Pottery Barn joined forces to create a special collection of Sherwin-Williams paint colors designed to perfectly coordinate with Pottery Barn's furnishings and accents. Taco Bell and Doritos teamed up to create the Doritos Locos Taco. Taco Bell sold more than 100 million of the tacos in just the first 10 weeks. It quickly added Cool Ranch and Fiery versions and has since sold more than a billion. And shoemaker Skechers partnered with tire manufacturer Goodyear to design durable and high-grip rubber traction outsoles for its high-performance GOmeb Speed 6 Cloak Hyper running shoes. More than just co-branding, these companies are "co-making" these products.[47]

● **Licensing can be a highly profitable business for companies: Disney's popular *Frozen* characters have generated billions of dollars of retail sales over the years.**
Zety Akhzar/Shutterstock

Co-branding can take advantage of the complementary strengths of two brands. It also allows a company to expand its existing brand into a category it might otherwise have difficulty entering alone. For example, Yale and Google Nest co-branded the Nest × Yale lock, a key-free deadbolt lock that connects to the Nest app and lets people lock and unlock their doors from anywhere. The Nest × Yale arrangement gives Yale a presence in the smarthome market. At the same time, it adds another device to Nest's product portfolio, complete with Yale's long-established lock expertise and the trusted Yale name.

A special type of co-branding involves a "brand swap," whereby each company shares its product to be integrated into its partner's product. For example, Swiss luxury watch manufacturer Breitling engaged in a brand swap with British luxury carmaker Bentley. Breitling built a line of wristwatches that were co-branded as "Breitling for Bentley." In turn, Bentley placed Breitling chronographs in the dashboards of its cars.

Co-branding can have limitations. Such relationships usually involve complex legal contracts and licenses. Co-branding partners must carefully coordinate their advertising, sales promotion, and other marketing efforts. Finally, when co-branding, each partner must trust that the other will take good care of its brand. If something damages the reputation of one brand, it can tarnish the co-brand as well.

Brand Development

A company has four choices when it comes to developing brands (see **Figure 8.6**). It can introduce *line extensions, brand extensions, multibrands*, or *new brands*.

Line extension
Extending an existing brand name to new forms, colors, sizes, ingredients, or flavors of an existing product category.

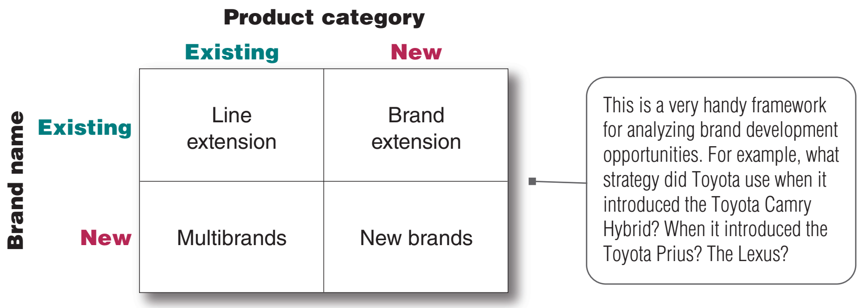
Line Extensions. **Line extensions** occur when a company extends existing brand names to new forms, colors, sizes, ingredients, or flavors of an existing product category. For example, P&G's Febreze odor eliminator began as a single spray bottle version that people applied to freshen old sneakers, dog beds, and other odor-producing items. But P&G has now successfully extended Febreze into a full line of variations that help customers "go from 'eww' to 'ahh'" in about any imaginable situation. The line includes sprays, plugs, candles, and wax melts for fabrics, air, pets, cars, and small spaces ("de-stink your nooks and crannies"), all in a variety of scents. The latest edition is Febreze Touch technology for fabrics and other soft surfaces, touch-activated scents (think scratch and sniff) that release a "burst of freshness" with every touch.

A company might introduce line extensions as a low-cost, low-risk way to introduce new products. Or it might want to meet consumer desires for variety, use excess capacity, or simply command more shelf space from resellers. However, line extensions involve some risks. An overextended brand name might cause consumer confusion or lose some of its specific meaning.

At some point, additional extensions might add little value to a line. For instance, PepsiCo's Frito-Lay's original Doritos Tortilla Chips morphed into a U.S. roster of more than 20 different types of chips and flavors, plus dozens more in foreign markets. Flavors include everything from Nacho Cheese and Taco flavor to Tapatio, Spicy Sweet Chili, and Salsa Verde. Or how about Sesame Chicken or Coconut Curry, served up in Japan? Although the line is doing great—Doritos is the leading tortilla chip brand in the United States—the original Doritos chips now seem like just another flavor.[48] And how much would adding yet another flavor steal from Doritos' own sales versus those of competitors? A line extension works best when it takes sales away from competitors, not when it "cannibalizes" the company's other, profitable products.

Overextended product lines might also cause production and marketing complexities, especially during periods of demand and supply disruptions. For example, at the start of the COVID-19 pandemic, as increased stay-at-home grazing caused a surge in demand for snacks and other food products, many consumer goods companies were forced to streamline their product lines to focus on meeting demand for their most popular items. "To keep products in stock at the pace they were selling and to get more product to market faster, we reduced assortment of our core brands," says a Frito-Lay marketing executive. Further, research has shown that too much choice can overwhelm the customer and lead to no choice at all—sometimes less is truly more.[49]

FIGURE 8.6
Brand Development Strategies



Brand extensions: Dyson has extended its technological wizardry to a new category: lighting and lamps. Its Lightcycle lamps are "the world's smartest lamps."

Brand extension
Extending an existing brand name to new product categories.

Brand Extensions. A **brand extension** extends a current brand name to new or modified products in a new category. For example, you probably know Dyson as a maker of high-tech products that move air: vacuum cleaners, hair dryers, hand dryers, and fans and heaters. But Dyson has now extended its technological wizardry to a new category: lighting and lamps. Dyson's latest Lightcycle lamps are surprisingly smart. They can be programmed and controlled through an app and automatically adjust with the natural daylight in any GPS location on the planet. Users can set Lightcycle lamps to any of several modes. In Precision Mode, they provide powerful daylight-style task lighting for reduced eye strain while working. Study Mode produces ambient light for evening work without sleep-disrupting blue light. Relax Mode provides enough light for reading while keeping things warm and mellow. Lightcycle lamps can adjust the light for the user's age, task, and sleep times. The result is more regulated natural energy cycles, better productivity when awake, and more restful sleep at night.[50]

These days, a large majority of new products are extensions of already-successful brands. Compared with building new brands, extensions can create immediate new-product familiarity and acceptance at lower development costs. For example, it's not just any new high-tech lamp; it's a Dyson lamp. Extensions such as Dyson's lamps make good sense—they connect well with the core brand's values and build on its strengths.

At the same time, a brand extension strategy involves some risk. The extension may confuse the image of the main brand—for example, how about Zippo perfume or Fruit of the Loom laundry detergent? Brand extensions such as Cheetos lip balm, Heinz pet food, Colgate ready meals, and Life Savers gum met early deaths. Furthermore, a brand name may not be appropriate to a particular new product, even if it is well made and satisfying—would you consider flying on Hooters Air or wearing an Evian water-filled padded bra (both are true ventures that failed)? And if a brand extension fails, it may harm consumer attitudes toward other products carrying the same brand name. Thus, a company can't just take a familiar brand name and slap it on a product in another category. Instead, a good brand extension should be consistent with the parent brand's image, and the parent brand should endow the extension with competitive advantage in its new category.

Multibrands. Companies often market many different brands in a given product category. For example, in the United States, PepsiCo markets at least 10 brands of carbonated soft drinks (Pepsi, Sierra Mist, Mountain Dew, Manzanita Sol, Mirinda, Tropicana Twister, Mug root beer, Paso de los Toros, Stubborn Soda, and Caleb's Cola), two brands of energy drinks (Mountain Dew AMP and AMP Energy Organic,), six brands of ready-to-drink teas and coffees (Lipton, Brisk, Pure Leaf, SoBe, Tazo, Starbucks), seven brands of bottled waters (Aquafina, H2OH!, PACt, Propel, SoBe, Bubly, Ocean Spray), and nine brands of juices and juice drinks (Brisk, Dole, IZZE, Looza, Ocean Spray, Tropicana, and others). Each brand includes a long list of sub-brands. For instance, PepsiCo's ready-to-drink coffees in partnership with Starbucks include regular, Cold Brew, Refreshers, Frappuccino, Iced Coffee, Double Shot, Iced Latte, and Iced Espresso Classics.

Multibranding offers a way to establish different features that appeal to different customer segments, lock up more reseller shelf space, and capture a larger market share. For example, although PepsiCo's many brands of beverages compete with one another on supermarket shelves, the combined brands reap a much greater overall market share than any single brand ever could. Similarly, by positioning multiple brands in multiple segments, Pepsi's 10 soft drink brands combine to capture much more market share than any single brand could capture by itself.

A major drawback of multibranding is that each brand might obtain only a small market share, and none may be very profitable. The company may end up spreading its resources over many brands instead of building a few brands to a highly profitable level. When this happens, companies should carefully choose brands to prune from a given category and set up tighter screening procedures for new brands.

New Brands. A company might believe that a new brand name is needed because the power of its existing brand name is waning. Or it may create a new brand name when it enters a new product category for which none of its current brand names is appropriate. For example, Toyota created the separate Lexus brand aimed at luxury car consumers.

As with multibranding, offering too many new brands can result in a company spreading its resources too thin. And in some industries, such as consumer packaged goods, consumers and retailers have become concerned that there are already too many brands with too few differences between them. Thus, P&G, PepsiCo, Kraft, GA, and other large marketers of consumer products are now pursuing megabrand strategies—weeding out weaker or slower-growing brands and focusing their marketing dollars on brands that can achieve the number one or number two market share positions with good growth prospects in their categories.

For example, over the past decade or more, P&G has sold off dozens of major brands ranging from Jif peanut butter, Crisco shortening, Folgers coffee, Pringles snack chips, and Sunny Delight drinks to Noxzema skin care products, Right Guard deodorant, Aleve pain reliever, Duracell batteries, CoverGirl and Max Factor cosmetics, Wella and Clairol hair care products, and Iams and other pet food brands. These divestments allow P&G to focus investment and energy on the 65 core brands—including 23 billion-dollar-plus brands—that yield most of its sales and profits. "Less [can] be much more," says P&G's CEO.[51]

Managing Brands

Companies must manage their brands carefully. First, the brand's positioning must be continuously communicated to consumers. Major brand marketers often spend huge amounts on advertising to create brand awareness and build preference and loyalty. For example,, P&G spends about $11.5 billion worldwide annually on advertising. Amazon spends $10.9 billion, L'Oréal $9.9 billion, and Samsung $8.6 billion.[52]

Such advertising campaigns can help create name recognition, brand knowledge, and perhaps even some brand preference. However, the fact is that brands are not maintained just by advertising but also by customers' *engagement* with brands and customers' *brand experiences*. Today, customers come to know a brand through a wide range of contacts and touch points along the customer journey. These include advertising but also personal experiences with the brand, word of mouth and social media, company websites and mobile apps, and many others. The company must put as much care into managing these touch points as it does into producing its ads. As one former Disney top executive put it: "A brand is a living entity, and it is enriched or undermined cumulatively over time, the product of a thousand small gestures."[53]

The brand's positioning will not take hold fully unless everyone in the company lives the brand. Therefore, the company needs to train its people to be customer- and brand-centered. Even better, the company should carry on internal branding campaign to help employees understand and be enthusiastic about the brand promise. Many companies go even further by training and encouraging their distributors and dealers to live out the brand's promise and values.

Finally, companies need to periodically audit their brands' strengths and weaknesses. They should ask: Does our brand excel at delivering benefits that consumers truly value? Is the brand properly positioned? Do all our customer touch points support the brand's positioning? Do the brand's managers understand what the brand means to consumers? Does the brand receive proper, sustained support? The brand audit may turn up brands that need more support, brands that need to be dropped, or brands that need to be rebranded or repositioned because of changing customer preferences or new competitors.

Reviewing and Extending the Concepts

Objectives Review

A product is more than a simple set of tangible features. Each product or service offered to customers can be viewed on three levels. The *core customer value* consists of the core problem-solving benefits that consumers seek when they buy a product. The *actual product* exists around the core and includes the quality level, features, design, brand name, and packaging. The *augmented product* is the actual product plus the various services and benefits offered with it, such as a warranty, free delivery, installation, and maintenance.

OBJECTIVE 8-1 Define *product* and describe the major classifications of products and services.

Broadly defined, a *product* is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need. Products include physical objects but also services, solutions, events, persons, places, organizations, ideas, or mixtures of these entities. *Services* are products that consist of activities, benefits, or satisfactions offered for sale that are essentially intangible, such as banking, hotel, tax preparation, and home-repair services. *Experiences* are products with a strong sensory or emotional component that play out for the customer over time.

Products and services fall into two broad classes based on the types of consumers who use them. *Consumer products*—those bought by final consumers—are usually classified according to consumer shopping habits (convenience products, shopping products, specialty products, and unsought products). *Industrial products*—those purchased for further processing or for use in conducting a business—include materials and parts, capital items, and supplies and services. Other marketable entities—such as organizations, persons, places, and ideas—can also be thought of as products.

OBJECTIVE 8-2 Describe the decisions companies make regarding their individual products and services, product lines, and product mixes.

Individual product decisions involve product attributes, branding, packaging, labeling, and product support services. *Product attribute* decisions involve product quality, features, and style and design. *Branding* decisions include selecting a brand name and developing a brand strategy. *Packaging* provides many key benefits, such as protection, economy, convenience, and promotion. Package decisions often include designing *labels and logos*, which identify, describe, and possibly promote the product. Companies also develop *product support services* that enhance customer service and satisfaction and safeguard against competitors.

Most companies produce a product line rather than a single product. A *product line* is a group of products that are related in function, targeted customer segments, customer-purchase needs, or distribution channels. All product lines and items offered to customers by a particular seller make up the *product mix*. The mix can be described by four dimensions: width, length, depth, and consistency. These dimensions are the tools for developing the company's product strategy.

OBJECTIVE 8-3 Explore the four characteristics that affect the marketing of services and the additional marketing considerations that services require.

Services are characterized by four key aspects: they are *intangible, inseparable, variable*, and *perishable*. Each characteristic poses problems and marketing requirements. Marketers work to find ways to make the service more tangible, increase the productivity of providers who are inseparable from their products, standardize quality in the face of variability, and improve demand movements and supply capacities in the face of service perishability.

Good service companies focus attention on *both* customers and employees. They understand the *service profit chain*, which links service firm profits and customer satisfaction with employee satisfaction. Services marketing strategy calls not only for external marketing but also for *internal marketing* to motivate employees and *interactive marketing* to create service delivery skills among service providers. To succeed, service marketers must create *competitive differentiation*, offer high *service quality*, and find ways to increase *service productivity*.

OBJECTIVE 8-4 Discuss branding strategy—the decisions companies make in building and managing their brands.

Some analysts see brands as *the* major enduring asset of a company. Brands are more than just names and symbols; they embody everything that the product or the service *means* to consumers. *Brand equity* is the positive differential effect that knowing the brand name has on customer response to the product or the service. A brand with strong brand equity is a very valuable asset.

In building brands, companies need to make decisions about brand positioning, brand name selection, brand sponsorship, and brand development. The most powerful *brand positioning* builds around strong consumer beliefs and values. *Brand name selection* involves finding the best brand name based on a careful review of product benefits, the target market, and proposed marketing strategies. A manufacturer has four *brand sponsorship* options: It can launch a *national brand* (or manufacturer's brand), sell to resellers that use a store brand (or *private label*), market *licensed brands*, or join forces with another company to *co-brand* a product. A company also has four choices when it comes to developing brands. It can introduce *line extensions, brand extensions, multibrands*, or *new brands*.

Companies must build and manage their brands carefully. The brand's positioning must be continuously communicated to consumers. Advertising can help. However, brands are not maintained just by advertising but also by customers' *brand experiences*. Customers come to know a brand through a wide range of contacts and interactions. The company must put as much care into managing these touch points as it does into producing its ads. Companies must periodically audit their brands' strengths and weaknesses.

Key Terms

OBJECTIVE 8-1

Product
Service
Customer experience
Consumer product
Convenience product
Shopping product
Specialty product
Unsought product
Industrial product
Social marketing

OBJECTIVE 8-2

Product quality
Brand
Packaging
Product line
Product mix (or product portfolio)

OBJECTIVE 8-3

Service intangibility
Service inseparability
Service variability
Service perishability
Service profit chain
Internal marketing
Interactive marketing

OBJECTIVE 8-4

Brand equity
Brand value
Store brand (or private label)
Co-branding
Line extension
Brand extension

Discussion Questions

8-1 Many industries experience seasonal or time-based fluctuations in demand, including hotels and restaurants as discussed in this chapter. What is yield management, and how do yield management systems help companies provide consistent value to customers despite fluctuating demand? (AACSB: Written and Oral Communication; Reflective Thinking)

8-2 What is the "customer experience," and why are companies increasingly focused on creating great customer experiences? (AACSB: Written and Oral Communication; Reflective Thinking)

8-3 The 7Ps of the service marketing mix adds three more Ps to the marketing mix. What are the additional three Ps, and why do service marketers benefit from including them in the service marketing mix framework? (AACSB: Written and Oral Communication; Reflective Thinking)

8-4 What are the three levels of a product's value, and what forms of value are added at each level? Provide an example of each. (AACSB: Written and Oral Communication)

8-5 What are the four types of consumer products? How do marketing considerations vary by consumer product type? (AACSB: Written and Oral Communication)

8-6 Explain the four key brand strategy options for a business. Provide an example of each. (AACSB: Communication; Reflective Thinking)

Critical Thinking Exercises

8-7 Select a fast-food or fast-casual retailer and describe components of its internal and interactive marketing. What would you improve if anything? (AACSB: Written and Oral Communication; Reflective Thinking)

8-8 A vehicle hire company wants to introduce a service-profit chain process linking their profits with employee and customer satisfaction. How would they go about doing this? What would you recommend to them? (AACSB: Communication; Reflective Thinking)

8-9 Companies must consider four special service characteristics when designing service marketing programs. Discuss a recent service experience using the four characteristics. Compare your service experience with that of a classmate using a class discussion board or in class. How do the experiences differ? (AACSB: Written and Oral Communication; Reflective Thinking)

APPLICATIONS AND CASES

Digital Marketing Dyson: A Formula for Brand Extension

Dyson was the first company to introduce a bagless solution to conventional vacuum cleaners. Dyson's mission is to make well-designed, innovative products that are easy to use and environment-friendly. Dyson's first bagless upright vacuum cleaner, launched in 1993, featured its Dual Cyclone technology and addressed key customer complaints about vacuum cleaners losing suction and messy bag replacements. The brand's enduring success can be attributed to listening to consumers, innovative design, and a feeling of luxury, all communicated through social media. Indeed, Dyson includes product demonstrations and tests in its promotional communication. Some of the oldest videos on its official YouTube channel demonstrate how to use the vacuum's dog-grooming attachment and explain how Dyson tests the vacuum's performance. In contrast, Twitter content features shorter messages about Dyson's various investments with links to longer-form media. And #Dyson on Instagram, TikTok, and YouTube reveals influencers unboxing and testing various Dyson products. Today Dyson sells in 45 countries and maintains 46 percent and 32 percent market shares in the UK and U.S. vacuum cleaner markets, respectively. Through strong branding and engaging customers with savvy social media and compelling word of mouth, Dyson has expanded its offerings to include hand dryers, air purifiers, humidifiers, haircare appliances, and lighting. Even without reading the label, Dyson products are often easy to recognize because they build around shared and striking design and technology.

8-10 In the new digital environment, marketers need to be really good not just at digital marketing but also at building digital technologies into their products to create "smart" products. Explore Dyson's product line (www.dyson.com/en) and discuss how Dyson has worked towards building smarter products. (AACSB: Written and Oral Communication; Reflective Thinking)

8-11 Explore Dyson's social media presence (www.facebook.com/DysonUS/?brand, www.tiktok.com/discover/dyson?lang=en, www.twitter.com/Dyson, www.instagram.com/dyson/?hl=en). Which social platform appears to be the most popular for Dyson? Why? What can Dyson do to enhance its social media presence and influence? (AACSB: Written and Oral Communication; Reflective Thinking)

Marketing Ethics Cutthroat Prices

Multinational corporations such as Gillette were widely criticized in 2017 for perpetuating the price differential between men's and women's razors. A survey by *The Times* in 2016 revealed that clothes, beauty products, toys, and other products were routinely more expensive for women than men. According to the newspaper, the prices were 37 percent higher across several product categories. This price discrimination is not new; neither is it restricted to women's clothes, pink razors, and dolls. A report by the New York City of Consumer Affairs (*From Cradle to Cane: The Cost of Being a Female Consumer,* 2015) found that across 800 identical products, on average the female version was 7 percent more expensive. Perhaps part of the explanation is price sensitivity. In other situations, a business will attempt to increase the price out of balance to the increase in cost to them if they can manage it. Sellers do rely on making a greater profit by sneaking "add-ons" or personalizing products. In these cases, the buyer effectively self-selects the higher price. It may be a simple extra topping on a dessert, a super-sized version of the standard product, or even a vanilla syrup shot in a coffee. All attract a nice mark-up for the seller.

8-12 Is price discrimination reasonable and a viable approach in the marketing of products and services? Explain why the approach might be contrary to customer value–driven strategies. (AACSB: Communication; Ethical Reasoning)

8-13 There are other forms of price discrimination that are routinely used by businesses. Identify the different types and comment on their impact on customer value–driven approaches. (AACSB: Communication; Reflective Thinking)

Marketing by the Numbers Coca-Cola Considers the Cost of Cannibalization

Developed by Coca-Cola Asia Pacific, Coca-Cola Fiber+ (or just Coke Plus) is expanding through Hong Kong, Japan, Mainland China, Mongolia, and Taiwan. Coke Plus is a zero-calorie soda (essentially Coke Zero) with 5 grams of dextrin, a dietary fiber that is difficult to digest. Described by some as Coke Zero with a laxative, Coke Plus is marketed as a health food that suppresses the absorption of fat and maintains moderate blood triglyceride levels. It has earned the Japanese government's "gold label," designating it as a government-approved Food of Specific Health Use (FOSHU). Although Coke Plus reaps a higher wholesale price for the company ($1.35 per 470–milliliter bottle versus $1.25 per bottle for the original Coke Zero), it also comes with higher variable costs ($0.95 per bottle versus $0.65 per bottle for the original product). Who will buy Coke Plus? Some current Coke Zero drinkers will shift their consumption to Coke Plus, and others will want to try Coke Plus because of its health benefits.

8-14 What brand development strategy is Coca-Cola undertaking? (AACSB: Written and Oral Communication; Reflective Thinking)

8-15 Assume the company expects to sell 19.2 million bottles of Coca Plus next year but that 35 percent of those sales will come from buyers who would normally purchase Coke Zero (that is, cannibalized sales). Assuming the sales of Coke Zero are normally 320 million bottles per year and that the company will incur an increase in fixed costs of $2,000,000 during the next year to expand manufacturing capabilities, will the new product be profitable for the company? Refer to the Financial Analysis of Marketing Tactics: Extend the Product Line section in Appendix 2: Marketing by the Numbers for an explanation regarding how to conduct this analysis. (AACSB: Written and Oral Communication; Analytical Thinking)

Company Case Avocados From Mexico: Building a Brand in a Brandless Category

In the produce world, one soft, buttery delicacy has risen above them all—the avocado. And it's not just any avocado—it's the one imported by Avocados From Mexico (AFM), the nonprofit organization that has reinvented how produce is marketed. In the past nine years, U.S. imports of Mexican avocados have doubled, now accounting for 92 percent of U.S. avocado imports and 80 percent of the total U.S. market. AFM has not only increased U.S. market share for the thousands of Mexico-based growers and dozens of packers, it has also played a major role in increasing overall U.S. consumption of the creamy, thick-skinned fruit from two pounds per person in 2001 to eight pounds per person today—a total of more than 3.1 billion pounds annually.

How did Avocados From Mexico do it? The same way that many organizations representing agricultural commodities have done it before—create a highly visible brand in a largely brandless category. Since the early 1980s, many industry governing boards have been successful in increasing visibility, knowledge, and popularity of products they represent with consumer branding campaigns. These include the Cattlemen's Beef Promotion and Research Board ("Beef. It's What's for Dinner"), the American Egg Board ("The Incredible Edible Egg"), the National Dairy Promotion and Research Board ("Got Milk?"), and the California Almond Board ("Crunch On"), to name just a few. But Avocados From Mexico was the first to brand a commodity product imported from outside the United States.

A Brand from Nothing

Starting in the mid-1990s, U.S. consumption of avocados began to increase steadily thanks to the popularity of guacamole and the emergence of quick-service Mexican food chains like Chipotle. Although avocados grown in Mexico accounted for a substantial slice of U.S. demand, the lion's share of all avocados sold in the United States were grown in California. As demand increased, however, California growers could not keep up with demand. As import restrictions loosened, Mexico-grown avocados increasingly helped satisfy U.S. consumers' growing appetite for the fruit known for its enormous single seed.

But in a produce category where one piece of fruit is indistinguishable from the next, Avocados From Mexico set out a twofold mission—to expand overall demand for avocados in the United States and to increase market share for avocados grown in Mexico. In 2013, AFM was created as the Texas-based marketing arm for all Mexican avocado exports. AFM had the benefit of observing branding campaigns for other agricultural food commodities over the years. But it was the first to do so for avocados, a product distributed with no packaging or labels other than a small sticker on each piece of fruit.

Pulling a page from the consumer packaged-goods playbook, AFM adopted a strategy that met consumers where they eat, shop, and search. In 2015, it introduced the Avocados From Mexico brand to the world on the massive stage of the world's biggest media event—the Super Bowl. A 60-second spot aired during the second quarter of the big game gave viewers a front seat at the "first draft ever," set in a year "about four billion years ago." A celestial host announced the draft picks for different countries as two modern sports commentators and a cave man provided color commentary. Australia picked the kangaroo, Brazil chose the sloth, and to the United States went wheat. Then, amid an eruption of cheers from the crowd, Mexico selected the avocado. The ad ended with the colorful and fun Avocados From Mexico logo, the catchy brand jingle, and the brand's first slogan—"Grown with love."

Like other Super Bowl advertisers, AFM supported its TV commercial with a robust digital campaign, including an interactive website. That first Super Bowl was a huge success, and AFM has run major campaigns on every Super Bowl broadcast since, with the exception of Super Bowl LV in 2021. Although the general approach to each campaign remained the same, after the first year AFM changed its slogan to "Always in season" and then to the most recent "Always good." AFM's campaign Super Bowl LVI employed an innovative digital experience that let it acquire its own data, better identify its consumers, and direct them to make a purchase. The Super Bowl campaigns have done their job. According to the Merkle Report, which tracks media trends, AFM earned the number-one or number-two spot for Super Bowl–related digital campaigns for five consecutive years, generating a massive 41.6 billion brand impressions.

Meeting Customers Where They Are

While Super Bowl campaigns went a long way toward achieving AFM's brand goals, each campaign was only one component of a holistic and ongoing effort to make Avocados From Mexico a household name. AFM progressively developed strong consumer–brand relationships by weaving the brand into consumers' lives and routines across numerous touchpoints. These efforts expanded consumer perceptions of how, when, and where to consume avocados.

For example, AFM opened the Avoeatery in the trendy Trinity Groves shopping district located in Dallas, Texas. AFM never intended to get into the restaurant business. Rather, the Avoeatery serves as an incubator for testing new avocado menu items and to inspire consumers and food service operators to broaden their perspectives on the versatility of avocados. Although the menu at the Avoeatery has featured plenty of sandwiches and salads—not a big stretch for the fruit—it regularly introduces unexpected delights like deep-fried Avo Frites with an avocado dipping sauce, Avocado Chicken Curry, Avocado Strawberry Shortcake, and the Avo Paloma, a tequila-based cocktail.

Most of AFM's branding tactics employ innovation in technology and digital media. For example, two years ago AFM partnered with Walmart to create an interactive website, leveraging chatbot technology to educate consumers on best practices for buying, storing, and using avocados. For example, based on research showing that light-volume and medium-volume avocado consumers would not buy avocados unless they were optimally ripe, the site featured "Ready When You're Ready" content designed to give customers confidence in buying avocados. The site also featured tips and recipes for preparing and serving avocado dishes.

Over the past few years, AFM has demonstrated a willingness to embrace innovation in digital media. For starters, there's AFM's latest AI powered website. Whereas interactive websites aren't necessarily innovative these days, AFM's site employs cutting-edge tools that enable it to personalize each visitor's digital experience. For starters, there's the Avocado Nation—a loyalty program akin to those supporting top retail brands, the first of its kind in the produce industry. "The more that [customers] buy avocados in the store, come to our platform, submit their receipts, they get points," says Ivonne Kinser, head of digital strategy for AFM. "When they accumulate enough points, they can trade them in for avocado items."

Using an AI platform, AFM scans and analyzes customer receipts to award points. More important, it looks for clues as to how consumers are eating avocados based on other items on the receipt. "It gives the machine and the algorithms a lot of insights into what is the [consumer's] eating behaviors or habits, and then we can serve content accordingly, like recipes and that sort of thing," adds Kinser.

Avocado Nation members can use points they accumulate for discounts on avocados. Or they can use them to get items from the Avocado Shopping Network, AFM's online store that features avocado-themed activewear items created by designer Mary Vargas, targeting its health-conscious consumers. These items are not only trendy and attractive, they are exclusive to members.

AFM's efforts have been effective at achieving its goals. Not only has overall demand for avocados increased, but avocados from Mexico now dominate the market. Additionally, preference for AFM avocados increased from 20 percent to 55 percent since the brand launched. And AFM is getting plenty of help from the media. Last year, AFM earned recognition on *Fast Company*'s list of "World's Most Innovative Companies"—including the number-one spot in the branding category for "catapulting humble produce into a covetable brand." Another media outlet in Mexico named AFM as one of the top Mexican Ambassador Brands last year. Even *Men's Journal* devoted an article to celebrating the "simple combo of smashed avocado and whole-grain bread."

A recent statement from the organization itself summarizes the success of AFM and its branding campaigns. "Our brand is an incredible success story for Mexico's fresh produce industry, so important to the U.S. market and the rest of the world," says Alvaro Luque, AFM CEO. "Not only have we built a brand in a brandless category, showcasing the taste, quality, and nutritional value of Mexican avocados, but we have significantly contributed to the economies in both the United States and Mexico, creating thousands of jobs and millions of dollars in economic output."[54]

Questions for Discussion

8-16 What specific brand strategy decisions did the Avocados From Mexico campaign make in the context of Figure 8.5?

8-17 Is Avocados From Mexico's positioning based on attributes, benefits, values, or some combination of them? Explain.

8-18 How did Avocados From Mexico build strong brand equity for a product that is essentially a commodity? What does this tell you about the power of branding?

8-19 *Small group exercise*: Avocado growers based in the United States have launched an aggressive branding and advertising campaign highlighting the benefits of buying fresh, locally sourced avocados that are grown closer to the consumer. AFM has asked your group to recommend some specific positioning and branding initiatives to combat this potential threat. Detail your recommendations.

9 Developing New Products and Managing the Product Life Cycle

OBJECTIVES OUTLINE

OBJECTIVE 9-1 Explore how companies find and develop new product ideas.

OBJECTIVE 9-2 Define the steps in the new product development process and the major considerations in managing this process.

OBJECTIVE 9-3 Describe the stages of the product life cycle and how marketing strategies change during a product's life cycle.

OBJECTIVE 9-4 Discuss two additional product issues: socially responsible product decisions and international product and services marketing.

CHAPTER PREVIEW In the previous chapter, you learned how marketers manage products and brands. In this chapter, we examine two additional product topics: developing new products and managing products through their life cycles. New products are the lifeblood of an organization. However, many new products fail. So, the first part of this chapter lays out a process for finding and growing successful new products. Once introduced, marketers then want their products to enjoy long and happy lives. In the second part of the chapter, you'll see that every product passes through several life-cycle stages, and each stage poses new challenges requiring different marketing strategies and tactics. Finally, we wrap up our product discussion by looking at two additional considerations: social responsibility in product decisions and international product and services marketing.

For openers, consider Google, one of the world's most innovative companies. Google seems to come up with an almost unending flow of jaw-dropping new technologies, products, and services. The company's entire culture encourages, supports, and rewards innovation. At Google and its parent company Alphabet, innovation isn't just a process. It's in the very spirit of the place.

GOOGLE (...er, ALPHABET): The New Product Moon Shot Factory

Google is wildly innovative. Over the past decade and a half, it has become a top-five fixture in every list of most-innovative companies. Google simply refuses to get comfortable with the way things are. Instead, it innovates constantly, plunging into new markets and taking on new competitors.

Google began as an online search company with a mission "to organize the world's information and make it universally accessible and useful." In that mission, Google has been spectacularly successful. Despite formidable competition from giants Microsoft, Yahoo!, and China's Baidu, Google's share of worldwide online search stands at a breathtaking 86 percent—a virtual Google-opoly. Its grasp on mobile search is even stronger at 95 percent. Google also dominates in paid search-related advertising revenue, which accounted for a large majority of the company's $257 billion in revenues last year. And Google is growing at a blistering rate, with revenues nearly doubling in just the past three years.

But Google is now much more than just an online search and advertising company. In Google's view, information is a kind of natural resource—one to be mined, refined, and universally distributed. That broad perspective gives Google's engineers and developers a blank canvas, a broad brush, and plenty of incentive to innovate. At many companies, new product development is a cautious, step-by-step affair that might take years to unfold. In contrast, Google's freewheeling new product development process moves at the speed of light. In the time that it takes most competitors to refine and approve an initial idea for a major new product or service, Google has already implemented it.

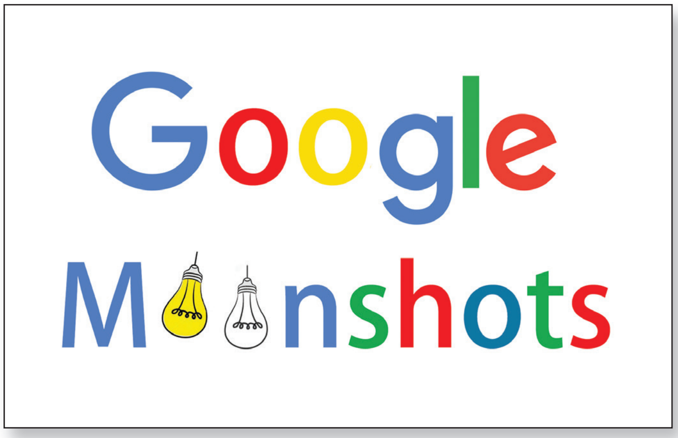
Google's famously chaotic innovation process has unleashed a seemingly unending flurry of diverse products, many of which are market leaders in their categories. Although diverse, many of these innovations are tied in one way or another to Google's internet-related information mission. Google's megahits include an email service (Gmail), projects for mapping and exploring the world (Google Maps and Google Earth), a cloud-based suite of office products (Google Docs, Google Sheets, and Google Slides), a cloud file storage service (Google Drive), an online payment service (Google Pay), a photo-sharing service (Google Photos), a mobile operating system (Google Android), a suite of cloud computing services (Google Cloud), and a cloud-friendly internet browser (Chrome).

Although Google has traditionally focused on software-based innovations, it now has a strong presence in hardware, with smartphones, tablets, and laptops (Pixel); connected smarthome devices (Google Nest); AI virtual assistant and smarthome speakers (Nest Mini, Nest Audio); and a set of small, wireless ear buds (Pixel Buds). Google connects its hardware and information worlds by infusing the hardware with sophisticated algorithms and artificial intelligence. For example, Google's Pixel phone can turn standard snapshots into beautiful portraits by blurring everything but the foreground subject. And Pixel Buds are more than just wireless headphones—they interface with Google Assistant and put Google Translate front and center, letting people talk to others in multiple languages.

Nearly a decade ago, Google acquired Nest Labs to establish a presence in the Internet of Things (IoT) market. The subsequent development of Google Home and Google Assistant added voice control and AI technology to Nest's fast-growing smarthome presence. Nest now includes its own expanding portfolio of stylish smart speakers and home control and monitoring devices, along with "Works with Nest" smart products from other companies. With its portfolio of thermostats, security systems, doorbells, locks, Wi-Fi routers, and smoke alarms, as well as compatible devices that include everything from light bulbs and mattresses to ovens, Nest has the potential to help consumers run their entire homes.

Google's unfettered innovation process has also taken the company down paths far afield from its main information mission—everything from self-driving cars to Earth-imaging satellites and even an effort to increase human life spans. With so many ventures and innovations becoming more and more diverse, Google created a parent holding company called Alphabet to contain them all.

Google's famously chaotic innovation process has unleashed a seemingly unending flurry of diverse new products. But at Google, innovation is more than a process. It's part of the company's DNA. "Where does innovation happen at Google? It happens everywhere."



Google and parent company Alphabet are wildly innovative. The company's innovation machine is renowned for producing new product "moon shots," futuristic long shots that, if successful, will profoundly change how people live.

VovanIvanovich/Shutterstock

Google is the largest Alphabet company—it continues to house information- and internet-related software and hardware products. But along with Google, Alphabet provides an independent home for the company's more far-reaching projects and businesses. These include what Alphabet calls "moon shots"—futuristic, breathtakingly idealistic long shots that, if successful, will profoundly change how people live. To foster moon shots, the company created X—a secretive innovation lab and kind of technology wonderland charged with developing things that seem audacious, even for Alphabet.

The X innovation lab is Alphabet's incubator for earthshaking projects that may or may not pay for themselves in the long run. To get the green light at X, a project must address a huge problem that affects millions or even billions of people, propose a radical solution, and require a breakthrough technology to bring about that solution. The goal is to hatch new Googles. Those stringent requirements "cause us to throw out more than 99 percent of our ideas," says X's director, whose official title is Captain of Moonshots. He differentiates X from Google. "We are a creativity organization, not a technology organization."

Secreted behind X's curtain are numerous exotic projects, such as Tidal (underwater cameras designed to achieve sustainable fish farming), Mineral (a crop-inspecting robotic buggy that can troubleshoot, treat, and feed crop plants individually), Taara (high-speed data transmission via beams of light), and the Everyday Robot Project (AI robots that can assist humans with everyday challenges).

Many X projects have graduated, becoming full-fledged Alphabet companies. There's Waymo, the self-driving car project that's on a mission to make it safe and easy for people and things to move around. Medical technology project Verily creates health-care devices, such as glucose-monitoring contact lenses that could help identify cancer cells. Chronicle employs sophisticated analytics tools that can predict and fight cyber-crimes before they happen. And Wing now employs its fleet of drones to deliver packages in Finland, the United States, and Australia, where it has made over 50,000 deliveries, including 1,200 roast chickens.

Lesser-known Alphabet companies include investment arms GV (funding for bold new startups) and CapitalG (funding for long-term tech projects), Calico (research into fighting age-related disease and increasing life spans), and Brain (AI research and applications). According to Google co-founder Larry Page, Alphabet's goal is "to keep tremendous focus on the extraordinary opportunities" that exist and will exist within Google and the other companies.

In the end, at Google and parent company Alphabet, innovation is more than a process—it's part of the company's DNA. "Where does innovation happen at Google? It happens everywhere," says a Google research scientist.

> Talk to Googlers at various levels and departments, and one powerful theme emerges: These people feel that their work can change the world. The marvel of Google is its ability to continue to instill a sense of creative fearlessness and ambition in its employees. Prospective hires are often asked, "If you could change the world using Google's resources, what would you build?" But here, this isn't a goofy or even theoretical question: Google wants to know because thinking—and building—on that scale is what Google does. When it comes to innovation, Google is different. But the difference isn't tangible. It's in the air—in the spirit of the place.[1]

AS THE GOOGLE STORY SUGGESTS, companies that excel at developing and managing new products reap big rewards. Every product seems to have a life cycle: It is born, goes through several phases, and eventually dies as newer products come along that create new or greater value for customers. (Remember that here, as elsewhere in the text, we define *products* broadly to include services and experiences.)

This product life cycle presents two major challenges: First, because all products eventually decline, a firm must be good at recognizing when a product is nearing the end of its life cycle and developing new products to replace fading ones (the challenge of *new product development*). Second, a firm must be good at adapting its marketing strategies in the face of changing tastes, technologies, and competition as products pass through stages (the challenge of *product life-cycle strategies*). We first look at the problem of finding and developing new products and then at the problem of managing them successfully over their life cycles.

New Product Development Strategy

OBJECTIVE 9-1 **Explore how companies find and develop new product ideas.**

Author Comment | New products are the lifeblood of a company. As old products mature and fade away, companies must develop new ones to take their place. For example, Apple's iPhone and iPad have been around for more than a decade and are top-selling products in their categories. Yet Apple has to keep them refreshed by regularly launching more sophisticated and refined models.

A firm can obtain new products in two ways. One is through *acquisition*—by buying a whole company, a patent, or a license to produce someone else's product. For example, Google got into the smarthome market by acquiring Nest and into mobile navigation by acquiring Waze. The other is through the firm's own **new product development** efforts. By *new products* we mean original products, product improvements, product modifications, and new brands that the firm develops through its *own* product development. Many of Google's products and services were developed this way. In this chapter, we concentrate on new product development.

New product development
The development of original products, product improvements, product modifications, and new brands through the firm's own product development efforts.

New products are important to both customers and the marketers who serve them: They bring new solutions and variety to customers' lives, and they are a key source of company growth. In today's dynamic environment, many companies rely on new products for the bulk of their growth. For example, new products have almost completely transformed Apple in recent years. The iPhone and iPad—introduced little more than a decade ago—are now the company's two biggest-selling products, together bringing in more than 60 percent of Apple's total global revenues. And to remain competitive, Apple releases a steady stream of new products and new versions of existing ones.[2]

Yet innovation can be expensive and risky. New products face tough odds. For example, by one estimate, of the more than 30,000 new products introduced every year, 95 percent fail.[3] Why do so many new products fail? There are several reasons. Although an idea may be good, the company may overestimate market demand. The actual product may be poorly designed. Or it might be incorrectly positioned, launched at the wrong time, priced too high, or poorly advertised. A high-level executive might push a favorite idea despite downbeat marketing research findings. The costs of product development may be higher than expected, the company may run out of money in its effort to widely market the product, or competitors may fight back harder than expected.

So companies face a problem: They must develop new products, but the odds weigh heavily against success. To create successful new products, a company must understand its consumers, markets, and competitors and develop products that deliver superior value to customers.

Author Comment | Companies cannot just hope to stumble across good new products. Hope is not a strategy. Instead, companies must develop a systematic new product development process.

The New Product Development Process

OBJECTIVE 9-2 Define the steps in the new product development process and the major considerations in managing this process.

Rather than leaving new products to chance, a company must carry out strong new product planning and set up a systematic, customer-driven *new product development process* for finding and growing new products. ● **Figure 9.1** shows the eight major steps in this process.

Idea Generation

Idea generation
The systematic search for new product ideas.

New product development starts with **idea generation**—the systematic search for new product ideas. A company typically generates hundreds—even thousands—of ideas to find a few good ones. Major sources of new product ideas include internal sources and external sources such as customers, competitors, distributors and suppliers, and others.

Internal Idea Sources

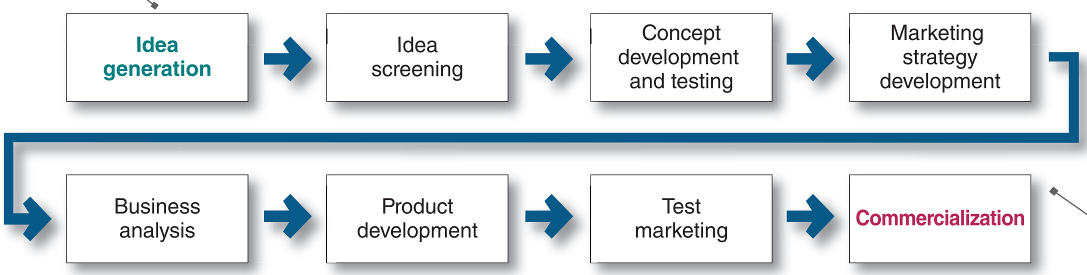
Using *internal sources*, the company can find new ideas through many sources. Companies must carefully create organizational structures, processes, and cultures that create an environment where new thinking is part of everyday operations. Such efforts can take many forms:

Establishing R&D Research Centers. Companies can develop new product ideas through their own R&D. For example, Ford operates four large "D-Ford" innovation and mobility centers—in London, Shanghai, Detroit, and Palo Alto—where it searches for "new, modern solutions for our overstressed transportation systems...to help shape the unknown future." Its Palo Alto center alone is home to 300 engineers, designers, and scientists working on everything from driverless cars to Works with Nest apps that let consumers control home heating, lighting, and appliances from their vehicles. The center is focused on "bringing the best of Silicon Valley to accelerate the realization of smart vehicles for a smart world."[4] Similarly, Chick-fil-A has set up three large innovation centers. The first, called Hatch, is an idea hatchery where Chick-fil-A staff and partners explore new ideas in food, design, and service. "It's a place to explore and imagine the future in order to hatch new food and restaurant ideas and bring them to life."[5]

Harnessing Internal Creativity. Beyond its formal internal R&D processes, a company can pick the brains of its own people—executives, salespeople, scientists, engineers, and manufacturing staff—just about everybody in the organization. Many companies have developed successful internal social networks and *intrapreneurial* programs that encourage employees to develop new product ideas. ● Consider Google's "Area 120":[6]

> Google has long allowed employees to spend up to a fifth of their work time on projects that might later benefit the company. This famous "20% time" program has birthed many highly successful innovations, including Gmail, Google News, and the Cardboard VR headset. But as employees' day jobs became more demanding, many found that the time spent on personal projects became more of an add-on to their normal work hours than a part of them. That is, "20% time" became "120% time." To encourage continued internal innovation,

New product development starts with good new product ideas—lots of them. For example, Google's Area 120 in-house new product incubator has received more than 1,000 new product pitches from Google employees.



The remaining steps reduce the number of ideas and develop only the best ones into profitable products. Of the more than 1,000 new product ideas pitched to Google's Area 120, only 50 have been accepted.

● FIGURE 9.1
Major Stages in New Product Development

Internal new product ideas: To encourage continued internal innovation, Google set up Area 120, an in-house innovation incubator that lets selected employees devote full time to their dream projects.

Hero Images Inc./Alamy Stock Photo

Google set up Area 120, an in-house innovation incubator that lets selected employees focus full time on their dream projects. Google employees pitch their project ideas to Area 120 leaders. If selected, the employees leave their previous jobs and receive Google-wide technological expertise and full financial support to turn their ideas into real businesses. Area 120 has received more than 1,000 project pitches and spun off over 50 projects. Successful projects include Tables (a Google Cloud–based collaborative database program), Stack (an app that digitizes information and extracts important insights), Byteboard (a platform for interviewing software engineers using real-life examples), and AdVR (a platform for managing advertisements in virtual reality).

Conducting Focused Hackathons. Many companies sponsor periodic internal "hackathons," in which employees take a day or a week away from their day-to-day work to develop new ideas. Such hackathons are legendary at Facebook. During a Facebook hackathon, "a few hundred of our engineers unleash their talents in epic, all-night coding sessions and often end up with products that hit the internal and external versions of the site within weeks," says one Facebook employee. The social media giant's hackathons have produced major innovations such as the "Like" button and friend tagging. Such events not only produce fresh new ideas, they can also boost employee morale and engagement. As the employee explains, "the camaraderie, productivity, and occasional insanity of hackathons have helped make Facebook what it is."[7]

Recognizing "Hidden" Ideas. R&D projects may lead to unexpected discoveries that do not serve the purpose of those projects. However, managers must be encouraged to think broadly about other applications for the discoveries. For example, old timers at 3M love to tell the story about 3M R&D scientist Spencer Silver, who started out to develop a super-strong adhesive.[8] Instead he came up with one that didn't stick very well at all. Silver sent the apparently useless substance on to other 3M researchers to see whether they could find something to do with it. Nothing happened for several years. Then 3M scientist Arthur Fry had an idea. As a choir member in a local church, Mr. Fry was having trouble marking places in his hymnal—the little scraps of paper he used kept falling out. He tried dabbing some of Mr. Silver's weak glue on one of the scraps. It stuck nicely and later peeled off without damaging the hymnal. Thus were born 3M's Post-it Notes, a product that is now one of the top-selling office supply products in the world. As 3M notes about the product: "Looking back, the birth of our Canary Yellow phenomenon reminded us of a valuable lesson: perseverance or persistence can be just as important as inspiration when it comes to bringing an idea to life."

Using Technology to Generate Ideas. Today, technology platforms can help managers efficiently generate, churn through, and evaluate thousands of product design ideas that meet required specifications. For example, when Delfast express delivery service in Kyiv, Ukraine, needed new ideas for an optimal vehicle for delivering small parcels quickly, it turned to software from design technology firm Autodesk.[9] At first, there appeared to be only two options—motorcycles or bicycles. But motorcycles are expensive and bicycles demand that couriers be in good physical shape—not all of them could pedal all day long. So Delfast looked into ideas for equipping its delivery team with electric bikes. "An electric bicycle is basically a computer on wheels," says a Delfast product engineer. "This type of transport perfectly fits into the modern digital economy infrastructure." However, the performance characteristics of existing electric bicycles failed to meet Delfast's requirements—they were too slow, lacked range, and were not durable enough. Technology saved the day. Delfast used Autodesk software—which harnesses enormous computing power to create complex designs—to find and evaluate new design prototype ideas. It ended up with a whole new model of electric bicycle, one that outperformed all others on the market. The new design was so popular with customers that Delfast has now transitioned from a parcel delivery service into a manufacturer of cutting-edge electric bicycles.

Using technology to generate ideas: Delfast uses high-tech software platforms to find and evaluate new electric bicycle design prototypes, transforming itself from a parcel delivery service into a manufacturer of cutting-edge electric bicycles.

Ivan Okyere-Boakye Photography/Alamy Stock Photo

Repurposing Existing Products. Few consumers realize that Clorox, now a popular household laundry, cleaning, and disinfecting brand, began its life as a commercial, industrial-strength bleach. Only later did the company recognize the potential of the home market. It then diluted, reformulated, and repackaged the product to address the home market.[10] Given the risks associated with launching entirely new products, companies must first examine whether any of their existing products can be modified and relaunched to enter new markets or appeal to untapped customer segments.

Unbundling Existing Offerings. One of the easiest ways to create a new, standalone product is to unbundle an existing collection of offerings. For example, the popular Craftsman brand rechargeable stand-up work light was initially sold only as part of a bundle that included a hand drill, batteries, and other equipment. At some stage, Craftsman marketers realized that although the stand-up work light was very popular, many customers already owned a drill and batteries. Others were unwilling to purchase the entire bundle just to obtain the light. In response, the brand launched the stand-up work light as a separate product, which then flew off the shelves.

External Idea Sources

Companies can also adopt a variety of approaches to glean new product ideas from the external environment. These include the following.

Seeking Insights from Suppliers and Distributors. *Suppliers and distributors* can contribute a range of ideas.[11] Suppliers often work with a range of companies and industries. That puts them in a position to tell the company about new concepts, techniques, and materials that can be used to develop new products. At the other end of the supply chain, retailers and distributors are close to the market and can pass along insights related to emerging consumer product problems, evolving consumer needs, and potential product designs and innovations. For example, with its "Foot the Bill" customization program, action footwear and apparel brand Vans partnered with small independent retailers to create custom shoe and apparel designs that best represented the stores and their local communities. The program began as an effort to support small retailers struggling to navigate the COVID-19 pandemic and its devastating impact on small businesses. Net proceeds from "Foot the Bill" merchandise went directly to each of the retail partners involved. In its first year, the program sold 20,962 pairs of custom Vans globally and raised over $4 million for the participating retailers.[12]

Learning from Competitors. *Competitors* can provide new product insights. Companies watch competitors' ads to get clues about their new products. They buy competing new products, take them apart to see how they work, analyze their sales, and decide whether they should bring out a new product of their own. For example, TikTok's bite-sized video clips took Generation Z viewers by storm, offering perfect snippets that fit their information-processing styles and their quest for variety. In response, Instagram released its own direct TikTok competitor—Instagram Reels. Users can use Reels to record 15-second videos, set them to music, and share them as an Instagram Story. As one reviewer noted: "In almost every functional way, Reels is TikTok, but built into Instagram."[13] When learning from competitors, companies must be careful not to violate competitor patents or copyrights. And new offerings must be equal to or better than the competitor's. For example, Reels remains an also-ran to TikTok in the minds of most TikTok users.

Learning from Innovation Leaders outside the Industry. In their quest for new product ideas, companies often focus within their own industries. But the most powerful ideas often come from *external leaders* in other industries. For example, an airline can learn only so much about how to improve customer service by examining the operations of other airlines. However, the airline can reap a wealth of unexpected and valuable insights on how to elevate its services by examining how organizations such as Disney theme parks and the Ritz-Carlton hotels create great customer experiences. In fact, at the Disney Institute, Disney formally trains executives from other companies how to elevate their customers' experiences. The institute's training programs champion "the Disney way of thinking, with insights that are universally applicable and specifically adaptable."[14]

Learning from Customers. A company's products ultimately serve the needs of customers. Not surprisingly, *customers* can be a rich, broad, deep, and arguably most important source of ideas for product innovations. Companies often use customer surveys and interviews to collect ideas for developing new products and redesigning existing products. However, some of the most valuable insights about customers' unexpressed needs and pain points come from techniques such as ethnographic research by which researchers unobtrusively observe customers as they go about their daily lives.

For example, engineers at home appliance maker Dyson noted that customers were vacuuming more intensively during the COVID-19 pandemic, driven by the desire to maintain safe and hygienic home environments.[15] In response, Dyson built a laser into the Slim Fluffy cleaner head attachment of its V15 Detect vacuum cleaner. The laser light reveals hard-to-see hair, dust, and other dirt on floors that can be targeted for removal. In addition, Dyson incorporated carbon fiber filaments into the cleaner head to pick up microscopic particles that are then sized and counted up to 15,000 times per second. The dust that enters the vacuum also hits an acoustic sensor, which converts the resulting vibrations into electric signals. The vacuum then displays the measured dust size and quantity readings from these inputs on an LCD screen, giving the user real-time feedback. Beyond reassurance, these innovations also reduce the need for tedious and unnecessary cleaning.

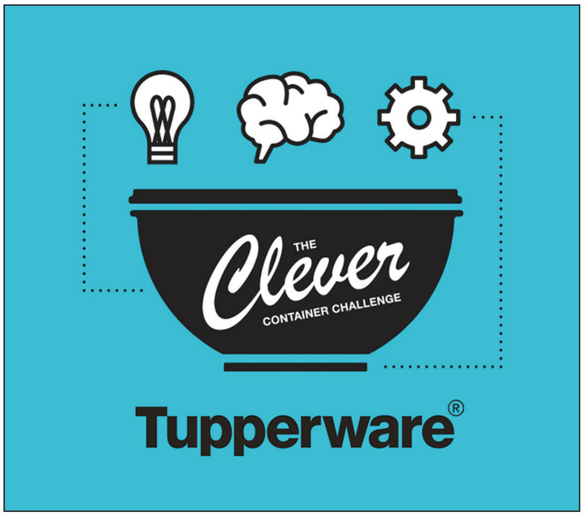
Yet other external idea sources include trade magazines, shows, websites, and seminars; government agencies; advertising agencies; marketing research firms; university and commercial laboratories; patent and copyright filings; and inventors.

Crowdsourcing

Crowdsourcing
Inviting broad communities of people—customers, employees, independent scientists and researchers, and even the public at large—into the new product innovation process.

More broadly, many companies are now developing crowdsourcing or open-innovation new product idea programs that can span internal and external sources. Through **crowdsourcing**, a company invites broad communities of people—customers, employees, independent scientists and researchers, and even the public at large—into the innovation process. Tapping into such a breadth of internal and external sources can produce unexpected and powerful new ideas.

Companies large and small, across all industries, are crowdsourcing product innovation ideas rather than relying only on their own R&D labs. For example, Ben & Jerry's ran a "Do the World a Flavor" campaign, an online video game on the company's website and social media by which fans could create and name new flavors. Food container giant Tupperware recently sponsored the Clever Container Challenge, a crowdsourcing contest seeking ideas for integrating Internet of Things technologies into food containers for future smart kitchens. It asked for "easy to use but technologically advanced" designs for affordable, reusable containers that provide real value in storage and preventing waste, whether in the kitchen or on the go. And Under Armour sponsors an annual crowdsourcing competition called the Future Show Innovation Challenge, in which it invites entrepreneurs and inventors from around the nation to submit new product ideas, with finalists pitching their products in a splashy, *Shark Tank*–like reality TV setting. "We need to be humble enough to know that the next great thing might come from some kid playing college football who happens to have a better idea," says Under Armour's innovation chief.[16]



Crowdsourcing: Food container giant Tupperware sponsored the Clever Container Challenge contest seeking ideas for integrating Internet of Things technologies into food containers for future smart kitchens.

Tupperware Brands Corporation

Thus, truly innovative companies don't rely only on one source or another for new product ideas. Instead, they develop extensive innovation networks that capture ideas and inspiration from every possible source, from employees and customers to outside innovators and multiple points beyond.

Idea Screening

Idea screening
Screening new product ideas to spot good ones and drop poor ones.

The purpose of idea generation is to create a large number of ideas. The purpose of the succeeding stages is to *reduce* that number. The first idea-reducing stage is **idea screening**, which helps spot good ideas and drop poor ones. Product development costs rise greatly in later stages, so the company ultimately wants to go ahead only with those product ideas that will turn into profitable products.

Many companies require their executives to write up new product ideas in a standard format that can be reviewed by a new product committee. The write-up describes the product or the service, the proposed customer value proposition, the target market, and the competition. It makes rough estimates of market size, product price, development time and costs, manufacturing costs, and rate of return. The committee then evaluates the idea against a set of general criteria.

One marketing expert describes an R-W-W ("real, win, worth doing") new product screening framework that asks three questions.[17] First, *Is it real?* Is there a real need and desire for the product, and will customers buy it? Is there a clear product concept, and will such a product satisfy the market? Second, *Can we win?* Does the product offer a sustainable competitive advantage? Does the company have the resources to make such a product a success? Finally, *Is it worth doing?* Does the product fit the company's overall growth strategy? Does it offer sufficient profit potential? Typically, the company should be able to answer yes to all three R-W-W questions before developing the new product idea further.

Concept Development and Testing

Product concept
A detailed version of the new product idea stated in terms that are meaningful to the consumer.

An attractive idea must then be developed into a **product concept**. It is important to distinguish between a product idea, a product concept, and a product image. A *product idea* is an idea for a possible product that the company can see itself offering to the market. A *product concept* is a detailed version of the idea stated in terms that are meaningful to the consumer. A *product image* is the way consumers perceive an actual or potential product.

Concept Development

Suppose a company is grappling with how to bring a relatively new product or service to market. Consider Honda's HondaJet Elite business jet:

> Honda is the world's largest manufacturer of motorcycles and internal combustion engines. And it's the eighth-largest automobile manufacturer. However, its Honda Aircraft Company (HondaJet) subsidiary, founded in 2006, is less well known. HondaJet launched its first aircraft in late 2015. Today the striking HondaJet Elite is the world's most popular dual engine business jet aircraft. ● With its striking over-the-wing mounted dual engines, the HondaJet Elite has a range of 1,653 miles and a maximum speed of 486 miles per hour and can accommodate seven people including the crew.

● **Concept development and testing: The striking HondaJet Elite has a range of 1,653 miles and a maximum speed of 486 miles per hour and can accommodate seven people including the crew.**

Honda Motor Company Ltd via Getty Images

By 2021, the COVID-19 pandemic and other environmental and competitive forces had shaken the traditional commercial airline industry, creating both challenges and opportunities for HondaJet. Now, looking ahead, HondaJet's task is to evaluate potential target markets, develop alternative product concepts, and assess the attractiveness of each concept to targeted consumers.[18] HondaJet might explore the following possibilities:

- *Concept 1.* Serve the traditional corporate executive jet market with the existing HondaJet Elite. This represents "business as usual."
- *Concept 2.* Serve the multinational corporate executive jet market with a larger, longer-range jet capable of intercontinental travel.
- *Concept 3.* Serve wealthy individuals and families who increasingly distrust commercial air transportation with a luxury version of the HondaJet Elite.
- *Concept 4.* Serve the growing air taxi market with a no-frills, efficient aircraft, which could be either a redesigned HondaJet Elite or an entirely new aircraft design.

Concept Testing

Concept testing
Testing new product concepts with a group of target consumers to find out if the concepts have strong consumer appeal.

Concept testing calls for testing new product concepts with target consumers. The concepts may be presented to consumers symbolically or physically. Here, in more detail, is HondaJet's Concept 3:

> An efficient yet luxurious travel option for the family. Get to where you want to go on your own time and on your own terms. Avoid airport lines and congestion. Breathe your own sanitized air. There is plenty of room for you, your kids, your family pets, and your luggage. HondaJet's unique design lets you travel responsibly, safely, and in luxury.

Firms routinely test new product concepts before developing new products. For example, HondaJet might give targeted family consumers a description and picture of the proposed new product Concept 3, tentatively named the "HondaJet-FamilyV." After being exposed to the concept, consumers can be asked to react to it by answering reactions similar to those in **Table 9.1**. The answers to such questions across concepts will reveal which concepts have the strongest appeal. The last question asks about the consumer's intention to buy. The company could project these answers to the full population in this target group to estimate sales volume. However, the estimate is always uncertain because people do not always carry out their stated intentions.

Marketing Strategy Development

Multiple concepts may test strongly with their corresponding target segments. In that case, the company must decide whether to advance a single concept or multiple concepts into the next stage. It must balance the market potential associated with the different concepts with the resources available to implement the concepts.

Marketing strategy development
Designing an initial marketing strategy for a new product based on the product concept.

Suppose that, in addition to the current Concept 1 positioning, the research reveals a small but profitable market for Concept 3. The next step is **marketing strategy development**, designing an initial marketing strategy for introducing the HondaJet FamilyV.

The *marketing strategy statement* consists of three parts. The first describes the target market; the planned value proposition; and the sales, market-share, and profit goals for the first few years. Thus:

> The target market includes very high-income individuals, couples, or families seeking efficient, quick, and luxurious transportation. Targeted customers will have a net worth exceeding $25 million or regular annual incomes of more than $5 million. The HondaJet FamilyV will be positioned as a platform that provides efficient, flexible, time-saving, and luxurious transportation on demand. The HondaJet FamilyV will help owners avoid the crowds, packed seating, and unhealthy air associated with commercial airline travel. The company will aim to sell 20 aircraft in the first year, at a loss of not more than $5 million. In the second year, the company will aim to sell 50 aircraft at a profit of $35 million.

The second part of the marketing strategy statement outlines the product's planned price, distribution, and marketing budget for the first year:

> Customers can choose between a regular-range version, which offers a range of 1,437 nautical miles at a list price of $6 million, and a long-range version that adds 500 miles of range at a list price of $6.5 million. HondaJet's sales force will sell directly to targeted consumers and will be paid a salary and a sales performance–based commission. The marketing budget will

Table 9.1 | Questions for the "HondaJet FamilyV" Concept

1. How well do you understand the concept of a personal jet for you and/or the family?
2. Do you believe the claims about the HondaJet FamilyV aircraft?
3. What are the most relevant benefits of the HondaJet FamilyV to you and your family?
4. What are your concerns related to the HondaJet FamilyV?
5. When would you prefer to use the HondaJet FamilyV as opposed to commercial airline transportation?
6. What improvements to the HondaJet FamilyV would you suggest?
7. Who would be involved in the decision to buy the HondaJet FamilyV?
8. Given the price and features, would you buy the HondaJet FamilyV (definitely, probably, probably not, definitely not)?

include $2 million allocated to high-end luxury magazines such as *RobbReport* and $3 million split 30-40-30 among national media, online and social media marketing, and local event marketing. One million dollars will be allocated to building a high-quality customer prospect database for the sales force. HondaJet will spend an additional $200,000 on marketing research to develop deeper insights into the targeted segment and the relevant drivers of customer satisfaction.

The third part of the marketing strategy statement describes the planned long-run sales, profit goals, and marketing mix strategy:

We intend to capture a 60 percent long-run share of total global personal jet unit sales and an after-tax return on investment of 20 percent. To achieve this, product quality will start high and improve over time. Price will be raised in the second and third years if competition and the economy permit. The total marketing budget will be raised each year by about 10 percent. Marketing research will be reduced to $100,000 per year after the first year.

Business Analysis

Business analysis
A review of the sales, costs, and profit projections for a new product to find out whether these factors satisfy the company's objectives.

Once management has decided on its product concept and marketing strategy, it can evaluate the business attractiveness of the proposal. **Business analysis** involves a review of the sales, costs, and profit projections for a new product to find out whether they satisfy the company's objectives. If they do, the product can move to the product development stage.

To estimate sales, the company might look at the sales history of similar products and conduct market surveys. It can then estimate minimum and maximum sales to assess the range of risk. After preparing the sales forecast, management can estimate the expected costs and profits for the product, including marketing, R&D, operations, accounting, and finance costs. The company then uses the sales and cost figures to analyze the new product's financial attractiveness.

Product Development

Product development
Developing the product concept into a physical product or a detailed service blueprint to ensure that the product idea can be turned into a workable market offering.

For many new product concepts, a product may exist only as a word description, a drawing, or perhaps a crude mock-up. If the product concept passes the business test, it moves into **product development**. Here, R&D or engineering develops the product concept into a physical product or a detailed service blueprint. The product development step, however, now calls for a huge jump in investment. It will show whether the product idea can be turned into a workable product.

Product testing: The Carhartt Crew community consists of "real [men and women] wearing and working in Carhartt" who help "shape the future of Carhartt products."

VI Images via Getty Images

The R&D department will develop and test one or more physical versions of the product concept. R&D hopes to design a prototype that will satisfy and excite consumers and that can be produced quickly and at budgeted costs. Developing a successful prototype can take days, weeks, months, or even years depending on the product and prototype methods.

Often, products undergo rigorous tests to make sure that they perform safely and effectively or that consumers will find value in them. Companies can do their own product testing or outsource testing to other firms that specialize in testing.

Marketers often involve actual customers in product development and testing. For example, Carhartt, maker of durable workwear and outerwear, has enlisted an army of users it calls the Carhartt Crew community, "real [people] wearing and working in Carhartt" who help "shape the future of Carhartt products." The brand asks Carhartt Crew members for their honest opinions about the company's existing and planned products. Members take part in surveys and discussion groups, have live chats with Carhartt designers, review new product concepts, and field-test products that they helped create.[19]

A new product must have the required functional features and also convey the intended psychological characteristics. For example, Carhartt taps input from its Carhartt Crew members "to not only ensure that we are still creating the authentic product you asked for but also to create the most functional and dependable product for your current and future needs."

At this and other stages of the innovation and product development process, the company must carefully evaluate whether it can obtain patents and trademarks to protect the entire product, some key features of the product, or even some aspects of the manufacturing and marketing. Strong patents and trademarks can help protect the product from competition down the road.

Test Marketing

Test marketing
The stage of new product development in which the product and its proposed marketing program are tested in realistic market settings.

If the product passes both the concept test and the product test, the next step is **test marketing**, the stage at which the product and its proposed marketing program are tested in realistic market settings. Test marketing helps refine and finalize the product and the marketing program before investing in a full launch. It might even result in the difficult decision to drop the product. Test marketing lets the company test the product and its entire marketing program—targeting and positioning strategy, advertising, distribution, pricing, branding and packaging, and budget levels.

Test marketing: To figure out if and how to best market its plant-based, meatless McPlant burger, McDonald's spent more than three years test marketing the product.

James Copeland/Alamy Stock Photo

The amount of test marketing needed varies by product. When the required investments or risks are high or when the company is unsure about how to best refine or market the product, a company may do a lot of test marketing. For instance, McDonald's spent more than three years test marketing its plant-based, meatless McPlant burger. It first tested a meatless burger and associated marketing in several dozen Canadian restaurants, then followed up with tests in eight U.S. restaurants, and then expanded the tests to 600 locations in the San Francisco Bay and Dallas-Fort Worth areas.[20]

However, test marketing costs can be high, and testing takes time during which market opportunities may slip by or competitors may gain advantages. For example, while McDonald's was still doing extensive test marketing on its meatless burger, Burger King went nationwide with its Impossible Whopper after only four months of test marketing in 59 St. Louis restaurants. Thus, the extensive benefits of test marketing must be weighed against the drawbacks. A company may do little or no test marketing when the costs of developing and introducing a new product are low or when management is already confident about the new product. For example, companies often do not test-market simple line extensions or copies of competitors' successful products.

Companies may also shorten or skip testing in the face of fast-changing market developments. For example, to take advantage of digital and mobile trends, Starbucks quickly introduced a less-than-perfect mobile payments app and then worked out the flaws during the six months after launch. The Starbucks mobile order-and-pay app now accounts for up to 26 percent of all Starbucks U.S. revenues. "We don't think it is okay if things aren't perfect," says Starbucks' chief digital officer, "but we're willing to innovate and have speed to market trump a 100 percent guarantee that it'll be perfect."[21]

As an alternative to extensive and costly standard test markets, companies can use controlled test markets or simulated test markets. In *controlled test markets*, new products and tactics are tested among controlled panels of shoppers and stores. By combining information on each test consumer's purchases with consumer demographic and media viewing information, the company can assess the impact of in-store and in-home marketing efforts. Using *simulated test markets*, researchers measure consumer responses to new products and marketing tactics in laboratory stores or simulated online shopping environments. Both controlled test markets and simulated test markets reduce the costs of test marketing and speed up the process.

The flexibility of online and mobile marketing allows firms to test market new digital offerings, formats, or marketing approaches quickly and effectively. Using A/B testing (see Chapter 4), companies can test their existing web and mobile offerings and sites against alternative designs. For example, consider project management software company Workzone.[22] Workzone's website had a prominent customer review section, which featured customer testimonials alongside a form asking potential customers for contact information by which Workzone could follow up to schedule personal sales calls and software demonstrations. However, the bright, colorful presentation of the testimonials and associated customer logos was overshadowing the information request form, distracting site visitors away from providing information needed to take the potential sale forward. Workzone conducted an A/B test with an alternative page design in which customer testimonials and logos were cast in less distracting shades of gray. The revised page yielded a 34 percent increase in information form submissions and was adopted.

Commercialization

Commercialization
Introducing a new product into the market.

Test marketing gives management the information needed to make a final decision about whether to launch the new product. If the company goes ahead with **commercialization**—introducing the new product into the market—it will face high costs. For example, the company may need to build or rent a full-fledged manufacturing facility. For a major new consumer product, it may spend hundreds of millions of dollars for advertising, sales promotion, and other marketing efforts in just the first year. For instance, Sony spent an estimated $26 million in a single month on TV advertising to introduce its PS5 game system. Tide spent $150 million on a campaign to launch Tide PODS in the highly competitive U.S. laundry detergent market. And to introduce the original Surface tablet, Microsoft spent close to $400 million on an advertising blitz that spanned TV, print, radio, outdoor, the internet, events, public relations, and sampling.[23]

A company launching a new product must first decide on introduction *timing*. If the new product will eat into the sales of other company products, the introduction may be delayed. If the product can be improved further or if the economy is down, the company may wait until the following year to launch it. However, if competitors are ready to introduce their own competing products, the company may push to introduce its new product sooner.

Next, the company must decide *where* to launch the new product—in a single location, a region, the national market, or the international market. Some companies may quickly introduce new models into the full national market. Companies with international distribution systems may introduce new products through swift global rollouts. For example, in one of its fastest-ever global rollouts, Apple launched its iPhone 12 line in more than 50 countries on the same day.[24]

Author Comment | Above all else, new product development must focus on creating customer value. Highlighting this focus, a senior Samsung executive noted: "We get our ideas from the market. The market is the driver."

Managing New Product Development

The new product development process shown in Figure 9.1 highlights the important activities needed to find, develop, and introduce new products. However, new product development involves more than just going through a set of steps. Companies must take a holistic approach to managing this process. Successful new product development requires a customer-centered, team-based, and systematic effort.

Customer-Centered New Product Development

Above all else, new product development must be customer centered. When looking for and developing new products, companies often rely too heavily on technical research in their R&D laboratories. But like everything else in marketing, successful new product development begins with a thorough understanding of what consumers need and value. **Customer-centered new product development** focuses on finding new ways to solve customer problems and create more customer-satisfying experiences.

Customer-centered new product development
New product development that focuses on finding new ways to solve customer problems and create more customer-satisfying experiences.

One study found that the most successful new products are ones that are differentiated, solve major customer problems, and offer a compelling customer value proposition. Another study showed that companies that directly engage their customers in the new product innovation process had twice the return on assets and triple the growth in operating income of firms that did not. Thus, customer involvement has a positive effect on the new product development process and product success.

Sporting goods manufacturer ASICS is a strong proponent of customer-centered new product development. It has used huge amounts of customer input in developing recommendations for specific shoe models that best fit the running styles of their visitors.[25]

Customer-centered new product development: ASICS uses huge amounts of consumer input to develop new products and streamline customer experience.

Uwe Deffner/Alamy Stock Photo

ASICS has conducted studies to learn how customers browse the company website, what they look for, and most importantly, what is lacking in the online customer experience. With questionnaires which ask, for instance, about where, when, and how often the customer will be running, ASICS aims to reinvent products to fit each sport or need of the consumer.

ASICS has also created a shopping wizard, Shoe Finder, to personalize customer experiences. According to a senior e-commerce manager, "The whole idea behind the Shoe Finder was to bring our in-store guided selling to the online environment." The app uses customer inputs on specific questions to get deeper customer insights and provides recommendations of specific models of running shoes that best accommodate the needs and wants of these customers. ASICS has utilized the data gathered from the personalization offered by this shopping wizard to build on their customer profiles and improve their market segmentation and targeting. ASICS puts the customers' needs in the foreground of their individual shopping experience by listening to and delivering on the demands and expectations of each consumer.

Thus, today's innovative companies get out of the research lab and connect with customers in search of fresh ways to meet customer needs. Customer-centered new product development begins and ends with understanding customers and involving them in the process.

Team-Based New Product Development

Good new product development also requires a total-company, cross-functional effort. Some companies organize their new product development process into the orderly sequence of steps shown in Figure 9.1, starting with idea generation and ending with commercialization. Under this *sequential product development* approach, one or a few company departments work to complete each stage of the process before passing the new product project along to the next stage. This orderly, step-by-step process can help bring control to complex and risky projects. But it can also be dangerously slow. In fast-changing, highly competitive markets, such slow-but-systematic product development can result in product failures, lost sales and profits, and crumbling market positions.

Team-based new product development
New product development in which various company departments work closely together, overlapping the steps in the product development process to save time and increase effectiveness.

To get their new products to market more quickly, many companies use more of a **team-based new product development** approach. Under this approach, multiple company departments work closely together in cross-functional teams, overlapping the steps in the product development process to save time and increase effectiveness. The company assembles a team of people from various departments that stays with the new product from start to finish. Such teams usually include people from the marketing, finance, design, manufacturing, and legal departments. Some teams even include supplier and customer representatives. In the sequential process, a bottleneck at one phase can seriously slow an entire project. In the team-based approach, however, if one area hits snags, it works to resolve them while the team moves on with other phases of the project.

The team-based approach does have some limitations, however. For example, it sometimes creates more organizational tension and confusion than the more orderly sequential approach. However, in rapidly changing industries facing increasingly shorter product life cycles, the rewards of fast and flexible product development far exceed the risks. Companies that combine a customer-centered approach with team-based new product development gain a big competitive edge by getting the right new products to market faster.

Systematic New Product Development

Finally, the new product development process should be holistic and systematic rather than compartmentalized and haphazard. Otherwise, few new ideas will surface, and many good ideas will sputter and die. To avoid these problems, a company can install an *innovation management system* to collect, review, evaluate, and manage new product ideas.

The company can appoint a respected senior person to be its innovation manager. It can set up web-based idea management software and encourage all company stakeholders—employees, suppliers, distributors, dealers—to become involved in finding and developing new products. It can assign a cross-functional innovation management committee to evaluate proposed new product ideas and help bring good ideas to market. It can also create recognition programs to reward those who contribute the best ideas. Importantly, financial incentives are usually not very effective in getting people to think creatively and generate innovative ideas. However, public recognition and social rewards can be remarkably effective.

The innovation management system approach yields two favorable outcomes. First, it helps create an innovation-oriented company culture. It shows that top management supports, encourages, and rewards innovation. Second, it will yield a larger number of new product ideas, among which will be found some especially good ones. The good new ideas will be more systematically developed, producing more new product successes. No longer will good ideas wither for the lack of a sounding board or a senior product advocate.

Thus, new product success requires more than simply thinking up a few good ideas, turning them into products, and finding customers for them. It requires a holistic approach for finding new ways to create valued customer experiences, from generating and screening new product ideas to creating and rolling out want-satisfying products and services to customers.

More than this, successful new product development requires a whole-company commitment. At companies known for their new product prowess, such as Google, Apple, Samsung, 3M, and P&G, the entire culture encourages, supports, and rewards innovation. For example, at Apple, one of the world's iconically innovative companies, innovation is at the heart of everything it does (see Real Marketing 9.1).

Author Comment A company's products are born, grow, mature, and then decline, just as living things do. To remain vital, the firm must continually develop new products and manage them effectively throughout their life cycles.

Product Life-Cycle Strategies

OBJECTIVE 9-3 Describe the stages of the product life cycle and how marketing strategies change during a product's life cycle.

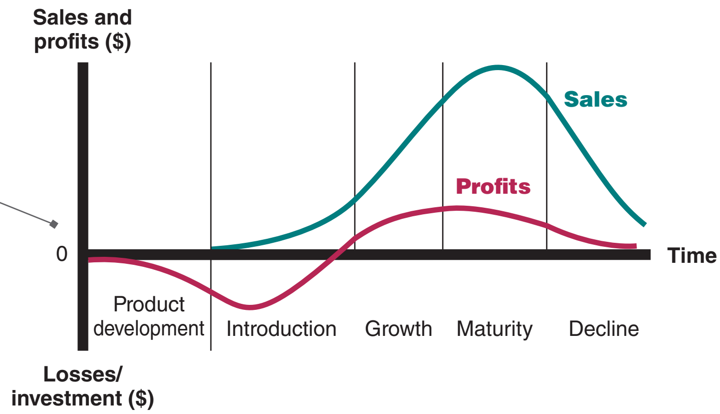
After launching the new product, management wants that product to enjoy a long and happy life. Although it does not expect the product to sell forever, the company wants to earn a decent profit to cover all the effort and risk that went into launching it. Management is aware that each product will have a life cycle, although its exact shape and length are not known in advance.

Product life cycle (PLC)
The course of a product's sales and profits over its lifetime.

Figure 9.2 shows a typical **product life cycle (PLC)**, the course that a product's sales and profits take over its lifetime. The PLC has five distinct stages:

FIGURE 9.2
Sales and Profits over the Product's Life from Inception to Decline

Some products die quickly; others stay in the mature stage for a long, long time. For example, Crayola Crayons have been around for more than 115 years. However, to keep the brand young, the company has added a continuous stream of contemporary new products, such as Color Alive, which lets kids color cartoons, scan them, and then watch as an app animates them.



Real Marketing 9.1 | Apple: Innovative to Its Core

Over the past 40 years, Apple has been an innovation leader, churning out one cutting-edge product after another. It all started with the sleek, affordable Apple Macintosh, the first personal computer ever to feature a graphic user interface and mouse. Then came an Apple-led revolution, in which groundbreaking Apple products such as the iPod, iPhone, iPad, and iTunes each created whole new categories where none had previously existed. More recently, the latest iPhone models continue to wow users, Apple's wireless AirPods have become fixtures in ears around the globe, and the Apple Watch Series 7 fitness watch dominates globally in wearable devices.

Today, few brands engender such intense loyalty as that found in the hearts of core Apple buyers. Ask Apple users and they'll tell you that their Apple devices simply work better, are easier to use, and ooze style. That's no accident. Apple's innovation success is deeply rooted in its relentless focus on the user experience. Many tech companies make products that just occupy space and complete the tasks at hand. By contrast, Apple doesn't just create new products; it creates new "life-feels-good" experiences.

Apple's new products are technology wonders. But those products aren't just the creations of engineers and designers sealed off from the world behind the closed doors of Apple laboratories. Apple's new product prowess results from putting top priority on understanding its customers and what makes them tick and then creating products that put customers at the front of the crowd. The company has always had a genius for wrapping technology beautifully around human needs—for making what customers want, usually before consumers themselves know what they want. That has resulted in one Apple-led revolution after another and created a huge corps of avid Apple enthusiasts who have a deep love affair with the brand. Apple continues to thrive, even as consumer tastes change and competitors grow stronger.

Apple's innovation leadership extends well beyond its products. Just peek inside an Apple store, where those "life-feels-good" experiences abound. The store design is clean, simple, and just brimming with style—much like a colorful iMac or a featherweight iPad Air. The bustling stores feel more like community centers than retail outlets. Apple stores encourage a lot of purchasing, to be sure. But they also encourage lingering, with tables full of Macs, iPads, iPhones, and Apple Watches sitting out for visitors to try and dozens of laid-back Apple employees close at hand to answer questions and cater to every whim. You don't just visit an Apple store—you experience it. Even after more than 20 years, Apple remains an iconic leader in experiential retailing.

Apple is innovative to its core. Behind its commitment to innovation and the consumer experience, Apple expects managers at every level to possess three key qualities: deep expertise, a laser focus on details, and a willingness to collaborate. The company believes that it is easier to train an expert to manage than to train a manager to be an expert. When hiring professional managers in the early days, Apple's founder, the late Steve Jobs, famously declared, "It didn't work. They knew how to manage but they didn't know how to do anything." The deep expertise of today's Apple managers helps them lead in all aspects of new product innovation in their areas.

Their deep expertise lets Apple managers focus on the second essential quality that drives the brand's innovation: a relentless focus on details. In their pursuit of extraordinary customer experiences, Apple's innovation experts push and probe every detail. For example, consider the extreme attention Apple designers pay to something as seemingly small as the shape of a device's rounded corners. Rather than just applying the arc of a circle, Apple designers apply a "squircle"—an elliptical design where the slope of a corner starts sooner, is less abrupt, and produces softer highlights. A design detail such as this demands a commitment to extremely precise manufacturing tolerances. But in the hands of the consumer, the subtle detail contributes to the "ahhhhhh" experience that customers feel when seeing and handling an Apple product.

Apple's depth of detail-oriented experts makes crucial the third quality: a willingness to collaborate. Apple now has 154,000 employees and hundreds of specialist teams, dozens of which may be involved with the key feature of a new product. For example, Apple's first multi-lens camera, the lens that made the iPhone's innovative portrait mode possible, required collaboration across no fewer than 40 specialist teams, including silicon design, camera software, reliability engineering, motion sensor hardware, video engineering, and camera sensor design, to name just a few. Through its ability to collaborate, Apple pulled it off. And the portrait mode feature became a key differentiator for the next generation of iPhones.

Even with all of Apple's innovation and success over the decades, however, some analysts claim that Apple may now be losing its innovation edge. Even lower-priced competitors appear to be closing the technology gap. Global competitors such as Samsung, Huawei, and Xiomi have beat Apple to market with innovations in foldable screens, 5G, and AI technology while often selling at significantly lower prices than Apple's premium brands. And with each new model, iPhone loyalists appear to be keeping their old Apple phones longer as new phones don't seem different enough to justify an upgrade. Apple has maintained its market share among loyal brand fans in most premium categories. However, many have speculated that as less-expensive brands become more adept at incorporating Apple-esque features and designs, Apple will be increasingly

Avid Apple fans have crowned the brand as the keeper of all things cool. To keep that crown, Apple must retain its new product innovation edge.
rvlsoft/Shutterstock

disadvantaged in emerging global markets where most consumers can't afford premium-priced Apple devices.

So far, however, Apple is proving impervious to these threats. Over the recent holiday season, sales of the newly released iPhone 13 set a company record and put Apple on top of the global smartphone market with a 22 percent share. This was thanks in no small part to enthusiastic adoption of the latest Apple smartphone by Chinese consumers. Apple's aggressive pricing there helped propel the iPhone to number one in the world's most populous country for the first time since 2015.

And beyond devices, Apple has been quietly growing its innovative portfolio of services—a potential game changer. Apple service offerings now include Apple TV+, Apple Music, Apple Fitness+, iCloud, Wallet, Apple Card, and, of course, iTunes and the App Store. Last year, revenue from Apple's services brands grew 28 percent to $80 billion. As a separate company, those service revenues alone would place 38th on the *Fortune* 500, ahead of the total revenues of companies such as General Electric, IBM, P&G, and PepsiCo. Services are not only Apple's fastest-growing business, they also boast higher margins than Apple's devices and are much less affected by the supply chain disruptions that have plagued world markets in recent years.

For now, competitors have yet to take much of a bite out of Apple. By all accounts, Apple remains the world's most valuable brand and the world's most valuable company, well ahead of other innovation all-stars such as Google, Microsoft, and Amazon. Still, Apple's future success lies in the kinds of innovation that got it where it is today. In years past, avid Apple fans have crowned the brand as the keeper of all things cool. To keep that crown, Apple must regain and retain its new product innovation edge.[26]

1. Product development: The company finds and develops a new product idea. During product development, sales are zero, and the company's investment costs mount.
2. Introduction: A period of slow sales growth as the product is introduced in the market. Profits are nonexistent in this stage because of the heavy expenses of product introduction.
3. Growth: A period of rapid market acceptance and increasing profits.
4. Maturity: A period of slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits level off or decline because of increased marketing outlays to defend the product against competition.
5. Decline: The period when sales fall off and profits drop.

Not all products follow all five stages of the PLC. Some products are introduced and die quickly; others stay in the mature stage for a long, long time. Some enter the decline stage and are then cycled back into the growth stage through strong promotion or repositioning. It seems that a well-managed brand could live forever. Let's ask a simple, hypothetical question: If we were to revisit earth 100 years from now, would Coca-Cola still be around? It may well be. More than just a product, Coca-Cola is a brand. And while some brands like the once-famous Pan Am airline may fade, other brands like Coca-Cola can potentially have a life cycle that never really ends. The 150-year-old TABASCO sauce brand brags that it's "over 150 years old and still able to totally whup your butt!" And venerable brands such as Coca-Cola, Gillette, IBM, American Express, Wells Fargo, Levi-Strauss, Crayola, and Quaker, for instance, are still going strong after more than 100 years.

In contrast, products that are tightly linked to an underlying technology will almost surely have life cycles, and those life cycles may be short. For example, electric and electronic typewriters came to an end with the advent of computers, word processing software, and printers. Videocassettes and VCRs quickly gave way to CDs, which in turn have given way to video and audio streaming. And modern iPhones are replaced by consumers every few years with more current models. In fact, Apple launches about three new iPhone models each year, even as it withdraws old models from the market.

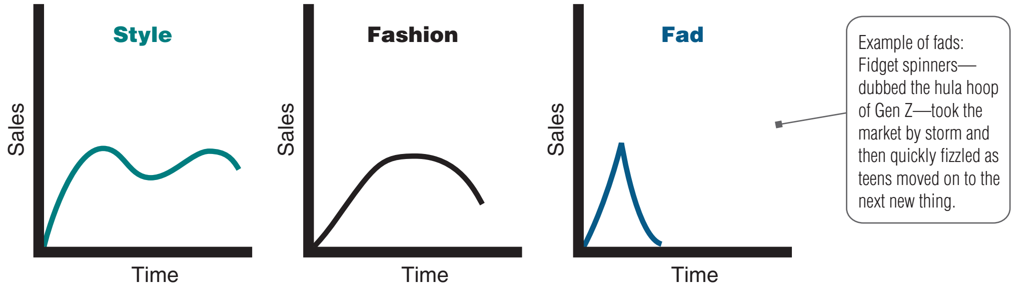
The PLC concept can describe a *product class* (gasoline-powered automobiles), a *product form* (SUVs), or a *brand* (the Ford Escape). The PLC concept applies differently in each case. Product classes have the longest life cycles; the sales of many product classes stay in the mature stage for a long time. Product forms, in contrast, tend to have the standard PLC shape. Product forms such as dial telephones, VHS tapes, and film cameras passed through a regular history of introduction, rapid growth, maturity, and decline.

A specific brand's life cycle can vary significantly. Some brands can change quickly because of changing competitive attacks and responses. For example, although laundry soaps (product class) have enjoyed a long life cycle, the life cycles of laundry product forms and specific brands have tended to be much shorter. Powdered detergents (product form) have increasingly given way to liquids and pods. And today's leading U.S. brands of laundry detergent are Tide and Gain; the leading brands 100 years ago were Fels-Naptha and Octagon.

Style
A basic and distinctive mode of expression.

The PLC concept also can be applied to what are known as styles, fashions, and fads. Their special life cycles are shown in Figure 9.3. A **style** is a basic and distinctive mode of expression. For example, styles appear in homes (colonial, ranch, transitional), clothing

FIGURE 9.3
Styles, Fashions, and Fads



(formal, casual), and art (realist, surrealist, abstract). Once a style is invented, it may last for generations, passing in and out of vogue. A style has a cycle showing several periods of renewed interest.

Fashion
A currently accepted or popular style in a given field.

Fad
A temporary period of unusually high sales or interest driven by consumer enthusiasm and immediate product or brand popularity.

A **fashion** is a currently accepted or popular style in a given field. For example, the more formal "business attire" look of corporate dress of the 1980s and 1990s gave way to the "business casual" look of the 2000s and 2010s. Fashions tend to grow slowly, remain popular for a while, and then decline slowly.

Fads are temporary periods of intense sales or interest driven by short-term consumer enthusiasm. A fad may be part of an otherwise normal life cycle, as in the case of recent surges in the sales of poker chips and accessories. Or the fad may comprise a brand's or product's entire life cycle.

An example is the fidget spinner—the small, three-pronged ball-bearing device that you flick and spin to relieve stress or just because it's fun to do. Dubbed the "hula hoop of Gen Z," the spinners took the preteen and teen market by storm in early 2017. By early May of that year, the gizmos accounted for an amazing 17 percent of daily online toy sales. However, like most fads, sales quickly started to fizzle. By June, then widely sold by mass merchants like Walmart and Target, the gadgets were becoming too common to be cool. It didn't help that schools began banning the toys as distractions. Teens lost interest and moved on to the next new thing. Other examples of fads include selfie sticks, Silly Bandz, and Pokémon Go.[27]

Fads: Dubbed the "hula hoop of Gen Z," fidget spinners took the preteen and teen market by storm. However, like most fads, sales quickly fizzled as teens moved on to the next new thing.
3Baboons/Shutterstock

Marketers can apply the product life-cycle concept as a useful framework for describing how products and markets work. And when used carefully, the PLC concept can help in developing good marketing strategies for the different life-cycle stages. However, using the PLC concept for forecasting product performance or developing marketing strategies presents some practical problems. For example, in practice, it is difficult to forecast the sales level at each PLC stage, the length of each stage, and the shape of the PLC curve. Using the PLC concept to develop marketing strategy also can be difficult because strategy is both a cause and a result of the PLC. The product's current PLC position suggests the best marketing strategies, and the resulting marketing strategies affect product performance in later stages.

The most dangerous use of the PLC is that it becomes a self-fulfilling prophecy. That is, a manager may be tempted to interpret a dip in sales as signaling the beginning of the end of the product life cycle. Convinced that the PLC is about to run its course, the manager then underinvests in the product, thereby causing its demise. To avoid this mistake, marketers should not blindly push products through the traditional product life-cycle stages. Instead, marketers should often defy the "rules" of the life cycle and position or reposition their products in unexpected ways. By doing this, they can rescue mature or declining products and return them to the growth phase of the life cycle. Or they can leapfrog obstacles that slow consumer acceptance, propelling new products forward into the growth phase or existing products into the regrowth phase.

The moral of the product life cycle is that companies must continually innovate; otherwise, they risk extinction. To grow, the company must develop a steady stream of new products that bring new value to customers. And no matter how successful its current product lineup, a company must skillfully manage the life cycles of existing products for future success. Financial-software maker Intuit does this well:[28]

> Intuit's financial software products—QuickBooks, TurboTax, and Mint—dominate their respective markets. For example, QuickBooks captures an 80 percent market share in small-business accounting software. And last year, customers used Intuit's TurboTax to prepare some 39 million U.S. individual income tax returns, almost twice the 23 million prepared by H&R Block's software and services. Intuit thrives on a product life-cycle strategy of "creative destruction." Rather than protecting and nurturing its successful products, Intuit systematically reinvents them before competitors can. So Intuit's products stay in a perpetual PLC growth stage and never reach maturity or go into decline.
>
> Over the years, Intuit has routinely reinvented its products to meet market changes that drove competitors into decline. For example, in the early 1908s when Intuit researchers learned that users of its original Quicken personal-finance software were using it at work as well as home, even though Quicken was selling strongly, the company Intuit created QuickBooks, user-friendly small-business finance PC software. QuickBooks hit the market sweet spot, overtaking the market leader in only two months. Then, when Microsoft introduced Windows in the late 1980s, Intuit quickly added compatible versions of QuickBooks, even though most of the market was still using the old MS-DOS operating system. A few years later, during the earliest days of the World Wide Web, Intuit smoothly took its products online. And as the mobile age dawned, Intuit reconceived its products yet again, perfecting mobile applications long before smartphones and tablets had saturated the market. "It all seems obvious in retrospect," says an analyst, "but each transformation was a mind bender at the time—[I mean,] doing taxes on a phone?" Although such cutting-edge moves are risky, they've paid off for Intuit, which continues to grow at double-digit rates annually. As a *Fortune* writer concludes, "No company tries harder to find the next big disruption before it finds them."

We looked at the product development stage of the PLC in the first part of this chapter. We now look at strategies for each of the other life-cycle stages.

Introduction Stage

Introduction stage
The PLC stage in which a new product is first distributed and made available for purchase.

The **introduction stage** starts when a new product is first launched. Introduction takes time, and sales growth is apt to be slow. Well-known products such as frozen foods, HDTVs, and all-electric vehicles lingered for many years before they entered a stage of more rapid growth.

In this stage, as compared to other stages, profits are negative or low because of the low sales and high distribution and promotion expenses. Much money is needed to attract distributors and build their inventories. Promotion spending is relatively high to inform consumers of the new product and get them to try it. Because the market is not generally ready for product refinements at this stage, the company and its few competitors produce basic versions of the product. These firms focus their selling on those buyers who are most ready to buy.

A company, especially the *market pioneer*, must choose a launch strategy that is consistent with the intended product positioning. It should realize that the initial strategy is just the first step in a grander marketing plan for the product's entire life cycle. If the pioneer chooses its launch strategy to make a "quick killing," it may be sacrificing long-run revenue for the sake of short-run gain. The pioneer has a good chance of building and retaining market leadership if it plays its cards correctly from the start, always with an eye on the long run.

Growth Stage

Growth stage
The PLC stage in which a product's sales start climbing quickly.

If the new product satisfies the market, it will enter a **growth stage** in which sales will start climbing quickly. The early adopters will continue to buy, and later buyers will start following their lead, especially if they hear favorable word of mouth. Attracted by the opportunities for profit, new competitors will enter the market. They will introduce new product features, and the market will expand. The increase in competitors leads to an increase in the number of distribution outlets, and sales jump just to build reseller inventories. Prices remain where they are or decrease only slightly. Companies keep their promotion spending at the same or a slightly higher level. Educating the market remains a goal, but now the company must also meet the competition.

Profits increase during the growth stage as promotion costs are spread over a large volume and as unit manufacturing costs decrease. The firm uses several strategies to sustain rapid market growth for as long as possible. It improves product quality and adds new product features and models. It enters new market segments and new distribution channels. It shifts some advertising from building product awareness to building product conviction and purchase, and it lowers prices at the right time to attract more buyers.

In the growth stage, the firm faces a trade-off between high market share and high current profit. By spending a lot of money on product improvement, promotion, and distribution, the company can capture a dominant position. In doing so, however, it gives up maximum current profit, which it hopes to make up in the next stage.

Maturity Stage

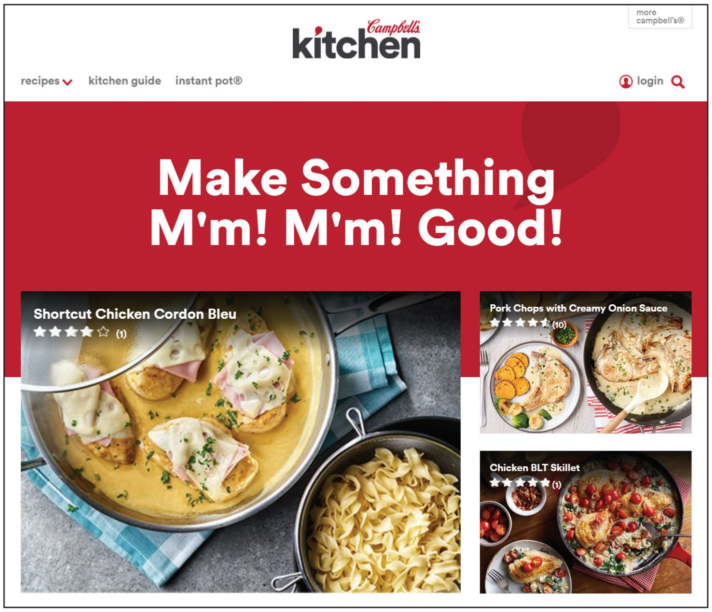
Maturity stage
The PLC stage in which a product's sales growth slows or levels off.

At some point, a product's sales growth will slow down, and it will enter the **maturity stage**. This maturity stage normally lasts longer than the previous stages, and it poses strong challenges to marketing management. Most products are in the maturity stage of the life cycle, and therefore most of marketing management deals with the mature product.

The slowdown in sales growth results in many producers with many products to sell. In turn, this overcapacity leads to greater competition. Competitors begin marking down prices, increasing their advertising and sales promotions, and upping their product development budgets to find better versions of the product. These steps lead to a drop in profit. Some of the weaker competitors start dropping out, and the industry eventually contains only well-established competitors.

Although many products in the mature stage appear to remain unchanged for long periods, most successful ones are actually evolving to meet changing consumer needs. Product managers should do more than simply ride along with or defend their mature products—a good offense is the best defense. They should consider modifying the market, product offering, and marketing mix.

In *modifying the market*, the company tries to increase consumption by finding new users and new market segments for its brands. For example, L'Oréal, a longtime leader in women's beauty care, has created new products aimed at men. It offers full lines of L'Oréal Men Expert grooming products, from deodorants and shower gels to skin care, hair care, and beard care products. The lines include items such as Hydra Energetic Ice Cold Eye Roller, Hydra Energetic Extreme Cleanser Infused With Charcoal, 3-Day Beard Moisturizer, and Vita Lift Anti-Wrinkle & Firming Moisturizer. L'Oréal's Men Expert products are "Built with men in mind."[29]



Maturity stage: The Campbell's Kitchen website and phone app offer meals and recipes to encourage greater usage of the brand's soups and other products. Meal planners can search for or exchange recipes, create their own personal recipe box, learn ways to eat healthier, and calculate meal costs.

Campbell Soup Company

The company may also look for ways to increase usage among present customers. For example, Campbell encourages people to use more of its soups and other products by offering meal ideas and recipes. Using the Campbell's Kitchen website or phone app (www.campbells.com/kitchen/), meal planners can search for or exchange recipes, create their own personal recipe box, learn ways to eat healthier, and calculate meal costs. They can watch TikTok videos in which Campbell fans and micro-influencers share product testimonials and bring recipes to life in a fun way. At the Campbell's Facebook, Pinterest, and Twitter sites, consumers can join in and share on Campbell's Kitchen Community conversations.

The company might also try *modifying the product*—changing characteristics such as quality, features, style, packaging, or technology platforms to retain current users or attract new ones. Thus, most home appliance manufacturers are rapidly adapting their products for today's smart homes, with everything from Bluetooth and camera-laden kitchen appliances to voice-activated faucets. For example, Samsung's Chef Collection built-in appliances are all Wi-Fi or Bluetooth enabled, letting users monitor and control them while at home or away with a smartphone app.

View-inside cameras let consumers see what's inside their refrigerators from anywhere, including remotely from the grocery store. The refrigerators have FlexZone compartments that transition from a fridge to a freezer with the touch of an app button. The dishwasher automatically opens the door when the cycle is done to speed up drying times and notifies users when the load is complete. The Chef Collection app lets users remotely preheat their ovens and set precise cooking temperatures. Or better yet, the oven's smart-cooking algorithm can automatically sense what's in the oven and set its own temperatures and cooking times.[30]

Finally, the company can try *modifying the marketing mix*—improving sales by changing one or more marketing mix elements. The company can offer new or improved services to buyers. It can cut prices to attract new users and competitors' customers. It can launch a better advertising campaign or use aggressive sales promotions. In addition to pricing and promotion, the company can also move into new marketing channels to help serve new users.

Decline Stage

The sales of most product forms and brands eventually dip. The decline may be slow, as in the cases of postage stamps and mainframe computers, or rapid, as in the case of VHS tapes and CDs. Sales may plunge to zero, or they may drop to a low level where they continue for many years. This is the **decline stage**.

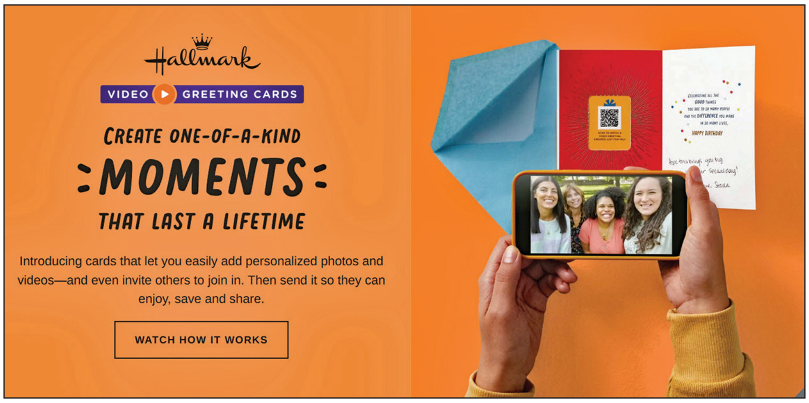
Decline stage
The PLC stage in which a product's sales fade away.

Sales may decline for many reasons, including technological advances, shifts in consumer tastes, and increased competition. As sales and profits decline, some firms withdraw from the market. Those remaining may prune their product offerings. In addition, they may drop smaller market segments and marginal trade channels, or they may cut the promotion budget and reduce their prices further.

Carrying a weak product can be very costly to a firm, and not just in profit terms. There are many hidden costs. A weak product may take up too much of management's time. It often requires frequent price and inventory adjustments. It requires advertising and sales-force attention that might be better used to make "healthy" products more profitable. A product's failing reputation can cause customer concerns about the company and its other products. The biggest cost may well lie in the future. Keeping weak products delays the search for replacements, creates a lopsided product mix, hurts current profits, and weakens the company's foothold on the future.

For these reasons, companies must identify products in the decline stage and decide whether to maintain, harvest, or drop them. Management may decide to *maintain* its brand, repositioning it in hopes of moving it back into the growth stage of the product life cycle. Management may decide to *harvest* the product, which means reducing various costs (plant and equipment, maintenance, R&D, advertising, sales force), hoping that sales hold up. If successful, harvesting will increase the company's profits in the short run. Finally, management may decide to *drop* the product from its line. The company can sell the product to another firm or simply liquidate it at salvage value. In recent years, Ford has sold off or discontinued several major brands such as Mercury and Volvo. And to meet market shifts, Ford recently shed most of its Ford brand sedan models, including the Ford Focus, the Ford Fiesta, and the once best-selling Ford Taurus. Dropping these slumping models allowed Ford to focus on its more popular SUVs, crossovers, and pickups and to move heavily into all-electric models.

Companies and brands in the decline stage of the PLC face difficult decisions. Reinvigorating an aging and declining brand can be difficult. ● For example, consider 111-year-old Hallmark Cards:[31]



● **Reinvigorating an iconic brand: As people shop and engage with brands differently in the greeting card industry, the venerable 111-year-old Hallmark brand is reimagining how it delivers modern digital experiences.**

Founded more than a century ago, Hallmark Cards is the oldest and largest U.S. greeting card company. You might think that greeting cards would never go out of style. However, over the past two decades, with the rapid growth of email, texting, social networks, and other digital channels, Hallmark's core store-based, physical greeting cards model has placed the brand in slow but steady decline. So in recent years, says the company, 'to meet consumers' changing needs, we're investing in our marketing, modern digital experiences, and supply chain capabilities in ways that will help us reimagine how we deliver our products."

Hallmark's reimagining efforts begin with new products that deliver messages in ways that better meet the needs of today's tech-savvy consumers. For example, the company recently introduced "Video Greeting Cards" with smartphone-scannable UPC codes. When card recipients scan the UPC, they are transported to an online site where they watch a video stitched together by Hallmark with content uploaded by the sender and other well-wishers. The company also introduced "Sign and Send" cards to target time-pressed customers who have shifted away from buying and mailing physical greeting cards. Senders can choose and personalize cards online—no store visit required—with their own text, even in their own handwriting. Hallmark prints the card, addresses and stamps the envelope, and mails it directly to the recipient. Such new products and other digital-age marketing efforts are a start, but turning the venerable Hallmark brand around to bring it fully into the digital age will continue to challenge Hallmark's marketers.

Despite such difficulties, history abounds with brands that have turned the corner on the PLC—brands that have languished in maturity or entered decline but reimagined themselves and returned to growth. Classic turnaround brands range from Old Spice and Mr. Clean to LEGO, Barbie, Radio Flyer, and Marvel (see Real Marketing 9.2).

Table 9.2 summarizes the key characteristics of each stage of the PLC. The table also lists the marketing objectives and strategies for each stage.[32]

Table 9.2 | Summary of Product Life-Cycle Characteristics, Objectives, and Strategies

	Introduction	Growth	Maturity	Decline
Characteristics				
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Mainstream adopters	Lagging adopters
Competitors	Few	Growing number	Stable number beginning to decline	Declining number
Marketing objectives				
	Create product engagement and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand
Strategies				
Product	Offer a basic product	Offer product extensions, service, and warranty	Diversify brand and models	Phase out weak items
Price	Price based on value delivered	Price high enough to drive profits but low enough to penetrate market	Price to match or beat competitors; increase price based on innovation	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Advertising	Build product awareness among early adopters and dealers	Build interest in the mass market; focus on communicating delivered value	Stress brand differences and benefits	Reduce to level needed to retain hard-core loyals
Sales promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

Source: Based on Philip Kotler, Kevin Lane Keller, and Alexander Chernev *Marketing Management*, 16th ed. (Hoboken, NJ: Pearson Education, 2021), Chapter 17, Table 17.1.

Real Marketing 9.2

Defying the Product Life Cycle: Finding New Life for Mature and Declining Brands

Left unrenewed, even the most successful brands are likely to succumb to the product life cycle, with their sales peaking, then flattening, and eventually declining over time. But the product life cycle doesn't have to mean the eventual end of a brand. Even declining brands can be returned to good health and growth. Here are some stories of companies that breathed new life into their brands through imaginative marketing.

Radio Flyer

Twenty-five years ago, Radio Flyer—the 105-year-old iconic red wagonmaker—was declining and unprofitable. But rather than giving in to the product life cycle, the brand engineered a turnaround. It sent designers out to visit homes, playgrounds, and side-street sidewalks around the country to watch firsthand how today's kids were using wagons, tricycles, and other items that Radio Flyer makes. At headquarters, it built a Play Lab with a test-track sidewalk, where it videotaped how kids ride. It also studied parents. "It was then we realized that Radio Flyer was an experience (not a wagon) company—our products bring smiles and create warm memories," says Radio Flyer's CEO. "That consumer insight unlocked our brand's potential."

Such customer-focused new product development paid off. For example, after watching small children ride the toys, the Radio Flyer team came up with a scooter that had a wider deck, two front wheels, and a less-wobbly ride. "We went from not having a product in this category to becoming the number one brand . . . in scooters for little kids," says the CEO. And more than just classic wagons, scooters, and trikes, Radio Flyer has added trendy new products. For example, it's Tesla Model S for Kids is a battery-powered kids car with a lithium ion battery that generates higher speeds (parent-controlled up to 6 miles per hour), longer run times, and lower environmental impact. Its new Tesla Cyberquad for Kids ATV hits 10 miles per hour with a 15-mile range. Radio Flyer even launched its first-ever adult product line—FLYER electric bikes and scooters "for families on the go looking for a more sustainable, fun way to get to their destinations." Thanks to these and other product successes, Radio Flyer is now once again rolling and profitable, recently earning it a spot on the *Forbes* list of America's Best Small Companies.

Mattel's Barbie

Barbie, Mattel's biggest and oldest brand, is now in her 60s. Born in 1959, Barbie quickly became a must-have for young girls everywhere. Interestingly, Barbie was launched as a progressive new doll, teaching girls to pursue their dreams and not be ashamed of their bodies. By the late 1970s, 90 percent of U.S. girls between the ages of 5 and 10 owned at least one Barbie, producing massive sales and profits for Mattel for five decades.

But across the years, Barbie's iconic "skinny, tall, and blonde" features came under increasing scrutiny by parents and activists for establishing unrealistic beauty norms. Scientific studies showed that if the classic Barbie were human, she would have a 16-inch waist, wear a size 3 shoe, and weigh 110 pounds. A human Barbie would have room for only half a liver and just a few inches of intestines. And she'd be unable to lift her disproportionately large head. The children's toy and doll markets were also changing. Twenty-first century kids were playing less with traditional toys, instead choosing video games, MP3 players, and ultimately tablets and smartphones.

All this eventually caught up with Barbie. After sales peaked in the early 2000s at more than \$3.6 billion, Barbie's fortunes entered a steady and dramatic 10-year slide, bottoming out at just \$900 million in 2015. During that time, Mattel made attempts to revive the aging Barbie. It introduced new models that focused on STEM careers, expanded the brand into movies and interactive video games, and redesigned Barbie's body to somewhat more realistic proportions. But nothing seemed to work. Analysts quipped that it might be time for Mattel to roll out Retirement Barbie.

But Mattel wasn't about to give up on its former billion-dollar brand. Instead, it got serious about understanding customer concerns and addressing them with more than just new outfits and career choices. Through an exhaustive redesign, Barbie emerged as a full-figured line of dolls that actually resembled real women, with a full appreciation of inclusivity and diversity. Barbie now comes with 9 body types, 35 skin tones, 14 facial structures, 13 eye colors, and 94 hair style and color combinations.

Mattel supported this more realistic and diverse line of Barbies with a multimedia campaign. One ad asked, "What happens when girls are free to imagine they can be anything?" It showed girls playing out their dreams of becoming veterinarians, professors, coaches, and entrepreneurs. The ad went viral. Barbie's renewed acceptance appeared complete when she starred in a Super Bowl LVI ad for Rocket Mortgage. In the ad, a very modern Barbie—with the help of Rocket Homes and Rocket Mortgage—fended off a group of aggressive would-be other buyers to land her Malibu Dreamhouse. The ad topped the *USA Today* Ad Meter rankings that year.

Mattel's dramatic changes to the iconic Barbie were risky. But Mattel considered them necessary. So far, it seems that the company's efforts have worked well. A seemingly ageless Barbie's revenues are back on the rise, increasing by more than 50 percent since the brand bottomed out.

Marvel

The Marvel brand rose to prominence during the latter half of the twentieth century, riding atop a wave of comic book popularity with revered characters such as Spider-Man,

Defying the PLC: After its comic book empire fell into bankruptcy, Marvel gave new life to its iconic characters by targeting a new generation through a new industry—movies. Marvel Cinematic Universe (MCU) is now the highest-grossing film franchise ever.

YOSKHIKI USAMI/Alamy Stock Photo

Iron Man, Captain America, Thor, Wolverine, Black Widow, and dozens of others. By the 1990s, Marvel was the undisputed superhero of superhero comics. But as time passed, the comic book industry fell into a tailspin. Marvel filed for bankruptcy, and the future seemed dim. For example, at the time, entertainment giant Sony had the chance to buy all the Marvel characters for a paltry $25 million. But Sony passed, instead buying the rights only to Spider-Man. It told negotiators, "Nobody gives a sh*t about any of the other Marvel characters."

But a new Marvel CEO believed otherwise, changing course in a way that put the brand on a path to its greatest popularity and profitability ever. Marvel decided to focus on Marvel's iconic characters but to target a new generation through a new industry—movies. Leveraging the still-strong power of its brand and characters well known by millions, Marvel dove headlong into producing its own superhero movies.

Today, Marvel Cinematic Universe (MCU) is the highest grossing film franchise ever, with more than $25 billion in box office sales. That's more than any other film franchise including James Bond, The Fast and the Furious, and Wizarding World. Even Star Wars trails at a distant second, with less than $10 billion in total sales. While MCU lays claim to the most feature films, with 27 under its belt, it is also number one in terms of average box office sales for each film at just under $1 billion. Now a wholly owned subsidiary of Disney and backed by the parent company's deep pockets, there appears to be no limit to the demand for Marvel's cinema-focused strategy. Its characters have found new life through full-length movies and are also featured in numerous TV series. As an added bonus, Marvel's movie success has also put its comic book business back into the growth stage of the product life cycle. At Marvel, these days, life (cycle) is good.[33]

Author Comment | Let's look at just a few more product topics, including regulatory and social responsibility issues and the special challenges of marketing products internationally.

Additional Product and Service Considerations

OBJECTIVE 9-4 Discuss two additional product issues: socially responsible product decisions and international product and services marketing.

We wrap up our discussion of products and services with two additional considerations: social responsibility in product decisions and issues of international product and services marketing.

Product Decisions and Social Responsibility

Marketers should carefully consider public policy issues and regulations regarding acquiring or dropping products, patent protection, product quality and safety, and product warranties.

Regarding new products, the government may prevent companies from adding products through acquisitions if the effect threatens to lessen competition. Companies dropping products must be aware that they have legal obligations, written or implied, to their suppliers, dealers, and customers who have a stake in the dropped product. Companies must also obey U.S. patent laws when developing new products. A company cannot make its product illegally similar to another company's established product.

Manufacturers must comply with specific laws regarding product quality and safety. The Federal Food, Drug, and Cosmetic Act protects consumers from unsafe and adulterated food, drugs, and cosmetics. Various acts provide for the inspection of sanitary conditions in the meat- and poultry-processing industries. Safety legislation has been passed to regulate fabrics, chemical substances, automobiles, toys, and drugs and poisons. The Consumer Product Safety Act of 1972 established the Consumer Product Safety Commission, which has the authority to ban or seize potentially harmful products and set severe penalties for violation of the law.

If consumers have been injured by a product with a defective design, they can sue manufacturers or dealers. A recent survey of manufacturing companies found that product liability was the second-largest litigation concern, behind only labor and employment matters. Tens of thousands of product liability suits are now tried in U.S. district courts each year. Although manufacturers are found to be at fault in only a small percentage of all product liability cases, when they are found guilty, awards can run into the tens or even hundreds of millions of dollars. Class-action suits can run into the billions. For example, after admitting that it had rigged its diesel engine cars to cheat on emissions tests, Volkswagen agreed to pay fines of more than $4 billion in the United States alone, settled one class action suit for another $25 billion, and agreed to buy back 600,000 diesel vehicles from American consumers. Other fines and lawsuits were expected.[34, 35]

Some companies are now appointing *product stewards*, whose job is to protect consumers from harm and the company from liability by proactively ferreting out potential product problems.

International Product and Services Marketing

International product and services marketers face special challenges. First, they must figure out what products and services to introduce and in which countries. Then they must decide how much to standardize or adapt their products and services for world markets.

On the one hand, companies would like to standardize their offerings. Standardization helps a company develop a consistent worldwide image. It also lowers the product design, manufacturing, and marketing costs of offering a large variety of products. On the other hand, markets and consumers around the world differ widely. Companies must usually respond to these differences by adapting their product offerings.

Global product adaptation: By adapting its menu and operations to the needs and preferences of French consumers and their culture, McDonald's has turned France into its second-most-profitable world market.

ERIC PIERMONT/AFP/Getty Images

For example, McDonald's operates in more than 100 countries, with sometimes widely varying local food preferences. So although you'll find its signature burgers and fries in most locations around the world, the chain has added menu items that meet the unique taste buds of customers in local markets. McDonald's serves salmon burgers in Norway, mashed-potato burgers in China, shrimp burgers in Japan, a Samurai Pork Burger in Thailand, chicken porridge in Malaysia, and Spam and eggs in Hawaii. In a German McDonald's, you'll find the Nürnburger (three large bratwurst on a soft roll with lots of mustard, of course); in Israel, there's the McFalafel (chickpea fritters, tomatoes, cucumber, and cheese topped with tahini and wrapped in lafa). Menus in Turkey feature a chocolate orange fried pie (Brazil adds banana, Egypt taro, and Hawaii pineapple). And French consumers love baguettes, so McDonald's bakes them fresh in its restaurants and sells McBaguette sandwiches.[36]

In many major global markets, McDonald's adapts more than just its menu. It also adjusts its restaurant design and operations. Although a McDonald's in Paris might at first seem a lot like one in Chicago, McDonald's has carefully adapted its French operations to suit French lifestyles. For example, French mealtimes tend to be longer, with more food consumed per sitting. So McDonald's has refined its restaurant interiors to create a comfortable, welcoming environment where customers want to linger and perhaps order an additional coffee or dessert. McDonald's even provides tableside service. Thanks to such menu and operations adaptations, the fast-food giant has turned France into its second-largest world market.[37]

Service marketers also face special challenges when going global. Some service industries have a long history of international operations. For example, the commercial banking industry was one of the first to grow internationally. Banks had to provide global services to meet the foreign exchange and credit needs of their home-country clients who wanted to sell overseas. In recent years, many banks have become truly global. Chase Bank, for example, serves more than 50 million customers through 5,000 branches and 17,000 ATMs in more than 100 countries. For its clients around the world who wish to grow globally, Chase Bank can raise money not only in New York but also in Zurich, London, Paris, Tokyo, and Moscow.[38]

Retailers are among the latest service businesses to go global. As their home markets become saturated, American retailers such as Walmart, Costco, and Saks Fifth Avenue are expanding into faster-growing markets abroad. For example, Walmart now has more than 10,500 stores in 24 countries; its international division's sales account for 23 percent of total sales. Foreign retailers are making similar moves. Argentinian shoppers can now buy American products in French-owned Carrefour stores. Carrefour—the world's eighth-largest retailer—now operates more than 12,300 stores in more than 32 countries. It is the leading retailer in Europe, Brazil, and Argentina.[39]

The trend toward growth of global service companies will continue, especially in banking, airlines, telecommunications, and professional services. Today, service firms are no longer simply following their manufacturing customers. Instead, they are taking the lead in international expansion.

Reviewing and Extending the Concepts

Objectives Review

A company's current products face limited life spans and must be replaced by newer products. But new products can fail—the risks of innovation are often greater than the rewards. The key to successful innovation lies in a customer-focused, holistic, total-company effort; strong planning; and a systematic new product development process.

OBJECTIVE 9-1 Explore how companies find and develop new product ideas.

Companies find and develop new product ideas from a variety of sources. Many new product ideas stem from *internal sources*. Companies conduct formal R&D, or they pick the brains of their employees, urging them to think up and develop new product ideas. Other ideas come from *external sources*. Companies track *competitors'* offerings and obtain ideas from *distributors and suppliers* who are close to the market and can pass along information about consumer problems and new product possibilities. Or they can learn from innovation leaders outside their own industries.

Perhaps the most important sources of new product ideas are *customers* themselves. Companies observe customers, invite them to submit their ideas and suggestions, or even involve customers in the new product development process. Many companies are now developing *crowdsourcing* new product idea programs, which invite broad communities of people from both inside and outside the company—customers, employees, independent scientists and researchers, and even the general public—into the new product innovation process. Truly innovative companies do not rely only on one source for new product ideas.

OBJECTIVE 9-2 Define the steps in the new product development process and the major considerations in managing this process.

The new product development process consists of eight sequential stages. The process starts with *idea generation*. Next comes *idea screening,* which reduces the number of ideas based on the company's own criteria. Ideas that pass the screening stage continue through *product concept development,* in which a detailed version of the new product idea is stated in meaningful consumer terms. This stage includes *concept testing,* in which new product concepts are tested with a group of target consumers to determine whether the concepts have strong consumer appeal. Strong concepts proceed to *marketing strategy development,* in which an initial marketing strategy for the new product is developed from the product concept. In the *business-analysis* stage, a review of the sales, costs, and profit projections for a new product is conducted to determine whether the new product is likely to satisfy the company's objectives. With positive results here, the ideas become more concrete through *product development* and *test marketing* and finally are launched during *commercialization*. In practice, companies often overlap these stages across time so delays in a single stage do not bottleneck the entire process.

New product development involves more than just going through a set of steps. Companies must take a systematic, holistic approach to managing this process. Successful new product development requires a customer-centered, team-based, systematic effort.

OBJECTIVE 9-3 Describe the stages of the product life cycle and how marketing strategies change during a product's life cycle.

Each product has a *life cycle* marked by a changing set of problems and opportunities. The sales of the typical product follow an S-shaped curve made up of five stages. The cycle begins with the *product development* stage in which the company finds and develops a new product idea. *The introduction stage* is marked by slow growth and low profits as the product is distributed to the market. If successful, the product enters a *growth stage,* which offers rapid sales growth and increasing profits. Next comes a *maturity stage* in which the product's sales growth slows down and profits stabilize. Finally, the product enters a *decline stage* in which sales and profits dwindle. The company's task during this stage is to recognize the decline and decide whether it should maintain, harvest, or drop the product. The different stages of the PLC require different marketing strategies and tactics. Managers must be careful not to allow the PLC to become a self-fulfilling prophecy, whereby they manage the product to its premature death because of a faulty assumption that it is truly dying.

OBJECTIVE 9-4 Discuss two additional product issues: socially responsible product decisions and international product and services marketing.

Marketers must consider two additional product issues. The first is *social responsibility*. This includes public policy issues and regulations involving acquiring or dropping products, patent protection, product quality and safety, and product warranties. The second involves the special challenges facing international product and services marketers. International marketers must decide how much to standardize or adapt their offerings for world markets.

Key Terms

OBJECTIVE 9-1

New product development

OBJECTIVE 9-2

Idea generation
Crowdsourcing
Idea screening
Product concept
Concept testing
Marketing strategy development
Business analysis
Product development
Test marketing
Commercialization
Customer-centered new product development
Team-based new product development

OBJECTIVE 9-3

Product life cycle (PLC)
Style
Fashion
Fad
Introduction stage
Growth stage
Maturity stage
Decline stage

Discussion Questions

9-1 How can new products be acquired? (AACSB: Written and Oral Communication; Reflective Thinking)

9-2 Describe the three components of the marketing strategy statement in the marketing strategy development phase of the new product development process. (AACSB: Written and Oral Communication; Reflective Thinking)

9-3 Give examples of external sources that might be used to generate good new product ideas for companies. (AACSB: Written and Oral Communication; Reflective Thinking)

9-4 New product development is best managed holistically. What are the three components of the holistic approach to new product development? (AACSB: Written and Oral Communication)

9-5 What are the expected patterns of sales and profits over a typical product life cycle? (AACSB: Written and Oral Communication)

9-6 Describe the R-W-W ("real, win, worth doing") new product screening framework. How is it used? (AACSB: Written and Oral Communication)

Critical Thinking Exercises

9-7 Research press releases from Unilever related to crowdsourcing. How does Unilever use crowdsourcing to find innovative new sustainability solutions? (AACSB: Written and Oral Communication; Application of Knowledge)

9-8 In small groups, research the Air Pop Active+ face mask. Visit https://airpophealth.com/products/active-smart-mask-halo-sensor. Where is this product in the new product life cycle? Explain. (AACSB: Integration of Real-World Business Experiences; Application of Knowledge)

9-9 People travel to cold climates to spend a night or two in "ice hotel" rooms carved completely of ice (see www.icehotel.com/icehotel-original). Ice hotels in Norway offer opportunities to see the northern lights, while an ice hotel in Sweden boasts art suites, uniquely designed by commissioned artists from all over the world. Is ice hotel tourism a fad or not? Respond in a way that reflects your understanding of fads. (AACSB: Written and Oral Communication; Reflective Thinking)

APPLICATIONS AND CASES

Digital Marketing Barbie in the Digital Age

Launched in 1959, Mattel's Barbie doll has been a defining childhood experience for generations of American children, particularly girls. In 2020, Mattel sold more than $1.3 billion worth of Barbie dolls and accessories. Over the decades Barbie has worked to become more diverse and inclusive, incorporating a range of skin tones and hair styles to incorporate racial diversity and dresses and physical characteristics to represent a range of national origins even as the brand has gone increasingly global. But Barbie's biggest challenge has been the onset of the digital age. Today, children look to computers, smartphones, and other mobile devices for interactive and engaging games, entertainment, and social networking. Barbie made some early attempts to go digital. These included Barbie Video Girl, which recorded short, uploadable video snippets; and the networked Hello Barbie, which featured the ability to hold short conversations with users, drawing on responses from an artificial intelligence–enabled algorithm that worked in conjunction with a virtual database. But both efforts floundered in the face of privacy and security concerns. Barbie's future in the digital world remains uncertain.

9-10 Assuming that the privacy and security challenges can be addressed, how can Barbie grow in the digital age? (AACSB: Integration of Real-World Business Experiences)

9-11 What changes must Mattel make in the new product development process to enable it to thrive in the digital age? (AACSB: Integration of Real-World Business Experiences; Interpersonal Relations and Teamwork)

Marketing Ethics Space Tourism

Virgin Galactic, SpaceX, and Blue Origin are among companies that are offering or plan to offer space tourism experiences to paying customers. The offerings range from $250,000 to $55 million for a space flights of different orbits and durations. One goal is to show space tourists that space travel is safe, routine, and reliable. This can propel societal openness to the expansion of the industry and to putting humanity into space. In turn, this could open the doors to planned economic activities such as asteroid mining and expeditions to the moon and Mars.

9-12 What are the ethical concerns related to innovations in commercial space travel? (AACSB: Ethical Understanding and Reasoning)

9-13 How can the space tourism industry address some of these concerns? (AACSB: Reflective Thinking; Ethical Understanding and Reasoning)

Marketing by the Numbers Dental House Calls

With the population aging and increasing numbers of older patients who dread sitting in a sterile dental office, dentists are finding an opportunity in dental house calls. The Blende Dental Group has taken its service on the road in San Francisco and New York City, performing everything from routine exams and cleanings to root canals. Recreating a dental office in a home requires additional, expensive equipment, such as a portable X-ray machine that looks like a ray gun, sterile water tanks, a dental drill, lights, and a laptop in addition to a vehicle. A portable X-ray machine alone costs $4,000. Refer to Increase Distribution Coverage in Appendix 2: Marketing by the Numbers to answer the following questions.

9-14 What are some of the fixed costs are associated with such home service? Assuming that the total fixed costs of adding this mobile service are $25,000 and the desired contribution margin is 60 percent, determine the dollar volume of sales necessary to break even on such home service. (AACSB: Written and Oral Communication; Analytical Thinking)

9-15 What other factors must dentists consider before offering this service in addition to their in-office service? (AACSB: Written and Oral Communication; Reflective Thinking)

Company Case Toyota: Developing a Million New Product Ideas Every Year

Toyota is one of the car industry's biggest success stories. Founded in 1918 as Toyota Spinning and Weaving company, it only started to produce automobiles in 1937, but since then the company has continued to grow to become one of the most important car manufacturers in the world. In this regard, the company has been a global trailblazer in several areas related to product and product design, with some of its strategies, like the Toyota Product Development System (TPDS), becoming industry standards.

From Concept to the Decision Hall

The new product development strategy at Toyota is realized mainly in five distinct steps:

1. *Creation of Concept*. This step is defined by the collection of ideas, mainly from employees but also from the general public through programs such as Ideas for Good. Major points taken into consideration are customer profile and future car trends. Designers then create an initial sketch.
2. *Development of the Idea*. After the initial sketches have been penciled out, a team of experienced designers create a complete 3D computer model with full details. Emphasis is on the realism of the project (how close it is to the final product) as well as creativity and visual appeal.
3. *Color Choice*. Toyota takes great care with minor details, even color. Every color is analyzed based on its fit with the general product idea and concept. For example, red might fit a sports car like the Toyota GTR but not a Toyota Offroader. Moreover, special attention is given to how the colors of different car parts fit with each other.
4. *Mock-Up*. A realistic mockup is created using clay, which the designers and engineers analyze to find errors.
5. *Decision Hall*. A few models are built and taken to a hall where they are analyzed in realistic environmental conditions. Light and rain are generated to see how the car looks in these settings.

Toyota believes in the co-creation of value, in which all stakeholders are involved, potential customers included. The company uses three main sources of product ideas: employees in the engineering and design departments, other employees across the whole company, and people from outside the company. Toyota also gathers new product ideas from dealerships worldwide, as this is where customers bring their cars in for repairs. Ideas from engineers and designers are generated through the TPDS.

Toyota Creative Idea and Suggestion System

In 1951, the company developed the Toyota Creative Idea and Suggestion System (TCISS) to allow every employee to offer feedback on any topic they might bring an improvement to. The TCISS was put in place to empower every employee to make informed suggestions regarding the production process, especially employees at the sharp end of production, arguably the ones most likely to highlight potential issues. The company offers an individual annual award for ideas submitted through the TCISS, for which employees can earn gold, silver, or bronze medals.

Since the TCISS was set up, the company has expanded its ideas creation process to include people from outside. It has organized multiple idea contests and has received a growing number of creative submissions: in 1974, it exceeded a million; by 1984, 10 million; by 1988, 20 million; and by 2011, 40 million ideas—and the number continues to rise. In 2007, as an extension to the TCISS, the company launched an Innovation Fair where teams from the sales, financial, and IT departments compete in an idea-based tournament. It was at the 2007 Fair that hydrogen-powered vehicles were presented, and at the 2014 Fair, Bluetooth low-energy beacons to help dealers get better inventory management information were debuted and won funding.

Supporting and Rewarding Creativity

Fundamental to the TPDS is the human value of Toyota's employees. The company seeks to create an environment of creativity where ideas flow freely and contributions from every team member are encouraged and rewarded. To separate good ideas from bad ones, those who submit ideas must always explain how they contribute to the overall project. Additionally, each topic or problem receives multiple ideas, and each idea is verified based on a performance-based approach. Finally, to avoid "reinventing the wheel," all ideas are centralized in an easy-to-access ideas management system. This system, especially in the engineering department, involves the most exceptional and experienced engineers, who also serve in the role of teacher.

At Toyota, the boss can perform their subordinate's tasks at a higher level, so the creation process is not hindered by employees' differences with bureaucratically selected management. At higher echelons, managers are expected not only to possess advanced technical skills but also to see the bigger picture by carefully coordinating the work of multiple distinct departments working on the same project. As such, this facilitates the top management support that is so crucial for the new product development process.

In 2010, Toyota extended its search for new ideas to the general public through the "Ideas for Good" campaign, encouraging people to imagine new ways in which its technologies could be used for the betterment of their lives beyond the automotive world. The best ideas are selected by a panel of Toyota employees, and the winners are invited to participate in the Toyota design process for a future product related to their idea.

The Toyota Prius

Toyota's product life cycle is shaped by the launch of numerous generations of the same model. This strategy can extend the growth and maturity phases of the cycle by decades and involve multiple product generations. Consider the Toyota Prius, arguably its most successful model. Here, each phase of the product life cycle corresponds to a generation of the Prius.

1. *Introduction Phase:* The first generation of Toyota Prius was launched in 1997, after five years of design. As one of the world's first commercial hybrid vehicles, it was revolutionary; in fact, the design proved so successful that it has been maintained in all Toyota models since. The car was an immediate success in Japan, selling 40,000 units by the year 2000. Although it initially had slow external sales, by the end of 2003, when the first-generation production ended, the model had sold more than 123,000 units in all markets.
2. *Growth Phase:* This phase is represented by the second-generation Toyota Prius, which had more electrical features and a new hybrid motor that could achieve peak performance based only on the electrical part of the engine. The car was larger and fuel performance was improved by 15 percent. It was an immediate commercial success: by 2004, it had already sold more than the previous model over its entire lifespan. By 2012, when production stopped, worldwide sales had reached over 1,190,000 units.
3. *Maturity Phase:* This phase is represented by the third-generation Prius, which had incremental improvements: CO_2 emissions decreased by 14 percent, engine power increased by 22 percent, and fuel efficiency increased by 10 percent. This model also broke internal sales records, with a total of 3,360,400 units sold by 2014.
4. *Decline Phase:* This is what we can consider the current phase of the Prius. In 2016, the number of Priuses sold in the United States was half the number in 2012. The reasons range from lower gasoline prices to the emergence of full electric vehicles like Tesla.

Acting Responsibly for the World

Social responsibility at Toyota is incorporated in innovative ideas toward the environmental goal of reducing CO_2 emissions by more than 22 percent between 2010 and 2020. The company plans to produce only electric vehicles and hybrids by 2050 and to drop total CO_2 emissions by 90 percent until then. Toyota's website currently presents six electric vehicles, the latest being the Toyota Concept-I Ride, launched at the Tokyo Motor Show in 2017. These vehicles are small urban compacts designed to travel short distances in a busy city environment. The show also unveiled the Concept-i WALK, an electric personal transporter that operates like a Segway.

Technologies are being developed to ensure that Toyota's vehicles maintain the highest performance as well as environmental friendliness. Continuous improvement is cultivated. For example, in 2018 the company discovered a method to create magnets for electric vehicles that uses 50 percent less quantities of critically rare materials than regular magnets. This means lower production costs for the same performance and a lower reliance on raw minerals. Partnerships with two Chinese battery companies, CATL and BYD, ensure a smooth entry into the full electric vehicle market.

Social responsibility at Toyota is also reflected in its testing of electric technologies in urban environments. Between 2014 and 2017, Toyota partnered with the French city of Grenoble, French energy provider EDF, and carpooling company City Lib to conduct an experiment on the integration of electric vehicles in public transportation. Toyota provided a fleet of electric vehicles using its proprietary technology and powering stations to complement the city's public transport—the result was 90 percent satisfaction among the people who used these services.

Toyota introduced multiple safety systems in all vehicles to reduce traffic accidents, such as emergency driver assistance and the Intelligent Clearance Sonar system, and has organized information campaigns on traffic safety, environmentalism, and society and culture. Toyota has also held cell vehicle classes at elementary schools in Iwaki City, and along with the China Soong Ching Ling Foundation, the company has provided scholarships to over 2,000 Chinese students to attend university.

At Toyota, workplace culture includes basing responsible product decisions on employees' volunteer activities. For instance, the company signed its employees up for the Tokyo Paralympic Games in 2019 to get a better understanding of different types of disabilities. In Belgium, Toyota donated the money collected through different employee activities to an NGO that deals with refugees and disadvantaged people. The Toyota Foundation has supported several public programs, including the Traffic Congestion Mitigation Project in Bangkok, the Station Access and Mobility Programme for the Bengaluru metro system, and the Ueyama Mobility Project to make traffic easier in mountainous regions in Okayama Prefecture, Japan. Toyota also sets itself apart with its policy toward conflict minerals, which are mined in war-torn zones, usually by warlords, gangsters, and local dictators. Toyota refuses to purchase minerals acquired through human rights violations, and it is a member of international organizations that monitor the routes of conflict minerals.[40]

Questions for Discussion

9-16 Provide a short explanation for each of the five steps of the product development strategy that Toyota follows.

9-17 Explain how ideas at Toyota are gathered and managed.

9-18 Describe the Toyota Creative Idea and Suggestion System and give examples of benefits that such a system can bring.

9-19 Explain the strategies during each stage of the product life cycle for the Toyota Prius.

9-20 Give examples of publicly responsible decisions that Toyota has recently been involved in. What are their impacts on the society?

10 Pricing
Understanding and Capturing Customer Value

OBJECTIVES OUTLINE

OBJECTIVE 10-1 **Answer the question "What is price?" and discuss the importance of pricing in today's fast-changing environment.**

OBJECTIVE 10-2 **Define *price*, identify the major pricing strategies, and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.**

OBJECTIVE 10-3 **Identify and discuss the other important external and internal factors affecting a firm's pricing decisions.**

CHAPTER PREVIEW

In this chapter, we look at the second major marketing mix tool—pricing. If effective product development, promotion, and distribution sow the seeds of business success, effective pricing is the harvest. Firms successful at creating customer value with the other marketing mix activities must still capture some of this value in the prices they earn. In this chapter, we discuss the importance of pricing, dig into three major pricing strategies, and look at internal and external considerations that affect pricing decisions. In the next chapter, we examine some additional pricing considerations and approaches.

To start, we'll look at Peloton, the fitness brand that has turned its industry upside down. Peloton sells its in-home, internet-connected stationary bikes, treadmills, and other equipment at a substantial price premium over the competition. Yet it has quickly attracted a large and growing cult following of users who like what they get for the prices they pay. For the Peloton faithful, it isn't just about Peloton's prices. It's about inspiration, streaming content, and membership in a dynamic, closely connected Peloton community of like-minded exercise enthusiasts.

PELOTON: Premium Priced. But It's Not about the Price

Peloton in-home exercise bikes sell at a steep price of $1,745, compared with the typical bikes you'd find at your local sporting goods store for as little as $200 or $300. What's more, buying a Peloton requires a $39 monthly membership fee to access the brand's digital network and most appealing features. But even at those prices, Peloton has revolutionized an industry and built a large and loyal 6.5 million–strong membership base.

On average, the $4 billion company's annual revenues from equipment and subscription sales have doubled every year since its 2014 launch. Peloton's sales got an astronomical boost from the COVID-19 pandemic as gym closings and social distancing left millions of gym-less people scrambling to get their fitness fixes with Peloton's in-home gear and workout app. Peloton found itself selling gear faster than it could make it.

Although Peloton's bike prices might seem steep, when customers buy a Peloton, they're getting much more for their money than just a premium home fitness bike. They're buying into an absorbing lifestyle and a closely connected community of like-minded exercise enthusiasts, who ride together through classes on-demand or live-streamed from Peloton's studios to an internet-connected tablet on the bike. As one writer says, it's "the allure of sweating buckets and feverishly cycling en masse to the beat of Beyoncé as an all-too enthusiastic instructor shouts encouragement about 'feeling the burn, baby!'"—all from the comfort and convenience of your own home.

In recent years, a fast-growing number of fitness boutiques have popularized "spinning"—high-intensity, indoor cycling workout classes led by popular instructors in upscale exercise studios. With names like SoulCycle, CycleBar, Revolve, and Swerve, these studios evoke a vibe that is more "swanky private club" than "sweaty fitness gym." For example, cyclists in one of SoulCycle's candle-lit "soul studios" pay $34 for an instructor-led 45-minute class. But more than a workout, SoulCycle promises "A powerful mind-body experience. Change your body. Find your SOUL."

Peloton founder and now executive chairman John Foley—a triathlete and then new father—enjoyed spinning. But as the SoulCycle spinning craze grew in popularity, he found it increasingly difficult to book the classes and popular instructors that he wanted. Like others, his time-challenged lifestyle often made it tough to get to an exercise studio, and sometimes he just wanted more privacy when working out. So Foley found a better way. Instead of making customers go to spinning classes, he would take the spinning classes to customers. Working with a team of engineers, instructors, and sales reps, Foley designed Peloton around the tech-forward, time-starved, on-demand lifestyles of today's consumers.

Every premium Peloton cycle comes mounted with a large touchscreen tablet by which riders can track their performance, stream content from Peloton, or interact with others in the Peloton online community. Peloton streams 24 hours of live content daily and offers more than 8,000 on-demand cycling classes and thousands more "Beyond the Ride" classes such as yoga, arms, legs, stretching, and core strengthening. Riders can select their favorite instructors, class length, class type, and even music genre. They can follow and compete with other riders in real time. And they can do all that from the comfort and convenience of home.

Peloton's early adopters were affluent riders who weren't deterred by the high price of admission. The brand quickly earned a cult following of well-off users. But based on customer data gathered through the Peloton network, the company soon discovered opportunities among less affluent riders. So Peloton began offering a financing option that bundled the bike with a monthly subscription for $97 a month for 39 months. By comparison, two in-studio spinning classes a week at any Peloton competitor cost from $200 to $300 a month. Three spins a week in a New York City studio runs a hefty $500 a month. That makes Peloton a real bargain in the eyes of its fans.

But again, for the Peloton faithful, it isn't just about the price of a bike. Joining Peloton provides benefits that customers can't get from either standalone bikes or in-person spinning studios: owning a premium bike, workout and scheduling convenience, access to quality content, and membership in a dynamic, thriving community. Because an unlimited number of people can participate in a given Peloton class, the company can spend generously to produce a wide selection of top-quality classes taught by the best instructors. And Peloton collects tons of user data that help shape future content offerings, making it what some analysts have called the "Netflix of fitness."

More than a fitness brand, Peloton is a "microcultural" phenomenon. Members self-select into groups on Facebook based on age, height, profession, location, instructor preferences, and other characteristics. And Peloton groups don't just get together for virtual rides; they interact between rides. They communicate online, offering advice and encouragement and congratulating each other on reaching new milestones. They meet up at local showrooms and travel cross-country to attend Peloton's annual Homecoming—a three-day gathering of classes, meetups, cocktails, and meet-and-greets with Peloton's celebrity-like instructors. When one Peloton member posted on the Official Peloton Page that he needed to sell his recently purchased bike to cover his wife's medical expenses, fellow riders set up a GoFundMe page that raised $25,000 in just 48 hours.

For the Peloton faithful, it isn't just about Peloton's premium prices. It's about the values received from membership in the dynamic, closely connected Peloton community.

Peloton Interactive

Peloton now sells bikes, treadmills, other equipment, and subscriptions all over the world through its online store and 100-plus showrooms throughout the United States, Canada, the United Kingdom, and Germany. In turn, competitors like SoulCycle have felt the burn of Peloton's success. Although other spinning studio chains have expanded into in-home options similar to Peloton's—from bikes to subscription services—competing studio-based brands have struggled, especially as COVID-19 ravaged the industry.

Peloton itself faces its share of challenges. The COVID-19 pandemic unleashed a great deal of uncertainty, with exercise patrons bouncing back and forth between in-home exercise and going to the gym. Demand spikes coupled with global supply chain issues at times made quick order fulfillment impossible. And design flaws in the Peloton Tread treadmill caused injuries to some customers, resulting in expensive recalls and a blow to Peloton's premium image. The company's stock price is down, and it has yet to turn an annual profit. But even with all the challenges, Peloton's equipment sales and memberships continue to grow at healthy rates. Peloton is now by far the most popular stationary cycling brand.

All of this makes Peloton an interesting study in pricing strategy. Although at first blush, the price might seem unreasonably high, most customers see it as a

Peloton sells its in-home stationary bikes and other fitness equipment at a substantial price premium over the competition. Yet it has attracted a large and growing cult following of users who like the value they get for the price they pay.

bargain for what they are getting. In fact, Peloton initially set lower prices to attract more customers. But raising prices actually increased demand. "It was interesting psychology that we teased out," says Foley. "In the very, very early days, we charged $1,200 for the Peloton bike for the first couple of months. And what turned out happening is we heard from customers that the bike must be poorly built if you're charging $1,200 for it. We charged $2,000 for it, and sales increased, because people said, 'Oh, it must be a quality bike.'"

Whatever the psychology, with its cultlike following and industry-largest membership base, even at its high price, Peloton appears to be giving riders more than their money's worth.[1]

COMPANIES TODAY FACE a fierce and fast-changing pricing environment. Value-seeking. smartphone-wielding customers have put increased pricing pressure on many companies. Thanks to tight economic times in recent years, the pricing power of the internet, and value-driven retailers such as Walmart and Amazon, today's consumers are pursuing more frugal spending strategies. In response, it seems that almost every company has been looking for ways to cut prices.

Yet cutting prices is often not the best answer. Reducing prices unnecessarily can lead to lost profits and damaging price wars. It can cheapen a brand by signaling to customers that price is more important than the customer value a brand delivers. Instead, in both good economic times and bad, companies should sell value, not price. In some cases, that means selling lesser products at rock-bottom prices. But in most cases, it means persuading customers that paying a higher price for the company's brand is justified by the greater value they gain.

Pricing: No matter what the state of the economy, companies should sell value, not price.

magicoven/Shutterstock

What Is Price?

OBJECTIVE 10-1 Answer the question "What is price?" and discuss the importance of pricing in today's fast-changing environment.

In the narrowest sense, **price** is the amount of money charged for a product or a service. More broadly, price is the sum of all the values that customers give up to gain the benefits of having or using a product or service. Pricing remains one of the most important elements that determine a firm's market share and profitability.

Price
The amount of money charged for a product or service, or the sum of the values that customers exchange for the benefits of having or using the product or service.

Pricing has been described as the moment of truth in marketing. Almost everything that the company does in marketing, it does *for* the customer. For example, innovation and new product development, advertising, distribution, packaging, and other activities are all aimed at increasing the value delivered to the customer. Pricing is the only marketing mix element that translates the value created for customers back into revenues and profits for the company. A company can pour significant resources into creating customer value, but poor pricing decisions can lay waste to all those inputs. Pricing too high can reduce profits by driving away profitable customers. Pricing too low can reduce profits by leaving too much value on the table for customers.

Pricing is one of the most flexible marketing mix elements. Unlike product features and channel commitments, prices can be changed quickly in response to market developments.

Given these significant implications of the pricing decision and the fact that prices are flexible, one might think that pricing decisions should be top-of-mind for managers. Unfortunately, pricing is the number-one problem facing many marketing executives, and many companies do not manage pricing well. Managers often view pricing as a big headache, preferring instead to focus on other marketing mix elements while treating pricing as an afterthought.

In contrast, smart managers treat pricing as a key strategic tool for capturing customer value. Prices have a direct impact on a firm's bottom line. A small percentage improvement in price can often generate a large percentage increase in profitability. And, as part of a company's overall value proposition, price plays a key role in influencing the value perceived by consumers and in building customer relationships. Instead of shying away from pricing, smart marketers embrace it as an important competitive tool.[2]

Author Comment | Setting the right price is one of the marketer's most difficult tasks. A host of factors come into play. But as the opening story about Peloton illustrates, finding and implementing the right pricing strategy is critical to success.

Major Pricing Strategies

OBJECTIVE 10-2 Define *price*, identify the major pricing strategies, and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

The price the company charges will fall somewhere between one that is too low to produce a profit and one that is too high to produce any demand. **Figure 10.1** summarizes the major considerations in setting prices. Customer perceptions of the product's value set the ceiling for its price. If customers perceive that the product's price is greater than its value, they will not buy the product. Likewise, product costs set the floor for a product's price. If the company prices the product below its costs, the company's profits will suffer. In setting its price between these two extremes, the company must consider several external and internal factors, including competitors' strategies and prices, the overall marketing strategy and mix, and the nature of the market and demand.

Figure 10.1 suggests three major pricing strategies: customer value–based pricing, cost-based pricing, and competition-based pricing. We discuss each strategic pricing approach in turn.

Author Comment | Like everything else in marketing, good pricing starts with customers and their perceptions of value.

Customer Value–Based Pricing

In the end, the customer will decide whether a product's price is right. Pricing decisions, like other marketing mix decisions, must start with customer value. When customers buy a product, they exchange something of value (the price) to get something of value (the benefits of having or using the product). Effective customer-oriented pricing involves understanding how much value consumers place on the benefits they receive from the product and setting a price that captures that value.

Customer value–based pricing
Setting price based on buyers' perceptions of value rather than on the seller's cost.

Customer value–based pricing uses buyers' perceptions of value as the key to pricing. Value-based pricing means that marketers cannot design a product and marketing program and then set the price. They must consider price along with all other marketing mix variables *before* they set a marketing program.

Figure 10.2 compares value-based pricing with cost-based pricing. Although costs are an important consideration in setting prices, cost-based pricing is often product driven. The company designs what it considers to be a good product, adds up the costs of making the product, and sets a price that covers costs plus a target profit. Marketing must then convince buyers that the product's value at that price justifies its purchase. If the price turns out to be too high, the company must settle for lower markups or lower sales, both resulting in disappointing profits.

Value-based pricing reverses this process. The company first assesses customer needs and value perceptions. It then sets its target price based on customer perceptions of value. The targeted value and price drive decisions about what costs can be incurred and the resulting product design. As a result, pricing begins with analyzing consumer needs and value perceptions, and the price is set to match perceived value.

Value-based pricing is generally the most logical and profitable way to price products and services. It focuses both on creating market offerings that deliver appreciable value to customers and on pricing that captures that value in return in order to drive profits.

FIGURE 10.1
Considerations in Setting Price

If customers perceive that a product's price is greater than its value, they won't buy it. If the company prices the product below its costs, profits will suffer. Between the two extremes, the "right" pricing strategy is one that delivers both value to the customer and profits to the company.

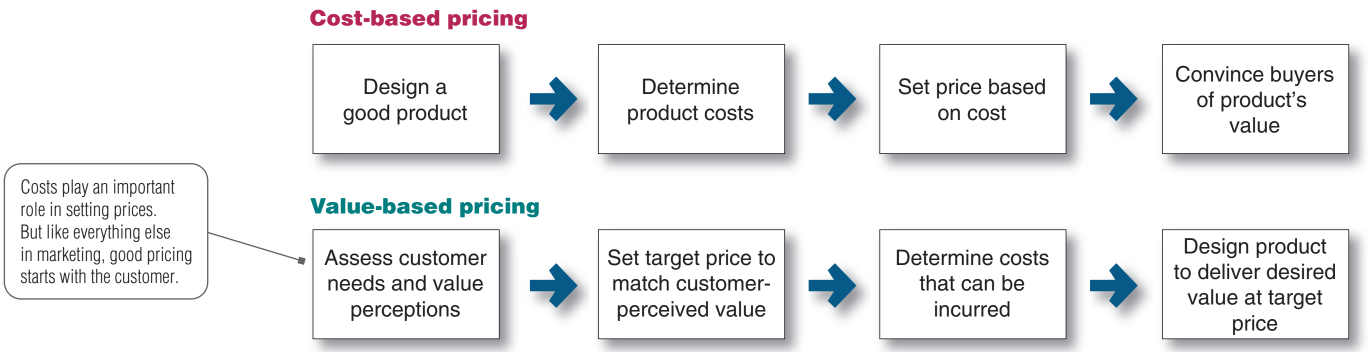


FIGURE 10.2
Value-Based Pricing versus Cost-Based Pricing

However, companies often find it hard to measure the value customers attach to their products. For example, calculating the cost of ingredients in a meal at a fancy restaurant is relatively easy. But assigning value to other measures of satisfaction such as taste, environment, relaxation, conversation, and status is very hard. Such value is subjective; it varies for both different consumers and different situations (see Real Marketing 10.1).

It's important to remember that "good value" is not the same as "low price." For example, a Steinway piano—any Steinway piano—costs a lot. But to those who own one, a Steinway is a great value:[3]

> Steinway's more popular piano models typically run anywhere from $70,000 to $150,000. But ask anyone who owns a Steinway and they'll tell you that, when it comes to Steinway, price is nothing; the Steinway experience is everything. Steinway makes very high-quality pianos—handcrafting each Steinway requires up to one full year. Steinway claims that old-world crafting combined with state-of-the-art technology gives a Steinway "the widest range of tonal colors and the most responsive touch of any instrument...by far." But Steinway owners get much more than just a well-made piano. More importantly, they get the Steinway mystique. The Steinway name evokes images of classical concert stages and the celebrities and performers who've owned and played Steinway pianos across more than 160 years. Yet Steinways aren't just for world-class pianists and the wealthy. Most Steinway buyers are amateurs who perform only in their dens.
>
> So is a Steinway piano worth the premium price compared to less expensive pianos? To many consumers, the answer is no. But to Steinway's customers, whatever a Steinway costs, it's a small price to pay for the value of owning one. Says one Steinway user, "A pianist without a Steinway, for me, is the same as a singer without a voice." Says another, "My friendship with the Steinway piano is one of the most important and beautiful things in my life." Who can put a price on such feelings?

Customer value–based pricing: A Steinway piano—any Steinway piano—costs a lot. But to a Steinway customer, it's a small price to pay for the value of owning one.

At some level, consumers will use perceived values to evaluate a product's price, so the company must work to measure and communicate them. Sometimes, companies ask consumers how much they would pay for a basic product and for each benefit added to the offer. Or a company might conduct experiments to test the perceived value of different product offers. For consumer marketers, this can be difficult. Final consumers rarely break down the value of products into different value-adding components.

In contrast, business-to-business marketers can often make deeper and more calculated assessments of value delivered to their customers. For example, consider leading industrial robot manufacturer KUKA:

> KUKA makes automated and programmable robots that can undertake a remarkable range of complex manufacturing tasks usually done by humans. For example, KUKA robots intricately weld together components of the instrument panel and other body parts for Mercedes vehicles. To price such KUKA welding robots, the company must compute the total value they deliver to customers like Mercedes.

Real Marketing 10.1 | Value-Based Pricing: It's All about Customer Perceptions of Value

For centuries, marriage proposals have involved engagement rings. And today, 80 percent of engagement rings in the United States feature a central diamond costing thousands of dollars. Prior to World War II, however, only 10 percent of engagement rings contained diamonds, and the rings cost much less. Why the big increase? Thank the De Beers diamond company. In the early to mid-1900s, it began a pricing strategy that focused on the symbolic value of engagement rings—the love and commitment associated with them. De Beers set that association in stone with the now-famous tagline "A Diamond is Forever."

Just what is the value to customers of proving one's vows with a diamond? After all, who really needs a diamond in their ring? During the Great Depression, De Beers set the standard at one month's salary. By the 1980s, De Beers doubled the ante with advertising headlines such as "2 months' salary showed the future Mrs. Smith what the future will be like." Twenty years later, the value rose yet another tick to three months' salary. Today, although the average engagement ring price is only one and a half months' salary, De Beers has successfully created a value expectation that a diamond confirms "A promise of the heart." As one early De Beers ad proclaims: "This radiant gem will ever flame for them, holding the memory of their promise, the message of their love, ...to be cherished always, by [them] and all who follow."

Setting price based on customer value is simple in concept but often difficult in practice. It's hard to get a handle on value perceptions. It requires accurately identifying and measuring the benefits that customers seek and perceive and then setting a price to match. More, it often involves boosting customer value perceptions to support higher prices. The task is all that much more challenging because benefits sought, and the value attached to those benefits, can vary substantially across customers and buying situations.

Consider blue jeans, a basic item in wardrobes all over the world. What do consumers value in a pair of jeans, and what are they worth? Levi Strauss & Co. invented the riveted denim blue jean more than 150 years ago, and Levi's is still the best-selling jeans brand. It offers numerous versions featuring basic combinations of style, comfort, and durability starting at $69.50 a pair. But consumer tastes and value perceptions in jeans vary widely. Most consumers are content with the basics. But others willingly pay premium prices for fashion jeans that, while providing no greater "function," add value through "luxury," "status," or "exclusivity."

Recently, a new type of jeans buyer has emerged, one who values "heritage" and "authenticity" above the more commonly sought jeans characteristics. These buyers seek brands such as Rogue Territory, the boutique jeans maker known for its raw denim, "selvedge" jeans, handmade in the United States. Raw denim jeans are not prewashed. Instead, they start out stiff and dark. Selvedge denim is woven "the old-fashioned way," on shuttle looms that produce a unique weave in narrow swaths. The edges are finished in white thread with a single-colored yarn down the middle, preventing the cloth from fraying (hence, self-edge). Selvedge jeans wearers typically wear them cuffed to show off this unique characteristic. To most people, that goes unnoticed. But to fans, it's a subtle sign of a fellow denim-head who is in the know.

What's the value of such heritage and authenticity? Rogue Territory jeans start at $295, more than four times the price of a pair of Levi's. But that's only part of the cost-value proposition. Raw selvedge cloth requires a break-in ritual that would turn away most jeans buyers. Rogue Territory recommends wearing them many times—maybe 30 to 60 times—before washing them. This extensive break-in process creates unique fading patterns along wear creases. And after the first wash with mild detergent, selvedge jeans should be drip-dried until damp and then worn again, letting them conform to the user's body as they dry fully. Thus, Rogue Territory jeans don't just cost more, they take more work. But to loyalists, the rewards reaped in terms of authentic look and fit are more than worth the extra money and effort invested.

Luxury performance carmaker Porsche has long practiced value-based pricing. Like De Beers and Rogue Territory, Porsche has created a differentiated product, maintains high customer value perceptions, and charges high prices accordingly. But Porsche recently added a somewhat different twist with its Porsche Drive subscription program. Porsche Drive takes things a step further by giving a select group of buyers a value-price bundle that goes beyond the basic product.

People who drive Porsches love driving. They happily pay a premium price for a superior-performing, highly styled car. For example, the MSRP for a Porsche Cayenne SUV starts at $69,000; the Cayenne Turbo starts at $129,900. The starting price for a Porsche 911 Carrera sports car runs just over $100,000 for a base model and typically exceeds $125,000 with options, license, and registration; the 911 Turbo starts at $187,100.

For most Porsche customers, one Porsche does the job. True Porsche enthusiasts might have two or three models—a Cayenne SUV for transporting kids and cargo, a Taycan EV sedan for commuting in comfort and style, and a 911 for spirited weekend excursions. But what if someone wants to drive different Porsches but has garage space for only one car? Or someone loves driving different Porches but dreads the hassle of maintaining even one car? Finally, what if someone's budget allows for the outright purchase of a single Porsche but won't expand to buying multiple models?

For such buyers, the Porsche Drive subscription plan, the only one of its kind in the auto industry, offers a value bundle that gives buyers the benefits of owning several Porsches at a subscription price that's much

The Porsche Drive subscription program promises "Dreams on demand—a fleet of Porsches at your fingertips." That makes the value well worth the price for the group of Porsche enthusiasts who sign up.
North Monaco/Shutterstock

less than buying them outright, all without the headaches of car ownership.

For a fixed monthly rate, registered customers can keep and drive almost any Porsche model, including the Macan, Cayman, Boxster, Cayenne, Taycan, Panamera, and 911. Customers select the model they want through an app. They can keep the car for one month or as many months as they wish at the monthly rate and then change it out for a different version of the same model or for another model at a new monthly rate. The monthly subscription fee covers everything, including maintenance, insurance, cleaning, roadside assistance, and concierge vehicle delivery.

The Porsche Drive plan doesn't come cheap. For example, a single-vehicle subscription plan for a Porsche 911 starts at $2,950 a month. By comparison, a three-year lease for that same 911 runs only about $1,600 a month, and the monthly payment on a five-year loan for outright purchase of a 911 would be around $2,300 a month.

The most enticing Porsche Drive plan is the flagship multi-vehicle subscription. For $3,100 a month, customers can point and click on any Porsche model that suits them in the moment. They can keep and drive it or change it as often as they want for any other Porsche model in the program. The plan gives the customer access to a fleet of Porsches that only the wealthiest consumers with the biggest garages could ever hope to own, all with none of the hassles of ownership. "Experience the thrill on your own terms," says Porsche. "An adrenaline-pumping selection of Porsche vehicles is [only] a touch away in the Porsche Drive app." Have "a Porsche fleet at your own fingertips."

Is Porsche Drive worth the price? To most consumers, even steadfast Porsche loyalists, probably not. But it's all about perceptions of value versus price. For those who buy into the plan and its promise of "Dreams on demand," Porsche Drive would be a steal at twice the price.[4]

To begin, KUKA estimates how much Mercedes spends on welding without the robots, using human labor. Then it adds three incremental sources of value that its robots provide. The first is *functional value*, that value related to better welding—more even welds, fewer errors, and lesser reworking. The second is *economic value*—increased profitability of doing the job robotically through lower labor costs, faster welding, less consumption of welding materials, and other improvements. The third is *psychological value*, that value related to creating a safer and less stressful working environment where workers are not exposed to high-temperature welding arcs and noxious fumes generated during welding. Thus, KUKA can make a solid estimate of total value delivered to Mercedes in financial terms and use it as a basis justifying the prices it charges.

According to an old Russian proverb, there are two fools in every market—one who asks too much and one who asks too little. If the seller charges more than the buyers' perceived value, the company's sales will suffer. If the seller charges less, its products will sell very well, but they will produce less revenue than they would if they were priced at the level of perceived value.

We now examine two types of value-based pricing: *good-value pricing* and *value-added pricing*.

Good-value pricing
Offering just the right combination of quality and good service at a fair price.

Good-Value Pricing

Recent years have seen a shift in consumer attitudes toward price and quality. Increasingly, consumers want to know that they are getting good value for their money. In response, many companies have changed their pricing approaches to bring them in line with changing price and value perceptions. More and more, marketers have adopted the strategy of **good-value pricing**—offering the right combination of quality and good service at a fair price.

In many cases, this has involved introducing less-expensive versions of established brand name products or new lower-price lines. For example, Kroger carries three low-priced product lines—Heritage Farm, Check This Out, and Psst, which offers thrift-conscious customers rock-bottom prices on grocery staples such as chicken, toilet paper, and sugar. And Google's Nest brand recently introduced a lower-priced smart thermostat, simply called the Nest Thermostat, priced at $129 versus $249 for the high-end Nest Learning Thermostat. Good-value prices are a relative thing—even premium brands can launch value versions. Mercedes-Benz released its CLA Class, entry-level models starting at $31,500. From its wing-like dash and diamond-block grille to its 208-hp turbo inline-4 engine, the CLA Class gives customers "The Art of Seduction. At a price reduction."[5]

Good-value pricing: Even premium brands can launch good-value versions. The Mercedes CLA Class gives customers "The Art of Seduction. At a price reduction."

North Monaco/Shutterstock

Value-added pricing
Attaching value-added features and services to differentiate a company's offers and charging higher prices.

Cost-based pricing
Setting prices based on the costs of producing, distributing, and selling the product plus a fair of return for effort and risk.

In other cases, good-value pricing involves redesigning existing brands to offer more quality for a given price or the same quality for less. Some companies even succeed by offering less value but at very low prices. For example, the ALDI supermarket chain has established an impressive good-value pricing position by which it gives customers a basic assortment of quality items at super-low everyday prices.

ALDI practices an important type of good-value pricing at the retail level called *everyday low pricing* (*EDLP*). EDLP involves charging a constant, everyday low price with few or no temporary price discounts. Perhaps the king of EDLP is Walmart, which practically defined the concept. Except for a few sale items every month, Walmart promises everyday low prices on everything it sells. In contrast, *high-low pricing* involves charging higher prices on an everyday basis but running frequent promotions to lower prices temporarily on selected items. Department stores such as Kohl's and JCPenney have historically practiced high-low pricing by having frequent sale days, early-bird savings, and bonus earnings for store credit-card holders.

Value-added pricing: Luxury outerwear brand Canada Goose creates high-quality, carefully crafted products that keep you warm in the harshest climates, adding value that merits its premium prices.
Jenny Wong, Photographer

Value-Added Pricing

Value-based pricing doesn't mean simply charging what customers want to pay or setting low prices to meet competition. Instead, many companies adopt **value-added pricing** strategies. Rather than cutting prices to match competitors, they add quality, services, and value-added features to differentiate their offers and thus support their higher prices.

For example, luxury outerwear apparel brand Canada Goose doesn't try to beat out the competition by offering discounts or more affordable versions of its cold-weather jackets, parkas, vests, and other gear. Instead, for more than 60 years, Canada Goose has poured resources into making high-quality, carefully crafted products that merit the premium prices it charges. Its iconic Snow Mantra parka was initially developed to meet the needs of workers in the Canadian Arctic. Made to keep you warm in the harshest climates, Canada Goose jackets can withstand temperatures as low as −30° Celsius. This kind of quality doesn't come cheap—Canadian Goose jackets can run anywhere from $500 to $1,500. Despite those premium prices, or perhaps because of them, Canada Goose has grown to become a near-$1 billion luxury brand. It now sells its popular cold-weather outerwear globally in 12 of its own stores, in high-end partner retailers such as Nordstrom and Bloomingdales, and at its expansive online site, capturing 6 percent of the world's premium outerwear market.[6]

In sum, an important insight is that value-based pricing does not itself signal a low or a high price. Rather, value-based pricing involves a careful assessment of the value delivered by the product to the customer and a resulting pricing decision that captures a good fraction of delivered value back in terms of profitability, even while allowing the customer to retain an appreciable chunk of the delivered value.

Author Comment | Costs set the floor for price, but the goal isn't always to minimize costs. In fact, many firms invest in higher costs so that they can claim higher prices and margins for the enhanced value they create (think back about Canada Goose apparel). The key is to manage the spread between costs and prices—how much profit the company makes for the customer value it delivers.

Cost-Based Pricing

Whereas customer value perceptions set the price ceiling, costs set the floor for the price that the company can charge. **Cost-based pricing** involves setting prices based on the costs of producing, distributing, and selling the product plus a fair rate of return for the company's effort and risk.

Some companies, such as Walmart or ALDI, work to become the *low-cost producers* in their industries. Companies with lower costs can set lower prices that result in smaller margins but greater sales and profits. However, other companies—such as Apple, BMW, and Steinway—intentionally pay higher costs so that they can add value and claim higher prices and margins. For example, it costs more to make a "handcrafted" Steinway piano than a Yamaha production model. But the higher costs result in higher quality, justifying the higher price. The key is to manage the spread between costs and prices—how much the company makes for the customer value it delivers.

Types of Costs

Fixed costs (overhead)
Costs that do not vary with production or sales level.

Variable costs
Costs that vary directly with the level of production.

Total costs
The sum of the fixed and variable costs for any given level of production.

A company's costs take two forms: fixed and variable. **Fixed costs** are regularly incurred costs that do not vary with production or sales level. For example, a company must pay each month's bills for rent, heat, interest on loans, and executive salaries regardless of the company's level of output. Many of these fixed costs are classified as *overhead costs*. In contrast, **variable costs** vary directly with the level of production. Each smartphone or tablet produced by Samsung involves costs related to computer chips, wires, plastic, packaging, and other inputs. Although these costs tend to be the same for each unit produced, they are called variable costs because the total varies with the number of units produced. **Total costs** are the sum of the fixed and variable costs for any given level of production. Management wants to charge a price that will at least cover the total production costs at a given level of production.

The company must watch its costs carefully. If it costs the company more than its competitors to produce and sell a similar product, the company will need to charge a higher price or make less profit, putting it at a competitive disadvantage.

Costs at Different Levels of Production

To price wisely, management needs to know how its costs vary with different levels of production. For example, suppose Lenovo built a plant to produce 1,000 tablet computers per day. **Figure 10.3A** shows the typical short-run average cost curve (SRAC). It shows that the cost per tablet is high if Lenovo's factory produces only a few per day. But as production moves up to 1,000 tablets per day, the average cost per unit decreases. This is because fixed costs are spread over more units, with each one bearing a smaller share of the fixed cost. Lenovo can try to produce more than 1,000 tablets per day, but average costs will increase because the plant becomes inefficient. Workers have to wait for machines, the machines break down more often, and workers get in each other's way.

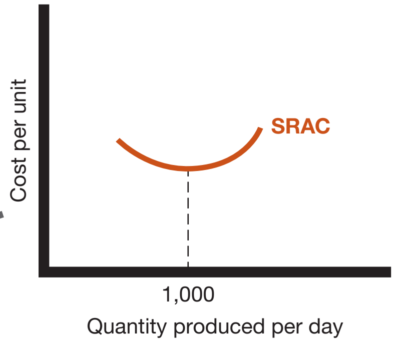
If Lenovo believed it could sell 2,000 tablets a day, it should consider building a larger plant. The plant would use more efficient machinery and work arrangements. Also, the unit cost of producing 2,000 tablets per day would be lower than the unit cost of producing 1,000 units per day, as shown in the long-run average cost (LRAC) curve (**Figure 10.3B**). In fact, a 3,000-capacity plant would be even more efficient, according to Figure 10.3B. But a 4,000-daily production plant would be less efficient because of increasing diseconomies of scale—too many workers to manage, paperwork slowing things down, and so on. Figure 10.3B shows that a 3,000-daily production plant is the best size to build if demand is strong enough to support this level of production. If sufficient demand existed, the company could even set up two plants, each with 3,000-daily production capacity.

Costs as a Function of Production Experience

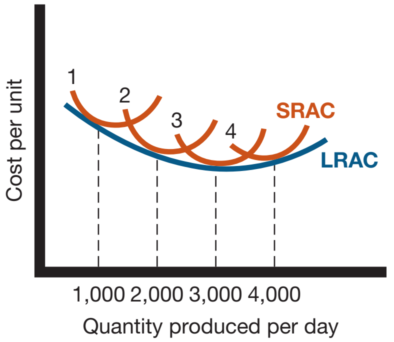
Suppose Lenovo runs a plant that produces 3,000 tablets per day. As Lenovo gains experience in producing tablets, it learns how to do it better. Workers learn shortcuts, become

FIGURE 10.3
Cost per Unit at Different Levels of Production per Period

What's the point of all the cost curves in this and the next few figures? Costs are an important factor in setting price, and companies must understand them well!

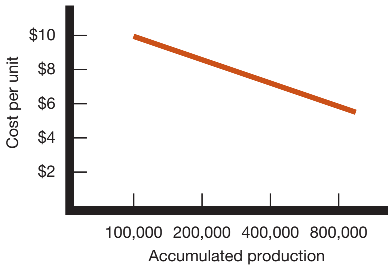


A. Cost behavior in a fixed-size plant



B. Cost behavior over different-size plants

FIGURE 10.4
Cost per Unit as a Function of Accumulated Production: The Experience Curve



more familiar with their equipment, and share knowledge. With practice, the work becomes better organized, and Lenovo finds better equipment and production processes. With higher volume, Lenovo becomes more efficient and gains *economies of scale*. As a result, the average cost tends to decrease with accumulated production experience. This is shown in **Figure 10.4**.[7] Thus, the average cost of producing the first 100,000 tablets is \$10 per tablet. When the company has produced the first 200,000 tablets, the average cost has fallen to \$8.50. After its accumulated production experience doubles again to 400,000, the average cost is \$7. This drop in the average cost with accumulated production experience is called the **experience curve** (or the *learning curve* or *economies of scale*).

Experience curve
The drop in the average per-unit production cost that comes with accumulated production experience.

A downward-sloping experience curve is highly significant for a company. Not only will the company's unit production cost fall, but it will fall faster if the company makes and sells more during a given time period. But the market has to stand ready to buy the higher output. And to take advantage of the experience curve, Lenovo must get a large market share early in the product's life cycle. This suggests the following pricing strategy: Lenovo should invest heavily in early marketing so its sales will increase and its costs will decrease through gaining more experience. Following that, it can lower its prices in order to manage its competition better.

Some companies have built successful strategies around the experience curve. However, a single-minded focus on reducing costs and exploiting the experience curve will not always work. Experience-curve pricing carries some major risks. The aggressive pricing might give the product a cheap image. The strategy also assumes that competitors are weak and not willing to fight it out by meeting the company's price cuts. Finally, while the company is building volume under one technology, a competitor may find a lower-cost technology that lets it start at prices lower than those of the market leader, which still operates on the old experience curve. Finally, once the company lowers prices, it's almost impossible to increase them later.

Cost-Plus Pricing

Cost-plus pricing (markup pricing)
Adding a standard markup to the cost of the product.

The simplest pricing method is **cost-plus pricing** (or **markup pricing**)—adding a standard markup to the cost of the product. Construction companies, for example, may submit job bids by estimating the total project cost and adding a standard markup for profit. Lawyers, accountants, and other professionals sometimes price by adding a standard markup to their costs. Some sellers tell their customers they will charge cost plus a specified markup; for example, aerospace companies often price this way to the government.

To illustrate markup pricing, let's apply it to a toaster manufacturer. The manufacturer's variable costs are the costs of metal, electronics, and other inputs that go into each unit produced. In contrast, fixed costs—such as the rental costs for offices and factories—are spent in bulk and have to be distributed across units. Suppose the toaster manufacturer had the following costs and expected sales:

Variable cost per toaster	\$10
Fixed costs	\$300,000
Expected unit sales	50,000

Then the manufacturer's cost per toaster is given by the following:

$$\text{unit cost} = \text{variable cost} + \frac{\text{fixed cost}}{\text{unit sales}} = \$10 + \frac{\$300{,}000}{50{,}000} = \$16$$

Now suppose the manufacturer wants to earn a 20 percent markup on sales. The manufacturer's markup price is given by the following:[8]

$$\text{markup price} = \frac{\text{unit cost}}{(1 - \text{desired return on sales})} = \frac{\$16}{1 - 0.2} = \$20$$

The manufacturer would charge dealers \$20 per toaster and make a profit of \$4 per unit. The dealers, in turn, will mark up the toaster. If dealers want to earn 50 percent on the sales price, they will mark up the toaster to \$40; that is, \$20 + 50% (or 0.5) = \$40. This number represents a markup on the sales price of 50% (\$20/\$40) but a *markup on cost* of 100 percent (\$20/\$20).

Markup pricing remains popular in some situations. First, sellers are more certain about costs than about demand. By tying the price to cost, sellers simplify pricing; they do not need to make frequent adjustments as demand changes. Second, when all firms in the industry use this pricing method, prices tend to be similar, so price competition is minimized. Third, many people feel that cost-plus pricing is fairer to both buyers and sellers. Sellers earn a fair return on their investment but do not take advantage of buyers when buyers' demand becomes great.

But does using standard markups to set prices make sense? Generally, no. The practice of cost-plus pricing is usually difficult to support from a business viewpoint. First, any pricing method that ignores demand and competitor prices is not likely to lead to the best price. Second, when a company uses cost-plus pricing, it is implicitly acknowledging it is seeking only a "sufficient" level of profits. Instead, the company should be aiming to maximize profits by delivering great value to customers and using prices to extract some of that value in terms of profitability. Thus, except for some specific cases, such as government contract pricing, cost-plus pricing is not commonly used. At most, the cost-plus approach is used to set a floor below which prices must not dip.

Break-Even Analysis and Target Profit Pricing

Break-even pricing (target return pricing)
Setting price to break even on the costs of making and marketing a product, or setting price to make a target return.

Another cost-oriented pricing approach is **break-even pricing** (or a variation called **target return pricing**). The firm sets a price at which it will break even or make the target return on the costs of making and marketing a product.

Target return pricing uses the concept of a *break-even chart*, which shows the total cost and total revenue expected at different sales volume levels. **Figure 10.5** shows a break-even chart for the toaster manufacturer discussed here. Fixed costs are $300,000 regardless of sales volume. Variable costs are added to fixed costs to form total costs, which rise with volume. The total revenue curve starts at zero and rises with each unit sold. The slope of the total revenue curve reflects the price of $20 per unit.

The total revenue and total cost curves cross at 30,000 units. This is the *break-even volume*. In other words, at a price of $20 per unit, the company must sell at least 30,000 units to break even—for total revenue to just cover total cost. Break-even volume can be calculated using the following formula:

$$\text{break-even volume} = \frac{\text{fixed cost}}{\text{price} - \text{variable cost}} = \frac{\$300{,}000}{\$20 - 10} = 30{,}000$$

If the company wants to make a profit, it must sell more than 30,000 units at $20 each. Suppose the toaster manufacturer has invested $1,000,000 in the business and wants to set a price to earn a 20 percent return, or $200,000. In that case, it must sell at least 50,000 units at $20 each. If the company charges a higher price, it will not need to sell as many toasters to achieve its target return. But the market may not buy even this lower volume at the higher price. Much depends on price elasticity and competitors' prices.

The manufacturer should consider different prices and estimate break-even volumes, probable demand, and profits for each. This is done in **Table 10.1**. Fixed costs are assumed to be $300,000, and unit variable costs are assumed to be $10. The table shows

FIGURE 10.5
Break-Even Chart for Determining Target Return Price and Break-Even Volume

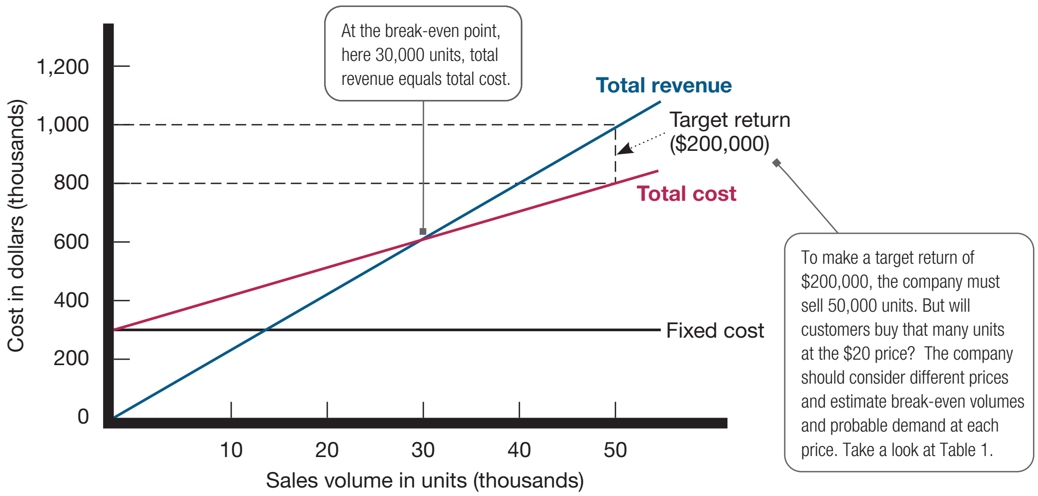


Table 10.1 | Break-Even Volume and Profits at Different Prices

Price	Unit Demand Needed to Break Even	Expected Unit Demand at Given Price	Total Revenue (1) × (3)	Total Costs*	Profit (4) − (5)
$14	75,000	71,000	$994,000	$1,010,000	−$16,000
16	50,000	67,000	1,072,000	970,000	102,000
18	37,500	60,000	1,080,000	900,000	180,000
20	30,000	42,000	840,000	720,000	120,000
22	25,000	23,000	506,000	530,000	–24,000

*Assumes fixed costs of $300,000 and constant unit variable costs of $10.

that as price increases, the break-even volume drops (column 2). But as price increases, the demand for toasters also decreases (column 3). At the $14 price, because the manufacturer clears only $4 per toaster ($14 less $10 in variable costs), it must sell a very high volume to break even. Even though the low price attracts many buyers, demand still falls below the high break-even point, and the manufacturer loses money.

At the other extreme, with a $22 price, the manufacturer clears $12 per toaster and must sell only 25,000 units to break even. But at this high price, consumers buy too few toasters, and profits are negative. The table shows that a price of $18 yields the highest profits. Note that none of the prices produce the manufacturer's target return of $200,000. To achieve this return, the manufacturer will have to search for ways to lower the fixed or variable costs, thus lowering the break-even volume. Alternatively, the manufacturer can aim to increase consumers' willingness to pay by differentiating the product and making it more appealing. Or it can work to enhance consumer perceptions of delivered value, which would again enhance consumers' willingness to pay (see Real Marketing 10.2).

Competition-based pricing
Setting prices based on competitors' strategies, prices, costs, and market offerings.

Author Comment | In setting prices, the company must also consider competitors' prices. No matter what price it charges—high, low, or in between—the company must be certain to give customers superior value for that price.

Competition-Based Pricing

Competition-based pricing involves setting prices based on competitors' strategies, costs, prices, and market offerings. In judging the value delivered by a company's product-price combination, consumers will often be influenced by the prices that competitors charge for similar products.

In assessing competitors' pricing strategies, a company should ask several questions. First, how does the company's market offering compare with competitors' offerings in terms of delivered value? If consumers perceive that the company's product or service provides greater value, the company can charge a higher price. If consumers perceive less value relative to competing products, the company must either charge a lower price or enhance customer perceptions to justify a higher price.

Next, how strong are current competitors, and what are their current pricing strategies? If the company faces a host of smaller competitors charging high prices relative to the value they deliver, it might charge lower prices to drive weaker competitors from the market. If the market is dominated by larger, lower-price competitors, a company may decide to bypass those competitors and target unserved or underserved market niches by offering value-added products and services at higher prices.

Importantly, the goal is not to match or beat competitors' prices. Rather, the goal is to set prices according to relative value. If a company creates greater value for customers, higher prices are justified. For example, Caterpillar makes high-quality, heavy-duty construction

Pricing versus competitors: Caterpillar dominates the heavy equipment industry despite charging premium prices. Customers believe that Caterpillar gives them a lot more value for the price over the lifetime of its machines.

Kristoffer Tripplaar/Alamy Stock Photo

Real Marketing 10.2 | Pricing Based on Perceptions in China

A product's price is expressed as a single, simple number, yet behind this apparent simplicity lie several layers of meaning. How a customer perceives the price of a product depends on many factors, such as the customer's culture and demographic group. Setting the optimum price for a product can thus be a tricky decision.

The population of the People's Republic of China is large, complex, and rapidly evolving. Increasing urbanization and the emergence of an expanding middle class have created large new markets that continue to grow and develop. Traditional classifications of customers that were developed in the West do not easily map onto China, so marketers need to apply fresh thinking to determine how to define target groups, how to communicate with them, and what prices should be applied. One approach to classification published in the *China Business Review* identifies the following groups in urban settings: frugal retired, wealthy retired, frugal forties, wealthy forties, thirties, twenties, new generation, migrant workers, and the very wealthy. In terms of attitudes, the middle classes are aspirational and will typically prefer foreign brands, while younger shoppers are more likely to indulge themselves and more eager to have a good time. There are wide variations in buyer attitudes between young and old, city and village, rich and poor.

As an illustration of cultural issues affecting price, consider the common psychological pricing practice of ending a consumer price with .99 so that a customer seeing 5.99 thinks of 5 instead of 6. In China, the number 8 is synonymous with good fortune, so many companies feature this number in their prices. For example, Apple sold the three versions of its iPad mini for ¥2498, ¥3288, and ¥4088 (in renminbi, the official currency of China).

Furthermore, most Chinese people believe that a higher price means higher quality, and vice-versa. However, companies have suffered from marking their prices too high as well as too low. The Japanese brand Muji originally stood for simple, well-designed, but unostentatious products sold at relatively low prices, and it met with great success in Japan for this positioning. When it first entered the Chinese market, Muji was positioned as an affordable luxury brand, but the Chinese saw no evidence of this, and sales were disappointing. Muji tried to win favor with consumers by lowering prices in several stages over a few years, but this didn't work; lowered prices and large discounts only confirmed to the Chinese consumers that the products were of low quality and poor value. In contrast, luxury brands have done well in China, where paying high prices is seen as a reflection of taste and status.

Another cultural difference is related to the concept of "face," which is connected with honor, dignity, pride, and fulfilling of obligations. When buying gifts, the value must be precisely befitting to the receiver and the occasion, and it must be appropriately packaged. Gift buyers will typically choose the best-packaged item in their price range and will pay more for attractive packaging.

All this means that pricing correctly is very critical in China. As one would expect, local companies usually manage these pricing complexities better than foreign firms. Consider the rapidly developing electric car market in China, which is the largest in the world, valued at $124.2 billion in 2021, around half of the global market. The top five companies in terms of sales volume include four Chinese firms and Tesla, which manufactures the Model 3 and Model Y at its factory near Shanghai. The Chinese manufacturers have the largest market share, and not simply because some of them offer smaller cars at cheaper prices.

Take NIO, which is positioned squarely at the luxury end of the spectrum, with its top model selling for around $70,000, around 25 percent more than Tesla's locally made cars. NIO's all-electric, high-end vehicles mainly appeal to the very wealthy segment as defined by the *China Business Review*. In less than a decade, it has grown from a start-up to one of the top ten EV brands in China. NIO made sure that the price was right for the value offered, which includes advanced technology such as a fully digital cockpit with augmented and virtual reality systems as well as an innovative solid-state battery providing a range of over 1,000 km in the largest cars. NIO introduced the "battery as a service" concept so that owners can upgrade, replace, and charge their batteries as part of a subscription process. In addition to an impressive, ultra-modern luxury car, buyers enjoy a lifetime warranty and roadside support; flexible power management, including automatic battery swap stations and lifetime mobile internet connectivity; along with a range of designer clothing and accessories and access to showrooms that are more like club lounges.

Like other Chinese EV brands, NIO connects directly with its customers through its own distribution and service facilities, thereby maintaining full control over the relationship. The NIO app links the firm with users and users with each other. Drivers can find and pay for charging, including an automated three-minute battery swap; get advice and support; share social and lifestyle news; arrange a test drive; and even order a car. All this has persuaded Chinese customers that local design and manufacture can be superior to and more prestigious than foreign brands.

At the other end of the EV spectrum, the Wuling Hongguang Mini is aimed at younger drivers, including new mothers, who fit the *China Business Review's* new generation segment and are interested in economy as well as the environment. The luxuries are minimal, but prices are as low as $4,100, making it the cheapest EV in China. The low price, combined with adequate performance for city dwellers and a good reputation for reliability, established it as the most popular electric car in China in 2022.

The key to success, as shown by these two examples, is to know your target customer and to provide them with the right product at the right price. The local Chinese EV manufacturers divide their customers into

Real-time marketing: In China, as Muji discovered, customer perceptions of value can determine a brand's success—or failure.

Marc Bruxelle/Alamy Stock Photo

four broad groups: plug-in-hybrid (PHEV) drivers, pure EV drivers, rational EV drivers, and high-end EV drivers. Successful brands offer a balance of design, range, features, and services, with a carefully selected price aimed specifically at one of the target segments.

Through various offers and subscriptions, such as flexible purchasing options, internet connectivity, and power management, Chinese EV makers are opening up alternative revenue streams as well as increasing customer confidence. From a marketing point of view, the more successful Chinese EV firms are deliberately placing the target customer at the heart of the value proposition, with the car as part of the customer's lifestyle. The price must reflect the utility and prestige of the vehicle in the eyes of the client. It is clear that companies looking to establish and grow sales in China must do more than simply convert their prices into renminbi. If companies seek to extract the greatest value from their markets and grow their sales, they need to consider the customers' perceived value, the competition, and economic conditions—in other words, the customers' ability to pay.[9]

and mining equipment. It dominates its industry despite charging higher prices than competitors such as Komatsu. When a commercial customer once asked a Caterpillar dealer why it should pay $500,000 for a big Caterpillar bulldozer when it could get an "equivalent" Komatsu dozer for $420,000, the Caterpillar dealer famously provided an analysis like the following:

$420,000	the Caterpillar's price if equivalent to the competitor's bulldozer
$50,000	the value added by Caterpillar's superior reliability and durability
$40,000	the value added by Caterpillar's lower lifetime operating costs
$40,000	the value added by Caterpillar's superior service
$20,000	the value added by Caterpillar's longer parts warranty
$570,000	the value-added price for Caterpillar's bulldozer
−$70,000	discount
$500,000	final price

Thus, although the customer pays an $80,000 price premium for the Caterpillar bulldozer, it's actually getting $150,000 in added value over the product's lifetime. The customer chose the Caterpillar bulldozer.

What principle should guide decisions about prices to charge relative to those of competitors? The answer is simple in concept but often difficult in practice: No matter what price you charge—high, low, or in between—be certain to give customers superior value for that price.

Author Comment | Now that we've looked at the three general pricing strategies—value-, cost-, and competitor-based pricing—let's dig into some of the many other factors that affect pricing decisions.

Other Internal and External Considerations Affecting Price Decisions

OBJECTIVE 10-3 Identify and discuss the other important external and internal factors affecting a firm's pricing decisions.

Beyond customer value perceptions, costs, and competitor strategies, the company must consider several additional internal and external factors. Internal factors affecting pricing include the company's overall marketing strategy, objectives, and marketing mix as well as other organizational considerations. External factors include the nature of the market and demand, and other environmental factors.

Overall Marketing Strategy, Objectives, and Mix

Price is only one element of the company's broader marketing strategy. So, before setting price, the company must decide on its overall marketing strategy for the product or service. If a company has selected its target market and positioning carefully, then its marketing mix strategy, including price, should be straightforward. For example, Tesla targets high-end, technology-driven buyers with sophisticated all-electric cars that "accelerate the advent of sustainable transportation." Such elevated targeting and positioning dictate charging premium prices.

Brands might build their marketing strategies around premium pricing or affordable pricing. Consumer electronics maker Visio's aim is "to make high-quality technology and content affordable to everyone."

Andrey_Popov/Shutterstock

Sometimes companies build their strategies around a price and value story. For example, in recent years, dozens of direct-to-consumer startups have positioned themselves as offering good quality at great value. Online mattress and bedding seller Casper offers "a better night's sleep for an amazing value." Shaving products marketer Harry's declares "You deserve a great shave at a fair price."

Brands' strategies might be built around premium pricing or affordable pricing. For example, whereas consumer electronics brands like Samsung and Sony offer ultrahigh technology at premium prices, brands such as TLC, Hisense, and Visio are positioned on good but not ultrahigh technology at lower prices. For example, Visio's aim is "to make high-quality technology and content affordable to everyone." Its product development, distribution, promotion, and other marketing decisions are built around delivering on that good value promise.

Grocery retailer Trader Joe's unique "cheap gourmet" price-value positioning has made it one of the nation's most popular food stores. Trader Joe's understands that success comes not just from what products you offer customers or from the prices you charge. It comes from offering the combination of products, prices, and store operations that produces the greatest customer value—what customers get for the prices they pay.

Pricing can play a flexible and multidimensional role in helping the company accomplish many goals. A firm can set prices to attract new customers or profitably retain existing ones. It can set prices low to prevent competition from entering the market or set prices at competitors' levels to stabilize the market. It can price to keep the loyalty and support of resellers or avoid government intervention. Prices can be reduced temporarily to create excitement for a brand. Or one product may be priced to help the sales of other products in the company's line.

Price decisions must be coordinated with product design, distribution, and promotion decisions to form a consistent and integrated marketing mix. Decisions made for other marketing mix variables may affect pricing decisions. For example, a decision to position the product on high-performance quality will mean that the seller must charge a higher price to cover higher costs. And producers whose resellers are expected to support and promote their products may have to build large reseller margins into their prices. Overall, the marketing mix decisions related to the 4 Ps—product, price, place, and promotion—will be coordinated to create a harmonious and effective marketing mix that supports the chosen positioning.

Nonprice positioning: YETI puts high value into its coolers and charges higher prices to match that value. Most customers consider a premium YETI cooler to be a real value, even at eyebrow-raising prices ranging from $299 to $1,299.

Sergio Flores/Bloomberg via Getty Images; Gary Armstrong

Companies sometimes strongly position their products on price and then tailor other marketing mix decisions to the prices they want to charge. Here, price is a crucial product-positioning factor that defines the product's market, competition, and design. Firms support such price-positioning strategies with a technique called **target costing**, whereby they start with an ideal selling price based on customer value considerations and then target costs that will ensure that the price is profitable. For example, when Honda initially designed the Honda Fit, it began with a $13,950 starting price point and highway mileage of 33 miles per gallon firmly in mind. It then designed a stylish and peppy but unpretentious and uncomplicated little car with costs that allowed it to profitably give target customers those values.

Other companies deemphasize price and use other marketing mix tools to create *nonprice* positions. Often, the best strategy is not to charge the lowest price but rather to differentiate the market offering to make it worth a higher price. For example, YETI puts high value into its coolers and other products and charges higher prices to match that value.[10]

What's a cooler worth—one of those insulated containers you take camping or haul to a picnic or tailgate party? If it's a YETI cooler, you can expect to pay from $299 to as much as $1,299 for the top-of-the-line Tundra 350 model. However, despite their high prices and spare, boxy designs, YETI coolers have achieved an almost cultlike status among outdoor enthusiasts and on construction sites, ranches, football stadium parking lots, or even military bases. The company's founding slogan "YETI Coolers—Wildly Stronger. Keep Ice Longer!" suggests the reasons why. A YETI really does keep things cooler—with a FatWall design (with twice the insulation of competitors) and an interlocking lid system with a gasket that keeps the cold in. And rugged YETI coolers are made to last—no more busted hinges, failed latches, or caved-in lids. They're even certified as grizzly bear–proof by the Interagency Grizzly Bear Committee. One ad describes a YETI as "The cooler you've always wanted. And the last cooler you'll ever need." For YETI customers, it's less about price and more about how a YETI performs compared to less expensive coolers made by Igloo or Rubbermaid. A YETI would be a real value at twice the price.

Thus, marketers must consider the total marketing strategy and mix when setting prices. But again, even when featuring price, marketers need to remember that customers rarely buy on price alone. Instead, they seek products that give them the best value in terms of benefits received for the prices paid.

Organizational Considerations

Management must decide who within the organization should set prices. Companies handle pricing in a variety of ways. In small companies, prices are often set by top management rather than by the marketing or sales departments. In large companies, pricing is typically handled by divisional or product managers with the approval of senior managers. In industrial markets, salespeople may be allowed to negotiate prices with customers within certain ranges. Even in these cases, top management may set the pricing objectives and policies and often approves the prices proposed at lower levels.

In industries in which profits critically hinge on smart pricing (airlines, aerospace, steel, railroads, oil companies), companies often have pricing departments to set the best prices or help others set them. These departments report to the marketing department or top management. Others who have an influence on pricing include sales managers, production managers, finance managers, and accountants.

The Market and Demand

As noted earlier, good pricing starts with understanding how customers' perceptions of value affect the prices they are willing to pay. Both consumer and industrial buyers balance the price of a product or service against the benefits of owning it. Thus, before setting prices, the marketer must understand the relationship between price and demand for the company's product. In this section, we take a deeper look at the price–demand relationship and how it varies for different types of markets. We then discuss methods for analyzing the price–demand relationship.

Pricing in Different Types of Markets

The seller's pricing freedom varies with different types of markets. Economists recognize four types of markets, each presenting a different pricing challenge.

Under *pure competition*, the market consists of many buyers and sellers trading in a uniform commodity, such as wheat, copper, or financial securities. No single buyer or seller has much effect on the going market price. In a purely competitive market, marketing research, product development, pricing, advertising, and sales promotion play little or no role. Thus, sellers in these markets do not spend much time on marketing strategy.

Under *monopolistic competition*, the market consists of many buyers and sellers trading over a range of prices rather than a single market price. A range of prices occurs because sellers can differentiate their offers to buyers. Because there are many competitors, each firm is less affected by competitors' pricing strategies than in oligopolistic markets—where there are just a few sellers. Sellers try to develop differentiated offers for different customer

Pricing under monopolistic competition: Bose sets its premium audio products apart not by price but by the power of its brand and the host of differentiating features.

Jonathan Weiss/Shutterstock

segments and, in addition to price, freely use branding, advertising, and personal selling to set their offers apart.

Thus, Bose sets its premium speakers, headphones, and audio products apart from the profusion of competing products not by price but by the power of its brand and the host of differentiating features. Bose boasts that it creates "better sound through research—an innovative, high-quality listening experience." "We're passionate engineers, developers, researchers, retailers, marketers . . . and dreamers," says Bose. "One goal unites us—to create products and experiences our customers simply can't get anywhere else." As a result, Bose has hatched a long list of groundbreaking innovations that differentiate its brand and products.[11]

Under *oligopolistic competition*, the market consists of only a few large sellers. For example, despite the growth of streaming services, only a handful of providers—Comcast, Spectrum, AT&T, and Dish Network—control a lion's share of the cable/satellite television market. Because there are few sellers, each seller is alert and responsive to competitors' pricing strategies and marketing moves. In the battle for subscribers, price becomes a major competitive tool. For example, to woo customers away from competitors, providers offer special discounts, free equipment upgrades, and lock-in prices.

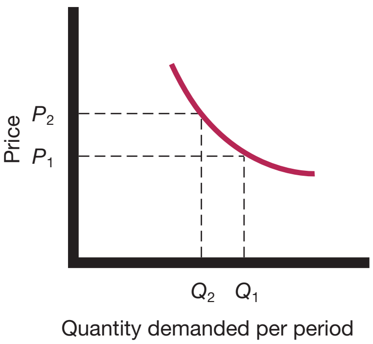
In a *pure monopoly*, the market is dominated by one seller. The seller may be a government monopoly (such as the U.S. Postal Service in the context of daily mail), a private regulated monopoly (a state power company such as California's Pacific Gas and Electric Company or PG&E), or a private unregulated monopoly (such as De Beers in the context of diamonds). Pricing is handled differently in each case.

Demand curve
A curve that shows the number of units the market will buy in a given time period at different prices that might be charged.

Analyzing the Price–Demand Relationship

Each price the company might charge will lead to a different level of demand. The relationship between the price charged and the resulting demand level is shown in the **demand curve** in **Figure 10.6**. The demand curve shows the number of units the market will buy in a given time period at different prices that might be charged. In the normal case, demand and price are inversely related—that is, the higher the price, the lower the demand. Thus, the company would sell less if it raised its price from P_1 to P_2. In short, consumers with limited budgets probably will buy less of something if its price is too high.

FIGURE 10.6
Demand Curve



Understanding a brand's price-demand curve is crucial to good pricing decisions. For some brands and industries, demand is less sensitive to changes in price. For example, because of Apple's brand strength and differentiated products, its core of strongly loyal customers will continue to buy Apple iPhones and other devices despite recurring price increases. In contrast, for Campbell Soup, noticeable price increases may cause customers to switch to comparable but less expensive store brands or other national brands.

Most companies try to measure their demand curves by estimating demand at different prices. The type of market makes a difference. In a monopoly, the demand curve shows the total market demand resulting from different prices charged by the monopolist. If the company faces competition, its demand at different prices will depend on whether competitors' prices stay constant or change with the company's own prices.

Price elasticity
A measure of the sensitivity of demand to changes in price.

Price Elasticity of Demand

Marketers also need to know **price elasticity**—how responsive demand will be to a change in price. If demand hardly changes with a small change in price, we say demand is *inelastic*. If demand changes greatly, we say the demand is *elastic*.

If demand is elastic rather than inelastic, sellers will consider lowering their prices. Under elastic demand, a lower price will trigger sharply increased demand and lead to higher revenues and profits. This practice makes sense as long as the extra costs of producing and selling more do not exceed the extra revenue. At the same time, most firms want to avoid steadily eroding prices that turn their products into commodities. In recent years, forces such as deregulation and the instant price comparisons facilitated by the internet and mobile and other technologies have turned products ranging from phones and computers to new automobiles into undifferentiated commodities in some consumers' eyes, leading to increased consumer price sensitivity.

The Economy

Economic conditions can have a strong impact on a firm's pricing strategies. Economic factors such as a boom or recession, inflation, and interest rates affect pricing decisions because they affect consumer spending, consumer perceptions of the product's price and value, and the company's costs of producing and selling a product.

In the aftermath of the Great Recession of 2008–2009, many consumers rethought the price-value equation. They tightened their belts and become more value conscious. Consumers continued their thriftier ways well beyond the economic recovery. As a result, many marketers increased their emphasis on value-for-the-money pricing strategies. More recently, driven by constrained national and global supply chain issues and by money poured into the economy to combat the impact of the COVID-19 pandemic, inflation rose rapidly. Inflation hit a 40-year high in early 2022 as consumer prices skyrocketed across the board, causing consumers to be even more concerned about prices.[12]

The most obvious response to such economic realities is to find ways to cut prices and offer discounts. But a respectable price premium is one of the most valuable assets a marketer can possess. Lower prices might make products more affordable and help spur short-term sales. However, such price cuts can have undesirable long-term consequences. Lower prices mean lower margins. Deep discounts may cheapen a brand in consumers' eyes. And once a company cuts prices, it's difficult to raise them again when the economy recovers.

Companies must therefore be careful not to squander a brand's value by slashing prices or handing out deep discounts. Unavoidable temporary price adjustments should be consistent with the brand's basic value proposition. For example, during the pandemic, which hit the travel and hospitality industries especially hard, many Four Seasons Resorts hotels offered travelers a third or fourth night free. Customers got more for their money, but the upscale hotel's daily room rate remained unchanged. Similarly, Ritz-Carlton held its room rates at prior levels but offered guests a daily $100 "resort credit" that could be applied to meals and other resort services. In both cases, the luxury chains avoided the awkward situation of having to "raise" prices during the post-pandemic recovery.

More generally, rather than cutting prices on their main-market brands, in recent years many companies have held their price positions but redefined the "value" in their value propositions. Other companies have developed "price tiers," adding both more affordable lines or premium lines that span the varied means and preferences of different customer segments. ● For example, to boost the low-price side of its "authentic low price and quality assurance" promise and to meet the needs of cost-conscious customers with tighter budgets, the Asian retailer JD.com has introduced lower-priced private label brand offerings, such as Cute Pet (budget-friendly pet products) and Best Home (low-priced homeware). With the help of a robust supply chain, JD.com is able to offer prices that are much lower than products from other brands. JD.com has recently launched its first laptop, JD Book, at a competitive price, which has gained popularity among students.[13]

● **Pricing and the economy: To meet the needs of cost-conscious customers with tighter budgets, JD.com introduced lower-priced private label brands such as Cute Pet and Best Home.**

Sundry Photography/Alamy Stock Photo

In the reverse situation, companies whose products are in short supply must be careful not to risk their brand reputations by taking advantage of vulnerable customers. For example, during the COVID-19 crisis, the makers of basic products such as hand sanitizers, disinfectants, toilet paper, medical masks and gloves, and other products faced demand surges that quickly outstripped supply. Producers and resellers could have charged exorbitant prices. Some did; most didn't. Taking advantage of consumers in such situations can cause substantial long-term damage to a brand. "The advice is simple," say one analyst. "Don't gouge. Even if the market will bear it, your reputation might not. Forgo the quick profits and think long-term."[14]

Remember that even in tough economic times, consumers do not buy based on prices alone. They balance the price they pay against the value they receive. For example, despite selling its shoes for as much as $200 a pair, Nike commands the highest consumer loyalty of any brand in the footwear segment. Customers perceive the value of Nike's products and the Nike ownership experience to be well worth the price. Thus, no matter what price they charge—low or high—companies need to offer great *value for the money*.

Other External Factors

Beyond the market and the economy, the company must consider several other factors in its external environment when setting prices. It must know what impact its prices will have on other parties in its environment. How will *resellers* react to various prices? The company should set prices that give resellers a fair profit, encourage their support, and help them to sell the product effectively. The *government* is another important external influence on pricing decisions. Finally, *social concerns* may need to be taken into account. In setting prices, a company's short-term sales, market share, and profit goals may need to be tempered by broader societal considerations. We will examine public policy issues later in Chapter 11.

Reviewing and Extending the Concepts

Objectives Review

Companies today face a fierce and fast-changing pricing environment. Firms successful at creating customer value with the other marketing mix activities must still capture some of this value in the prices they earn. This chapter examines the importance of pricing, general pricing strategies, and the internal and external considerations that affect pricing decisions.

OBJECTIVE 10-1 Answer the question "What is price?" and discuss the importance of pricing in today's fast-changing environment.

Price can be defined narrowly as the amount of money charged for a product or service. Or it can be defined more broadly as the sum of the values that consumers exchange for the benefits of having and using the product or service. The pricing challenge is to find the price that will let the company make a fair profit by getting paid for the customer value it creates.

Despite the increased role of nonprice factors in the modern marketing process, price remains the "moment of truth" in marketing. It is the only marketing mix element that produces revenue; all other elements represent costs. More important, as a part of a company's overall value proposition, price plays a key role in creating and signaling customer value and in building customer relationships. Smart managers treat pricing as a key strategic tool.

OBJECTIVE 10-2 Define *price*, identify the major pricing strategies, and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Companies can choose from three major pricing strategies: customer value–based pricing, cost-based pricing, and competition-based pricing. *Customer value–based pricing* uses buyers' perceptions of value as the basis for setting price. Good pricing begins with a complete understanding of the functional, economic, and psychological values that a product or service creates for customers and setting a price that captures that value. Customer perceptions of the product's value set the ceiling for prices. If customers perceive that a product's price is greater than its value, they will not buy the product.

Companies can pursue either of two types of value-based pricing. *Good-value pricing* involves offering just the right combination of quality and good service at a fair price. EDLP is an example of this strategy. *Value-added pricing* involves attaching value-added features and services to differentiate the company's offers and support higher prices.

Cost-based pricing involves setting prices based on the costs for producing, distributing, and selling products plus a fair rate of return for effort and risk. Whereas customer value perceptions set the price ceiling, costs set the floor for pricing. Cost-based pricing approaches include *cost-plus pricing* and *break-even pricing* (or target profit pricing), A challenge with cost-based pricing is that it implicitly acknowledges that a certain profit level is "sufficient." Rather than aiming for sufficient profits, companies must aim to maximize profits. In addition, cost-based pricing is product driven rather than customer driven—used alone, it ignores demand and competitor prices. As a result, cost-based pricing approaches are not widely used in marketing practice.

Competition-based pricing involves setting prices based on competitors' strategies, costs, prices, and market offerings. Consumers base their judgments of a product's value on the prices that competitors charge for similar products. If consumers perceive that the company's product or service provides greater value, the company can charge a higher price. If consumers perceive less value relative to competing products, the company must either charge a lower price or change customer perceptions to justify a higher price.

OBJECTIVE 10-3 Identify and discuss the other important external and internal factors affecting a firm's pricing decisions.

Other *internal* factors that influence pricing decisions include the company's overall marketing strategy, objectives, and marketing mix, as well as organizational considerations. Price is only one element of the company's broader marketing strategy. If the company has selected its target market and positioning carefully, then its marketing mix strategy, including the pricing decision, should be straightforward. Common pricing objectives might include customer retention and building profitable customer relationships, preventing competition, strengthening resellers and gaining their support, or avoiding government intervention. Price decisions must be coordinated with product design, distribution, and promotion decisions to form a consistent and effective marketing mix. Finally, in order to coordinate pricing goals and decisions, management must decide who within the organization is responsible for setting and managing prices.

Other *external* pricing considerations include the nature of the market and demand, and environmental factors such as the economy, reseller needs, and government actions. Ultimately, the customer decides whether the company has set the right price. The customer weighs the price against the perceived value delivered by the product—if the price exceeds the sum of the values, consumers will not buy. So the company must understand such concepts as demand curves (the price–demand relationship) and price elasticity (consumer sensitivity to prices).

Economic conditions can have a major impact on pricing decisions. The Great Recession caused consumers to rethink the price–value equation, and consumers have continued their thriftier ways well beyond the economic recovery. More recently, rising inflation during the COVID-19 pandemic led to skyrocketing prices, increasing consumers' price concerns. Marketers have responded by increasing their emphasis on value-for-the-money pricing strategies. No matter what the economic times, however, consumers do not buy based on prices alone. Thus, no matter what price they charge—low or high—companies need to offer superior value for the money.

Key Terms

OBJECTIVE 10-1

Price

OBJECTIVE 10-2

Customer value–based pricing
Good-value pricing
Value-added pricing
Cost-based pricing
Fixed costs (overhead)
Variable costs
Total costs
Experience curve
Cost-plus pricing (markup pricing)
Break-even pricing (target return pricing)
Competition-based pricing

OBJECTIVE 10-3

Target costing
Demand curve
Price elasticity

Discussion Questions

10-1 What is price? (AACSB: Written and Oral Communication)

10-2 Two different types of costs form the total cost in setting a product price in cost-based pricing. Explain what these two costs are, and which one is the most important in determining price.

10-3 Briefly explain and provide an example each of the four types of markets companies must consider for pricing decisions. Are these markets relevant for all types of products?

10-4 Explain the price-demand relationship. What factors must sellers consider when setting prices in different types of markets? (AACSB: Written and Oral Communication)

10-5 How do marketers use psychological pricing to communication something about the product? (AACSB: Written and Oral Communication)

10-6 Define *captive product pricing* and *two-part pricing* and give examples of each. What should marketers be aware of when using these pricing strategies? (AACSB: Written and Oral Communication; Reflective Thinking)

Critical Thinking Exercises

10-7 You have always wanted to run your own business and make a positive contribution to society. You are a good organizer and your closest friend is a talented geologist. You decide to buy a drill-rig truck and subcontract to charities and governments that need water wells drilled for isolated communities in Australia. The truck will cost $250,000. You calculate that your other fixed costs, including salaries, gas for the truck, and license fees, are about $70,000 per year. Variable costs including the cost of drills, pipes, pumps, pressure vessels, bricks, cement, and other construction items will be $8,400. Communities and local authorities will usually assign around $15,000 per well. Calculate the break-even for your drilling business. After reviewing your break-even, what changes would you consider? Is this the sort of business you want to run? (AACSB: Written and Oral Communication; Reflective Thinking)

10-8 Your company has developed a new weight-loss breakfast shake that has proven to be successful in the test market phase. Users have experienced an average weight loss of two pounds per week for multiple weeks when using the product as part of a disciplined approach. You hold a patent on the product. The cost to produce the shake is relatively low, with total manufacturing costs running about $0.05 per ounce. Each shake is eight ounces. What pricing strategy do you recommend for this product? (AACSB: Written and Oral Communication; Use of IT; Analytical Thinking; Reflective Thinking)

APPLICATIONS AND CASES

Digital Marketing Intuit QuickBooks

Intuit's QuickBooks makes accounting, financial management, banking, payroll and benefits management, tax management, customer account management, and other activities easy and transparent. QuickBooks's cloud-based software products are aimed mainly at small and midsize enterprises, nonprofits, and service businesses such as restaurants and law firms that do not want to build and staff complicated in-house systems for these purposes. Given the digital nature of QuickBooks's products, they can be reconfigured and upgraded over time, keeping pace with the growth of the business (quickbooks.intuit.com/pricing/). The Simple Start program is regularly priced at $25 per month and offers a base set of functionalities ranging from income and expense tracking and receipt capture to cash flow management and tax management. The Essentials program priced at $50 per month expands the number of users to three and adds bill management and employee time tracking. To all that, the Plus program priced at $80 per month adds inventory management and project profitability tracking and includes five users. Finally, the Advanced program priced at $180 per month allows more than five users and adds a range of functionality including a dedicated account team, workflow automation, premium apps, business analytics, and data restoration. With its flexibility, upgradeability, and affordability, Intuit QuickBooks is one of the most popular service platforms of its kind.

10-9 How does being a digital, cloud-based product increase the perceived value of Intuit QuickBooks? Be specific. (AACSB: Written and Oral Communication; Reflective Thinking; Use of IT)

10-10 As described in the case, Intuit prices the four QuickBooks offerings on a payment-per-month basis. How else could the products be priced? (AACSB: Written and Oral Communication; Use of IT)

Marketing Ethics Should Large Passengers Pay More for Airline Tickets?

Large passengers on airplanes often occupy more than their "allocated" single-seat space, intruding into the space of a fellow traveler in the next seat—space the fellow traveler reserved and paid for. Depending on the large passenger's size, this can lead to anything from a slightly scrunched position for the fellow traveler on an hourlong flight to a nightmarish, sleepless, backbone twisting 10-hour journey on an intercontinental flight. This has led to a debate about whether large passengers should pay more for their seat or be forced to pay for two adjacent seats. After all, airlines already charge for luggage by the number or pieces and by weight. An economist recently argued that charging by weight would provide health, financial, and environmental dividends. He proposed three potential pricing approaches: First, price tickets based on the total weight of passengers and their luggage. Second, charge a base rate and an extra charge for heavier passengers. Third, his preferred option, charge a standard price for passengers within a weight range, with an extra weight-based charge added for passengers above that weight range and a weight-based discount for passengers below that weight range. Some additional information: About two-thirds of U.S. adults are medically classified as overweight or obese, and a survey indicated that more than two-thirds of travelers think airlines should charge overweight passengers more if they needed an extra seat.

10-11 In groups, debate the following proposition with open minds: "Large passengers should pay more for their seats on airplanes." List your arguments in favor of or and against the proposition. (AACSB: Written and Oral Communication; Ethical Understanding and Reasoning; Reflective Thinking)

10-12 A passenger who was seated next to a very large passenger on a 15-hour nonstop intercontinental flight has posted photos and a short video of his experience on multiple social media. Taken by his friends at various stages of the journey, the posts show him clearly being in near-continuous distress, squeezed into a fraction of the space he would normally occupy and standing for extended periods to get relief. The story has gone viral with a number of social media users being sympathetic and even urging the passenger to sue the airline. The story has been picked up by national media. Looking beyond this instance, your group has been hired by the airline CEO to come up with a solution for the large-passenger problem. What would you recommend? (AACSB: Written and Oral Communication; Reflective Thinking)

Marketing by the Numbers Rock Bottom Promotional Pricing

Rock Bottom Golf is an online golf equipment retailer that sells clubs, shoes, balls, and other golfing equipment. Rock Bottom's regular prices are lower than most competitors, but they go even lower with limited-time promotional pricing, especially around major holidays. For example, the Father's Day promotion offers $50 to $75 off Rock Bottom's already-low price on select clubs and range finders that normally cost hundreds of dollars. One current offer is $100 off the Tour Edge E529 Driver that Rock Bottom normally sells for $399.99. To get the word out about the offer, Rock Bottom spent $15,000 on banner ads on golf-related websites like golfchannel.com and pga.com. Rock Bottom understands that promotional pricing cuts into its profits for each sale but also knows that such time-limited pricing generates excitement and a sense of urgency among buyers. In fact, Rock Bottom's research of past Father's Day promotions shows that shoppers are mostly men buying the clubs and gadgets for themselves!

10-13 Assuming Rock Bottom's cost of goods sold (COGS) is 55 percent, calculate Rock Bottom's margin per driver before the $100 off promotional price and after the promotional price. What effect does the promotional pricing have on the margin Rock Bottom earns for every driver sold? Refer to Break-Even and Margin Analysis in Appendix 3: Marketing by the Numbers to learn how to perform this analysis. (AACSB: Written and Oral Communication; Analytical Thinking; Reflective Thinking)

10-14 How many additional drivers must Rock Bottom sell to break even on this promotion? Assume the $15,000 spent on banner ads is the only fixed cost associated with this promotion. (AACSB: Analytical Thinking)

Company Case Gillette: Searching for the Right Price in a Volatile Market

Few brands dominate their industry with a more than 50 percent global market share. Gillette did that for decades, long the razor-market leader, with veteran brands Schick and Bic running a distant second and third. Gillette achieved its market dominance by selling the highest-quality razors at a premium price. For more than 100 years, by launching more razor innovations than any other company, Gillette stood out as the brand in relentless pursuit of the closest, most-irritation-free shave.

With all that history and success, you might think that Gillette's marketers have few worries. But even as the storied brand continues to dominate the razor market, managers at Gillette and parent company P&G are not resting well these days. Instead, the bigger story is that Gillette's market share has plummeted. Capturing a 50 percent market share is fantastic for most brands. But it's not so great for Gillette, which held a whopping 70 percent market share only 10 years ago. And there is no end in sight to Gillette's current decline.

Why this dramatic change? While there are many factors at play, they all point to one thing—more and more consumers are discovering high-quality blades elsewhere for a fraction of the price. And the fact that many of today's competing products are also more conveniently available presents even more difficult challenges for Gillette.

More Is Better—Until It Isn't

Gillette's quest for the ultimate shave began when the company started selling safety razors in 1900. For more than 70 years, it was all about creating a single thinner, stronger, and sharper disposable blade for its reusable handles. But the big leap forward came in 1972 when Gillette introduced the TRAC II—the first twin-blade shaving system. That innovation launched Gillette on a 40-year journey of convincing consumers that more blades make for a better shave. Gillette upped that proposition in 1998 with its MACH3—the first three-blade cartridge—and again in 2006 with its FUSION5—the first razor system with five blades and a single-blade precision trimmer for hard-to-shave places including sideburns and under the nose. Beyond its "more is better" product developments, in pursuit of the perfect shave, Gillette modified each new razor generation with innovations such as pivoting heads, lubrication strips, and even vibrating mechanisms.

With each new innovation, Gillette established a pattern: Introduce the new product at a high price point while lowering the price of the existing Gillette razors. This pattern relied on one thing—convincing the public that the new product provided a big enough improvement to be worth the higher price. If that happened, the new, more expensive version became Gillette's best seller as the older technology faded away. Once customers were hooked on the new razor, they would buy expensive refill cartridges for years. This high-margin approach worked to perfection with the TRAC II and the MACH3. It worked so well, in fact, that billionaire Warren Buffett became one of Gillette's largest investors, adding to his fortunes when P&G acquired the number-one razor company for a whopping $57 billion in 2005.

But a decade ago, Gillette's go-to-market model began to show signs of fatigue. For one, as razor performance increased with each new generation, the incremental improvement became less noticeable. When the MACH3 hit the market in the late 1990s, shavers everywhere embraced it as giving the closest, smoothest shave ever. With such a noticeable difference over twin-blade razors, customers happily paid nearly $2 per cartridge, a 35 percent premium over Gillette's previous flagship razor. But when the five-bladed FUSION debuted at $3 per cartridge nearly a decade later, customers were less enthusiastic. In fact, while Gillette intended to rapidly phase down the MACH3 as sales for the FUSION increased, demand for the MACH3 remained strong, and the two razor brands sold side by side on store shelves. Then, five years ago when Gillette announced that it had "rebuilt" shaving with its Fusion ProGlide FlexBall razor at $5 per cartridge, the writing was already on the wall.

Disruptors Attack

Another factor in Gillette's fall from market dominance came in the form of a new generation of direct-to-consumer (DTC) competitors. Startup companies such as Dollar Shave Club and Harry's targeted a customer niche with a refreshing proposition—comparable quality razors for a fraction of the price with the convenience of online purchase and home delivery. The DTC razor brands grew quickly and soon drew the attention of big-name retailers and consumer packaged goods companies. Unilever fought back by purchasing Dollar Shave Club for approximately $1 billion. Shortly thereafter, Edgewell Personal Care Company (owner of Schick) attempted to acquire Harry's for even more but was blocked by the FTC, citing that the merger would hurt competition. Today, both brands not only sell online but are carried by Target, Walmart, Walgreens, CVS, Costco, and other retailers.

In addition to the fierce competition from DTC brands, Gillette is also facing stiff competition from the very retailers that have sold its products for decades. Not long ago, Walmart and Costco began selling their own store brand cartridges that fit Gillette handles. Many consumers can't tell the difference between a shave with a MACH3 cartridge and one with a comparable 3-blade cartridge sold under Walmart's Equate or Costco's Kirkland Signature brands. And with the store brands priced as low as $1 per cartridge, many customers find little reason to pay Gillette's higher prices.

In response to the challenges from the DTC and store brands, Gillette stepped up efforts to defend its place at the top of the market. For starters, it launched its own online service, selling its same products at the same prices via the more convenient DTC channel. The Gillette faithful responded but mostly at the expense of cannibalizing Gillette's in-store sales.

But Gillette fought back with plenty of new product ideas. First, it introduced customized products with Razor Maker—a site where individuals could create their own customer razor handle via 3D printing. It also continued with new versions of its FUSION5. Then, in what seemed like a startling reversal, it unveiled the SkinGuard Sensitive—a state-of-the-art twin-blade system targeting shavers with sensitive skin. Gillette then introduced an exfoliating razor—a five-blade system with an exfoliating bar to remove dirt and debris. But with refills for any of these new Gillette models costing $5 or more per cartridge, Gillette seemed more focused on trying to justify price through innovation than coming up with a more economical solution.

As if these razor options weren't pricey enough, Gillette made a dramatic move upmarket when it launched the super-premium Heated Razor—a high-tech rechargeable that heats to 122 degrees. Available only through the Gillette's DTC site and company-owned Art of Shaving retail stores, the high-tech marvel launched at a whopping $200 plus $25 for a four-pack of replacement cartridges. That price has since come down to a not-much-more-affordable $150. And Gillette recently revealed a limited-edition Bugatti branded version for $170. With each new model, however, critics question whether Gillette's innovations provided substantive improvements.

So in an unprecedented move to combat low-priced competition, Gillette slashed prices by 12 percent across the board. “You told us our blades can be too expensive and we listened,” Gillette declared on its website. However, although the price cut brought Gillette products closer to the competition, it also risked lowering perceptions of Gillette’s quality. Perhaps worse, the price cut angered some consumers who demanded to know why Gillette had charged such a premium for so many years if it could now afford to sell its products for less. Whatever the case, Gillette’s price cut signaled the brand’s desperation and competitive vulnerability, a position the veteran razor brand has rarely if ever experienced.

While the market-leading shaving brand has taken hit after hit for the past decade, things are far from over for Gillette. The brand is still far and away the market leader in total sales. Even in online sales, Gillette’s late entry has earned it the number-two position, behind Dollar Shave Club but ahead of Harry’s. And with online sales representing the fastest-growing segment in the shaving market, Gillette could make great strides in that area. Gillette’s vast experience in product development and marketing gives it an acute edge in the razor wars. Even as some observers have suggested that P&G sell Gillette, currently one of the company’s poorest performing businesses, insiders reaffirm P&G’s intention to stay the course with the brand. “This is a business that we not only want to keep but that we like and feel can win,” says P&G’s chief financial officer. But with the startup and store brands continuing to nibble away at Gillette’s market share, the company’s future success hinges on whether it can find the right pricing strategy in a rapidly changing market.[15]

Questions for Discussion

10-15 Based on the concept of customer value-based pricing, explain Gillette’s rise to market dominance.

10-16 Why did Gillette’s red-hot growth slow down? List multiple reasons, including—but also other than—those related to the company’s pricing strategy.

10-17 What are some directions in which Gillette can innovatively redesign its pricing strategy to support its market share and profitability?

10-18 *Small group exercise*: Gillette’s competitor Schick has worked around Gillette’s patents and launched a razor and blade that incorporates almost all of Gillette’s differentiators—a vibrating razor, a razor head with five blades and a precision trimmer, a proprietary soothing gel, an exfoliating strip, and even a heated shaving surface. Schick has positioned its product against—but priced it at a 40 percent discount below—Gillette’s corresponding top-end product. Assume the role of a consulting team and advise Gillette’s CEO on the various steps that Gillette should take in response.

11 Pricing Strategies
Advanced Topics

OBJECTIVES OUTLINE

OBJECTIVE 11-1 Describe the major strategies for pricing new products.

OBJECTIVE 11-2 Explain how companies choose a portfolio of prices to maximize the profits from the total product mix.

OBJECTIVE 11-3 Discuss how companies adjust their prices to account for different types of customers and situations.

OBJECTIVE 11-4 Discuss the key issues related to initiating and responding to price changes.

OBJECTIVE 11-5 Discuss the major public policy concerns and key laws and regulations that affect pricing decisions.

CHAPTER PREVIEW In the previous chapter, you learned that price is an important marketing mix tool for both creating customer value and capturing some of that value in terms of profits. You explored the three main pricing strategies—customer value–based, cost-based, and competition-based pricing—and the many internal and external factors that affect a firm's pricing decisions. In this chapter, we'll look at some additional pricing topics: new product pricing, product mix pricing, price adjustments, and initiating and reacting to price changes. We will close the chapter with a discussion of public policy and pricing.

To start the chapter, let's look at the pricing strategy of ALDI, the fast-growing and highly successful discount supermarket chain. ALDI has established an impressive low-price position by which it gives customers a basic assortment of quality items at super-low everyday prices. To make those super-low prices available, ALDI follows a super-efficient, no-frills operating model. "You can't eat the frills," it tells customers, "so why pay for them?"

ALDI: You Can't Eat Frills, So Why Pay for Them?

When asked to name the world's largest grocery chains, you'd probably come up with Walmart, the world's largest retailer; and maybe Kroger, the largest U.S. grocery-only merchant. One name that probably wouldn't come to mind is Germany-based discount grocer ALDI. Yet, surprisingly, with $121 billion in annual revenues and more than 12,000 stores in 19 countries, ALDI is the world's eighth-largest retailer overall and the second-largest grocery-only retailer behind Kroger. What's more, ALDI is taking the United States and other country markets by storm, growing faster than any of its larger rivals.

How does ALDI do it? Its simple formula for success is no secret: Give customers a basic assortment of good-quality items at everyday extra-low prices. These days, many grocers brag about low prices. But at ALDI, they are an absolute fact. The rapidly expanding chain invites customers to "Shop differentli"—ALDI's way of promising customers a unique shopping experience that delivers "a faster, easier, and smarter way to save money on high-quality groceries and more." ALDI has redesigned the food shopping experience to reduce costs and give customers prices that it claims are significantly lower than those of rival supermarkets.

To get those super-low prices, however, ALDI customers must settle for a little less in terms of many of the frills they've come to expect from competitors. For example, they get a smaller selection. To keep costs and prices down, ALDI operates smaller, energy-saving stores (about one-fourth the size of traditional supermarkets) that stock only about 1,400 of the fastest-moving grocery items. (The typical supermarket carries about 40,000 items.) A typical ALDI store operates with three to five employees on any given shift. ALDI also carries fewer national brands; more than 90 percent of its items are ALDI's own store brands. (ALDI claims customers are paying for the product itself, not national brand advertising and marketing.) And ALDI does no promotional pricing or price matching—it just sticks with its efficient everyday very low prices. "We don't match other stores' prices because that would mean raising ours," says ALDI.

ALDI promises a unique shopping experience that delivers "a faster, easier, and smarter way to save money on high-quality groceries and more. ALDI does things 'differentli' to bring you amazing low prices."

Ken Wolter/Shutterstock

In trimming costs and passing savings along to customers, ALDI leaves no stone unturned. Even customers themselves help keep costs low: They bring their own bags (or purchase them from ALDI for a small fee), bag their own groceries (ALDI provides no bagger), and return shopping carts on their own (to get back a 25-cent deposit). But to ALDI fans, the savings make it all worthwhile. ALDI tells customers "You can't eat frills, so why pay for them?"

Whereas ALDI cuts operating costs to the bone, it doesn't scrimp on quality. Selling mostly store brands, ALDI exercises complete control over the quality of the products on its shelves, and the chain promises that it checks and rechecks everything it sells to "meet or exceed the quality of national name brands." The company operates its own test kitchens, taste testing more than 30,000 products each year to ensure that customers get more than just low prices. ALDI is so confident that its products stand up to national brands that it backs every grocery item with its "Twice As Nice" guarantee: "If for any reason you are not 100-percent satisfied with any product, we will gladly replace the product and refund your money."

To improve the quality of its assortment, ALDI has progressively added items that aren't usually associated with "discount" grocers. Beyond the typical canned, boxed, and frozen food basics, ALDI carries fresh meats and fish, baked goods, fresh produce, and fresh meal options that lean toward "gourmet." It also features ALDI Finds—limited-time specialty goods that are "Here today, gone tomorrow"—such as Blue Hill Bay Smoked Salmon Poke Bowl, Park Street Deli Garlic Dill Hummus, Thomas Farms Fresh Seasoned Lamb Sirloin Filets, Deutsche Küche Chicken Schnitzel, Specially Selected Basil Gnocchi, or Bremer Bistro Grilled Cheese Tomato Soup. ALDI even offers an extensive selection of organic, gluten-free, and vegan foods. Moreover, every ALDI branded product is completely free of certified synthetic color, added MSG, and partially hydrogenated oils.

Customers rave about their favorite ALDI products, items they can't live without and can't get anywhere else. With items like these and clean, bright stores, ADLI targets not just low-income customers but frugal middle-class and upper-middle-class customers as well. In fact, ALDI's core shopper has a higher income and education level than the average overall grocery shopper. At ALDI, it's not uncommon to find inexpensive kombucha tea on the shelves and BMWs in the parking lot.

To make shopping still easier and spurred by the COVID-19 pandemic, ALDI has expanded curbside pickup and now offers convenient same-day delivery via Instacart from 95 percent of its stores. And ALDI recently linked up with Instacart to roll out SNAP online purchasing, giving low-income consumers who participate in the benefits program expanded access to online groceries and ALDI's low-cost offerings.

ALDI's no-frills basic approach isn't for everyone. Whereas some shoppers love the low prices, basic assortments, exclusive store brands, and simple store atmosphere, others can't imagine life without at least some of the luxuries and amenities offered by traditional grocery chains. But most people who shop at ALDI quickly become true believers. In fact, ALDI customers are more loyal and more likely to recommend the chain than shoppers of Walmart and other big-name supermarkets.

Testimonials from converts litter the internet. "I am willing to do the extra work because the prices are amazing," says one customer who runs a fan blog called the ALDI Nerd. Another fervent fan, a mother shopping on a tight budget for her family, used to scour the papers for coupons and shop at two or three different stores on a typical grocery trip. Now, she gets everything on her list in a single stop at ALDI, with money left over for extra items not on the list. "I cannot believe how much I saved!" she says. "ALDI is now my immediate go-to grocery store! I'm totally team ALDI." With all that it has going for it, ALDI doesn't

The fast-growing and highly successful ALDI supermarket chain has redesigned the food shopping experience to reduce costs and give customers a unique, no-frills shopping experience at super-low prices.

show any signs of slowing down. Even as long-standing U.S. grocers struggle financially, with some filing for bankruptcy, ALDI is expanding and innovating.

With more than 2,300 U.S. stores in 38 states, ALDI is now the nation's third-largest grocery retailer by store count. Along with expanded curbside pickup and Instacart delivery, the chain is expanding its selection of fresh foods and increasing its online selling footprint. ALDI is also investing heavily in checkout-free technologies, preparing to outdo competitors ranging from high-tech Amazon Go Grocery to discount chains such as low-priced rival Lidl and giants like Walmart and Target. But whatever the future holds, the thrifty ALDI experience will continue. "There is nothing like watching shoppers discover ALDI for the first time," says the CEO of ALDI U.S. "There's a moment of surprise when they realize just how much they can save by shopping with us."[1]

AS THE ALDI STORY SUGGESTS and as we learned in the previous chapter, pricing decisions are subject to a complex array of company, environmental, and competitive forces. To make things even more complex, a company does not set a single price but rather a *pricing structure* that covers different items in its line. This pricing structure changes over time as products move through their life cycles. The company adjusts its prices to reflect changes in costs and demand and to account for variations in buyers and situations. As the competitive environment changes, the company considers when to initiate price changes and when to respond to them.

This chapter dives deeper into important aspects of pricing strategy that are relevant in different business contexts. We look in turn at *new product pricing* for products in the introductory stage of the product life cycle, *product mix pricing* for related products in the product mix, *price adjustment tactics* that account for customer differences and changing situations, and strategies for initiating and responding to *price changes*.

Author Comment | Pricing new products can be especially challenging. Just think about all the things you'd need to consider in pricing a new smartphone, say, the first Google Pixel phone. Even more, you need to start thinking about the price—along with many other marketing considerations—at the very beginning of the design process.

New Product Pricing Strategies

OBJECTIVE 11-1 **Describe the major strategies for pricing new products.**

Pricing strategies usually change as the product passes through its life cycle. The introductory stage is especially challenging. Companies bringing out a new product face the challenge of setting prices for the first time. They can choose between two broad strategies: *market-skimming pricing* and *market-penetration pricing*.

Market-Skimming Pricing

Market-skimming pricing (price skimming)
Setting a high price for a new product to skim maximum revenues layer by layer from customer segments in line with their willingness to pay.

Many companies that invent new products set high initial prices to *skim* revenues layer by layer from the market. They begin by charging high prices for customers who are willing to pay the most to be first to own the product or to get it quickly. Then, over time, they lower prices to attract customers who are willing to pay less. Apple frequently uses this strategy, called **market-skimming pricing** (or **price skimming**). With each new generation of Apple iPhone, iPad, Apple Watch, or MacBook laptop, new models start at a high price and then work their way down. In this way, Apple skims the maximum revenue and margins from the various segments of the market over time. For example, through smart premium pricing, in a recent quarter, although Apple claimed only 13 percent of global unit sales, it vacuumed up 40 percent of all global smartphone revenues and 75 percent of all smartphone profits.[2]

Market skimming makes sense under specific conditions. First, the product's quality and image must support its higher price, and enough buyers must want the product at that price. Second, the product should be well differentiated so that competitors cannot undercut its high price and easily grab customers. Third, the brand must be sufficiently strong that more price-conscious customers will wait for acceptable lower prices rather than buying competing products. Finally, the costs of producing a smaller volume cannot be so high that they cancel the advantage of charging more.

Market-Penetration Pricing

Market-penetration pricing
Setting a low price for a new product in order to quickly attract buyers and gain a large market share.

In contrast to price skimming, companies can use **market-penetration pricing**. This involves setting a low initial price to *penetrate* the market quickly and deeply—to rapidly win a large market share. Or a firm might use penetration pricing to win customers initially and then turn them into loyal and profitable long-term customers.

Amazon uses penetration pricing to get its hardware and services into customers' homes. For example, it sells its latest Echo Dot smart speakers with Alexa digital assistant at a penetration price of under $50. And its Fire TV Cube hands-free streaming device sells at just $69.99, a discount of 42 percent off its list price. Amazon does not reap big profits from these devices. However, once attracted to Amazon's IoT platform, customers are more likely to buy additional, more profitable Amazon devices and services, ranging from Ring Video Doorbells to Amazon Prime Video and Amazon Music subscriptions. Moreover, people who own Amazon smart speakers spend 66 percent more at Amazon.com than other consumers.[3]

Similarly, Gillette uses penetration pricing on its razors to attract customers to its highly profitable razor blade offerings. ● For example, it prices its Fusion ProGlide Power Razor starter pack on Amazon at about $14. The pack includes a highly engineered, battery-powered vibrating razor with a non-slip grip and a FlexBall swiveling razor head. The pack also includes the battery and a five-bladed Fusion ProGlide razor blade with a precision trimming blade on the back for edging sideburns and beards. Given the razor's high manufacturing and component costs—with embedded electronics, motors, and swiveling subcomponents—how can Gillette afford to price the entire package at just $14? You guessed it. Once customers buy the razors, Gillette makes money over time through large margins on refill blades. A pack of four Fusion ProGlide refill blades is priced at about $23—or $5.75 per blade. Although many companies use such a penetration pricing strategy, this approach is so closely associated with Gillette that it's widely known as "razor-blade" pricing.[4]

● Penetration pricing: Gillette prices its Fusion ProGlide starter pack low to attract a large market share and then makes money over time through sales of high-margin refill blades.

Vladimir Zhupanenko/Shutterstock

Several conditions must be met for penetration pricing to work. First, the market must be highly price sensitive so that a low price produces more market growth. Second, production and distribution costs must decrease as sales volume increases. Third, the low price must help keep out the competition, and the penetration pricer must maintain its low-price position. Finally, the market share gained through penetration pricing must support more profitable revenue streams in the long run. Otherwise, the penetration pricing can quickly run out of steam.

Author Comment | Most individual products are part of a broader product mix and must be priced accordingly. For example, Gillette prices its Fusion razors low. But once you buy the razor, you're a captive customer for its higher-margin replacement cartridges.

Product Mix Pricing Strategies

OBJECTIVE 11-2 Explain how companies choose a portfolio of prices to maximize the profits from the total product mix.

The strategy for setting a product's price often has to be changed when the product is part of a product mix. In this case, the firm looks for a set of prices that maximizes its profits on the total product mix. Pricing is difficult because the various products have related demand and costs and face different degrees of competition. We now take a closer look at the five product mix pricing situations summarized in ● **Table 11.1**: *product line pricing*, *optional-product pricing*, *captive-product pricing*, *by-product pricing*, and *product bundle pricing*.

Product Line Pricing

Product line pricing
Setting the price steps between various products in a product line based on cost differences between the products, customer evaluations of different features, and competitors' prices.

Companies usually develop product lines rather than single products. In **product line pricing**, management must determine the price steps to set between the various products in a line. The price steps should take into account cost differences between products in the line. More important, they should account for differences in customer perceptions of the value of different features.

For example, Microsoft offers full lines of Surface tablets, laptops, and PCs, including ultra-portable Surface Go tablets starting at $399, Surface Pro tablet/laptops starting at $700, Surface Laptop Studio combination laptops starting at $1,399, and Surface Studio 2

Table 11.1 | Product Mix Pricing

Pricing Situation	Description
Product line pricing	Setting prices across an entire product line
Optional-product pricing	Pricing optional or accessory products sold with the main product
Captive-product pricing	Pricing products that must be used with the main product
By-product pricing	Pricing low-value by-products to get rid of them or make money on them
Product bundle pricing	Pricing bundles of products sold together

all-in-one PCs starting at $3,500. Then each of these lines features a range of prices depending on the chosen configuration. For example, while Surface Go tablets start at $399, a highly upgraded Surface Go can be priced at more than $1,000. Microsoft's task is to establish perceived value differences that support price differences across different buyers and uses.[5]

Optional-Product Pricing

Optional-product pricing
The pricing of optional or accessory products along with a main product.

Many companies use **optional-product pricing**—pricing optional or accessory products along with the main product. For example, a car buyer may choose to order a remote engine start system and premium sound system. Refrigerators come with optional ice makers. And when you order that new Microsoft laptop, you can select from a bewildering array of processors, drives, docking systems, software options, and insurance and service plans. Pricing these options is a sticky problem. Companies must decide which items to include in the base price and which to offer as options.

Captive-Product Pricing

Captive-product pricing
Setting a price for products that must be used along with a main product, such as toner cartridges for a printer and games for a video-game console.

Companies that make products that must be used along with a main product are using **captive-product pricing**. Examples of captive products are e-books, razor blades, printer cartridges, single-serve coffee pods, and video games. Producers of the main products (e-readers, printers, single-cup coffee brewing systems, and video-game consoles) often price them low and set high markups on supplies and supplemental products. For example, Amazon makes little or no profit on its Kindle readers and tablets. It hopes to more than make up for thin margins through sales of digital books, music, movies, subscription services, and other content for the devices. As Amazon founder Jeff Bezos once famously put it, "We want to make money when people use our devices, not when they buy our devices."

Similarly, printer maker Brother might price its high-quality color laser printer at just $339. But it sets the prices of a high-yield replacement toner cartridge for the printer at $439. Brother probably makes very little money on the printer itself or maybe even loses money on it. However, Brother makes a substantial profit margin on replacement cartridges.

Captive products can account for a substantial portion of a brand's sales and profits. However, finding the right balance between the main-product and captive-product prices can be tricky. Even more, consumers trapped into buying expensive captive products may come to resent the brand that ensnared them. For example, Gillette has lost market share in recent years as price-fatigued customers have shifted to lower-priced direct-to-consumer upstarts such as Dollar Shave Club and Harry's. To compete, Gillette has moderated its price increases and stepped up innovations such as heated and exfoliating razors.

In the case of services, captive-product pricing takes the form of *two-part pricing*. The price of the service is broken into a *fixed fee* plus a *variable usage rate*. Thus, at Six Flags and other theme parks, you pay a daily ticket or season pass charge plus additional fees for food and other in-park features.

By-product pricing: U.S. poultry processors have turned chicken feet, mostly considered a waste product, into a profitable by-product by selling them in China, where they are considered a delicacy and often priced higher than actual chicken meat.

Santiparp Wattanaporn/Shutterstock

By-Product Pricing

Producing products and services often generates by-products. If the by-products have no value and if getting rid of them is costly, this will affect the pricing of the main product. Using **by-product pricing**, the company seeks a market for these by-products to help offset the costs of disposing of them and help make the price of the main product more competitive.

The by-products themselves can even turn out to be profitable—turning trash into cash. For example, Americans eat some nine billion chickens a year but not the feet. In China, by contrast, chicken feet (or "chicken paws") are considered a delicacy and are often more expensive than actual chicken meat. That solves a lot of problems for poultry processors such as Perdue Farms, which once couldn't give the feet away and even had to pay to dispose of them. But thanks to the huge demand in China, chicken feet are now a huge profit center. Perdue and other processors sell almost half a billion dollars' worth of chicken feet to China annually. Interestingly, the opposite is true for pork ribs. European meatpackers sell most of their pork products to China. But Chinese people only want full-flesh cuts such as loins and pork bellies; they're not interested in the bones. So the European packers sell the ribs as by-products to U.S. foodservice chains at a bargain price. "They like feet, we like bones," says an industry insider. "And round and round we go."

By-product pricing
Setting a price for by-products to help offset the costs of disposing of them and help make the main product's price more competitive.

Product Bundle Pricing

Using **product bundle pricing**, sellers often combine several products and offer the bundle at a reduced price. For example, fast-food restaurants bundle a burger, fries, and a soft drink at a "combo" price. Microsoft Office 365 subscriptions are sold as a bundle of software products, including Word, Excel, PowerPoint, and Outlook. And Comcast, AT&T, Spectrum, Verizon, and other telecommunications companies bundle TV, phone, and high-speed internet services at a low combined price. Price bundling can promote the sales of products consumers might not otherwise buy, but the combined price must be low enough to get them to buy the bundle.

When pricing product bundles, marketers should keep two factors in mind. First, to allow a low combined price, there should be few or no additional costs associated with bundling. Second, allowing customers the flexibility to purchase the component products either separately or in the bundle (called *mixed bundling*) almost always leads to higher profits than offering products only separately or only in a bundle. For example, Spectrum should allow customers to purchase phone, TV, or internet services separately and then offer a bundled price for all three. This appeals to customer segments who want only one or two services but also provides incentives for customers to buy all three. Thus, introducing a bundle in addition to separate component products can often increase sales and profits.

Product bundle pricing
Combining several products and offering the bundle at a reduced price.

Author Comment Setting the base price for a product is only the start. The company must then adjust the price to account for customer and situational differences. When was the last time you paid the full suggested retail price for something?

Price Adjustment Strategies

OBJECTIVE 11-3 **Discuss how companies adjust their prices to account for different types of customers and situations.**

Companies usually adjust their basic prices to account for various customer differences and changing situations. Here we examine the seven price adjustment strategies summarized in **Table 11.2**: *discount and allowance pricing, segmented pricing, psychological pricing, promotional pricing, geographical pricing, dynamic and personalized pricing*, and *international pricing*.

Table 11.2 | Price Adjustments

Strategy	Description
Discount and allowance pricing	Reducing prices to reward customer responses such as volume purchases, paying early, or promoting the product
Segmented pricing	Adjusting prices to allow for differences in customers, products, or locations
Psychological pricing	Adjusting prices for psychological effects
Promotional pricing	Temporarily reducing prices to spur short-run sales
Geographical pricing	Adjusting prices to account for the geographic location of customers
Dynamic and personalized pricing	Adjusting prices continually to meet the characteristics and needs of individual customers and situations
International pricing	Adjusting prices for international markets

Discount and Allowance Pricing

Most companies adjust their basic prices to reward customers for certain responses, such as paying bills early, volume purchases, and off-season buying. These price adjustments—called *discounts* and *allowances*—can take many forms.

Discount
A straight reduction in price on purchases during a stated period of time or of larger quantities.

One form of **discount** is a *cash discount*, a price reduction to buyers who pay their bills promptly. A typical business example is "2/10, net 30," which means that although payment is due within 30 days, the buyer can deduct 2 percent if the bill is paid within 10 days. A *quantity discount* is a price reduction to buyers who buy large volumes. A seller offers a *functional discount* (also called a *trade discount*) to trade-channel members who perform certain functions, such as selling, storing, and record keeping. A *seasonal discount* is a price reduction to buyers who buy merchandise or services out of season.

Allowance
Promotional money paid by manufacturers to retailers in return for an agreement to feature the manufacturer's products in some way.

Allowances are another type of reduction from the list price. For example, *trade-in allowances* are price reductions given to customers for turning in an old item when buying a new one. Trade-in allowances are most common in the automobile industry, but they are also given for other durable goods. *Promotional allowances* are payments or price reductions that reward dealers for participating in advertising and sales-support programs.

Segmented Pricing

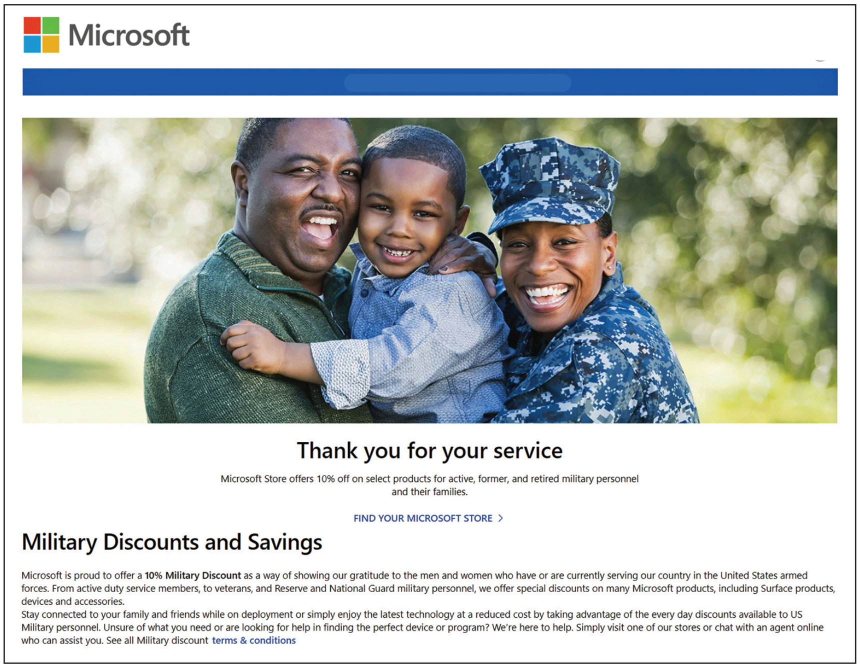
Segmented pricing
Selling a product or service at two or more prices, where the difference in prices is not based on differences in costs.

Companies will often adjust their basic prices to allow for differences in customers, products, and locations. In **segmented pricing**, the company sells a product or service at two or more prices, even though the difference in prices is not based on differences in costs.

Segmented pricing takes several forms. Under *customer-segment pricing*, different customers pay different prices for the same product or service. For example, museums, movie theaters, and retail stores may charge lower prices for students, senior citizens, people in the military, or other groups.

Uno Pizzeria & Grill offers a substantial 25 percent off for all customers aged 55 and older on Wednesdays, and some restaurants such as Denny's have entire menus priced for older customers. Amazon Prime offers 50 percent off on Prime Memberships for recipients of certain forms of governmental assistance. ● Microsoft, Apple Samsung, and other electronics brands have launched dedicated online stores for military members, veterans, and their families, with discounts of 10 percent or more on the wide range of products offered there. And CVS.com's Veterans Advantage program offers 20 percent off and free shipping for online orders to active or retired military members and their immediate families. "It's our way of honoring America's veterans," says CVS Pharmacy.[6]

Such differential pricing, based on buyer demographics or other characteristics, is also termed *third degree price discrimination*. In most cases, it's both legal and socially accepted. However, companies must be careful to ensure that bases for such price



Segmented pricing: Microsoft and other electronics brands have launched dedicated online stores for military members, veterans, and their families, with discounts of 10 percent or more on the wide range of products offered there.

Microsoft Corporation

variations are legally justified and socially responsible. For example, offering senior citizens lower prices on specific days will not likely attract criticism. But an apartment complex systematically charging higher rents based on gender or ethnicity will face severe social criticism and legal repercussions.

Under *product form pricing*, different versions of the product are priced differently depending on customer preferences and willingness to pay. For instance, a round-trip economy seat on a flight from New York to London might cost $500, whereas a business-class seat on the same flight might cost $6,000 or more. Although business-class customers receive roomier, more comfortable seats and higher-quality food and service, the differences in costs to the airlines are much less than the additional prices to passengers. However, to passengers who can afford business class, the additional comfort and services are worth the extra charge.

Using *location-based pricing*, a company charges different prices for different locations, even though the cost of offering each location is the same. For instance, state universities charge higher tuition for out-of-state students, and theaters vary their seat prices because of audience preferences for certain locations. Finally, using *time-based pricing*, a firm varies its price by the season, the month, the day, and even the hour. For example, restaurants offer happy hour food and drink prices, and resorts give weekend and seasonal discounts.

For segmented pricing to be effective, the market must be segmentable, and segments must show different degrees of demand. The costs of segmenting and reaching the market cannot exceed the extra revenue obtained from charging different prices. And, of course, the segmented pricing must also be legal.

Most important, segmented prices should reflect real differences in customers' perceived value. Consumers in higher price tiers must feel that they're getting their extra money's worth for the higher prices paid. Otherwise, segmented pricing practices can cause consumer resentment. For example, buyers reacted negatively when a New York City Department of Consumer Affairs (DCA) investigation found that women consumers often pay a "pink tax," paying more for women's versions of products that are virtually identical to men's versions except for gender-specific packaging.[7] The DCA compared the prices of men's and women's versions for nearly 800 products—including adult apparel, personal care products, home goods and children's toys and clothing. It found that items marketed to girls and women cost an average of 7 percent more than similar items aimed at boys and men, and as much as 13 percent more in some categories. Although no laws prohibit gender-based pricing differences, such glaring disparities can damage a brand's credibility and reputation.

Companies must also be careful not to treat customers in lower price tiers as second-class citizens. Otherwise, in the long run, the practice will lead to customer resentment and ill will. For example, in recent years, the airlines have incurred the wrath of frustrated customers at both ends of the airplane. Passengers paying full fare for business- or first-class seats often feel that they are being gouged. At the same time, passengers in lower-priced coach seats feel that they're being ignored or treated poorly.

Psychological Pricing

Price says something about the product. For example, many consumers use price to judge quality. A $100 bottle of perfume may contain only $3 worth of scent, but some people are willing to pay the $100 because this price indicates something special.

Psychological pricing
Pricing that considers the psychology behind how consumer evaluate price and value, not just the economics.

In using **psychological pricing**, sellers consider the psychology behind how consumers evaluate price and value, not simply the economics. For example, when consumers cannot judge quality because they lack the information or skill, price becomes an important quality signal. For instance, who's the better lawyer, one who charges $50 per hour or one who charges $500 per hour? You'd have to do a lot of digging into the respective lawyers' credentials to answer this question objectively; even then, you might not be able to judge accurately. Most of us would simply assume that the higher-priced lawyer is better.

Psychological pricing: Dunkin's S!p coffee experiment showed that price and context can affect brand perceptions.
Dunkin' Donuts

Dunkin' proved this psychological pricing point when it opened a hip-looking, high-end pop-up espresso café in Portland, Maine, named it S!p, and served its Dunkin' espresso products disguised in S!p packaging. A Dunkin' video shows local foodies waxing ecstatic about the quality of the coffee before learning to their surprise and delight that the supposedly high-end S!p was really good old Dunkin's new handcrafted espresso drinks. The event shows how price and context can shape brand perceptions.[8]

Reference prices
Prices that buyers carry in their minds and refer to when they look at a given product.

Another aspect of psychological pricing is **reference prices**—prices that buyers carry in their minds and refer to when looking at a given product. The reference price might be formed by noting current prices, remembering past prices, or assessing the buying situation. Sellers can influence or use these consumers' reference prices when setting price. For example, a grocery retailer might place its store brand of bran flakes and raisins cereal priced at $2.49 next to Kellogg's Raisin Bran priced at $3.79, suggesting a comparable product at a lower price.

Or a company might offer more expensive models that don't sell very well to make its less expensive but still-high-priced models look more affordable by comparison. For example, Keurig recently introduced the Keurig Custom Smart, a $399 Wi-Fi-enabled home pod brewer that can recognize any one of the more than 800 pod varieties the company offers and then custom brew the contents to just the right specifications. Consumers can even use the Keurig mobile app to remotely fine-tune the heat, speed, and strength at which beverages are brewed. At four times the price of a standard pod machine, the Keurig Custom Smart appeals to only a small niche of consumers seeking a connected and personalized coffee experience. But for the rest of us, it will upgrade the brand's image and make the premium prices on Keurig's standard brewers seem more reasonable by comparison.[9] For many purchases, busy consumers rely on certain cues that signal whether a price is high or low. Interestingly, such pricing cues are often provided by sellers, in the form of sales signs, price-matching guarantees, loss-leader pricing, and other helpful hints. Even small differences in price can signal product differences. A 9 or 0.99 at the end of a price often signals a bargain. You see such prices everywhere. For example, browse the online sites of top discounters such as Target, Best Buy, or Overstock.com, where almost every price ends in 9. Others use 00-cent endings on regularly priced items and 99-cent endings on discount merchandise. Premium phone maker Apple uses 9-endings to take a little of the psychological sting out of its highest-in-market phone prices. For instance, iPhone 13 Pro prices started at $999.

Although actual price differences might be small, the impact of such psychological tactics can be both big and complex. For example, in one study, people were asked how likely they were to choose among LASIK eye surgery providers based only on the prices they charged: $299 or $300. The actual price difference was only $1, but the study found that preference ratings for the providers charging $300 were much higher. Subjects perceived the $299 price as significantly less, but in this case the lower price also raised stronger concerns about quality and risk. Some psychologists even argue that each digit has symbolic and visual qualities that should be considered in pricing. Thus, eight (8) is round and even and creates a soothing effect, whereas seven (7) is angular and creates a jarring effect.[10]

Other companies might introduce a range of products—one bare-bones and cheap version, one or a few middle versions with good sets of features at reasonable prices, and another packed version with additional features at a higher price. By highlighting one of the middle options, companies invoke what is known as the *compromise effect* on the part of customers, psychological comfort derived from avoiding the extremes. For example, Intuit offers its TurboTax tax preparation software in four versions. The Free Edition can be used for simple tax returns only. The Deluxe Edition, at $59, offers additional features and step-by-step guidance in tax preparation. The Premier Version, at $89, adds still more features and guidance. And the Self-Employed version, at $119, handles both personal and business tax preparation. For each edition, the 9 endings signal that the prices have not breached the round-number thresholds of $60, $90, and $120. And the middle-priced Deluxe Edition provides a comfortable compromise that is neither too bare-bones nor too extravagant.

Marketing managers must think through the psychological dimensions of pricing in a careful and nuanced way. Doing some focused experimentation with different prices can help take some of the mystery out of the equation.

Promotional pricing
Temporarily pricing products below the list price, and sometimes even below cost, to increase short-run sales.

Promotional Pricing

With **promotional pricing**, companies temporarily price their products below list price—and sometimes even below cost—to create buying excitement and urgency. Promotional pricing takes several forms. A seller may simply offer *discounts* from normal prices to increase sales and reduce inventories. Sellers also use *special-event pricing* in certain seasons to draw more customers. Thus, TVs and other consumer electronics are promotionally priced in November and December to attract holiday shoppers into the stores. *Limited-time offers*, such as online *flash sales*, can create buying urgency and make buyers feel lucky to have gotten in on the deal.

Manufacturers sometimes offer *cash rebates* to consumers who buy the product from dealers within a specified time; the manufacturer sends the rebate directly to the customer. Rebates have been popular with producers of phones and small appliances, but they are also used with consumer packaged goods. Some manufacturers offer *low-interest financing, longer warranties*, or *free maintenance* to reduce the consumer's "price." This practice has become another favorite of the auto industry.

Promotional pricing can help move customers over humps in the buying decision process. For example, to encourage consumers to convert to its Windows 10 operating system, Microsoft ran an Easy Trade-Up promotion offering buyers $200 trade-ins on their old devices when purchasing new Windows 10 PCs costing $599 or more at the Microsoft Store. It sweetened the deal to $300 for trade-ins of Apple MacBooks or iMacs. In the past, Microsoft has offered customers up to $650 toward the purchase of a Surface Pro when they trade in a MacBook Air. Such aggressive price promotions can provide powerful buying and switching incentives.

Promotional pricing, however, can have adverse effects. In fact, promotional pricing is often unprofitable. Price promotions are profitable when they attract competitors' customers and non-customers who otherwise would not purchase the product. The aim is to get new customers to try and hopefully like the product and then remain loyal customers after the promotion ends. Price promotions should be carefully targeted to achieve these goals. Unfortunately, however, many ill-designed price promotions simply cause loyal customers—who would likely purchase the product at regular price anyway—to stock up at the lower price.

In addition, price promotions are heavily overused. During most holiday seasons, for example, it's an all-out bargain war. Marketers bombard consumers with deals, causing buyer wear-out and pricing confusion. Constantly reduced prices can erode a brand's value in the eyes of customers. And used too frequently, price promotions can create "deal-prone" customers who wait until brands go on sale before buying them. Consider home goods retailer Bed Bath & Beyond:

> Ask most regular shoppers at home goods retailer Bed Bath & Beyond, and they'll likely tell you that they never shop there without a stack of 20-percent-off or 5-dollar-off coupons in hand. As one reporter put it: "Shopping with a coupon at Bed Bath & Beyond has begun to feel like a given instead of like a special treat, and that's bad news for the chain's bottom line." Coupon redemptions have increasingly eaten into the retailer's profit margins, contributing to a cycle of financial difficulties and store closures. In fact, when Bed Bath & Beyond studied 405 million shoppers' baskets

Promotional pricing: Some marketers bombard consumers with endless price promotions, eroding the brand's value. "Shopping with a coupon at Bed Bath & Beyond has begun to feel like a given instead of like a special treat."

Keri Miksza

and 285,000 items, it found that 40 percent of its coupon promotions were deemed ineffective and unnecessary. "Today, we have an overreliance on the coupon," says the chain's chief merchandising officer. As a result, Bed Bath & Beyond recently announced its intentions to scale back on coupons, but it worries that it might offend customers who've come to count on them. "There's so much positive brand equity from the coupon [itself]," says a former Bed Bath & Beyond marketer. "Shareholders are asking about the coupon, [but] they can't seem to get rid of it. They can't break free of it."[11]

Geographical Pricing

A company also must decide how to price its products for customers located in different parts of the United States or the world. Should the company risk losing the business of more-distant customers by charging them higher prices to cover the higher shipping costs? Or should the company charge all customers the same prices regardless of location? We will look at five **geographical pricing** strategies for the following hypothetical situation:

> The Peerless Paper Company is located in Atlanta, Georgia, and sells paper products to customers all over the United States. The cost of freight is high and affects the companies from which customers buy their paper. Peerless wants to establish a geographical pricing policy. It is trying to determine how to price a $10,000 order to three specific customers: Customer A (Atlanta, Georgia), Customer B (Bloomington, Indiana), and Customer C (Compton, California).

Geographical pricing
Setting prices for customers located in different parts of the country or world.

FOB-origin pricing
Pricing in which goods are placed free on board a carrier; the customer pays the freight from the factory to the destination.

One option is for Peerless to ask each customer to pay the shipping cost from the Atlanta factory to the customer's location. All three customers would pay the same factory price of $10,000, with Customer A paying, say, $100 for shipping; Customer B, $150; and Customer C, $250. Called **FOB-origin pricing**, this practice means that the goods are placed *free on board* (hence, *FOB*) a carrier. At that point, the title and responsibility pass to the customer, who pays the freight from the factory to the destination. Because each customer picks up its own cost, supporters of FOB pricing feel that this is the fairest way to assess freight charges. The disadvantage, however, is that Peerless will be a high-cost firm to distant customers.

Uniform-delivered pricing
Pricing in which the company charges the same delivered price, including freight, to all customers regardless of their location.

Uniform-delivered pricing is the opposite of FOB pricing. Here, the company charges the same delivered price, including freight, to all customers regardless of their location. The freight charge is set at the average freight cost across customers. Suppose this is $150. Uniform-delivered pricing therefore results in a higher charge to the Atlanta customer (who pays $150 freight instead of $100) and a lower charge to the Compton customer (who pays $150 instead of $250). Although the Atlanta customer may prefer to buy paper from another local paper company that uses FOB-origin pricing, Peerless has a better chance of capturing the California customer.

Zone pricing
Pricing in which the company sets up two or more delivery zones. All customers within a zone pay the same total price; the more distant the zone, the higher the price.

Zone pricing falls between FOB-origin pricing and uniform-delivered pricing. The company sets up two or more zones. All customers within a given zone pay a single total price; the more distant the zone, the higher the price. For example, Peerless might set up an East Zone and charge $100 freight to all customers in this zone, a Midwest Zone in which it charges $150, and a West Zone in which it charges $250. In this way, the customers within a given price zone receive no price advantage from the company. For example, customers in Atlanta and Boston pay the same total price to Peerless. In this situation, the Atlanta customer will likely complain about paying part of the Boston customer's freight cost.

Basing-point pricing
Pricing in which the seller designates some city as a basing point and charges all customers the freight cost from that city to the customer.

Using **basing-point pricing**, the seller selects a given city as a "basing point" and charges all customers the freight cost from that city to the customer location, regardless of the city from which the goods are actually shipped. For example, Peerless might set Chicago as the basing point and charge all customers $10,000 plus the freight from Chicago to their locations. This means that an Atlanta customer pays the freight cost from Chicago to Atlanta, even though the goods may be shipped from Atlanta.

Freight-absorption pricing
Pricing in which the seller absorbs all or part of the freight charges in order to get or keep the desired business.

Finally, the seller who is anxious to do business with a certain customer or geographical area might use **freight-absorption pricing**. Using this strategy, the seller absorbs all or part of the actual freight charges to get the desired business. The seller might reason that if it can get more business, its average costs will decrease and more than compensate for its extra freight cost. Freight-absorption pricing is used for market penetration and to hold on to increasingly competitive markets.

Dynamic and Personalized Pricing

Dynamic pricing
Adjusting prices continually to meet changing conditions and situations in the marketplace.

Personalized pricing
Adjusting prices in real time to fit individual customer needs, situations, locations, and buying behaviors.

Through most of history, prices were set by negotiation between buyers and sellers. A *fixed-price* policy—setting one price for all buyers—is a relatively modern idea that arose with the development of large-scale retailing at the end of the nineteenth century. Today, most prices are set this way. However, with advances in digital technologies, many companies are now reversing the fixed-pricing trend. They are using **dynamic pricing**—adjusting prices continually to meet changing conditions and situations in the marketplace.

Dynamic pricing offers many advantages for marketers. Services ranging from retailers, airlines, and hotels to sports teams change prices on the fly to optimize profits according to changes in demand, costs, or competitor pricing, adjusting what they charge for specific items on a daily, hourly, or even continuous basis.

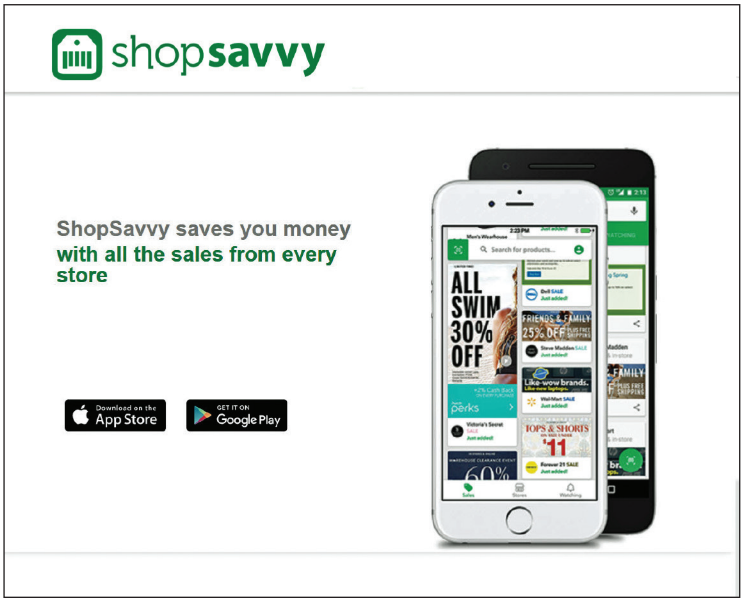
Today's digital environment also lets marketers practice **personalized pricing**, adjusting prices in real time to fit individual customer situations, locations, and buying behaviors. It seems that every seller knows what prices competitors are charging and customers are paying—for anything and everything it sells, minute by minute, and down to the penny. For example, in this digital age of big data, online sellers such as Amazon, L.L.Bean, or Apple can mine their databases to gauge specific shoppers' desires, measure their means, check out competitors' prices, and instantaneously personalize prices and offers to fit individual shoppers' situations.

These days, online offers and prices might well be based on what specific customers search for and buy, how much they pay for other purchases, what neighborhood they live in, and whether they might be willing and able to spend more. For example, a consumer from an affluent zip code area who recently went online to purchase a first-class ticket to Paris or customize a new Mercedes coupe might later get a higher quote on a new Bose Wave Radio. By comparison, a friend from a less affluent area with a more modest online search and purchase history might receive an offer of 5 percent off and free shipping on the same radio.

Dynamic pricing doesn't happen only online. For example, many store retailers and other organizations now adjust prices by the day, hour, or even minute. For example, Kohl's uses electronic price tags in its stores to adjust prices instantly based on supply, demand, and store traffic factors. It can now stage sales that last only hours instead of days, much as its online competitors do.

Ride-sharing services such as Uber and Lyft adjust their fares dynamically during slow or peak times or even based on fluctuating fuel prices, a practice called "surge pricing." Similarly, supply and demand dictates minute-to-minute price adjustments these days for everything from theater tickets to parking spots and golf course greens fees. The price of a can of soda from a vending machine may now vary as a function of the local temperatures. Vehicles entering central business districts in cities such as London and Singapore are automatically charged a congestion toll that can vary by the time of day, day of the week, and month of the year. For example, tolls in Singapore are changed during June and December school holidays. Tollways in Texas even use "congestion-management pricing" to shift toll prices every five minutes, charging between 15 and 90 cents per mile depending on the speed of the traffic. Some unhappy consumers think of this as "highway robbery."[12]

Dynamic and personalized pricing ensure that prices are aligned with market forces and consumer needs. However, done poorly, they can trigger margin-eroding price wars and damage customer relationships and trust. Customers may resent what they see as unfair pricing practices or price gouging. For example, when the fatal derailment of Amtrak Train 188 shut down rail service on the heavily traveled Washington, D.C.-to-New York City line for nearly a week, demand for airline tickets between the two cities jumped dramatically. As demand surged, the airlines' dynamic pricing bots kicked in to coldly raise fares by as much as five times, infuriating travelers and leading to a Department



Dynamic pricing: Thanks to the internet and apps such as ShopSavvy, smart shoppers can now routinely compare prices online to take advantage of the constant price skirmishes among sellers, snap up good deals, and leverage retailer price-matching policies. Dynamic pricing done poorly, however, can cause shopper confusion, disgruntlement, or brand distrust.

Courtesy of ShopSavvy

of Transportation investigation. Such extreme dynamic pricing transgressions are rare. However, even lesser lapses caused by poorly executed dynamic and personalized pricing can also cause shopper confusion, disgruntlement, or brand distrust.

In many ways, consumers can use dynamic pricing to their own benefit. Thanks to the internet, consumers with smartphones can now routinely compare prices online while at home, in stores, or anywhere in between. They can get instant product and price comparisons and sales alerts from mobile apps such as Grate, ShopSavvy, and Rakuten. In fact, some retailers worry that ready online access to comparison prices has given consumers *too* much of an edge. Such information lets smart shoppers take advantage of the constant price skirmishes among sellers, snap up good deals, leverage retailer price-matching policies, or simply buy items online at lower prices.

However, some critics argue that dynamic pricing may actually make consumers less price aware, sometimes resulting in less price transparency and higher prices for consumers.[13] As dynamic pricing has become the norm, prices fluctuate so much and so often that cross-checking prices across retailers, online versus offline, or even from one day to the next can overwhelm consumers. This may cause some consumers to tune out and give up on comparing prices. And although dynamic pricing algorithms can automatically drop price to match competitor prices, they can as easily raise prices if competitor prices are higher. At times, such "reverse price wars" can result in uncommonly high prices at any given time. In such cases, even if consumers do a quick price check, although they may pay the lowest price at the moment, they may not realize that the price is higher than yesterday's or tomorrow's. Thus, companies must be careful not to cross the fine line between smart dynamic pricing strategies and damaging ones. As with other marketing actions, the aim should be used to create value for customers and to enhance brand–customer relationships at a profit (see Real Marketing 11.1).

International Pricing

Companies that market their products internationally must decide what prices to charge in different countries. In some cases, a company can set a uniform worldwide price. For example, Boeing sells its jetliners at about the same price everywhere, whether the buyer is in the United States, Europe, or a third-world country. However, most companies adjust their prices to reflect local market conditions and cost considerations.

The price that a company should charge in a specific country depends on many factors, including economic conditions, competitive situations, laws and regulations, and the nature of the wholesaling and retailing system. Consumer preferences and brand perceptions also may vary from country to country, calling for different prices. Or the company may have different marketing objectives in various world markets, which require changes in pricing strategy.

For example, Apple uses its premium pricing strategy to introduce sophisticated, feature-rich, premium smartphones in carefully segmented mature markets in developed countries and to affluent consumers in emerging markets. By contrast, it's now under pressure to discount older models and develop cheaper, more basic phone models for sizable but less affluent markets in emerging economies, where even discounted older Apple phones sell at prices three to five times those of competing low-price models. In China, for instance, Apple's premium phones sell well and profitably to affluent consumers. However, in recent years, as Samsung and large Chinese competitors like Huawei and Xiaomi have brought sophisticated but lower-priced phones to the highly competitive Chinese market, Apple has struggled to maintain its

Real Marketing 11.1 | Dynamic and Personalized Pricing: Navigating the Maze of Changing Online Prices

Dynamic pricing has become a competitive necessity in today's marketplace. Consumers armed with digital devices—whether shopping online at home or on the go—routinely cross-check the latest prices offered by different sellers. The sale often goes to the best pricer. So in this age of big data, most sellers address such consumer actions by adjusting their prices automatically and continuously based not only on competitor prices but on supply, demand, and even individual shopper characteristics and buying situations.

When it comes to dynamic pricing, no retailer does it better than online giant Amazon. According to one source, Amazon's automated, AI-driven dynamic pricing system changes the prices on as many as 80 million items throughout a given day on its mammoth site, based on a host of marketplace factors. As a result, Amazon competes very effectively pricewise. Over the most recent Black Friday holiday weekend, Amazon's prices on thousands of products across five popular categories averaged 14 percent lower than those of rival retailers. That helped the online giant log record sales and capture 18 percent of all U.S. online dollars spent over the year's biggest shopping period.

But dynamic pricing is complex, and it doesn't always sit well with customers. Studies show that constant price changes under dynamic pricing can overwhelm customers and thwart their efforts to compare prices or even to understand what they are actually paying. As a result, dynamic pricing can cause customer confusion, frustration, or even resentment, damaging hard-won customer relationships.

Consider the Amazon shopping experience of Krista, stay-at-home mother of three children. When an Amazon holiday toy catalog arrived in her mailbox in late October, Krista noticed that something was amiss. Amid the 100 pages featuring LEGO sets, action figures, Disney Princess castles, and the impossible-to-find Sony PlayStation 5, the catalog had just about everything. Except the prices. "At first, I thought I wasn't looking close enough, so I flipped through a few more pages," said Krista. "Then I realized, 'Oh, this is intentional.' Why would you not put the prices there?"

The answer is twofold. For starters, Amazon couldn't quote fixed prices in its print catalog because, by the time Krista later searched for the items online, those prices would be different and constantly changing—adjusted by Amazon's dynamic pricing algorithm. Second, because prices fluctuate, it's in Amazon's best interest to deemphasize price, focusing instead on its massive selection, shopping convenience, and fast delivery.

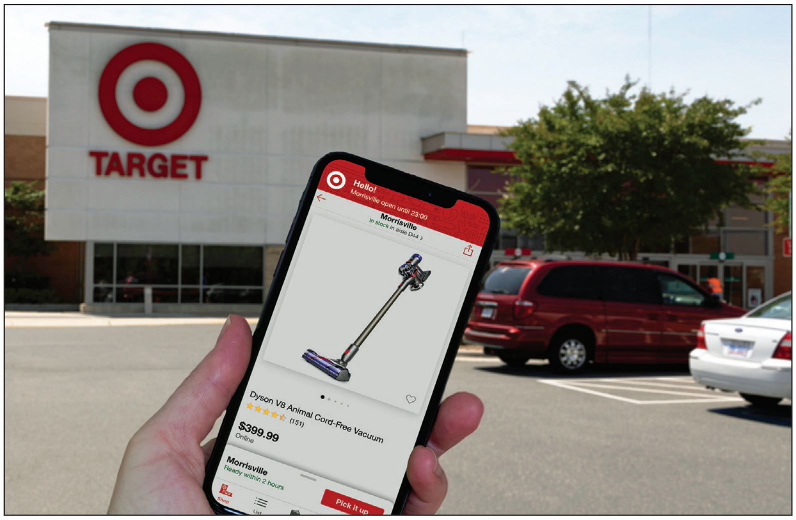
But after thinking it over, Krista felt frustrated and even betrayed by Amazon's dynamic pricing tactics. "I had to scan each individual item and hope that the prices didn't fluctuate while I compared them to other stores," she said. Amazon's price for the Pokémon Celebrations Elite Trainer Box, featured prominently on the wish list of Krista's seven-year-old son, seesawed in the weeks before Christmas. According to Camelcamelcamel, which tracks prices on Amazon, there had been at least 14 changes since August, ranging from the suggested retail price of $49.99 to a high of $89.99 in October. The average Amazon.com price during that period was $67.12.

Despite the hiccups, Amazon defends its dynamic pricing practices. When Krista took to Twitter to publicly question Amazon's extreme pricing fluctuations, Amazon's customer service reps responded promptly, explaining that the company's price changes occur because the retailer "works toward maintaining competitive prices on everything we carry." In a broader statement, Amazon claims that its dynamic pricing changes ensure customers get the lowest prices at any given time on Amazon. "If we find a better price at another retailer, like Walmart, Target, Home Depot and others, we systematically match or offer a more competitive price if we are selling the product ourselves," says an Amazon spokesperson.

For multichannel retailers—those selling both online and in physical stores—dynamic pricing poses additional challenges. To compete effectively with Amazon and other sellers, omni-channel retailers must continuously monitor competitor prices and match them dynamically at their web and mobile stores as well. But whereas it's relatively easy to change online prices, trying to constantly adjust in-store prices would create havoc, if it's possible at all.

Thus, discrepancies between store and online prices are common, often causing consumer confusion and displeasure. One avid Target shopper learned this the hard way:

> After evaluating an Epilator on her Target app inside the store, Miranda Artz bought it for the $99.99 price listed on both the app and the store shelf. But when she reached the parking lot, she noticed something strange. "My app was still open and it was still on that product and when I got to my car I noticed it said $69.99. I was a little confused. I thought maybe I had misread it in the store or something." Returning to the store, Artz confirmed that both the app and shelf prices were $99.99. "I went back out to my car and again it was $69.99. So, I took a screen shot this time and brought it back in and got a price match."
>
> Artz's Target story repeated itself a few weeks later. She was shopping for a tent on the Target app and found one she liked at a reduced price of $83.99. This time, she took a screen shot before going into the Target store. Her intuition paid off. As soon as she stepped inside the store, the Target app adjusted the price of the tent to its regular price of $119.99—a difference of $37. Artz is a little disappointed in Target. It's still her favorite store, but she's now a wiser shopper.



Dynamic pricing is a competitive necessity. But as Target shoppers learned, it can be difficult to implement, especially for omni-channel retailers.

Eyal Dayan Photography

Various news agencies have conducted their own experiments on Target's "parking lot price switch." The results showed that the Target app posted a higher in-store price for 40 to 50 percent of the items checked. For some, the price difference was small—20 cents more for a 24-pack of Scott toilet paper or 10 cents more for a one-liter bottle of Listerine mouthwash. On other items, however, the price difference was startling— $72 higher for a Graco child car seat or a whopping $148 higher for a Dyson vacuum cleaner.

What's behind Target's parking lot versus in-store price differences? The Target app uses phone location data to determine where a customer is and then "geofencing" to set app prices for that customer. "When in the store, all prices listed in the app resemble the prices listed in the store," says a retail analyst. "Outside of the store is a different story. That is where Target must compete with other online stores and the rest of the world, and the prices there mimic those of Target.com."

In response to inquiries, Target stated that it is "committed to providing value to our guests and that includes being priced competitively online and in our stores, and as a result, pricing and promotions may vary." However, the retailer has made some changes to its app that make its pricing policies clearer. Target also stresses its price-matching policy: "If a guest finds any item for a lower price across any of the ways they can shop Target, we'll price match it."

Most consumers have experienced firsthand the joys and frustrations of dynamic and personalized pricing. And even as some customers throw their hands up and avoid the hassles of price comparisons when shopping online, others are mastering the art of navigating the dynamic pricing maze to their own benefit. They are employing tactics such as watching and waiting, opting out of geolocation capabilities on mobile devices, and tracking price changes with one of many price tracking browser extensions. From the seller's side, done well, dynamic pricing can create competitive advantage. But it must be practiced with care. Like everything else in marketing, it should be used to create value for customers and to enhance brand–customer relationships. If a company gets that right, it will gain value in return.[14]

substantial market share there. So Apple changed the playbook with the launch of the iPhone 13. It set starting prices for the iPhone 13 lower than it had for the iPhone 12 and introduced the iPhone 13 Mini at a lower-end price of $800. That helped make the iPhone 13 an undisputed hit in China, occupying the top spot in sales for more than seven weeks after its launch.[15]

International prices: Companies often must change their pricing strategies from country to country. For example, Apple sells its latest phones at premium prices to affluent Chinese customers but successfully launched its iPhone 13 at a lower price while also introducing the iPhone13 Mini at a lower price point aimed at China's midrange customers.

CookieWei/Shutterstock

International prices should be based primarily on value perceived by customers, which can vary substantially across countries. However, costs that fluctuate significantly across countries can also be reflected in the prices charged. Travelers abroad are often surprised to find that goods that are relatively inexpensive at home may carry outrageously higher price tags in other countries. A pair of Levi's 501 selling for $60 in Los Angeles might go for $115 in Paris, and an Oral-B toothbrush selling for $2.49 at home may cost $10 in China. Conversely, a Gucci handbag going for only $470 in Milan, Italy, might fetch $1,790 in the United States.

In many cases, such *price escalation* may result from differences in selling strategies or market conditions, including the customer perceived value. In other instances, it is simply a result of the higher costs of selling in another country—the additional costs of operations, product modifications, shipping and insurance, exchange-rate fluctuations, and physical distribution. In particular, import tariffs and taxes can add substantially to costs. For example, the Indian government imposes a 150 percent tariff on U.S. wine imports, driving up the prices of American wines in India relative to domestic wines.[16]

Price has become a key element in the international marketing strategies of companies attempting to enter less affluent emerging markets. Typically, entering such markets has meant targeting the exploding middle classes in developing countries such as China, India, Russia, Brazil, and South Africa, whose economies have been growing rapidly. More recently, however, many companies are shifting their sights to include a new target—the so-called "bottom of the pyramid," the vast untapped market consisting of the world's 2.7 poorest consumers who live on less than $2.50 a day.

Not long ago, the preferred way for many brands to market their products in developing markets—whether consumer products or cars, computers, and smartphones—was to paste new labels on existing models and sell them at higher prices to the privileged few who could afford them. However, such a pricing approach put many products out of the reach of the billions of low-income consumers in emerging markets. As a result, many companies developed smaller, more basic and affordable product versions for these markets. For example, whereas Apple has focused on ever-more sophisticated and more expensive phones in global markets, Samsung leads all competitors worldwide in unit smartphone sales by also marketing mid- and lower-priced phones in fast-growing emerging markets such as India and China.

Most companies are learning that selling profitably to the low-income consumers requires more than just repackaging or stripping down existing products and selling them at low prices. Just like more well-to-do consumers, low-income buyers want products that are both functional *and* aspirational. Thus, companies today are innovating to create products that not only sell at low prices but also give the less affluent more for their money, not less. For instance, to strengthen its position further in such markets, Samsung is now putting more cutting-edge technology into midrange phones that still sell at affordable prices.

International pricing presents many special problems and complexities. We discuss international pricing issues in more detail in Chapter 19.

Author Comment | When and how should a company change its price? What if costs rise, putting the squeeze on profits? What if the economy sags and customers become more price sensitive? Or what if a major competitor raises or drops its prices? As Figure 11.1 suggests, companies face many price-changing options.

Price Changes

OBJECTIVE 11-4 Discuss the key issues related to initiating and responding to price changes.

After developing their pricing structures and strategies, companies often face situations in which they must initiate price changes or respond to price changes by competitors.

Initiating Price Changes

In some cases, the company may find it desirable to initiate either a price cut or a price increase. In both cases, it must anticipate possible buyer and competitor reactions.

Initiating Price Cuts

A price premium is one of the most valuable assets a company can possess. It is often easy and tempting to lower prices, but raising prices back to previous levels is extremely difficult. Therefore, managers must lower prices only after substantial due diligence.

That stated, there are some circumstances under which a company should consider lowering prices. One such circumstance is excess inventory. Another is falling demand in the face of strong price competition or a weakened economy. In such cases, the firm may cut prices to boost sales and market share. But as the airline, fast-food, automobile, retailing, and other industries have learned in recent years, cutting prices in an industry loaded with excess capacity may lead to price wars as competitors try to hold on to market share, further lowering profits.

A company may also cut prices in a drive to dominate the market through lower costs. The company might start with lower costs and prices than its competitors. Or it might cut prices in the hope of gaining market share that will further cut costs through larger sales volume and consequent economies of scale in production, distribution, and manufacturing. ● For example, AGIT Global used low prices to quickly build demand for its Wavestorm surfboards. Before Wavestorm, surfers and would-be surfers typically bought custom-made or high-end surfboards at local surf shops, where entry-level boards typically run \$800 to \$1,000. To make surfing more accessible, AGIT began mass-producing good-quality soft-foam surfboards and selling them through big-box stores at very low prices. For example, it initially sold an entry-level, eight-foot, blue-and-white Wavestorm board at Costco for only \$99.99. More than a dozen years later, it still sells a five-foot, eight-inch board

● **Price reduction strategy: Thanks to its lower prices, Wavestorm is now the surfboard market leader.**

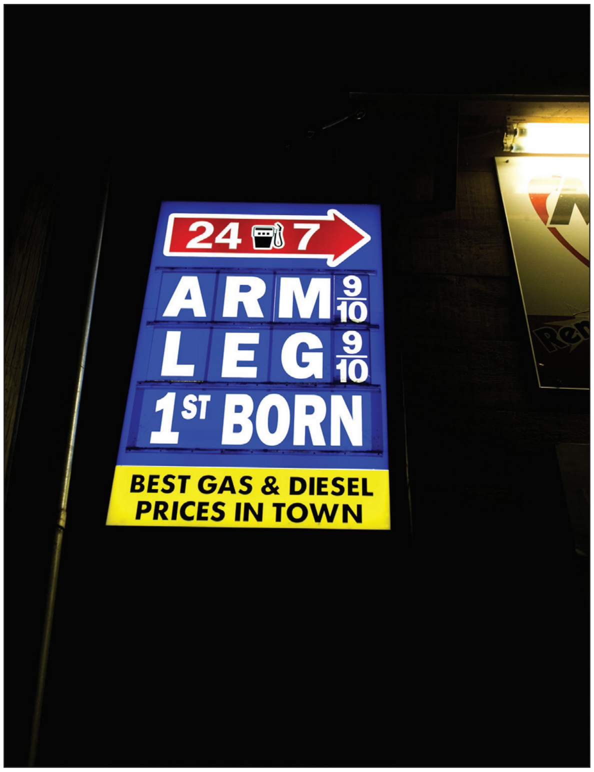
Image by Stan Moniz; Owned by Agit Global, Inc.

at Costco for only $119.99. Thanks to heavy price cuts relative to established brands, Wavestorm is now the market leader, selling an estimated five times more boards than the other large surfboard brands.[17]

Initiating Price Increases

A successful price increase, while often challenging to implement, can greatly improve profits. For example, if the company's profit margin is 3 percent of sales, a 1 percent price increase will boost profits by 33 percent if sales volume is unaffected. A major factor in price increases is cost inflation. For instance, even as the world emerged from the COVID-19 pandemic, globally constricted supply chains, low labor supply, and increasing petroleum and natural gas costs drove inflation to its highest levels in decades. Rising costs squeezed profit margins and led companies to pass cost increases along to customers in the form of higher prices. Prices can also increase when demand is unexpectedly strong. When a company is overwhelmed by demand from its customers, it may raise its prices, ration products to customers, or both.

Wherever possible, the company should consider ways to meet higher costs or demand without raising prices. For example, it might be more cost-effective in how it produces or distributes its products. It can "subtract" from its market offering, removing features, packaging, or services. For example, by subtracting the speakers and the recording circuitry from its tape recorders, Sony came up with its famous Walkman portable audio player, one of the most iconic electronic products ever designed. A company can unbundle and separately price elements that were formerly part of the offer. Or it can shrink the product or substitute less-expensive ingredients instead of raising the price, a process sometimes called "shrinkflation." Kimberly-Clark raised Kleenex prices by "desheeting"—reducing the number of sheets of toilet paper or facial tissues in each same-priced package. And Mondelēz cut the size of its popular Toblerone chocolate bar by about 12 percent in the UK, not by shortening the bar but by increasing the spacing between its signature triangles. Shrinkflation is successful because many consumers are more sensitive to a price change than to a size or weight change. However, British consumers found the too-obvious change to Toblerone's iconic shape hard to stomach, sparking a flurry of online backlash.[18]



Initiating price increases: When gasoline prices rise rapidly, regardless of the reason, angry consumers often accuse the major oil companies of enriching themselves by gouging customers.

Jerry and Marcy Monkman/EcoPhotography.com/Alamy Stock Photo

When raising prices, the company must avoid being perceived as a price gouger. For example, when gasoline prices rise rapidly, major oil companies are often accused of enriching themselves at the expense of customers. Customers have long memories, and they will eventually turn away from companies or even whole industries that they perceive as charging excessive prices. In the extreme, claims of price gouging may even bring about increased government investigation and regulation. For example, during the COVID-19 pandemic, the attorneys general of many states sued or issued cease-and-desist orders against retailers selling disinfectants, hand sanitizers, personal protective equipment, and other scarce products at exorbitant prices. Many large retailers themselves acted against such practices. Amazon, for instance, removed hundreds of thousands of "high-priced" offers and suspended thousands of price-gouging sellers from its online marketplace.

When price increases are necessary, companies should maintain a sense of fairness to consumers surrounding the increases. Price increases should be supported by company communications telling customers why prices are being raised.

Buyer Reactions to Price Changes

Customers do not always interpret price changes in a straightforward way. A price *increase*, which would normally lower sales, may have some positive meanings for buyers. For example, what would you think if Rolex *raised* the price of its latest watch model? On the one hand, you might think that the watch is even more exclusive or better made. On the other hand, you might think that Rolex is simply being greedy by charging what the market will bear, making more profit while leaving less joy for customers.

Similarly, consumers may view a price *cut* in several ways. For example, what would you think if Rolex were to suddenly cut its prices? You might think that you are getting a better deal on an exclusive product. More likely, however, you'd think that quality had been reduced, and the brand's luxury image might be tarnished. A brand's price and image are often closely linked. A price change, especially a drop in price, can adversely affect how consumers view the brand.

Competitor Reactions to Price Changes

A company considering a price change must worry about the reactions of its competitors as well as those of its customers. Competitors are most likely to react when the number of companies involved is small, when the products are highly substitutable, and when the buyers are well informed about products and prices. Under these conditions, a price cut by one company can significantly erode the market share of its competitors, forcing them to react.

How can the firm anticipate the likely reactions of its competitors? The problem is complex because, like the customer, the competitor can interpret a company price cut in many ways. It might think the company is trying to grab a larger market share or that it's doing poorly and trying to boost its sales. Or it might think that the company wants the whole industry to cut prices to increase total demand.

The company must assess each competitor's likely reaction. If all competitors behave alike, this amounts to analyzing only a typical competitor. In contrast, if the competitors do not behave alike—perhaps because of differences in size, market shares, or policies—then separate analyses are necessary. However, if some competitors will match the price change, there is good reason to expect that the rest will also do so.

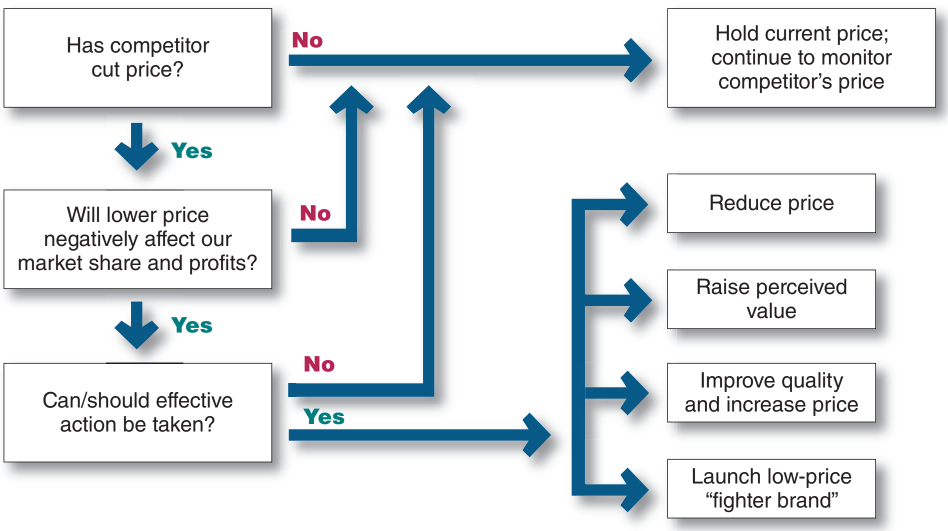
Responding to Price Changes

Here we reverse the question and ask how a firm should respond to a price change by a competitor. The firm needs to consider several issues: Why did the competitor change the price? Is the price change likely to be temporary or permanent? What will happen to the company's market share and profits if it does not respond? Are other competitors going to respond? Besides these issues, the company must also consider its own situation and strategy and possible customer reactions to price changes.

Figure 11.1 shows the ways a company might assess and respond to a competitor's price cut. Suppose a company learns that a competitor has cut its price and decides

FIGURE 11.1
Responding to Competitor Price Changes

When a competitor cuts prices, a company's first reaction may be to drop its prices as well. But that is often the wrong response. Instead, the firm may want to emphasize the "value" side of the price–value equation.



that this price cut is likely to affect its sales and profits. It might simply decide to hold its current price and profit margin. The company might believe that it will not lose too much market share if it holds its current price or that it will lose too much profit if it reduces its own price. Or it might decide that it should wait and respond when it has more information on the effects of the competitor's price change. However, waiting too long to act might let the competitor become stronger and more confident as its sales increase.

If the company decides that effective action can and should be taken, it might make any of four responses. First, it could *reduce its price* in response to the competitor's price reduction. It may decide that the market is price sensitive and that it will lose too much market share to the lower-priced competitor if it does not react. However, cutting the price will reduce the company's profits in the short run. Some companies might also reduce their product quality, services, and marketing communications to retain profit margins, but this will ultimately hurt long-run market share. The company should try to maintain its quality as it cuts prices.

Alternatively, the company might maintain its price but *raise the perceived value* of its offer. It could improve its communications, stressing the relative value of its product over that of the lower-price competitor. The firm may find it cheaper to maintain price and spend money to improve its perceived value than to cut price and operate at a lower margin. Or the company might *improve quality* and *increase price*, moving its brand into a higher price–value position. The higher quality creates greater customer value, which justifies the higher price. In turn, the higher price preserves the company's higher margins.

Fighter brands: Intel launched its Celeron microprocessor as a fighter brand to compete head-to-head with competitor AMD's lower-priced processors, allowing Intel's high-end Pentium processor line to maintain its premium prices.

Ralf Liebhold/Shutterstock

Finally, the company might launch a *low-price "fighter brand"*—adding a lower-price item to the line or creating a separate lower-price brand. This is necessary if the particular market segment being lost is price sensitive and will not respond to arguments of higher quality. For example, Intel launched its Celeron microprocessors as a fighter brand to compete head-to-head with competitor AMD's lower-priced processors, allowing Intel's high-end Pentium processor line to maintain its premium prices. 3M introduced economy-priced Highland brand self-stick notes to fight off competition from more than 20 competing bargain brands of self-stick notes that emerged to challenge its premium Post-It notes—the brand that pioneered the entire category. And to counter store brands and other low-price entrants, P&G turned a number of its brands into fighter brands. Luvs disposable diapers give parents "premium stretch and ultra leakage protection for less than the pricey brands." P&G also offers popular budget-priced essentials versions of several of its major brands. For instance, Charmin Essentials Soft is "soft on your butt and budget," and Bounty Essentials is the "affordable picker upper."

However, companies must use caution when introducing fighter brands. Unless such brands are carefully positioned and marketed, they can end up tarnishing the image of the main brand. In addition, apart from attracting budget buyers away from lower-priced rivals, they can also take business away from the company's higher-margin brands.

Author Comment | Pricing decisions are often constrained by social and legal issues. For example, think about the pharmaceuticals industry. Are rapidly rising prescription drug prices justified to fund the development of new drugs that save people lives? Or are the drug companies unfairly lining their pockets by gouging consumers who have few alternatives? Should the government step in?

Public Policy and Pricing

OBJECTIVE 11-5 Discuss the major public policy concerns and key laws and regulations that affect pricing decisions.

Price competition is a core element of our free-market economy. Although companies generally have a lot of freedom in setting prices, many federal, state, and even local laws govern the rules of fair play in pricing. In addition, companies must consider broader societal pricing concerns. Of all the marketing mix variables, pricing is the one that is most capable of quickly raising emotions and societal divisions. In setting their prices, for example, pharmaceutical firms must balance their development costs and profit objectives against the sometimes life-and-death needs of prescription drug consumers. Therefore, managers need to carefully think through and manage the economic, social, and psychological implications of their pricing decisions (see Real Marketing 11.2).

The most important pieces of legislation affecting pricing are the Sherman Act, the Clayton Act, and the Robinson-Patman Act, initially adopted to curb the formation of monopolies and regulate business practices that might unfairly restrain trade. Because these federal statutes can be applied only to interstate commerce, some states have adopted similar provisions for companies that operate locally.

Figure 11.2 shows the major public policy issues in pricing. These include potentially damaging pricing practices within a given level of the channel (price-fixing and predatory pricing) and across levels of the channel (retail price maintenance, discriminatory pricing, and deceptive pricing).[19]

Pricing within Channel Levels

Federal legislation on *price-fixing* states that sellers must set prices without talking to competitors. Otherwise, price collusion is suspected. Price-fixing is illegal per se—that is, the government does not accept any excuses for price-fixing. Recently, governments at the state and national levels have been aggressively enforcing price-fixing regulations in industries ranging from gasoline, insurance, and concrete to credit cards, computer chips, and e-books. Companies found guilty of price-fixing practices can pay heavy penalties. For example, four major U.S. airlines—United, Delta, Southwest, and American—agreed to pay $60 million to settle a class action suit and still face a U.S. Department of Justice investigation for conspiring to artificially inflate airfares to "reap huge profits." Meatpacking giant JBS recently agreed to pay $52.5 million to settle a lawsuit filed by wholesalers and grocery stores alleging that meatpacking companies were illegally colluding to reduce the number of cattle slaughtered in order to drive up the price of beef. And Amazon was forced to pay $2.25 million and shut down a "Sold by Amazon" sales program by which it allegedly colluded with third-party sellers to raise prices in a way that channeled customers to its own private label brands including Amazon Basics.[20]

Sellers are also prohibited from using *predatory pricing*—selling below cost with the intention of punishing a competitor or gaining higher long-run profits by putting competitors out of business. This protects small sellers from larger ones that might sell items below cost temporarily or in a specific locale to drive them out of business. The biggest problem is determining just what constitutes predatory pricing behavior. Selling below cost to unload excess inventory is not considered predatory; selling below cost to drive out competitors is. Thus, a given action may or may not be predatory depending on intent, and intent can be very difficult to determine or prove.

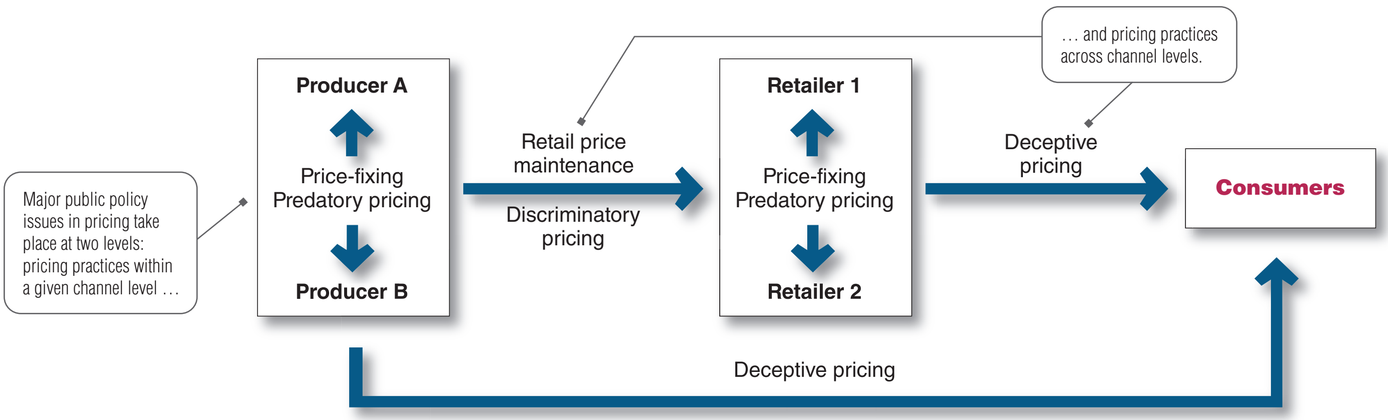


FIGURE 11.2
Public Policy Issues in Pricing

Source: Adapted from Dhruv Grewal and Larry D. Compeau, "Pricing and Public Policy: A Research Agenda and Overview of the Special Issue," *Journal of Public Policy and Marketing*, Spring 1999, pp. 3–10.

Real Marketing 11.2 | Pharmaceutical Pricing: No Easy Answers

The U.S. pharmaceutical industry has historically been one of the nation's most profitable industries. In most situations, we'd applaud such high-performing companies and industries. However, when it comes to pharmaceutical firms, critics claim, healthy sales and profits may not be so healthy for consumers.

Somehow, learning that major pharmaceutical companies such as Johnson & Johnson, Pfizer, Roche, Novartis, Merck, and GlaxoSmithKline (GSK) are reaping big profits leaves a bad taste in the mouths of many consumers. It's like learning that the oil companies are profiting when gas prices rocket upward. Although most consumers appreciate the steady stream of beneficial drugs produced by pharmaceutical companies, they worry that the industry's huge success may be coming at their own expense—literally.

Americans spent about $360 billion last year on prescription medications, up 6 percent from the prior year. Prescription prices have risen rapidly over the years, and health-care costs continue to jump. For example, the prices of popular brand name drugs jumped 190 percent during the past decade.

The critics claim that competitive forces don't operate well in the pharmaceuticals market, allowing the pharmaceutical companies to charge excessive prices. Unlike purchases of other consumer products, drug purchases cannot be postponed. And consumers don't usually shop for the best deals on medicines—they simply take what the doctor orders. Because physicians who write the prescriptions don't pay for the medicines they recommend, they have little incentive to be price conscious. Moreover, third-party payers—insurance companies, health plans, and government programs—often pay all or part of the bill. Finally, because of patent protection and the huge investment and time needed to develop and test new drugs, there are fewer competing brands to force lower prices. The critics claim that these market factors leave pharmaceutical companies free to practice monopoly pricing, sometimes resulting in unfair practices or even seemingly outlandish cases of price gouging.

For example, mainstream pharmaceutical makers routinely boost the prices of their cancer, diabetes, MS, and cholesterol-reducing drugs by 10 percent or more per year, much faster than inflation. The prices of some new lifesaving drugs seem more than exorbitant. For example, Bavencio, a recently approved cancer drug, costs patients about $156,000 a year. And a new muscular dystrophy drug recently debuted at a jaw-dropping $300,000 annually. But even older drugs that have been on the market for a long time have seen major price increases. Take the price of 40-year-old EpiPen, a lifesaving allergy medication. Its price increased 400 percent in just five years, sparking public outrage.

Not all prescription drug pricing controversies involve exorbitant prices. In fact, one of the most hotly debated current cases of profiting from lifesaving medications concerns COVID-19 vaccines. During the onset of the pandemic, multiple pharmaceutical companies—most notably Pfizer and Moderna—accomplished the seemingly impossible by launching COVID-19 vaccines within one year of the first viral outbreaks. Compared to many prescription drugs, vaccines are relatively low in price, and these were no exception, with prices ranging from $19.50 to $37 per dose. But with a captive base of billions who needed multiple vaccine doses quickly, Pfizer and Moderna were sometimes accused of profiting unfairly from the deadly global pandemic.

The fact that these vaccines have saved a massive number of lives might have quieted critics had it not been for each company's strong financial performance following their vaccine launches. While most pharmaceuticals companies saw only modest revenue and profit growth in 2021—the vaccines' first full year on the market—Pfizer's revenue nearly doubled, and its profits skyrocketed by 238 percent. Relatively young Moderna's revenues exploded by more than 2,100 percent, with an astounding profit margin of 66 percent of revenues.

Drug industry critics also point to the massive amounts that drug companies pour into advertising and promotions—more than $10 billion a year into direct-to-consumer advertising and another $20 billion into marketing to doctors. Industry proponents claim that such promotions inform and empower patients to participate in their own health care. But critics charge that such marketing efforts result in higher prices at the same time that they build demand for more expensive remedies. Thus, the severest critics say, the big drug companies may be profiting unfairly—or even at the expense of human life—by promoting and pricing products beyond the reach of many people who need them.

But there's another side to the drug-pricing issue. Industry proponents point out that criticisms of extreme prices and price hikes are based on a few nonrepresentative examples. They note that drug companies develop a steady stream of medicines that transform people's lives. Developing such drugs is risky and expensive—it involves legions of scientists, expensive technologies, and years of effort with no certainty of success. Last year, the pharmaceutical industry spent more than $212 billion on R&D. On average, it takes 12 to 15 years and costs between $660 million and $2.7 billion to bring a new drug to market. And many

Responsible pharmaceutical pricing: Most consumers understand that they'll have to pay the price for beneficial drugs. They just want to be treated fairly in the process.

pixelrobot/123RF

drug-development efforts fail. For example, although some companies successfully launched COVID-19 vaccines and reaped large financial rewards, even more companies tried but failed, losing hundreds of millions of dollars in the process.

Thus, the proponents say, although the prices of new prescription drugs seem high, they're needed to fund the development of important future drugs. Pharmaceuticals giant GSK puts it this way: "Inventing new medicines isn't easy, but it's worth it.... Today's medicines finance tomorrow's miracles."

And so the controversy continues. As drug prices climb, the pharmaceutical companies face pressure from the federal government, insurance companies, managed-care providers, and consumer advocacy groups to exercise restraint in setting prices. Even now, the U.S. Congress is deeply involved in trying to pass legislation that would curb prescription drug costs.

However, rather than waiting for tougher legislation on prices—or simply because it's the right thing to do—many drug companies are taking action on their own. For example, drug companies have routinely provided discounts and rebates to insurance companies on brand name medications. Although the list price of such medications has gone up by an average of about 5 percent over the past four years, the net price has actually declined each year by an average of 2 percent.

Additionally, some companies have committed to keeping their average price hikes at or below inflation. Most pharmaceutical companies now sponsor patient assistance programs that provide prescription medicines free or at low cost to people who cannot afford them. And most regularly donate free medicines in response to disaster relief efforts around the globe.

In all, pharmaceutical pricing is no easy issue. For the pharmaceutical companies, it's more than a matter of sales and profits. In setting prices, short-term financial goals must be tempered by broader societal considerations. For example, GSK's heartfelt mission is "to help people do more, feel better, live longer." Accomplishing this mission won't come cheap. Most consumers understand that. One way or another, they know, they'll have to pay the price. All they really ask is that they be treated fairly in the process.[21]

In recent years, several large and powerful companies have been accused of predatory pricing. However, turning an accusation into a lawsuit can be difficult. For example, many publishers and booksellers—and even Congress—have expressed concerns about Amazon.com's predatory practices, especially its book pricing:[22]

> Many booksellers and publishers complain that Amazon's book pricing policies are destroying their industry. Amazon routinely sells best-selling hardback books as loss leaders at cut-rate prices. And it peddles e-books at fire-sale prices in order to win customers for its Kindle e-reader and tablets. Such very low book prices have caused considerable damage to competing booksellers, many of whom view Amazon's pricing actions as predatory. According to some publishing industry groups, "we believe that Amazon acts anti-competitively in multiple ways, dictating the economic terms of its relationships with suppliers so that publishers, their authors, and the booksellers who sell on Amazon pay more each year for Amazon's distribution and advertising services but receive less each year in return." Still, no predatory pricing charges have ever been filed against Amazon. It would be extremely difficult to prove that such loss-leader pricing is purposefully predatory as opposed to just plain good competitive marketing. "But wait a minute," states one analyst. "Isn't that what business is supposed to do—compete to lower prices?"

Predatory pricing: Some industry critics have accused Amazon.com of pricing books at fire-sale prices that harm competing booksellers. But is it predatory pricing or just plain good competitive marketing?

imageBROKER/Alamy Stock Photo

Pricing across Channel Levels

The Robinson-Patman Act seeks to prevent unfair *price discrimination* by ensuring that sellers offer the same price terms to customers at a given level of trade. For example, every retailer is entitled to the same price terms from a given manufacturer, whether the retailer is REI or a local bicycle shop. However, price discrimination is allowed if the seller can prove that its costs are different when selling to different retailers—for example, that it costs less per unit to sell a large volume of bicycles to REI than to sell a few bicycles to the local dealer.

The seller can also discriminate in its pricing if the seller manufactures different qualities of the same product for different retailers. The seller has to prove that these differences are proportional. Price differentials may also be used to "match competition" in "good faith," provided the price discrimination is temporary, localized, and defensive rather than offensive.

Laws also prohibit *retail (or resale) price maintenance*—a manufacturer cannot require dealers to charge a specified retail price for its product. Although the seller can propose a manufacturer's *suggested* retail price to dealers, it cannot refuse to sell to a dealer that takes independent pricing action, nor can it punish the dealer by shipping late or denying advertising allowances. For example, the Florida attorney general's office investigated Nike for allegedly fixing the retail price of its shoes and clothing. It was concerned that Nike might be withholding items from retailers who were not selling its most expensive shoes at prices the company considered suitable. Despite these laws, some companies like Apple manage to maintain remarkable discipline in retail pricing. The prices of Apple iPhones rarely vary significantly across retail outlets.

Deceptive pricing occurs when a seller states prices or price savings that mislead consumers or are not actually available to consumers. This might involve bogus reference or comparison prices, as when a retailer sets artificially high "regular" prices and then announces "sale" prices close to its previous everyday prices. For example, luxury apparel and accessories retailer Michael Kors recently settled a class action lawsuit alleging that it used deceptive pricing at its outlet stores. The retailer was charged with tagging products with false "manufacturer's suggested retail prices" to make its supposed discounted prices more appealing when, in fact, the products were sold only in the outlet stores. Such artificial comparison pricing is widespread in retailing. Retailers ranging from TJMaxx and Kohl's to Zara, Neiman Marcus, and Michael Kors have drawn complaints and lawsuits over this issue.[23]

Although comparison pricing claims are legal if they are truthful, the Federal Trade Commission's "Guides against Deceptive Pricing" warn sellers not to advertise (1) a price reduction unless it is a savings from the usual retail price, (2) "factory" or "wholesale" prices unless such prices are what they are claimed to be, and (3) comparable value prices on imperfect goods.[24]

Other deceptive pricing issues include *scanner fraud* and price confusion. The widespread use of scanner-based computer checkouts has led to increasing complaints of retailers overcharging their customers. Most of these overcharges result from poor management, such as a failure to enter current or sale prices into the system. Other cases, however, involve intentional overcharges.

Many federal and state statutes regulate against deceptive pricing practices. For example, the Automobile Information Disclosure Act requires automakers to attach a statement on new vehicle windows stating the manufacturer's suggested retail price, the prices of optional equipment, and the dealer's transportation charges. However, reputable sellers go beyond what is required by law. Treating customers fairly and making certain that they fully understand prices and pricing terms are an important part of building strong and lasting customer relationships.

Reviewing and Extending the Concepts

Objectives Review

In this chapter, we examined some additional pricing considerations—new product pricing, product mix pricing, price adjustments, initiating and reacting to prices changes, and pricing and public policy. A company sets not a single price but rather a *pricing structure* that covers its entire mix of products. This pricing structure changes over time as products move through their life cycles. The company adjusts product prices to reflect changes in costs and demand and account for variations in buyers and situations. As the competitive environment changes, the company considers when to initiate price changes and when to respond to them.

OBJECTIVE 11-1 Describe the major strategies for pricing new products.

Pricing is a dynamic process. Companies design a *pricing structure* that covers all their products. They change this structure over time and adjust it to account for different customers and situations. Pricing strategies usually change as a product passes through its life cycle. In pricing innovative new products, a company can use *market-skimming pricing* by initially setting high prices to "skim" the maximum amount of revenue from various segments of the market. Or it can use *market-penetrating pricing* by setting a low initial price to penetrate the market deeply and win a large market share that it later manages for long-run profits.

OBJECTIVE 11-2 Explain how companies choose a portfolio of prices to maximize the profits from the total product mix.

When the product is part of a product mix, the firm searches for a set of prices that will maximize the profits from the total mix. In *product line pricing*, the company decides on prices across for the entire set of products it offers. This ensures that the products work with, and not against, each other in driving the company's total profits. In addition, the company must set prices for *optional products* (optional or accessory products included with the main product), *captive products* (products that are required for use of the main product), *by-products* (waste or residual products produced when making the main product), and *product bundles* (combinations of products at a reduced price).

OBJECTIVE 11-3 Discuss how companies adjust their prices to account for different types of customers and situations.

Companies apply a variety of *price adjustment strategies* to account for differences in consumer segments and situations. One is *discount and allowance pricing*, whereby the company establishes cash, quantity, functional, or seasonal discounts, or varying types of allowances. A second strategy is *segmented pricing*, where the company sells a product at two or more prices to accommodate different customers, product forms, locations, or times. Companies must think beyond economics in their pricing decisions and employ *psychological pricing* to better communicate a product's intended position. In *promotional pricing*, a company offers discounts or temporarily sells a product below list price as a special event, sometimes even selling below cost as a loss leader. Another approach is *geographical pricing*, whereby the company decides how to price to near or distant customers. In *dynamic and personalized pricing*, companies adjust prices continually to meet the characteristics and needs of individual customers and situations. Such pricing is particularly useful in digital marketing. Finally, *international pricing* means that the company adjusts its price to meet different conditions and expectations in different world markets.

OBJECTIVE 11-4 Discuss the key issues related to initiating and responding to price changes.

When a firm considers initiating a *price change*, it must consider customers' and competitors' reactions. There are different implications to *initiating price cuts* and *initiating price increases*. In general, companies must try to protect any price premium they have and must lower prices only after very careful consideration. Buyer reactions to price changes are influenced by the meaning customers see in the price change. Competitors' reactions flow from a set reaction policy or a fresh analysis of each situation.

Many factors influence a company's response to a competitor's price changes. A company that faces a price change initiated by a competitor must try to understand the competitor's intent as well as the likely duration and impact of the change. If a swift reaction is desirable, the firm should plan its reactions to different possible price actions by competitors beforehand. When facing a competitor's price change, the company might sit tight, reduce its own price, raise perceived quality, improve quality and raise price, or launch a fighter brand.

OBJECTIVE 11-5 Discuss the major public policy concerns and key laws and regulations that affect pricing decisions.

Price competition is a core element of our free-market economy. Although companies have a lot of freedom in setting prices, they are not free to charge whatever prices they wish. Marketers must heed federal, state, and local laws govern pricing. In addition, companies must consider broader societal pricing concerns. The major public policy issues in pricing include potentially damaging pricing practices within a given level of the channel (price-fixing and predatory pricing) and across levels of the channel (retail price maintenance, discriminatory pricing, and deceptive pricing). Reputable marketers go beyond what is required by law. Treating customers fairly and making certain that they fully understand prices and pricing terms are an important part of building strong and lasting customer relationships.

Key Terms

OBJECTIVE 11-1

Market-skimming pricing (price skimming)
Market-penetration pricing

OBJECTIVE 11-2

Product line pricing
Optional-product pricing
Captive-product pricing
By-product pricing
Product bundle pricing

OBJECTIVE 11-3

Discount
Allowance
Segmented pricing
Psychological pricing
Reference prices
Promotional pricing
Geographical pricing
FOB-origin pricing
Uniform-delivered pricing
Zone pricing
Basing-point pricing
Freight-absorption pricing
Dynamic pricing
Personalized pricing

Discussion Questions

11-1 What is the cost-plus pricing method, and why do marketers use it even if it is not the best method for setting prices? (AACSB: Written and Oral Communication; Reflective Thinking)

11-2 What are the five product mix pricing strategies? Provide an example of each and explain why the strategy for setting product prices might need to change. (AACSB: Written and Oral Communication; Reflective Thinking)

11-3 What is reference pricing, and how is it used by customers? Give an example. (AACSB: Written and Oral Communication)

11-4 How is personalized pricing used in the digital marketing environment? Provide examples with your answer. (AACSB: Written and Oral Communication; Application of Knowledge)

11-5 What are the strategic responses a company might have when a competitor changes its prices? (AACSB: Written and Oral Communication)

11-6 What are the major public policy issues in pricing practices within a given channel level and across channel levels? (AACSB: Written and Oral Communication)

Critical Thinking Exercises

11-7 To explore the concept of the Consumer Price Index (CPI), examine the chart at the top of this web page: www.bls.gov/cpi/home.htm. Click on the "Food" column in the graph. Keep clicking on items within the food category to go deeper. First, discuss what you find. Second, what does the Consumer Price Index capture, and how can it be used? (AACSB: Integration of Real-World Business Experiences; Reflective Thinking)

11-8 The Goods Mart is a subscription service that curates a variety of delicious snacks, sauces, and beverages that can be sorted by founder identity (AAPI, Black, Latinx, female, or BIPOC) or other criteria (gluten-free, paleo, organic, vegan, sustainable). It is considering different geographical pricing strategies for its subscriptions. If the company wants to penetrate the market and hold its market share in a competitive market, which geographical pricing policy should it use? Why is your chosen strategy better than the other geographical pricing policies you considered? (AACSB: Application of Knowledge; Reflective Thinking)

11-9 Amara runs a small food kiosk and prepares lunch snacks for office workers in the city. The average customer spend at her kiosk is $4.55. She has asked you to suggest some viable ways in which she can increase the average spend per customer and attract new customers. Referring to the price adjustment strategies discussed in the chapter, suggest some options by which Amara can increase overall sales. (AACSB: Written and Oral Communication; Reflective Thinking)

APPLICATIONS AND CASES

Digital Marketing RetailMeNot

Price-conscious shoppers want to find the best deal. RetailMeNot.com boasts coupons for more than 130,000 online and local stores (www.retailmenot.com). Mobilepantry.com lists RetailMeNot as one of the top online coupon sites. Whether looking for grocery coupons to print or digital coupons and promo codes for use online and in-store, RetailMeNot offers myriad ways to save money on purchases. It also uses various digital tools to engage deal-seeking shoppers, including emailing a Hot Coupon Newsletter and hosting an online community where shoppers get feedback on how well coupons work, submit their own coupons, and download the RetailMeNot app to their phones.

11-10 Visit www.RetailMeNot.com and browse a deal you would consider purchasing. After identifying the deal, conduct an online price comparison at various retailers to determine the range of prices you would typically pay for the product. Present your conclusions. (AACSB: Written and Oral Communication; Reflective Thinking)

11-11 Using www.RetailMeNot.com, click on best In-Store deals on the navigation bar, select a store, and make a list of the featured products. Identify the pricing strategy used by the retailer. (AACSB: Written and Oral Communication; Reflective Thinking)

Marketing Ethics Changing the Price

If you've ever bought an airline ticket, rented a car, or booked a hotel room for a big event, you've experienced dynamic pricing software in action. Companies use sophisticated algorithms to determine the optimal price for products and services offered at specific dates and times. These prices change depending on when customers reserve the offerings and—drawing from cookies and other information sources—even based on who is doing the booking. The airline, hotel, and rental car industries have been doing this for years, and consumers have come to expect it. However, the use of dynamic pricing software in the apartment rental market is newer and confusing to many would-be renters. Instead of publishing rental rates on their websites that must be honored week after week, landlords now decide what the rent for a specific unit should be at any point in time and only need honor a given price for a few days. Using both internal information, such as square footage and number of bedrooms, and external information, like the strength of the market, competing prices, and total occupancy, the software helps them maximize revenue on every single unit.

11-12 Why would an apartment complex rent units at differing rates? (AACSB: Written and Oral Communication; Ethical Reasoning)

11-13 What are the ethical considerations of changing rental rates on apartment units? Which consumers win and which lose with dynamic pricing? (AACSB: Written and Oral Communication; Ethical Reasoning)

Marketing by the Numbers Lose Some Customers, Be Better Off?

For the past several years, large food manufacturers followed Kraft-Heinz's lead by aggressively slashing costs to improve profitability. This cost cutting did not work well for Kraft-Heinz or for other manufacturers such as General Mills, marketer of Yoplait yogurt, Cheerios and other breakfast cereals, Häagen-Dazs ice cream, and dozens of other popular brands. Rather, cost cutting hurt the quality of well-known brands. General Mills took a different tack, raising prices 20 percent and maintaining product quality and brand reputation. By one metric, this has not worked out well for General Mills. Sales volume decreased in the first quarter following the price hikes. However, the company's margins improved, making it more profitable than before the price increase. Companies realize that sales volumes will decrease after price hikes. But they also know that they can maintain or even enhance profitability despite a decrease in sales.

11-14 Assuming a contribution margin of 20 percent and sales of $5 billion, with a 20 percent price increase, by how much can sales decrease before profitability (total contribution) drops below its current level? Refer to Financial Analysis of Marketing Tactics: Price Decrease in Appendix 2: Marketing by the Numbers to learn how to perform this analysis, but determine the maximum *drop* in sales before total contribution is negatively affected. (AACSB: Analytical Reasoning; Application of Knowledge)

11-15 What absolute change and percentage change in sales does this represent? (AACSB: Written and Oral Communication; Analytic Reasoning)

Company Case Casper: A Pricing Strategy That Flipped the Mattress Industry

The mood was whimsical at Casper's New York headquarters—the online mattress startup had flipped its industry upside down. Celebrating Casper's fifth anniversary, the celebration seemed more like a birthday party for a five-year-old, complete with face-painting, piñatas, and a balloon artist who crafted everything from an intricate jet pack to a knockoff Chanel bag. "But the magician canceled at the last minute," said Casper's chief technology officer, "which kind of sucked." About the only indication that this was gathering of adults was the copious supply of alcoholic beverages.

Although the party was unusual for a successful New York firm, young Casper's five founders had plenty to celebrate. Against all odds, the startup had finished the prior year selling $400 million worth of mattresses and other sleep-related goods. And it accomplished that feat using an innovative direct-to-consumer (DTC) "bed-in-a-box" model. Although not exactly reaping market-leading revenue numbers, Casper had taken a notable slice of the $14 billion U.S. mattress market—a market dominated by a handful of mattress companies and specialty retailers. Perhaps more amazing, Casper had just raised an additional $100 million in funding, bringing its total to $340 million in venture capital. That huge influx of cash combined with the young company's rapid growth gave Casper a valuation of $1.1 billion, nearly one-third the value of 140-year-old mattress stalwart Tempur Sealy International.

Casper has succeeded for numerous reasons. But at the core of its trampoline-like launch is an idea as old as beds themselves—break into a mature market with a quality product at a fraction of the price charged by the ruling brands. For good measure, Casper made shopping and buying simple. Consumer response to this approach demonstrates the extent of unmet consumer need lurking beneath the sheets—unmet need that has led to a revolution in the mattress industry.

An Industry Begging for DTC

With the direct-to-consumer (DTC) model growing across countless industries that were previously dominated by veteran companies, Casper's founders set their sights on the mattress industry—one that was ripe for change. The industry was dominated by two firms—Tempur Sealy and Serta Simmons—that captured a combined 60 percent of the global mattress market and 75 percent of the U.S. market. The two firms sold mattresses under the Sealy, Tempur-Pedic, Serta, Simmons, Stearns & Foster, Beautyrest, and other brands. Mattress retail sales were also dominated by a small circle of specialty retailer chains like Mattress Firm and Sleepy's. Nearly all mattresses were sold through one of these stores as well as through furniture stores or department stores where salespeople earning high commissions used old-school tactics to persuade customers to part with their money.

From the customer viewpoint, there wasn't much difference between shopping for a mattress and shopping for a new car. Conventional wisdom held that customers simply would not buy a mattress without lying down on several to find the perfect fit for their slumbers. But the mattress-shopping process required hours of effort filled with sales presentations, mattress testing, and transactions riddled with paperwork. The bed companies further complicated matters by manufacturing different mattress models for each retailer, making price comparisons impossible. Moreover, most customers had no idea that retailers marked up mattress prices by as much as 100 percent over wholesale price. Mattress prices for the big brands ranged from hundreds of dollars for a basic twin to more than $5,000 for a top-of-the-line king. Not surprisingly, many mattress purchases required long-term financing.

Casper's idea of "cutting out the middleman" and selling mattresses at low prices directly to consumers wasn't exactly new. Nor was the memory foam bed-in-a-box concept. In fact, BedInABox.com began selling mattresses online in 2006, and a handful of other companies had more recently followed suit. But the concept was largely unknown to most consumers and had yet to take off. Most beds sold at the time were of coil spring construction, requiring a bulky box spring base. But various companies—including IKEA with its own mattress brands—were selling viscoelastic memory foam mattresses of the type perfected by Tempur-Pedic. These mattresses could be compressed, rolled, and boxed to make shipping a reasonable option.

An Unexpected Reaction

Casper flipped on the switch for its e-commerce platform in April 2014 with just one foam mattress model in twin, full, queen, and king sizes. Each mattress was tightly packed in a blue-and-white heavy-duty box. Watching the mattress unroll and expand when unboxed was magical. Each mattress came with a 100-day money-back-guarantee and was delivered for free via UPS. And the price—just $850 for a queen—was less than the retail markup on many comparable name-brand mattresses. Targeting millennials, Casper was confident that a nimble, low-overhead online brand with a cool vibe and an irresistibly low price could capture a small but profitable slice of the market while avoiding the attention of the deep-pocket market leaders. It set a modest 18-month revenue goal of just $1.8 million, a goal that seemed reachable based on a low-cost promotion plan using social media and influencers.

By the end of the first day, Casper was already rethinking its sales goal. Orders flooded in so fast that Casper's initial inventory was quickly depleted. The fledgling company surpassed its original 18-month sales goal in only eight weeks. During its first full fiscal year, Casper delivered $100 million worth of mattresses to customer's doorsteps. Originally planning only to nibble at the edges of the mattress market, Casper had taken a big bite right out of the center.

Early success led Casper's founders down a path that other DTC mattress brands had not yet tried—raising venture capital. "At the beginning, we met with dozens of investors who all said, 'No one is ever going to buy a mattress online. This is a dumb idea,'" said Neil Parikh, one of the original Casper founders. But when Casper mattresses started flying out of the warehouse, there was no shortage of interested funders. Through venture capital firms, early investors included actors Leonardo DeCaprio and Ashton Kutcher and rappers Nas and 50 Cent, lending celebrity clout as well as funds. And then there were the influencers. About a year after Casper launched, Kylie Jenner posted a picture of herself standing next to a Casper box in her new mansion. "So much work to still be done. IM SO EXCITED. The first thing I'm gonna open are my new Casper mattresses." Jenner's post racked up an immediate 870,000 likes. "When Kylie Jenner posted about Casper I think it broke our website," Parikh said.

Success Draws Competition

Perhaps more amazing than its immediate popularity is that Casper's sales exploded even as numerous companies with the same idea began selling mattresses. In fact, some of today's leading DTC mattress companies launched the same year that Casper did, including Leesa, Yogabed, Purple, and Bear Mattress. With a low cost of entry, the early startups gave way to an explosion of new mattress companies, each with its own spin on boxable mattresses and nearly all priced much lower than traditional brands. With all this activity, established mattress companies took notice. Serta Simmons bought Tuft & Needle, Sealy launched Cocoon, and Tempur-Pedic launched Tempur-Cloud, a familiar option for DTC customers given that Tempur-Pedic was already far and away the number-one memory foam mattress peddler.

With few barriers to entry, by one estimate there are as many as 175 DTC mattress brands today. Is that too many? While DTC mattress sales account for 45 percent of total mattress sales currently, the high growth experienced by Casper and the DTC mattress market appears to have cooled. One of the primary reasons for this is the lack of distinction across brands. A recent test of nine of the top online mattress brands reveals that these brands and many others are difficult to differentiate. All offer a 10-year warranty, a generous 90- to 100-night sleep trial, and free shipping and returns. While many brands tout innovative features for their premium-priced flagship models, the lion's share of sales for most brands comes from the tried-and-true basic memory foam mattress priced at around $1,000 for a queen. In other words, most of the DTC mattresses sold are nearly identical.

In the past few years, mattress sales in general have been volatile, and the rate at which the DTC sector has been gaining market share has slowed way down. For Casper, this means it has to fight an overcrowded and competitive market for sales. Casper made a big splash two years ago as it went public. But following its IPO, the company's value dropped. In fact, the FTC recently approved a deal for a private equity firm to purchase all existing Casper shares at little more than half the IPO price. To make matters worse, DTC startup Purple took the lead in online mattress sales away from Casper last year, with sales about 50 percent greater.

This hardly means lights out for Casper and its competitors. Many of the smaller DTC brands will likely not survive, leaving more for the leading companies. Making matters promising for DTC mattress sales, the conventional mattress market seems to be going the wrong direction. After retailer Mattress Firm acquired Sleepy's, it promptly rebranded all 1,000 Sleepy's stores, resulting in 3,500 Mattress Firm outlets. The move didn't end well. Mattress Firm filed for bankruptcy, only to be rescued by South African retail giant Steinhoff in a deal valued at $3.8 billion.

Although Casper began as a one-product company looking to fill a hole in the market, the company is now embracing the future by shaping a brand platform that looks at sleep as a consumer category not unlike travel or cooking. "If I wake up in the morning and say, 'I want to sleep a little bit better,' I have to go and get a mattress from a furniture store, sheets from Bed Bath & Beyond—you end up having to get things from all these different places," says Parikh. "But if you wake up in the morning and say...'I want to eat healthier,' great, go to Whole Foods. There's nothing like that for sleep." Casper aims to change that. With its "cheaper-than-conventional-brands" image secure, the company now sells four mattress lines, bed frames, sheets, duvets, pillows, and a high-tech sleep light. It even has a line of dog beds. And with its products now being sold in the real world through West Elm, Target, Costco, Bed Bath & Beyond, and Rooms to Go stores and in its own growing chain of Casper Sleep Shops, it's far too soon to count Casper out.[25]

Questions for Discussion

11-16 Explain Casper's product offering in terms of customer value.

11-17 Which new product pricing strategy did Casper initially employ? Why did it work well?

11-18 Could Casper have stayed successful merely by shifting to a different pricing strategy? Explain.

11-19 *Small group exercise*: Casper's CEO has asked you to provide a frank evaluation of the company's new approach. Will it work? How can it be improved? Don't forget to provide some pricing strategy recommendations.

12 Marketing Channels

Delivering Customer Value

OBJECTIVES OUTLINE

OBJECTIVE 12-1 Explain why companies use marketing channels and discuss the functions these channels perform.

OBJECTIVE 12-2 Discuss how channel members interact and how they organize to perform the work of the channel.

OBJECTIVE 12-3 Identify the major channel alternatives open to a company.

OBJECTIVE 12-4 Explain how companies select, motivate, and evaluate channel members.

OBJECTIVE 12-5 Discuss the nature and importance of marketing logistics and integrated supply chain management.

CHAPTER PREVIEW We now look at the third marketing mix tool: distribution. Companies rarely work alone in engaging customers, creating customer value, and building profitable customer relationships. Instead, most are only a link in a larger value delivery system. As such, a firm's success depends not only on how well *it* performs but also on how well its *entire marketing channel* competes with competitors' channels. The first part of this chapter explores the nature of marketing channels and the marketer's channel design and management decisions. We then examine physical distribution—or logistics—an area that has grown dramatically in importance and sophistication. In the next chapter, we'll look more closely at two major channel intermediaries: retailers and wholesalers.

We start by looking at Airbnb, a great example of a significant distribution trend: distribution channel *disruption*. In recent years, innovative companies in many industries have disrupted traditional channels by finding new ways to bring products and services to consumers. Amazon's online selling turned traditional store retailing on its head. Netflix's mail-order and video streaming channels put video rental stores out of business and now even threaten movie theaters. iTunes and Spotify wiped out traditional music stores. And traditional taxi and limo services have suffered at the hands of car hailing services like Uber and Lyft. In a similar way, Airbnb has radically transformed the way hotel and hospitality services are delivered.

AIRBNB: Disrupting Traditional Distribution Channels

Not long ago, when you thought about traveling and places to stay, you probably thought about standard hotel or motel chains—Motel 6, Hampton Inn, or maybe Marriott or Hilton. Airbnb has revolutionized all of that. Without owning a single hotel, Airbnb is now the largest provider of rooms for overnight stays.

In little more than 14 years, the tech startup that popularized staying at the homes of strangers has built a global network of more than 7 million listings by 2.9 million hosts in 220 countries and regions throughout the world. That's stunning when compared to the size of the world's largest hotel chain—95-year-old Marriott International—with its 1.4 million rooms across 7,600 properties in 131 countries. In fact, Airbnb boasts more rooms than all global hotel groups combined.

Airbnb isn't your traditional hotel experience. It all started when Airbnb founders Brian Chesky and Joe Gebbia decided to make some extra income to help pay the rent on their modest San Francisco loft apartment by renting out three air mattresses on the apartment's floor at $40 a night each (hence the "air" in Airbnb). Chesky and Gebbia quickly realized that people who booked their air mattresses got a lot more than just a cheap place to stay. They got an authentic "live-like-the-locals" experience. The idea blossomed into Airbnb, an online lodgings marketplace that matches people who need a place to stay with people who have room to spare.

The basic Airbnb model is simple. It starts with hosts—Airbnb's official term for property owners with space to rent—who register and are vetted for legitimacy. Listings can include anything from a couch, a single room, a suite of rooms, or an apartment to moored yachts, entire houses, or even a castle. Some hosts even rent space in their yards for guests to pitch a tent. Each location is as unique as its owner. For guests, using Airbnb is like buying or booking almost anything else online. Registered users search by city, room type, price range, amenities, host language, and other options. Bookings are made through Airbnb, so money changes hands only through a secure interface.

At first, Airbnb attracted mostly venturesome travelers looking for cheap and cool places to stay. Other potential customers shied away, unwilling to accept the risk or discomfort of staying with strangers. But the concept caught on, and Airbnb grew rapidly. More than the cookie-cutter rooms and impersonal travel experiences offered by conventional hotels, people warmed to Airbnb's authenticity and the unique experiences that Airbnb lodgings offered.

Chesky and Gebbia came to realize that Airbnb provided much more than just spaces to rent. Exhaustive research with guests and hosts around the world found that the last thing guests wanted was to be tourists. Instead, Airbnb customers wanted to be insiders—to engage with people and immerse themselves in local cultures.

According to the company, 86 percent of users picked Airbnb because they wanted to live more like a local. They wanted to belong. Accordingly, Airbnb's mission is to help people belong anywhere, to live in a place instead of just traveling to it. This mission inspired Airbnb's tagline—"Belong Anywhere"—and its brand symbol, the bélo. Carefully conceived to contain the "A" in Airbnb, a heart, and a location pin, Airbnb casts the bélo as the universal symbol of belonging. "Belong Anywhere" drives everything Airbnb does, from its travel offerings to its marketing campaigns. Airbnb sees itself not just as a rooms provider but as a curator of unique and authentic "belonging" experiences. The overriding rule for hosts: create belonging. Chesky tells hosts, "What's special in your world isn't just the home you have. It's your whole life."

Airbnb points out that "belonging" doesn't have to be about having tea and cookies with the host. Many hosts don't live in the lodgings they share, and many guests don't actually want to meet the host. More broadly, belonging means hanging out in someone else's space and having a local experience "hosted" by that person, even if the host is not present. It means venturing into local spots guests might not otherwise see and doing things they might not otherwise do. Unlike a stay in a traditional hotel, Airbnb sees the optimal "belonging" experience as a transformational journey.

Airbnb offers an array of lodging experiences. For example, you can rent a room, a cabin, an igloo, or a castle. At the upper end, Airbnb Plus offers a selection of high-quality, well-equipped homes with hosts known for great reviews and attention to detail. For the really discerning customer, Airbnb Luxe offers a level of premium luxury in extravagant homes with high-end options, such as booking a butler or personal chef. And for business travelers, Airbnb for Work offers rental properties that encourage businesses to "reimagine how your employees travel, connect, and collaborate."

Airbnb's disruptive distribution model has shaken up the traditional hotel and hospitality industries, challenging many age-old principles. Whatever's next, the company must continue to adapt and innovate.

Ink Drop/Shutterstock

In addition to lodgings, Airbnb also offers Experiences, a platform that lets customers experience unique activities hosted by inspiring local experts. Guests can sing in a Harlem gospel choir, make a from-scratch pasta meal with two chefs in Florence, or create a sterling-and-turquoise ring in Scottsdale, Arizona. For more immersive activities, there's Airbnb Adventures, all-inclusive multiday trips led by local experts. Beyond the big cities in Morocco, for example, guests can book a four-day trek through the country's Atlas Mountains, which takes them to guest houses in different villages where they take part in local traditions. In South Africa, beyond the wild animal preserves, guests can take a two-day "sleep under the stars" trip to explore late Stone Age cave art. "These aren't tours," says Chesky, "You immerse yourself; you join the local communities."

Airbnb's disruption has shaken up the staid and traditional hotel and hospitality industry. Despite the threat, however, traditional hotel chains have been slow to respond. Some have countered with new Airbnb-like home-sharing alternatives of their own. For example, Marriott pushed back with Marriott Homes & Villas, a luxury lodging service that tries to compete with Airbnb Plus. Marriott has also launched new formats—such as Moxy Hotels—tech-forward, inexpensive, experiential formats that provide more of the convenience, lower costs, and experiences that many Airbnb buffs seek. But overall, such responses have been very few and very modest.

Airbnb's disruptive distribution model has shaken up the traditional hotel and hospitality industries, challenging many age-old principles. Whatever's next, the company must continue to adapt and innovate.

The COVID-19 pandemic hit the hotel industry especially hard. During the coronavirus travel lockdown, U.S. hotel occupancy fell from an average of 66 percent to historic lows of less than 25 percent. The pandemic hit Airbnb hard, too—2020 revenues were down by 30 percent over the previous year. But even in that horrific environment, Airbnb continued to adapt and innovate. For example, it launched "Go Near," a social media campaign to promote safe, nearby, longer-term getaways. And it designed a new virtual travel concept, Online Experiences—virtual activities led by unique hosts that gave customers a getaway experience without ever leaving home. With online access to walking tours, cooking lessons, dancing lessons, and other unique experiences, Online Experiences was an immediate hit. These efforts helped Airbnb bounce back in 2021, nearly doubling its 2020 revenues and exceeding pre-pandemic business by 25 percent. In contrast, the pandemic cut revenues in half for Marriott International and Hilton Worldwide. And even as Airbnb's business reached record levels this past year, business for the big chains is still down by an average of 35 percent compared to pre-pandemic heights.

What's next in the hospitality industry? No one really knows. But Airbnb's disruption has significantly reshaped the habits of many of the world's vacation travelers, challenging many age-old principles of the hotel and hospitality businesses. Whatever's coming, Airbnb must continue to adapt and innovate, focusing on the thing that makes the experience so special. With Airbnb, no matter the circumstances, you "Belong Anywhere."[1]

AS THE AIRBNB STORY SHOWS, good distribution strategies can contribute strongly to customer value and create competitive advantage for a firm. But firms cannot bring value to customers by themselves. Instead, they must work closely with other firms in a larger value delivery network.

Author Comment | These are pretty hefty terms for a really simple concept: A company can't create customer value on its own. It must work within a broader network of partners to accomplish this task. Individual companies and brands do compete with each other but so do their entire value delivery networks.

Supply Chains and the Value Delivery Network

OBJECTIVE 12-1 Explain why companies use marketing channels and discuss the functions these channels perform.

Producing a product or service and making it available to buyers requires building relationships not only with customers but also with key suppliers and resellers in the company's *supply chain*. This supply chain consists of upstream and downstream partners. Upstream from the company is the set of firms that supply the raw materials, components, parts, information, finances, and expertise needed to create a product or service. Marketers, however, have traditionally focused on the downstream side of the supply chain—the *marketing channels* (or *distribution channels*) that look toward the customer. Downstream marketing channel partners, such as wholesalers and retailers, form a vital link between the firm and its customers.

Value delivery network
A network composed of the company, suppliers, distributors, and, ultimately, even customers—all of whom partner together to improve the performance of the entire system in delivering customer value and driving profits.

The term *supply chain* may be too limited, as it takes a *make-and-sell* view of the business. It suggests that raw materials, productive inputs, and factory capacity should serve as the starting point for market planning. A better term would be *demand chain* because it suggests a *sense-and-respond* view of the market that is customer-centric. Under this view, planning starts by identifying the needs of target customers, to which the company responds by organizing a chain of resources and activities with the goal of creating and delivering customer value.

Value delivery network: In making and marketing its lines of trucks, Ford manages a huge network of people within the company plus thousands of outside suppliers, dealers, and marketing service firms that work together to create and deliver value and the brand's "Built Ford Tough" positioning.

REUTERS/Rebecca Cook

Yet even a demand chain view of a business may be too limited because, much like links in a chain, it takes a step-by-step, linear view of purchase-production-consumption activities. Instead, most large companies today are engaged in building and managing a complex, continuously evolving value delivery network. As defined in Chapter 2, a **value delivery network** is made up of the company, suppliers, distributors, and, ultimately, customers who "partner" with each other to improve the performance of the entire system. For example, Ford makes great trucks. But to make and market just one of its many lines—say, its best-selling F-150 truck model—Ford manages a huge network of people within the company, from marketing and sales people to folks in finance and operations. It also coordinates the efforts of thousands of suppliers, dealers, and advertising agencies and other marketing service firms. The entire network must function together to create and deliver customer value and establish the brand's "Built Ford Tough" positioning.

This chapter focuses primarily on marketing channels—on the downstream side of the value delivery network. We examine four major questions concerning marketing channels: What is the nature of marketing channels, and why are they important? How do channel firms interact and organize to do the work of the channel? What problems do companies face in designing and managing their channels? What role do physical distribution and supply chain management play in attracting and satisfying customers? In the next chapter, we will look at marketing channel issues from the viewpoints of two important channel members—retailers and wholesalers.

Author Comment | In this section, we look at the downstream side of the value delivery network—the marketing channel organizations that connect the company and its customers. To understand their value, imagine life without retailers—say, without grocery stores, discount stores, or online sellers like Amazon.com.

The Nature and Importance of Marketing Channels

Few producers sell their goods directly to final users. Instead, most use intermediaries to bring their products to market. They try to forge a **marketing channel** (or **distribution channel**)—a set of interdependent organizations that help make a product or service available for use or consumption by the consumer or business user.

Marketing channel (distribution channel)
A set of interdependent organizations that help make a product or service available for use or consumption by the consumer or business user.

A company's channel decisions directly affect every other marketing decision. Pricing depends on whether the company works with national discount chains, uses high-quality specialty stores, or sells directly to consumers online. The firm's sales force and communications decisions depend on how much persuasion, training, motivation, and support its channel partners need. Whether a company develops or acquires certain new products may depend on how well those products fit the capabilities of its channel members.

Companies often pay too little attention to their distribution channels—sometimes with damaging results. In contrast, many companies have used imaginative distribution systems to gain a competitive advantage. Enterprise Rent-A-Car revolutionized the car-rental business by setting up off-airport rental offices. Apple turned the retail music business on its head by selling music via the internet on iTunes. FedEx's creative and sprawling distribution system made it a leader in express package delivery. Uber and Airbnb, with their sharing models, have disrupted the taxi and hospitality businesses. And Amazon.com forever changed the face of retailing by selling anything and everything online without using physical stores.

Distribution channel decisions often involve long-term commitments to other firms. For example, companies such as Ford, McDonald's, or Nike can easily change their advertising, pricing, or promotion programs. They can scrap old products and introduce new ones as market tastes change. But when they set up distribution channels through contracts with franchisees, independent dealers, or large retailers, they cannot readily replace these channels with company-owned stores or online sites if the conditions change. Therefore, management must design its channels carefully, with an eye on not just today's selling environment but also on tomorrow's possibilities.

How Channel Members Add Value

Why do producers give some of the selling job to channel partners? After all, doing so means giving up some control over how and to whom they sell their products. Producers use intermediaries because they create greater efficiency in making goods available to target markets. Through their contacts, experience, specialization, and scale of operation, intermediaries usually offer the firm more than it can achieve on its own.

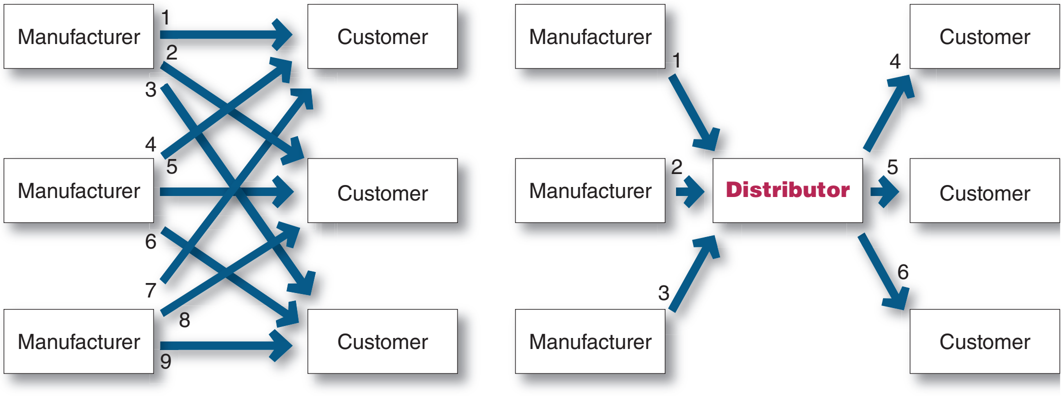
Figure 12.1 shows how using intermediaries can provide economies. Figure 12.1A shows three manufacturers, each using direct marketing to reach three customers. This system requires nine different contacts. Figure 12.1B shows the three manufacturers working through one distributor, which contacts the three customers. This system requires only six contacts. In this way, intermediaries reduce the amount of work that must be done by both producers and consumers.

From the economic system's point of view, the role of marketing intermediaries is to transform the assortments of products made by producers into the assortments wanted by consumers. Producers make narrow assortments of products in large quantities, but consumers want broad assortments of products in small quantities. Marketing channel members buy large quantities from many producers and break them down into the smaller quantities and broader assortments desired by consumers.

For example, Unilever makes millions of bars of Dove Beauty Bar soap each week. However, you most likely want to buy only a few bars at a time. Therefore, big food, drug, and discount retailers, such as Safeway, Walgreens, and Target, buy Dove by the truckload

FIGURE 12.1
How a Distributor Reduces the Number of Channel Transactions

Marketing channel intermediaries make buying a lot easier for consumers. Again, think about life without grocery retailers. How would you go about buying that 12-pack of Coke or any of the hundreds of other items that you now routinely drop into your shopping cart?



A. Number of contacts without a distributor **B. Number of contacts with a distributor**

and stock it on their stores' shelves. In turn, you can buy a single bar of Dove along with a shopping cart full of small quantities of toothpaste, shampoo, and other related products as you need them. And on the next visit, you could buy another brand of soap from the same retailer. Thus, intermediaries play an important role in "breaking bulk" and matching supply and demand.

In making products and services available to consumers, channel members add value by bridging the major time, place, and possession gaps that separate goods and services from those who use them. Members of the marketing channel perform many key functions. Some help to complete transactions:

- ***Information.*** Gathering and distributing information about consumers, producers, and other actors and forces in the marketing environment—information needed to make effective manufacturing and marketing decisions.
- ***Promotion.*** Developing and spreading persuasive communications about an offer.
- ***Contact.*** Finding and engaging customers and prospective buyers.
- ***Matching.*** Shaping offers to meet the buyer's needs, including activities such as downstream manufacturing and assembly, grading, assembling, and packaging.
- ***Negotiation.*** Reaching an agreement on price and other terms so that ownership or possession can be transferred.

Others help fulfill the completed transactions:

- ***Physical distribution.*** Transporting and storing goods.
- ***Financing.*** Acquiring and using funds to cover the costs of the channel work.
- ***Risk taking.*** Assuming the risks of carrying out the channel work.

The question is not *whether* these functions need to be performed—they must be—but rather *who* will perform them. To the extent that the manufacturer performs these functions, its costs go up; therefore, its prices must be higher. When some of these functions are shifted to intermediaries, the producer's costs and prices may be lower, but the intermediaries must charge more to cover the costs of their work. In dividing the work of the channel, the various functions should be assigned to the channel members that can add the most value for the cost.

Number of Channel Levels

Channel level
A layer of intermediaries that performs some work in bringing the product and its ownership closer to the final buyer.

Companies can design their distribution channels to make products and services available to customers in different ways. Each layer of marketing intermediaries that performs some work in bringing the product and its ownership closer to the final buyer is a **channel level**. Because both the producer and the final consumer perform some work, they are part of every channel.

The *number of intermediary levels* indicates the *length* of a channel. **Figure 12.2** shows both consumer and business channels of different lengths. Figure 12.2A shows several

Direct marketing channel
A marketing channel that has no intermediary levels, with the producer selling directly to the consumer.

Indirect marketing channel
A marketing channel containing one or more intermediary levels between the producer and the consumer.

common consumer distribution channels. Channel 1, a **direct marketing channel**, has no intermediary levels—the company sells directly to consumers. For example, Pampered Chef, Mary Kay Cosmetics, and Amway sell their products through home and office sales parties and online websites and social media; companies ranging from GEICO insurance to Quicken Loans to Casper Mattress sell directly to customers via internet, mobile, and telephone channels. The remaining channels in Figure 12.2A are **indirect marketing channels**, containing one or more intermediaries. Complex channels and international channels may contain even more channel levels.

Figure 12.2B shows some common business distribution channels. The business marketer can use its own sales force or the internet to sell directly to business customers. Or it can sell to various types of intermediaries, which in turn sell to these customers. Sometimes business marketing channels can have more levels, with intermediaries performing different tasks. For example, the business distributor might sell to the business customer as in Figure 12.2B, while a service agent is responsible for the product maintenance and performance after the sale. From the producer's viewpoint, a greater number of intermediary levels means less control and greater channel complexity. Moreover, all the institutions in the channel are connected by several types of *flows*. These include the *physical flow* of products, the *flow of ownership*, the *payment flow*, the *information flow*, and the *promotion flow*. These flows can make even channels with only one or a few levels very complex. Ownership and control of these flows at different channel levels are an important issue between channel members.

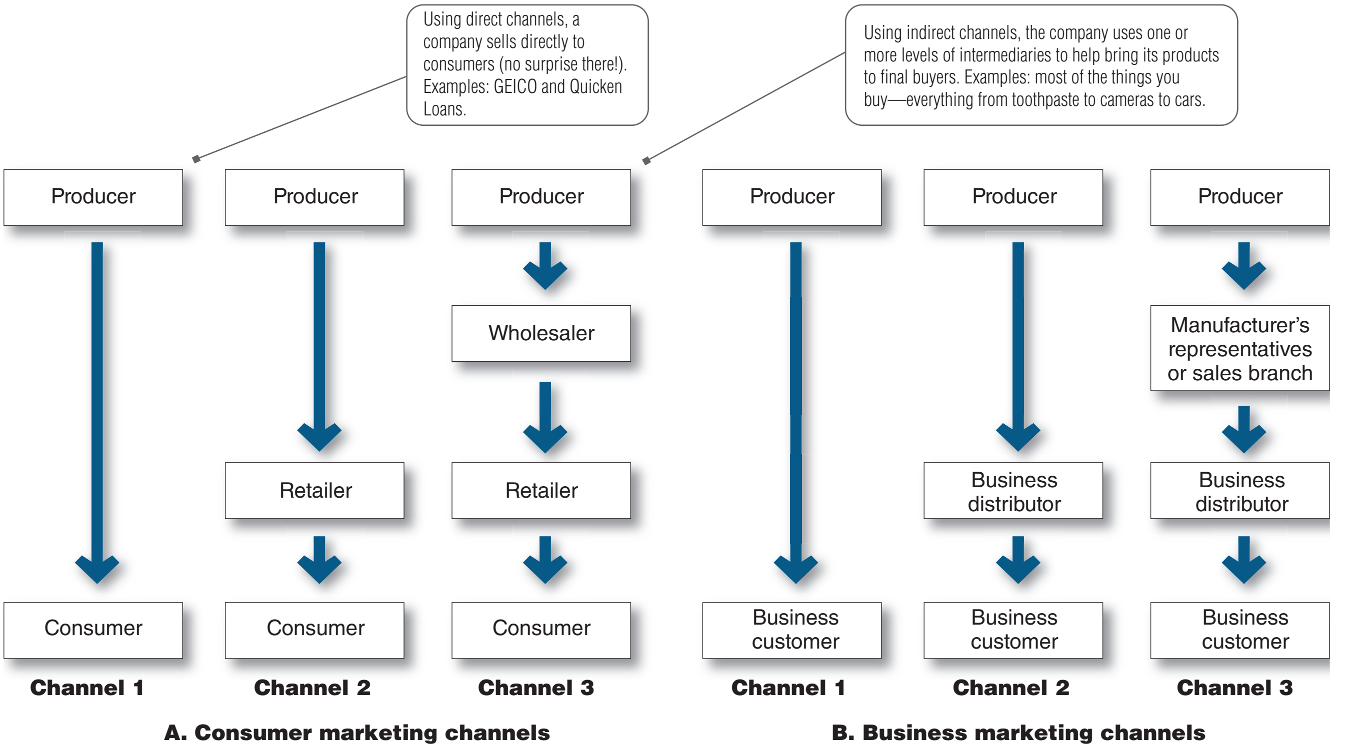
Author Comment | Channels are made up of more than just boxes and arrows on paper. They are behavioral systems consisting of real companies and people who interact to accomplish their individual and collective goals. Like groups of people, sometimes they work well together and sometimes they don't.

Channel Behavior and Organization

OBJECTIVE 12-2 Discuss how channel members interact and how they organize to perform the work of the channel.

Distribution channels are more than simple collections of firms tied together by various flows. They are complex behavioral systems in which people and companies interact to accomplish individual, company, and channel goals. Some channel systems consist of only informal interactions among loosely organized firms. Others consist of formal interactions

FIGURE 12.2
Consumer and Business Marketing Channels



guided by strong organizational structures and contracts. Moreover, channel systems do not stand still—new types of intermediaries emerge and whole new channel systems evolve. Here we look at channel behavior and how members organize to do the work of the channel.

Channel Behavior

A marketing channel consists of firms that have partnered for their common good. Each channel member depends on the others. For example, a Ford dealer depends on Ford to design cars that meet customer needs. In turn, Ford depends on the dealer to engage customers, persuade them to buy Ford cars, and service the cars after the sale. Each Ford dealer also depends on other dealers to provide good sales and service that will uphold the brand's reputation. In fact, the success of individual Ford dealers depends on how well the entire Ford marketing channel competes with the channels of Toyota, GM, Honda, and other auto manufacturers.

Each channel member plays a specialized role in the channel. For example, Samsung's role is to produce electronics products that consumers will covet and create demand through national advertising. Best Buy's role is to display these Samsung products in convenient locations, engage in local advertising, answer buyers' questions, and complete sales. The channel will be most effective when each member assumes the tasks it can do best.

Ideally, because the success of individual channel members depends on the overall channel's success, all channel firms should work together smoothly. They should understand and accept their roles, coordinate their activities, and cooperate to attain overall channel goals. However, individual channel members may not embrace such a broad view. Cooperating to achieve overall channel goals sometimes means giving up individual goals. Although channel members depend on one another, they often act alone in their own short-run best interests. They often disagree on who should do what and for what rewards. Such disagreements over goals, roles, and rewards generate **channel conflict**.

Channel conflict
Disagreements among marketing channel members on goals, roles, and rewards—who should do what and for what rewards.

Horizontal channel conflict occurs among firms at the same level of the channel. For instance, some Ford dealers in Chicago might complain that other dealers in the city steal sales from them by pricing too low or advertising outside their assigned territories. Or Hampton Inn franchisees might complain about other Hampton Inn operators overcharging guests or giving poor service, hurting the overall Hampton Inn image.

Vertical channel conflict—conflict between different levels of the same channel—is even more common. For example, with nearly 40,000 independently owned outlets, sandwich chain Subway is the world's largest food franchise by number of outlets. In recent years, however, Subway has faced often-damaging conflict with its franchisees:[2]

Channel conflict: A high level of franchisee discontent is worrisome for both Subway and its franchisees. There's a huge connection between franchisee satisfaction and customer service.

Kristoffer Tripplaar/Alamy Stock Photo

> A group of more than 100 anonymous Subway franchisees recently published an open letter outlining a long list of issues with Subway's management, ranging from lack of autonomy in raising ingredient quality and choosing locations to unfair franchise agreements that Subway could change at will without notice. The most basic conflicts are financial. Subway makes its money from an 8 percent royalty on franchisee sales. In contrast, franchisees make money on margins—what's left over after their costs. Thus, franchisees have long complained that Subway makes decisions that increase sales but squeeze franchisee profits. They assert that Subway forces them into money-losing decisions—like opening unneeded new locations right next to existing ones or offering unprofitable menu items.
>
> Just one example of a long-running dispute involves Subway's famous on-again-off-again "$5 footlong" promotion. First introduced nationally in 2008, the deal became a cultural phenomenon, and

sales soared. And with 2008 labor and material costs at low levels, the $5 footlong was initially profitable for franchisees. But as costs inevitably rose, franchisee margins on the popular sandwich eroded. So in 2012, Subway yielded and raised the price to $6. But the story doesn't end there. In 2017, seeking sales growth, Subway reintroduced the $5 footlong. But by then, the costs of making the footlong had risen to $4.85, making it impossible for franchisees to make a meaningful profit. Facing franchisee disgruntlement, Subway again shelved the offer. The story's still not over. In 2020, to spur sales slowed by the COVID-19 pandemic, over the objections of many franchisees, Subway launched a "$10 for two footlongs" deal, causing yet another uproar. Such conflicts are worrisome for both Subway and its franchisees. Studies show that there's a huge connection between franchisee satisfaction and customer service.

Some channel conflict takes the form of healthy competition. Without some such competition, the channel could become passive and noninnovative. For example, Subway's conflict with its franchisees might represent normal give-and-take over their respective rights. However, prolonged conflict can disrupt channel effectiveness and harm channel relationships. Subway should ensure that all company and franchisee interests are aligned in the long run.

Vertical Marketing Systems

Conventional distribution channel
A channel consisting of one or more independent producers, wholesalers, and retailers, each a separate business seeking to maximize its own profits, perhaps even at the expense of profits for the system as a whole.

Vertical marketing system (VMS)
A channel structure in which producers, wholesalers, and retailers act as a unified system. One channel member owns the others, has strong contracts with them, or has so much power that they all cooperate.

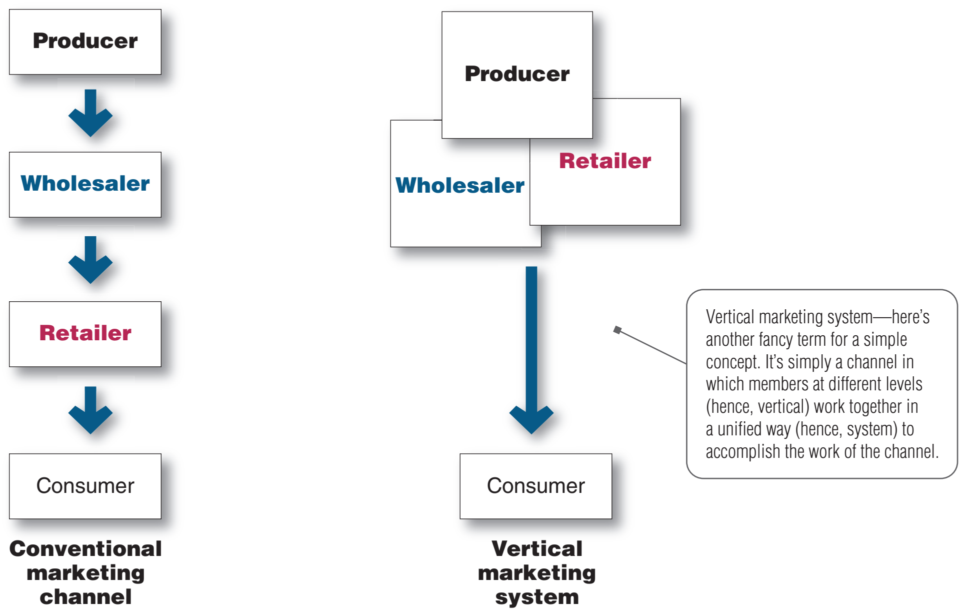
For the channel as a whole to perform well, each channel member's role must be specified, and channel conflict must be managed. The channel will perform better if it includes a firm, agency, or mechanism that provides leadership and has the power to assign roles and manage conflict.

Historically, *conventional distribution channels* have lacked such leadership and power, often resulting in damaging conflict and poor performance. One of the biggest channel developments over the years has been the emergence of *vertical marketing systems* that provide channel leadership. **Figure 12.3** contrasts the two types of channel arrangements.

A **conventional distribution channel** consists of one or more independent producers, wholesalers, and retailers. Each is a separate business seeking to maximize its own profits, perhaps even at the expense of the system as a whole. No channel member has much control over the other members, and no formal means exists for assigning roles and resolving channel conflict.

In contrast, a **vertical marketing system (VMS)** consists of producers, wholesalers, and retailers acting as a unified system. One channel member owns the others, has strong

FIGURE 12.3
Comparison of Conventional Distribution Channel with Vertical Marketing System



contracts with them, or wields so much power that they must all cooperate. The VMS can be dominated by the producer, the wholesaler, or the retailer.

We look now at three major types of VMSs: *corporate, contractual*, and *administered*. Each uses a different means for setting up leadership and power in the channel.

Corporate VMS

Corporate VMS
A vertical marketing system that combines successive stages of production and distribution under single ownership—channel leadership is established through common ownership.

A **corporate VMS** integrates successive stages of production and distribution under single ownership. Coordination and conflict management are attained through regular organizational channels. For example, European eyewear maker EssilorLuxottica has a firm grip on the global eyewear channel from producer to consumer. It produces many famous eyewear brands—including its own Ray-Ban, Oakley, Persol, and Vogue Eyewear brands and licensed brands such as Burberry, Chanel, Polo Ralph Lauren, Dolce & Gabbana, DKNY, Prada, Versace, and Michael Kors. It also produces and sells about 45 percent of the world's prescription lenses. It then controls the distribution of these brands through some of the world's largest optical chains—LensCrafters, Pearle Vision, Sunglass Hut, Target Optical, Sears Optical—which it also owns. In all, through vertical integration, EssilorLuxottica makes and sells close to 1 billion pairs of lenses and frames a year.[3]

Corporate VMS: Unlike other auto companies, to gain more control over its distribution channels, Tesla sells and services its cars online and through a network of company-owned Tesla stores or "galleries," where customers can see sample vehicles, get more information, and receive assistance in configuring and ordering their Teslas.

Chon Kit Leong/Alamy Stock Photo

A corporate VMS can give a company more channel control and flexibility. Consider Tesla. Unlike almost every other vehicle manufacturer, Tesla does not sell and service its cars through independent franchise dealerships. Tesla reasoned that dealerships selling gas-powered vehicles profit substantially from ongoing servicing, but its all-electric vehicles require little to no ongoing service. Tesla also wanted to avoid the difficulties of complex franchisee agreements and the thicket of state-level regulations governing auto dealerships. So instead, Tesla sells its cars online and through a network of company-owned Tesla stores or "galleries," where customers can see sample vehicles, get more information, and receive assistance in configuring and ordering their Teslas. Customers can pick up purchased cars at the Tesla location or have them delivered to their doorsteps. In the rare instance that service is needed, customers can coordinate service activities, costs, tracking, delivery, and pickup with a Tesla service center through the Tesla service app. With its corporate vertical marketing system (VMS), Tesla has challenged the channel distribution channel structure that has dominated the auto industry for more than a century.[4]

Contractual VMS

Contractual VMS
A vertical marketing system in which independent firms at different levels of production and distribution join together through well-defined contracts.

A **contractual VMS** consists of independent firms at different levels of production and distribution that join together through well-defined contracts to obtain more economies or sales impact than each could achieve alone. Channel members coordinate their activities and manage conflict through contractual agreements.

Franchise organization
A contractual vertical marketing system in which a channel member, called a franchisor, links several stages in the production-distribution process.

The **franchise organization** is the most common type of contractual relationship. In this system, a channel member called a *franchisor* links several stages in the production-distribution process. In the United States alone, some 753,700 franchise outlets account for $670 billion of economic output and employ 7.5 million people.[5] Almost every kind of business has been franchised—from motels and fast-food restaurants to dental centers and dating services and from wedding consultants and repair services to funeral homes, fitness centers, moving services, and hair salons. Franchising allows entrepreneurs with good business concepts to grow their businesses quickly and profitably. For example, consider Planet Fitness, which has grown rapidly by franchising its unique gym and fitness approach:[6]

Franchising: Planet Fitness has grown rapidly to more than 2,250 locations by franchising its affordable "judgement free zone" gym and fitness formula.

Lars Hagberg/Alamy Stock Photo; Bernard Weil/Toronto Star via Getty Images

> Planet Fitness's unique selling point is a low $10 monthly membership fee, which allows access to bright, clean, no-frills but well-equipped gyms with a non-intimidating, "you belong" workout environment—what it calls a "judgement free zone" in which anyone and everyone can be comfortable. "No need to be gymtimidated," says the company. Its value proposition is designed to appeal to a broad population, including occasional gym users and the approximately 85 percent of population who don't have a gym membership. To make average gym-goers feel more comfortable, Planet Fitness's purple-themed locations even have a "Lunk Alarm," which sounds loudly when a member is overly exuberant in terms of grunting, dropping heavy weights, and exhibiting other behaviors that you might find in gyms targeting more serious bodybuilders and committed athletes. Thanks to franchising, in less than 20 years, Planet Fitness has grown rapidly to more than 2,250 locations in all 50 states and the District of Columbia, Puerto Rico, Canada, Panama, Mexico, and Australia, with systemwide sales of $3.4 billion.

There are three types of franchises. The first type is the *manufacturer-sponsored retailer franchise system*—for example, Ford and its network of independent franchised dealers. The second type is the *manufacturer-sponsored wholesaler franchise system*—Coca-Cola licenses bottlers (wholesalers) in various world markets that buy Coca-Cola syrup concentrate and then bottle and sell the finished product to retailers locally. The third type is the *service-firm-sponsored retailer franchise system*—for example, Sonic Drive-In has more than 3,500 franchisee-operated restaurants in the United States. Other examples can be found in everything from auto rentals (Hertz, Avis), apparel retailers (The Athlete's Foot, Plato's Closet), and motels (Holiday Inn Express, Hampton Inn) to supplemental education (Huntington Learning Center, Kumon Math & Reading Centers) and personal services (Planet Fitness, Two Men and a Truck, Great Clips).

The fact that most consumers cannot tell the difference between contractual and corporate VMSs shows how successfully the contractual organizations compete with corporate chains. The next chapter on retailing presents a fuller discussion of the various contractual VMSs.

Administered VMS

Administered VMS
A vertical marketing system that coordinates successive stages of production and distribution through the size and power of one of the parties.

In an **administered VMS**, leadership is assumed not through common ownership or contractual ties but through the size and power of one or a few dominant channel members. Manufacturers of a top brand can obtain strong trade cooperation and support from resellers. For example, P&G and Samsung can command unusual cooperation from many resellers regarding displays, shelf space, promotions, and price policies. In turn, large retailers such as Walmart, Home Depot, Kroger, Best Buy, and Walgreens can exert strong influence on the many manufacturers that supply the products they sell.

For example, in the normal push and pull between Home Depot and its suppliers, giant Home Depot—the nation's sixth-biggest retailer and largest home-improvement merchant—usually gets its way. Take specialty coatings and sealants supplier RPM International, for instance. You may never have heard of RPM International, but you've probably used one or more of its many familiar do-it-yourself brands—such as Rust-Oleum paints, Plastic Wood and Dap fillers, Watco finishes, and Testors hobby cements and paints—all of which you can buy at your local Home Depot store. The Home Depot is a very important customer to RPM, accounting for a significant share of its consumer sales. However, The Home Depot's sales of close to $130 billion are more than 20 times RPM's sales of $6.1 billion. As a result, the giant retailer can, and often does, use this power to gain channel cooperation and support from RPM and thousands of other smaller suppliers.[7]

Horizontal Marketing Systems

Horizontal marketing system
A channel arrangement in which two or more companies at one level join together to follow a new marketing opportunity.

Another channel development is the **horizontal marketing system**, in which two or more companies at one level join together to follow a new marketing opportunity. By working together, companies can combine their financial, production, or marketing resources to accomplish more than any one company could alone.

Companies might join forces with competitors or noncompetitors. They might work with each other on a temporary or permanent basis, or they may create a separate company. For example, Target partners with CVS Health, which operates CVS pharmacies and Minute Clinics in Target stores through a store-within-a-store format. The partnership gives CVS Health more than nearly 1,700 pharmacies and 1,100 clinics at prime locations inside Target stores. At the same time, it frees up Target to focus on its core merchandising and marketing strengths while still offering customers the expert pharmacy and health-care services they want. Best Buy partners with key retail competitor Amazon by creating store-within-store areas featuring Amazon's Alexa/Echo, FireTV, and other home electronics products. The arrangement boosts Best Buy's smart-home product sales while giving Amazon a broader and more effective physical store presence for its devices. And ride-sharing service Uber now teams up with taxi companies in New York City as well as in many overseas locations to make the taxi cabs available to riders through its app. The cab companies gain access to Uber's huge customer base and Uber supercharges the size of its fleet. Partnering with taxi fleets also helps Uber to smooth relationships with legislators and policy makers in those locations.[8]

Horizontal marketing systems: Finnair partners with British Airways, American Airlines, and Iberia to their mutual benefit, as they provide their customers with more choices and better connections.

TRISTAR PHOTOS/Alamy Stock Photo

Horizontal channel arrangements also work well globally. For example, Finnair partners with British Airways, American Airlines, and Iberia to provide customers with more choices, better connections, and better pricing on transatlantic routes. This makes the global travel experience for the customer easier and more rewarding. British Airways is part of the One World Alliance, allowing for many connecting flights. Thus, the airlines that are part of the alliance can increase passenger volume through travel agents. The premise for the alliance is that the travel agent who books passengers on one airline will more likely book passengers on connecting airlines within the alliance.[9]

Multichannel Distribution Systems

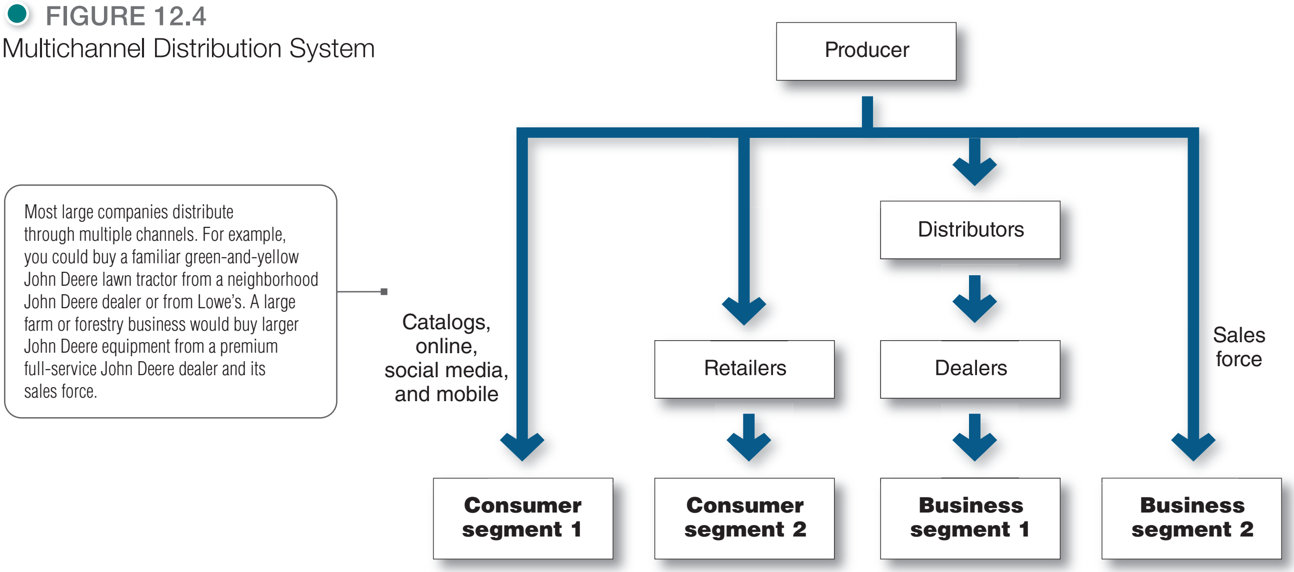
Multichannel distribution system
A distribution system in which a single firm sets up two or more marketing channels to reach one or more customer segments, coordinating channel strategies to maximize total profits across all the channels.

In the past, many companies used a single channel to sell to a single market or market segment. Today, with the proliferation of customer segments and channel possibilities, more and more companies have adopted **multichannel distribution systems**. Such multichannel marketing occurs when a single firm sets up two or more marketing channels to reach one or more customer segments.

Figure 12.4 shows a multichannel marketing system. In the figure, the producer sells directly to consumer segment 1 using catalogs, online, social media, and mobile channels and reaches consumer segment 2 through retailers. It sells indirectly to business segment 1 through distributors and dealers and to business segment 2 through its own sales force. Multichannel marketing calls for the producer to coordinate its channel strategies to maximize total profits across all the channels.

These days, almost every large company and many small ones distribute through multiple channels. For example, John Deere sells its familiar green-and-yellow lawn and garden tractors, mowers, and outdoor power products to consumers and commercial

FIGURE 12.4
Multichannel Distribution System



users through several channels, including John Deere retailers, Lowe's home improvement stores, and online. It sells and services its tractors, combines, planters, and other agricultural equipment through its premium John Deere dealer network. And it sells large construction and forestry equipment through selected large, full-service John Deere dealers and their sales forces.

Multichannel distribution systems offer many advantages to companies facing large and complex markets. With each new channel, the company expands its sales and market coverage and gains opportunities to tailor its products and services to the specific needs of diverse customer segments. But such multichannel systems are harder to control, and they can generate conflict as more channels compete for customers and sales. For example, when John Deere first began selling selected consumer products through Lowe's home improvement stores, many of its independent dealers complained loudly. To avoid such conflicts in its online marketing channels, the company routes all of its online sales to John Deere dealers. Today, firms must align channel goals, roles, and incentives so that all of the company's channels work in harmony to maximize total profits.

Changing Channel Organization

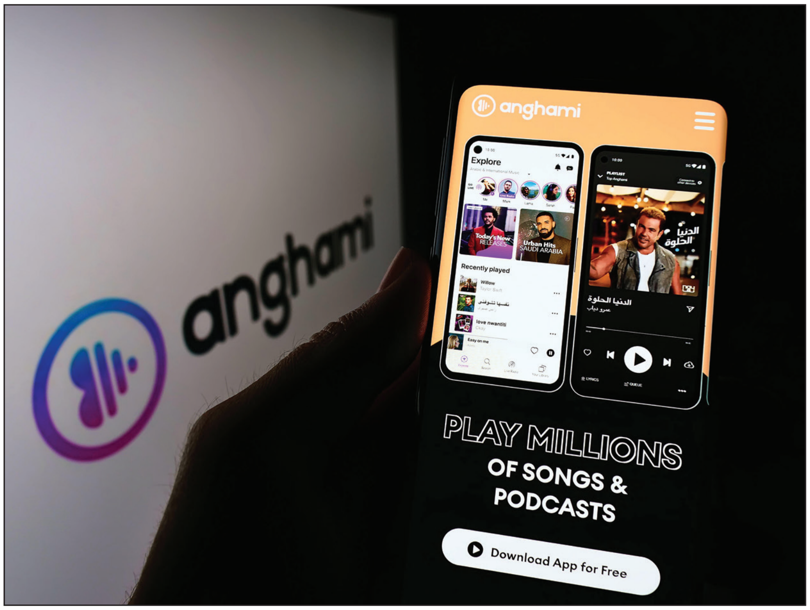
Changes in technology and the explosive growth of direct and online marketing have had a profound impact on the nature and design of marketing channels. One major trend is toward **disintermediation** or **channel disruption**—big terms with a clear message and important consequences. Disintermediation and channel disruption occur when product or service producers cut out intermediaries and go directly to final buyers or when radically new types of channel intermediaries displace traditional ones.

Disintermediation (or channel disruption)
The cutting out of marketing channel intermediaries by product or service producers or the displacement of traditional resellers by radical new types of intermediaries.

Thus, in many industries, traditional intermediaries are dropping by the wayside, as is the case with online marketers taking business from traditional brick-and-mortar retailers. For example, online music download services such as iTunes and Amazon pretty much put traditional music-store retailers out of business. In turn, however, streaming music services such as Spotify, Amazon Prime Music, and Apple Music are now disintermediating digital download services. Streaming, both subscription based and ad supported, now accounts for 80 percent of the music revenues. Worldwide, more than 500 million people pay for digital music services.[10]

Disintermediation and disruption present both opportunities and problems for producers and resellers. Channel innovators who find new ways to add value in the channel can displace traditional resellers and reap the rewards. For example, app-based ride-hailing services Lyft and Uber stormed onto the scene, rapidly disintermediating traditional taxi and car-for-hire services by offering better customer experiences at lower fares. In Southeast Asia, Grab is rapidly disintermediating conventional taxicab and car-for-hire services (see Real Marketing 12.1). In an example from another industry, consider Anghami:

Founded in 2012, Anghami ("my tunes" in Arabic) is the first music-streaming platform in the Middle East and rivals global brands such as Spotify and Deezer. Before it launched, music lovers used traditional intermediaries such as radio channels, brick-and-mortar music retailers like Virgin Megastores, and iTunes. With the coming of Anghami, the music business went mobile. Offering more than 57 million Arabic and international songs and with around 70 million registered users, Anghami generates approximately 10 billion streams a year. In 2021, Anghami became the first technology company from the region to list on the Nasdaq, with a valuation of up to $230 million. High mobile penetration, the availability of cheaper smartphones, and high-speed connectivity infrastructures in the GCC helped Anghami—which initially launched as a mobile app—to grow its adoption and consumption. As global players started entering the market, Anghami not only had to maintain market leadership but also scale up. One of the challenges at this growth stage was convincing people to pay for music by subscribing. As credit card penetration was low, Anghami partnered with local telecom companies to encourage subscription through direct mobile billing. Through its knowledge of the local Arab ecosystem, Anghami was able to withstand competition from international companies, and by offering an Arab music catalog that none of the international streaming applications could match, Anghami became a hub for all things Arabic. Lovers of Arabic music could now search for, download, and stream their music without resorting to illegal sites or apps littered with ads that offered no revenue to the artists. Anghami's Live Radios feature allows users to host online public and private listening sessions, promoting a unique Arab community feel. Anghami's algorithms create automated customized playlists based on user preferences, but they also promote local talent to users.[11]



Disintermediation and disruption: Anghami and other innovative app-based music services are rapidly disintermediating conventional music distribution channels.

Timon Schneider/Alamy Stock Photo

History brims with examples of companies that failed to recognize and respond to channel disruptions and paid the price. For example, Toys"R"Us pioneered the superstore format that once made it the go-to place for buying toys and baby products, driving most small independent toy stores out of business. But in later years, Toys"R"Us failed to adapt to major shifts in toy market sales, first toward big discounters such as Walmart and Target and then toward online merchants like Amazon. Last year, an estimated 45 percent of toy and baby product purchases were made online. Amazon leads in online toys sales, with Walmart hot on its digital heels. As a result, Toys"R"Us ended up declaring bankruptcy and shuttering its website and stores. A new owner has recently reignited the brand, focusing on a more interactive model that allows customers to experience toys before buying them. It's new 20,000-square-foot flagship store in New Jersey's American Dream mega-mall features 10,000 toys, an ice-cream parlor, a café, and a two-story slide. However, despite its iconic brand, reestablishing itself in today's omni-channel retail environment will present substantial challenges.[12]

Direct-to-consumer (DTC) brands
Brands that avoid direct competition with established traditional brands by selling and shipping to consumers only through online and mobile channels.

The recent decade has seen the rapid rise of a new type of channel disrupter: **direct-to-consumer (DTC) brands**. Rather than competing head-to-head with established competitors in retail stores, DTC brands sell and ship directly to consumers through online and mobile channels. DTC brands have found success in categories ranging from beauty and personal care, apparel, and food to pet care, home furnishings, and fitness. To compete with this disruptive competitive threat, many established brands have developed their own DTC channels.

Like resellers, to remain competitive, product and service producers must develop new channel opportunities, such as the internet, mobile, and other direct channels. Going direct to consumers, however, often brings brands into direct competition with their established channels, resulting in conflict. To ease this problem, companies often look for ways to make going direct a plus for the entire channel. For example, Stanley Black & Decker knows that

Real Marketing 12.1 | How to Grab and Shake Things Up

Before it became possible to be on your way to a destination after little more than a few swipes and taps on a phone, transport was an industry ripe for disruption. Many local and regional companies operated in limited radii, and excess demand over a limited supply of taxis meant booking your own ride came at a fairly high cost. When a certain way of doing things becomes entrenched in society, it can put a halt to innovation, and this was certainly true of the transport industry. For a long time, the status quo was largely accepted, and taxis were seen as a more convenient luxury compared to public transport or walking, with the associated costs accepted as a matter of course. Faced with a cartel-like market structure in urban transportation, consumers had only the options to buy their own cars or rely on car-hire or taxi companies, with little middle ground.

That changed with the coming of the gig economy and app-based urban ride-hailing. Broadly speaking, the gig economy is characterized by the supply of labor in the form of short-term contracts or freelance work instead of permanent roles. This means the traditional hurdles to employment become virtually nonexistent, as all one needs is a vehicle to start providing taxi services. However, this also entails a lack of job security or of consistency in earnings. The net effect has been that the supply of taxis has extended to anyone with access to a car, leading to lower prices as demand no longer outstrips supply. These services have disintermediated the conventional taxicab and car-hire services by directly connecting people demanding rides with people who can supply them.

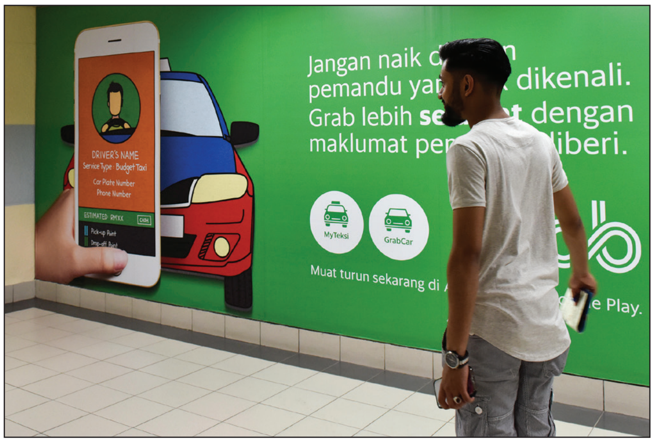
The benefits to using ride-hailing services are not hard to understand: they provide a straightforward online platform that connects drivers and riders with the convenience afforded by a smartphone. A live map display shows nearby drivers and estimates the amount of time it will take to be picked up, the fare riders will have to pay, and the length of the journey. Rather than dealing with the centralized dispatch operator of a taxi company or needing to pre-book a private car, these mobile apps offer an immediate solution that eliminates a lot of the guesswork and uncertainty that usually plagues urban transport solutions. The added convenience of payments being seamlessly handled through an online credit or debit card payment system has only added to the convenience to driver and rider alike.

The notable breakthrough company that comes to mind in this area is Uber, which launched in the United States before spreading to many other markets around the world, but another notable example is Singapore's Grab. Originating in 2012 as Grab Taxi, operating in Malaysia, Grab is now considered one of Southeast Asia's most important tech unicorns, having reached a valuation of $6 billion by 2018, even before going public. The term "unicorn" refers to private start-ups that reach a valuation of over $1 billion; many of these are technologically innovative and reflect an awareness by investors that the company is on the brink of bringing a major paradigm shift to the industry they operate in. By 2014, just two years after starting up, Grab was expanding the company to other Asian markets such as Singapore, Thailand, Vietnam, and Indonesia. The service grew to offer taxi-hailing, car hire, and even bike hire in Vietnam and Indonesia, where bike-sharing is common.

A large part of Grab's disruptive force came from the emphasis on both the riders' and drivers' experiences. Convenience is one thing, but without the ability to offer a seamless and pleasant experience, Grab would have struggled to acquire the same numbers of repeat customers or benefit from the abundant supply of potential drivers. Stemming from Grab's mission of "Charging Forward Together," the app was able to connect everyday commuters with ordinary working individuals and allow them to mutually benefit each other. From the supply side, initiatives such as the strategic partnership between Grab and Malaysian car retailer Carsome enabled rider-partners to buy their own cars more easily and be part of the growing ride-hailing business. The "Own Your Ride" campaign included discounts, extended after-sale service, and certification that the vehicles were up to safety standards. Additionally, in Singapore, Grab runs the "GrabRentals Car Ownership" scheme, which gives people a means to rent and eventually own the car they become a driver-partner with. On the demand side, Grab focused on specific issues that ailed the local urban-transport industries in the regions where they operated. In fact, their competitive edge over the likes of Uber in Southeast Asia stemmed from their advanced knowledge of local culture. For example, from the beginning, Grab allowed cash payment for rides, an important factor in many Southeast Asian economies that were still heavily cash-based. They also launched Grab Bike in cities such as Jakarta, Manilla, Bangkok, and Ho Chi Minh to leverage the fact that many of the densely populated Asian cities suffered from regular traffic jams and people would opt for bikes to circumvent this. This hyper-local approach combined with Grab's ability to leverage technology meant they could solve a problem for their customers and offer safer and more reliable taxi services in markets that were previously known to be unpredictable and unreliable. Simple features like being able to track the fare on the app meant riders no longer had to worry about fickle taxi meters, and the driver rating system brought a new level of reassuring transparency.

While consumers were no longer at the mercy of government or private taxi companies that controlled the supply of transport, drivers gained an unprecedented level of autonomy and were both incentivized and empowered by the app's rating system to provide superior service. Grab's meteoric growth is proof that their disruptive innovation in the Asian urban transport market really did set a new standard. In 2018, Grab acquired Uber's Southeast Asian operations and is now the leading ride-share company in the region, with 71 percent of the market share. Boasting over 2.8 million drivers and over 6 million daily rides, the company soared to a valuation of over $40 billion for its public listing on the NASDAQ.

The business has grown to offer much more than ride-sharing. It has pivoted into becoming what is known as a superapp; that is, an app offering multiple services in one place. In Grab's case, this covers ride-hailing, payment processing, financial services and digital wallets, as well as a series of auxiliary services. GrabExpress offers live GPS tracking for a courier service that offers substantially more



Grab disrupted the urban hired transport industry by opening doors to anyone with access to a car.

Megapress/Alamy Stock Photo

convenience and peace of mind than local postal services or established private courier services that charge a premium. GrabFood avails the abundant supply of drivers that support the ride-sharing business to provide a platform for food delivery from nearby restaurants. In fact, during the COVID-19 pandemic, more than 149,000 driver-partners from the ride-hailing service switched to on-demand delivery for GrabFood. A crucial development in Grab's offerings is GrabPay, which allows users to create a digital wallet that can be used to store, pay, and transfer money not only to other Grab services but also to GrabPay users. The suite of financial services has even extended to insurance, short-term credit schemes, and more. By becoming a one-stop shop for so many aspects of a consumer's life, beyond just helping people get to where they needed to be, Grab is well placed to make more of their daily lives easier.

The company's growth has not gone unnoticed, and competition has been brewing. Despite forcing a giant like Uber out of Southeast Asia, Grab now faces stiff competition from locally grown competitors as well as its closest counterpart, Indonesian ride-sharing firm gojek, also known as Indonesia's first unicorn. In Indonesia, their market shares are almost neck-and-neck, with Grab owning between 55 percent and 60 percent and gojek holding steady at 45 percent in 2021. Gojek's growth is not dissimilar to Grab's, as it too took a hyper-local approach to the unique problems ailing Indonesia's urban-transport market. More than just leveraging technology to streamline a market, gojek effectively created a market that did not formally exist, centralizing the highly informal system of motorcyclists, or *ojek*, that would cluster in public places and haggle with people for the use of their services. Grab also faces competition in Vietnam, where gojek has partnered with local firms to form GO-VIET, gaining around 35 percent of the two-wheel ride-share market in key locations such as Ho Chi Minh City. Competition is even rising in Grab's backyard, Singapore. ComfortDelGro, which was the dominant urban transport company in Singapore for decades, saw severe losses in market share and fleet size due to the boom in ride-share apps. ComfortDelGro aims to combat this by developing its own lifestyle-oriented app and emphasizing the digital model, leveraging its taxi fleet and public transport assets.

In fact, the likes of local services such as Singapore's ComfortDelGro and Vietnamese start-up Be represent another unique and emergent threat to Grab in those markets. Grab is a technology company and claims their primary product is an app; as such, it should not be regulated by the standards of the industries their app facilitates. ComfortDelGro and Be are openly registered as transportation companies. In recent years, an increasing number of lawsuits have been filed by transport companies in response to the drastic loss of business resulting from the disruption by ride-hailing apps. These companies claim that the latter have an unfair advantage as they do not need to acquire relevant licenses to operate in the transportation market or pay the taxes the industry requires. In some cases, the courts have indeed ruled against Grab, such as in Vietnam, imposing financial penalties as well as developing guidelines for the company to follow. If this trend continues, the competitive edge that helped Grab expand so quickly will soon be eroded, and traditional transport companies may see a reversal of fortune.

Moreover, increasing scrutiny is being placed on the sustainability of the gig economy and just how fair it is for companies like Grab to benefit from drivers without giving them the status of full-fledged employees. In fact, this is such a looming threat that in 2022 Grab formed an association with competing gig economy firms Deliveroo and Delivery Hero to join discussions with the government on how policy on workers' rights gets shaped. This dialogue, in turn, is a response to growing concerns over the rights of short-term contract workers, the absence of welfare packages compared to full-time employees, and where the line exists on freelancer exploitation. However, restrictions introduced to protect short-term contract workers could hinder the cheap supply of labor that made these companies as disruptive as they were. Time will tell if this form of disruption is truly sustainable in the long run.

While the future may be uncertain for Grab as far as labor policy goes, the company has been able to weather the onslaught of COVID-19. When people were suddenly confined to their homes and cash payments were no longer considered safe, Grab's position as a superapp facilitated digital payments and contact-free deliveries of food, groceries, general goods, and more. The reactively launched GrabMart service expanded their offerings to include grocery store basics. The company was clearly able to capitalize on the opportunity, achieving $550 million in revenues in the second quarter of 2021.[13]

---

many customers would prefer to buy its power tools, outdoor power equipment, and small appliances directly from the company online. But selling directly through its web and mobile sites would create conflicts with important and powerful retail partners, such as The Home Depot, Walmart, and Amazon.com. So, although Stanley Black & Decker's online sites provide detailed information about the company's products, you can't buy a Black & Decker cordless drill, laser level, leaf blower, power garden shears, stick vac, or anything else there. Instead, the Black & Decker site refers you to resellers' sites and stores. Thus, Stanley Black & Decker's direct marketing helps both the company and its channel partners.

Author Comment | Like everything else in marketing, good channel design begins with analyzing customer needs. Remember, marketing channels are really customer value delivery networks.

Channel Design Decisions

OBJECTIVE 12-3 Identify the major channel alternatives open to a company.

We now look at several channel design decisions manufacturers face. In designing marketing channels, manufacturers struggle between what is ideal and what is practical. A new firm with limited capital usually starts by selling in a limited market area. In this case, deciding on the best channels might not be a problem: The problem might simply be how to convince one or a few good intermediaries to handle the line.

If successful, the new firm can branch out to new markets through existing intermediaries. In smaller markets, the firm might sell directly to retailers; in larger markets, it might sell through distributors. In one part of the country, it might grant exclusive franchises; in another, it might sell through all available outlets. Then it might add an online store for improved customer reach and convenience. In this way, channel systems often evolve to meet market opportunities and conditions.

For maximum effectiveness, however, channel analysis and decision making should be more purposeful. **Marketing channel design** calls for analyzing consumer needs, setting channel objectives, identifying major channel alternatives, and evaluating the alternatives.

Marketing channel design
Designing effective marketing channels by analyzing customer needs, setting channel objectives, identifying major channel alternatives, and evaluating those alternatives.

Analyzing Consumer Needs

As noted previously, marketing channels are part of the overall *customer value delivery network*. Each channel member and level add value for the customer. Thus, designing the marketing channel starts with finding out what target consumers want from the channel. Do consumers want to buy nearby, or are they willing to travel to more centralized locations? Would customers rather buy in person or online? Do they value breadth of assortment, or do they prefer specialization? Do consumers want many add-on services (delivery, installation, repairs), or will they obtain these services elsewhere? The channel has to gear up to provide a higher level of services if it focuses on faster delivery, a wider assortment of goods, and an increased level of add-on services.

Providing the fastest delivery, the greatest assortment, and the most services, however, may not be possible, practical, or desired. The company and its channel members may not have the resources or skills needed to provide all the desired services. Also, higher levels of service result in higher costs for the channel and correspondingly higher prices for consumers. The success of modern discount retailing shows that consumers often accept lower service levels in exchange for lower prices. For example, Walmart typically rates near the bottom in rankings of grocery retailers on customer shopping experience and satisfaction compared to the likes of Wegmans, Publix, Trader Joe's, and Whole Foods. Yet 55 percent of American adults shop at Walmart for groceries.[14]

Many companies, however, position themselves on higher service levels, and customers willingly pay the higher prices. For example, Four Seasons Hotels and Resorts invests heavily in top-flight service that creates customer delight:[15]

> Four Seasons has perfected the art of high-touch, carefully crafted service. Whether it's at the tropical island paradise at the Four Seasons Resort Mauritius or the luxurious sub-Saharan "camp" at the Four Seasons Safari Lodge Serengeti, guests paying $1,000 or more a night expect to have their minds read. For these guests, Four Seasons doesn't disappoint. It spares no expense in the quality of the Four Seasons staff and the high level of service they provide. Four Seasons hires the best people, pays them well, orients them carefully, instills in them a sense of pride, and rewards them for outstanding service deeds. According to one travel rating service, each Four Seasons property strives "to go above and beyond every day for their guests." As one Four Seasons Maui guest once told a manager, "If there's a heaven, I hope it's run by Four Seasons."

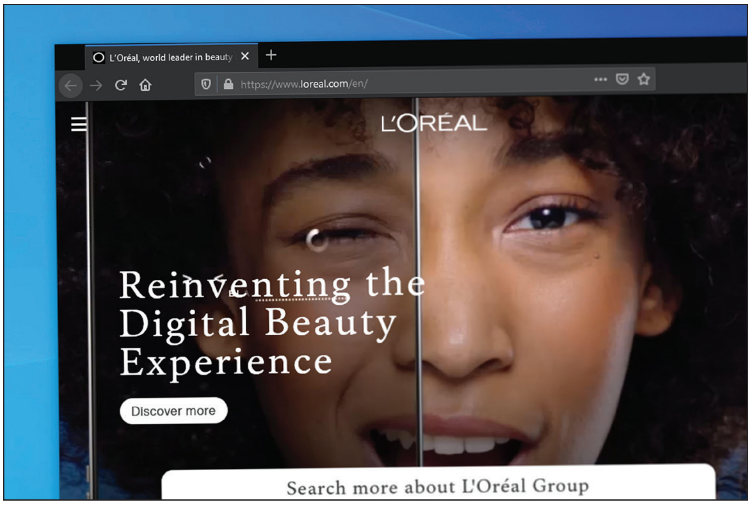
Meeting customers' channel service needs: Four Seasons Hotels and Resorts has perfected the art of high-touch, carefully crafted service. "If there's a heaven, I hope it's run by Four Seasons."
fokke baarssen/Shutterstock

Thus, companies must balance consumer needs not only against the feasibility and costs of meeting these needs but also against customer price preferences.

Setting Channel Objectives

Companies should state their marketing channel objectives in terms of targeted levels of customer service. Usually, a company can identify several segments wanting different levels of service. The company should decide which segments to serve and the best channels to use in each case. In each segment, the company wants to minimize the total channel cost of meeting customer service requirements.

The company's channel objectives are also influenced by the nature of the company, its products, its marketing intermediaries, its competitors, and the environment. For example, the company's size and financial situation determine which marketing functions it can handle itself and which it must outsource to intermediaries. Companies selling perishable products, for example, may require more direct marketing to avoid delays and too much handling.



Channel objectives: Responding to consumer trends in the Middle East, L'Oréal has overhauled its online shopping experience to reach consumers directly.

Dmitry Larichev/Alamy Stock Photo

In some cases, a company may want to compete in or near the same outlets that carry competitors' products. For example, Maytag and other appliance makers want their products displayed alongside competing brands to facilitate comparison shopping. In other cases, companies may avoid the channels used by competitors. The Pampered Chef, for instance, sells high-quality kitchen tools directly to consumers through its corps of more than 55,000 consultants worldwide rather than going head-to-head with other kitchen tool makers for scarce space in retail stores. GEICO and USAA primarily market insurance and banking products to consumers via phone, the internet, and direct mail channels rather than through agents. Responding to the growing demand for convenient online shopping, L'Oréal Middle East partnered with CNNB Solutions to start an innovative direct-to-consumer e-commerce and e-distribution service. The partnership includes development and optimization of websites, inventory management, marketplace negotiations, stock planning and warehousing, and delivery logistics. They also launched digital try-ons where consumers can sample makeup virtually. Since 2018, L'Oréal Middle East has seen an upsurge in online sales of 750 percent, which is believed to have been driven by this initiative. Since the start of the partnership, L'Oréal Middle East has reported an increase in average order value of 12 percent, a 17.5 percent improvement in delivery rates, and a 235 percent increase in customer lifetime value (CLV) across select brands.[16]

Finally, environmental factors such as economic conditions and legal constraints may affect channel objectives and design. For example, in a depressed economy, producers will want to distribute their goods in the most economical way, using shorter channels and dropping unneeded services that add to the final price of the goods. During the COVID-19 pandemic, companies adopted or boosted online order and delivery channels and services.

Identifying Major Alternatives

When the company has defined its channel objectives, it should next identify its major channel alternatives in terms of the *types* of intermediaries, the *number* of intermediaries, and the *responsibilities* of each channel member.

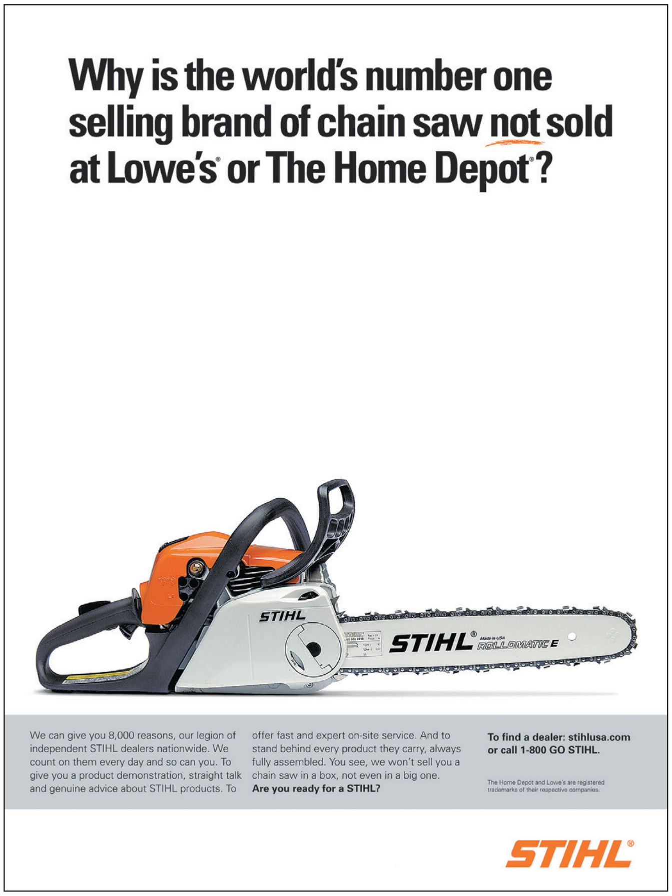
Types of Intermediaries

A firm should identify the types of channel members available to carry out its channel work. Most companies can choose from many types of channel members. For example, Dell initially sold directly to final consumers and business buyers only through its sophisticated phone and online marketing channel. It also sold directly to large corporate, institutional, and government buyers using its direct sales force. However, to reach more consumers and match competitors such as Samsung, Apple, and HP, Dell now also sells indirectly through retailers such as Best Buy, Staples, and Walmart. It also sells indirectly through *value-added resellers*, independent distributors and dealers that develop computer systems and applications tailored to the special needs of small and medium-sized business customers.

Using many types of resellers in a channel provides both benefits and drawbacks. For example, by selling through retailers and value-added resellers in addition to its own direct channels, Dell can reach more and different kinds of buyers. However, these entities are more difficult to manage and control. In addition, the direct and indirect channels compete with each other for many of the same customers, causing potential conflict. In fact, Dell often finds itself "stuck in the middle," with its direct sales reps complaining about competition from online and store retailers, and its value-added resellers complaining that the direct sales reps are undercutting their business.

Number of Marketing Intermediaries

Companies must also determine the number of channel members to use at each level. Three strategies are available: intensive distribution, exclusive distribution,



Selective distribution: STIHL sells its chain saws, blowers, hedge trimmers, and other products through a select corps of authorized local hardware and lawn and garden retailers. "We count on them every day and so can you."

STIHL Inc.

and selective distribution. Producers of convenience products and common raw materials typically seek **intensive distribution**—a strategy in which they stock their products in as many outlets as possible. These products must be available where and when consumers want them. For example, toothpaste, candy, and other similar items are sold in millions of outlets to provide maximum brand exposure and consumer convenience. P&G, Coca-Cola, Kimberly-Clark, and other consumer goods companies distribute their products in this way.

By contrast, some producers purposely limit the number of intermediaries handling their products. The extreme form of this practice is **exclusive distribution**, in which the producer gives only a limited number of dealers the exclusive right to distribute its products in their territories. Exclusive distribution is often found in the distribution of luxury brands. Conatural is a high-end, organic skincare and haircare manufacturer that sells through its own website and offline stores. Its main retail strategy is to sell through its online store and through its own two physical, offline stores in upscale malls and 10 high-end retailers in its home city of Lahore, Pakistan.[17]

Between intensive and exclusive distribution lies **selective distribution**—the use of more than one but fewer than all of the intermediaries who are willing to carry a company's products. Most consumer electronics, furniture, and home appliance brands are distributed in this manner. For example, outdoor power equipment maker STIHL doesn't sell its chain saws, blowers, hedge trimmers, and other products through national big box retailers such as Lowe's and The Home Depot. Instead, it sells through a select corps of authorized local hardware and lawn and garden dealers. By using selective distribution, STIHL can develop good working relationships with dealers and expect a better-than-average selling effort. Selective distribution also enhances the STIHL brand's image and allows for higher markups resulting from greater value-added dealer service. "We count on our select dealers every day and so can you," says one STIHL ad.

Intensive distribution
Stocking the product in as many outlets as possible.

Exclusive distribution
Giving a limited number of dealers the exclusive right to distribute the company's products in their territories.

Selective distribution
The use of more than one but fewer than all of the intermediaries that are willing to carry the company's products.

Responsibilities of Channel Members

The producer and intermediaries need to agree on the terms and responsibilities of each channel member. They should agree on price policies, conditions of sale, territory rights, and the specific services to be performed by each party. The producer should establish a list price and a fair set of discounts for the intermediaries. It must define each channel member's territory, and it should be careful about where it places new resellers.

Mutual services and duties need to be spelled out carefully, especially in franchise and exclusive distribution channels. For example, Subway provides franchisees with access to proprietary formulas and operational systems, promotional and advertising support, intensive training, site selection assistance, and general management guidance. In turn, franchisees must meet company standards for physical facilities and food quality, provide requested information, buy specified food products, and cooperate with new promotion programs. They also pay Subway a franchise fee of 8 percent of sales plus 4.5 percent of sales as an advertising fee.[18]

Evaluating the Major Alternatives

Suppose a company has identified several channel alternatives and wants to select the one that will best satisfy its long-run objectives. Each alternative should be evaluated against economic, control, and adaptability criteria.

Using *economic criteria*, a company compares the likely sales, costs, and profitability of different channel alternatives. What will be the investment required by each channel alternative, and what returns will result? The company must also consider *control issues*. Using intermediaries usually means giving them some control over the marketing of the product, and some intermediaries take more control than others. Other things being equal, the company prefers to keep as much control as possible. Finally, the company must apply *adaptability criteria*. Channels often involve long-term commitments, yet the company wants to keep the channel flexible so that it can adapt to environmental changes. Thus, to be considered, a channel involving long-term commitments should be greatly superior on economic and control grounds.

A company must be careful about how it measures the profitability of adding new channels. Suppose a company already operates three channels and is considering the addition of a fourth channel. Although the new channel might be profitable in itself, it might erode the profitability of one or more of the other three channels. Or adding the new channel might facilitate dropping one of the existing channels. Therefore, rather than looking just at individual channel profitability, the company must take a whole-channel view. It must find the combination of channels that, working together, will maximize total company profitability.

Designing International Distribution Channels

International marketers face many additional complexities in designing their channels. Each country has its own unique distribution system that has evolved over time and changes very slowly. These channel systems can vary widely across countries. Thus, global marketers must usually adapt their channel strategies to the existing structures within each country.

There are large differences in the numbers and types of intermediaries serving each country market and in the transportation infrastructure serving these intermediaries. For example, whereas large-scale retail chains dominate the U.S. scene, much of the retailing in other countries is done by small, independent retailers. In India or Indonesia, millions of retailers operate tiny shops or sell in open markets.

Even in world markets containing similar types of sellers, retailing practices can vary widely. For example, you'll find plenty of Walmarts, Carrefours, Tescos, and other retail superstores in major Chinese cities. But whereas consumer brands sold in such stores in Western markets rely largely on self-service, brands in China hire armies of uniformed in-store promoters to dispense samples and pitch their products person to person. In a Beijing Walmart, on any given weekend, you might find 100 or more such promoters acquainting customers with products from Kraft, Unilever, P&G, Johnson & Johnson, and a slew of local competitors. "Chinese consumers know the brand name through media," says the director of a Chinese retail marketing service, "but they want to feel the product and get a detailed understanding before they make a purchase."[19]

International distribution: To overcome distribution infrastructure problems in Brazil's Amazon River basin, Nestlé even launched a floating supermarket to take goods directly to customers.

Marcia Zoet/Bloomberg via Getty Images

When selling in emerging markets, companies must often overcome distribution infrastructure and supply challenges. For example, in Nigeria, Domino's Pizza has had to dig wells and install water-treatment plants behind many of its restaurants to obtain clean water. Similarly, after having difficulty sourcing quality beef in South Africa, rather than buying scarce, poorer-quality beef from local ranchers, Burger King finally invested $5 million in its own local cattle ranch.[20] And to serve northeast Brazil's Amazon River basin, which lacks a solid network of good roads, Nestlé even launched a floating supermarket to take goods directly to customers. The boat served 800,000 consumers in 18 riverside towns with 300 different Nestlé products, spending one day at each stop.[21]

Author Comment | Now it's time to implement the chosen channel design and work with selected channel members to manage and motivate them.

Channel Management Decisions

OBJECTIVE 12-4 Explain how companies select, motivate, and evaluate channel members.

Marketing channel management
Selecting, managing, and motivating individual channel members and evaluating their performance over time.

Once the company has reviewed its channel alternatives and determined the best channel design, it must implement and manage the chosen channel. **Marketing channel management** calls for selecting, managing, and motivating individual channel members and evaluating their performance over time.

Selecting Channel Members

Producers vary in their ability to attract qualified marketing intermediaries. Some producers have no trouble signing up channel members. For example, when Toyota first introduced its Lexus line in the United States, it had no trouble attracting new dealers. In fact, it had to turn down many would-be resellers.

At the other extreme are producers that have to work hard to line up enough qualified intermediaries. For example, when Timex first tried to sell its inexpensive watches through regular jewelry stores, most jewelry stores refused to carry them. The company then managed to get its watches into mass-merchandise outlets. This turned out to be a wise decision due to the rapid growth of mass merchandising.

Even established brands may have difficulty gaining and keeping their desired distribution, especially when dealing with powerful channel members. For example, Amazon has rapidly expanded its own delivery and logistics capabilities. This has put it in direct competition with FedEx, UPS, and other important delivery giants in its distribution channel. As a result, FedEx recently declined to renew its Amazon contract for expedited delivery services. In turn, Amazon stopped using FedEx Ground for deliveries and temporarily barred third-party sellers from using FedEx to deliver Prime-eligible packages. The channel feud between FedEx and Amazon risks damaging both companies' opportunities while at the same time potentially inconveniencing their mutual customers.[22]

Selecting channels: The channel feud between FedEx and Amazon risks damaging both companies' opportunities while at the same time potentially inconveniencing their mutual customers.

Christopher Lee/Bloomberg via Getty Images

When selecting intermediaries, the company should determine what characteristics distinguish the better ones. It will want to evaluate each channel member's years in business, other lines carried, location, growth and profit record, overlap with competitors, cooperativeness, and reputation.

Managing and Motivating Channel Members

Once selected, channel members must be continuously managed and motivated to do their best. The company must sell not only *through* the intermediaries but also *to* and *with* them. Most companies see their intermediaries as first-line customers and partners. They practice strong *partner relationship management* to forge long-term partnerships with channel members. This creates a value delivery system that meets the needs of both the company *and* its marketing partners.

In managing its channels, a company must convince suppliers and distributors that they can succeed better by working together as a part of a cohesive value delivery system. Companies should work in close harmony with others in the channel to find better ways to bring value to customers. For example, automaker Toyota forges beneficial relationships with its large network of suppliers to gain mutual competitive advantage:[23]

> Achieving satisfying supplier relationships has long been a cornerstone of Toyota's stunning success. Historically, Toyota's U.S. competitors often have alienated their suppliers through self-serving, heavy-handed dealings. By contrast, rather than bullying suppliers, Toyota partners with them and helps them meet its very high expectations. It learns about their businesses, conducts joint improvement activities, helps train supplier employees, gives daily performance feedback, and actively seeks out supplier concerns. It even recognizes top suppliers with annual performance awards.
>
> As a result, for 19 of the past 21 years, Toyota has received the top supplier relations score in the respected North American Automotive Supplier Working Relations Index Study. The study rates companies on financial dealings with suppliers, valuing suppliers and treating them fairly, open and honest communication, and providing opportunities to make profits. The study suggests that Toyota suppliers consider themselves true partners with the automotive giant. Creating satisfied suppliers helps Toyota produce lower-cost, higher-quality cars, which in turn results in more satisfied customers. As Toyota puts it on its supplier website, "not everything our diverse suppliers do is easily seen … but everything they do shows in every Toyota."

Many companies are now installing integrated high-tech partnership relationship management (PRM) systems to coordinate their whole-channel marketing efforts. Just as they use customer relationship management (CRM) software systems to help manage relationships with important customers, companies can now use PRM and supply chain management (SCM) software to help recruit, train, organize, manage, motivate, and evaluate relationships with channel partners.

Evaluating Channel Members

The company must regularly check channel member performance against standards such as sales quotas, average inventory levels, customer delivery time, treatment of damaged and lost goods, cooperation in company promotion and training programs, and customer service quality. The company should recognize and reward intermediaries that are performing well and adding good value for customers. Those that are performing poorly should be assisted or, as a last resort, replaced. Finally, companies need to be sensitive to the needs of their channel partners. Those that treat their partners poorly risk not only losing their support but also causing some legal problems. The next section describes various rights and duties pertaining to companies and other channel members.

Public Policy and Distribution Decisions

For the most part, companies are legally free to develop whatever channel arrangements suit them. In fact, the laws affecting channels seek to prevent the exclusionary tactics of some companies that might keep another company from using a desired channel. Most channel law deals with the mutual rights and duties of channel members once they have formed a relationship.

Many producers and wholesalers like to develop exclusive channels for their products. When the seller allows only certain outlets to carry its products, this strategy is called *exclusive distribution*. When the seller requires that these dealers not handle competitors' products, its strategy is called *exclusive dealing*. Both parties can benefit from exclusive arrangements: The seller obtains more loyal and dependable outlets, and the dealers obtain a steady source of supply and stronger seller support. But exclusive arrangements also exclude other producers from selling to these dealers. This situation brings exclusive dealing contracts under the scope of the Clayton Act of 1914. Provided that both parties enter into the agreement voluntarily, such agreements are legal as long as they do not substantially lessen competition or tend to create a monopoly.

Exclusive dealing often includes *exclusive territorial agreements*. The producer may agree not to sell to other dealers in a given area, or the buyer may agree to sell only in its own territory. The first practice is normal under franchise systems as a way to increase dealer enthusiasm and commitment. It is also perfectly legal—a seller has no legal obligation to sell through more outlets than it wishes. The second practice, whereby the producer tries to keep a dealer from selling outside its territory, has become a major legal issue.

Producers of a strong brand sometimes sell it to dealers only if the dealers will take some or all of the rest of its line. This is called *full-line forcing*. Such *tying agreements* are not necessarily illegal, but they violate the Clayton Act if they tend to lessen competition substantially. The practice may prevent consumers from freely choosing among competing suppliers of these other brands.

Finally, producers are free to select their dealers, but their right to terminate dealers is somewhat restricted. In general, sellers can drop dealers "for cause." However, they cannot drop dealers if, for example, the dealers refuse to cooperate in a doubtful legal arrangement, such as exclusive dealing or tying agreements.

Author Comment | Marketers used to call this plain-old "physical distribution." But as these titles suggest, the topic has grown in importance, complexity, and sophistication.

Marketing Logistics and Supply Chain Management

OBJECTIVE 12-5 Discuss the nature and importance of marketing logistics and integrated supply chain management.

In today's global marketplace, selling a product is sometimes easier than getting it to customers. Companies must decide on the best way to store, handle, and move their products and services so that they are available to customers in the right assortments, at the right time, and in the right place. Logistics effectiveness has a major impact on both customer satisfaction and company costs. Here we consider the nature and importance of logistics management in the supply chain, the goals of the logistics system, major logistics functions, and the need for integrated supply chain management.

Nature and Importance of Marketing Logistics

Marketing logistics (physical distribution)
Planning, implementing, and controlling the physical flow of materials, final goods, and related information from points of origin to points of consumption to meet customer requirements at a profit.

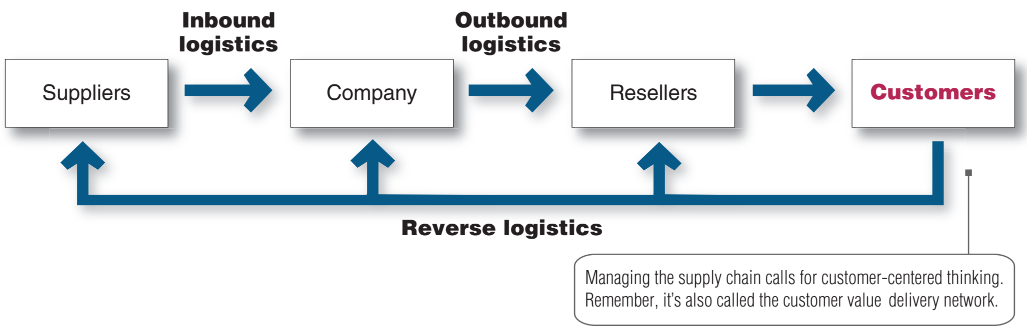
To some managers, marketing logistics means only trucks and warehouses. But modern logistics is much more than this. **Marketing logistics**—also called **physical distribution**—involves planning, implementing, and controlling the physical flow of goods, services, and related information from points of origin to points of consumption to meet customer requirements at a profit. In short, it involves getting the right product to the right customer in the right place at the right time profitably.

In the past, physical distribution planners typically started with products at the plant and then tried to find low-cost solutions to get them to customers. However, today's *customer-centered* logistics starts with the marketplace and works backward to the factory or even to sources of supply. Marketing logistics involves not only *outbound logistics* (moving products from the factory to resellers and ultimately to customers) but also *inbound logistics* (moving products and materials from suppliers to the factory). It also involves *reverse logistics* (reusing, recycling, refurbishing, or disposing of broken, unwanted, or excess products returned by consumers or resellers)—the importance of which has grown with the increased emphasis on corporate sustainability. That is, marketing logistics involves the entirety of **supply chain management**—managing upstream and downstream value-added flows of materials, final goods, and related information among suppliers, the company, resellers, and final consumers, as shown in Figure 12.5.

Supply chain management
Managing upstream, downstream, and reverse value-added flows of materials, final goods, and related information among suppliers, the company, resellers, and final consumers.

The logistics manager's task includes coordinating the activities of suppliers, purchasing agents, marketers, channel members, and customers. These activities include forecasting, information systems, purchasing, production planning, order processing, inventory, warehousing, and transportation planning.

FIGURE 12.5
Supply Chain Management



Companies today are placing lots of emphasis on logistics for several reasons. First, companies can gain a powerful competitive advantage by using improved logistics to give customers better service or lower prices. In fact, these days, for many firms, competition is all about delivery and logistics. Today's customers want and expect fast, accurate delivery on just about everything they buy, whether it's an online purchase or a local store pickup. Long known in marketing logistics as the "last mile delivery problem," fast and efficient delivery has become a key competitive battleground. The "last mile" refers to the last leg of the delivery chain in getting the product or service into the hands of customers, whether it's Amazon's same-day delivery, Wegmans' curbside pickup and home delivery, Spotify's streaming music to listeners instead of downloads or CDs, or Walmart's experiments with drone package delivery. In this digital age, the nature of "last mile" delivery solutions and the logistics behind them has changed dramatically. Companies in every industry are now reshaping their logistics and distribution systems to meet the changing, more-demanding delivery expectations of customers (see Real Marketing 12.2).

The second reason for today's increased emphasis on logistics is that improved logistics can yield tremendous cost savings to both a company and its customers. As much as 20 percent of an average product's price is accounted for by shipping and transport alone. American companies spend \$1.6 trillion each year—about 7.6 percent of GDP—to wrap, bundle, load, unload, sort, reload, and transport goods. That's more than the total national GDPs of all but nine countries worldwide. By itself, General Motors has hundreds of millions of tons of finished vehicles, production parts, and aftermarket parts in transit at any given time, running up an annual logistics bill of about \$8 billion. Shaving off even a small fraction of logistics costs can mean substantial savings. For example, GM announced a logistical overhaul that would save nearly \$2 billion over two years in North America alone.[24]

Third, improvements in information technology and automation have created opportunities for major gains in distribution efficiency. Today's companies are using sophisticated supply chain management software, internet-based logistics systems, point-of-sale scanners, RFID tags, satellite tracking, and electronic transfer of order and payment data. Such technology lets them quickly and efficiently manage the flow of goods, information, equipment, and finances through the supply chain. For delivery companies like UPS and FedEx, for example, dynamic truck routing can make big differences in time spent on delivery and miles driven. When UPS first implemented its On-Road Integrated Optimization and Navigation technology (ORION), it saved eight miles of driving per driver per day across its delivery fleet of more than 125,000 vehicles. That trimmed fuel consumption by 10 million gallons while also reducing carbon dioxide emissions. An updated ORION now automatically reoptimizes driver routes based on changing traffic conditions and new pickup requests, providing drivers with turn-by-turn directions and saving an additional two to four miles per driver per day. In all, ORION saves UPS an estimated more than \$400 million per year.[25]

Logistics technologies: UPS's ORION dynamic routing system automatically reoptimizes driver routes based on changing traffic conditions and new pickup requests, providing drivers with turn-by-turn directions and saving as many as 12 delivery miles per driver per day.

Justin Kase zsixz/Alamy Stock Photo

Fourth, the explosion in product variety has created a need for improved logistics management. For example, a Walmart Supercenter store carries 120,000 products. Amazon.com carries a bewildering 12 million products, or nearly 350 million products if Amazon Marketplace sellers are included.[26] Ordering, shipping, stocking, and controlling such a variety of products present a sizable logistics challenge.

Finally, more than almost any other marketing function, logistics affects the environment and a firm's environmental sustainability efforts. Transportation, warehousing, packaging, and other logistics functions are typically the biggest supply chain contributors to the company's carbon footprint. Therefore, many companies are now developing *sustainable supply chains*.

Real Marketing 12.2 | Logistics and the "Last Mile": It's All about Delivery

In marketing logistics, much of the focus has always been on what's called the "last mile" delivery problem—forging solutions for the final step in the process of delivering products into the hands of customers. That last mile has always been very important, not just from a customer service and satisfaction viewpoint but also in terms of costs. Last-mile costs account for up to 58 percent of total transportation costs for a product's journey through distribution channels.

In the good-old days, the last-mile problem mostly involved efficiently and effectively getting goods into and properly positioned in retail outlets where customers could pick them up and take them home. Or it involved efficiently fulfilling phone and mail-order catalog orders or selling direct door-to-door. But with the dawn of the digital age and the massive shift toward the convenience and immediacy of online buying, the last mile has taken on a whole new significance. Today's online shoppers are an impatient bunch. When ordering something quickly and conveniently online, whether for home delivery or store pickup, they want it now. As a result, companies have developed a host of new last-mile delivery options and technologies.

Online giant Amazon led the way almost 20 years ago with its far-sighted Amazon Prime service. For a flat annual membership fee of $79.95, Prime members received unlimited two-day shipping on Amazon.com purchases, with an option of overnight shipping for only $3.99 per order. Before Prime, Amazon charged $9.48 for two-day shipping and $16.48 for overnight shipping on a single item. As Amazon put it at the time, "Two-day shipping becomes an everyday experience rather than an occasional indulgence."

Launching Prime was a leap of faith for Amazon. Many analysts thought it foolhardy—potentially a big money loser. But Amazon saw that Prime would help it overcome one of the biggest last-mile obstacles to online buying—delivery waits and fees. And it reasoned that with increased sales volume and advances in logistics systems and technologies, it could make Prime profitable.

Time has proven Amazon right. Amazon's sophisticated fulfillment centers employ the latest IT and robotics technologies to speed things up and bring costs down. And to deliver on its Prime promises, Amazon partnered with package delivery carriers like UPS, FedEx, and the United States Postal Service. In turn, to up their game and meet the severe demands of Amazon Prime, these delivery services invested in ever-improved logistics technologies. More recently, Amazon has established its own Prime delivery fleet, which now delivers more packages than any of its logistics suppliers. And in the wake of Amazon Prime, most other online retailers, and even traditional store retailers like Walmart and Best Buy, now offer their own programs for free expedited shipping.

The need for speed in delivery, combined with the development of the "gig economy," has also given rise to a new breed of start-ups that serve the logistics last mile. Over the past decade, innovative outfits such as Dispatch, Postmates, Instacart, DoorDash, and Grubhub have emerged to help match consumers who want things fast with independent drivers who make deliveries in their own vehicles for a fee. For example, last year more than 110 million U.S. consumers ordered over $26 billion worth of food from grocery stores and restaurants through gig delivery services. Nonfood retailers, including megaretailers like Amazon, Walmart, and Target, also employ gig drivers to deliver products ordered through their shopping apps.

New last-mile logistics solutions go well beyond home delivery. They now encompass almost every touchpoint of the retail experience. For example, retailers small and large have developed curbside pickup systems with dedicated staff and staging areas, providing customers with even more flexible ways to take possession of goods purchased through retailer apps. Inside their stores, retailers ranging from grocery and mass merchandise stores to restaurants have installed convenient self-checkout aisles. You'll find self-serve check-in kiosks in airports, hotels, medical offices, and salons. Such systems deliver fast and effective service to customers while at the same time reducing labor costs for providers. While self-service technologies sometimes lessen personal customer engagement, one recent study reports that 66 percent of consumers prefer self-checkout to waiting in traditional lines and interacting with an employee. And self-checkout frees employees for more important types of customer engagement and problem solving.

Many retailers are taking self-service and checkout a big leap forward, offering the option to select and purchase products with no checkout at all. Grocery leader Kroger is testing KroGO, smart shopping carts equipped with a video screen and small scanner. Customers scan items as they put them in the cart. Once finished, they pay by scanning their rewards cards and simply walk out the door.

Amazon's futuristic Amazon Go convenience grocery stores, with "just walk out" technology, have no cashier or even self-checkout. Customers enable the Amazon Go app on their mobile devices. Then, as they take items taken from shelves, cameras and sensors detect the selections and communicate them to the customer's app. When customers leave the store, purchases are automatically charged to their accounts. So far, Amazon has opened 24 Go stores. And although other retailers have yet to follow suit, various chains including Walmart, Target, Kroger, ALDI, and 7-Eleven have hinted that they will soon employ similar systems.

Some innovative last-mile logistics solutions—such as autonomous delivery bots and drones—were the stuff of science fiction only a few years ago. But Starship's delivery bots have now traveled more than 2.2 million miles, successfully making more than 2 million deliveries.

Chesky/Shutterstock

Some of the most intriguing new last-mile solutions were the stuff of science fiction only a few years ago. For example, more than a dozen U.S.-based startups, along with existing companies like Amazon, are now making deliveries via autonomous delivery robots. Like most delivery bots, the ones from San Francisco–based Starship Technologies resemble high-tech coolers on wheels. Weighing less than 100 pounds and packed with ultrasonic sensors and cameras, the bots move at pedestrian speeds, delivering takeout food and groceries within four miles from the point of pickup. Futuristic science fiction? No. During the past five years, Starship bots have traveled more than 2.2 million miles, successfully making more than 2 million deliveries. "That's a significant amount of ground we've covered," says Starship's CEO. "And we do it 24/7, in the dark, in the snow, in heavy rain." Coupled with self-driving vehicles, such delivery technologies offer a promising logistics future.

Another head-turning last-mile technology is autonomous delivery drones. Although facing more hurdles than on-ground autonomous bots and vehicles, numerous veteran companies and startups are partnering to make drone delivery a reality. Walmart partners with DroneUp to deliver diapers and food within a 50-mile radius of an Arkansas test store. FedEx and Walgreens partner with Alphabet's Wing, CVS partners with UPS's Flight Forward, and Novant Health partners with startup Zipline. So far, these ventures operate only on a small scale in select regions. But experts predict that autonomous drone delivery programs will play a much greater last-mile role.

Thus, the age-old but newly developing last mile is the latest frontier in logistics. If marketing logistics is all about getting products to consumers in the right place at the right time, today the right place is often wherever customers happen to be, and the right time is pretty much right now. For sellers these days, speedy and effective delivery isn't just something that's nice to have. It's something that customers expect with every shopping experience. As a competitive necessity, companies must deliver.[27]

Sustainable Supply Chains

Companies have many reasons for reducing the environmental impact of their supply chains. For one thing, if they don't green up voluntarily, a host of sustainability regulations enacted around the world will soon require them to. For another, many large customers—from Walmart and Nike to the federal government—are demanding it. And most importantly, consumers are now demanding it. For example, one recent consumer survey found that 70 percent of North American consumers think it is important that a brand is sustainable and eco-friendly.[28] Thus, environmental sustainability has become an important factor in supplier selection and performance evaluation. But perhaps even more important than *having* to do it, designing sustainable supply chains is simply the *right* thing to do. It's one more way that companies can contribute to saving our world for future generations.

But that's all pretty heady stuff. As it turns out, companies have a more immediate and practical reason for turning their supply chains green. Sustainable channels are not only good for the world, they can also be good for a company's bottom line. The very logistics activities that create the biggest environmental footprint—such as transportation, warehousing, and packaging—also account for a lion's share of logistics costs. Greater supply chain efficiency and sustainability mean lower costs and higher profits.

Green supply chains: Levi Strauss's Project Water<Less innovations are good for the planet, consumers, and the company's bottom line. "Sustainability should actually cost less . . ."

Levi Strauss & Co.

In other words, developing a sustainable supply chain is not only environmentally responsible, it can also be profitable. Consider Levi Strauss & Co:[29]

> Water is essential to every step in Levi Strauss's jeans-making process. Making just one pair of Levi's jeans consumes 3,781 liters of water—about three days' worth of water for one U.S. household. To conserve water, Levi's launched a series of innovative techniques called Water<Less, which saves up to 96 percent of the water in the denim finishing process alone. So far, Water<Less innovations have saved more than 2 billion liters of water. But more than being good for the planet, Water<Less has also been good for Levi Strauss's bottom line, saving the company more than $1.6 million. Says Levi's vice president of Sustainability, "Sustainability should actually cost less, because, by definition, if you're more sustainable, you're consuming fewer resources, which means you have fewer input costs."

Goals of the Logistics System

Some companies state their logistics objective as providing maximum customer service at the least cost. Unfortunately, as nice as this sounds, no logistics system can *both* maximize customer service *and* minimize distribution costs. Maximum customer service implies rapid delivery, large inventories, flexible assortments, liberal returns policies, and other services—all of which raise distribution costs. In contrast, minimum distribution costs imply slower delivery, smaller inventories, and larger shipping lots—which represent a lower level of overall customer service.

The goal of marketing logistics should be to provide a *targeted* level of customer service at the least cost. A company must first research the importance of various distribution services to customers and then set desired service levels for each segment. The objective is to maximize *profits*, not sales. Therefore, the company must weigh the benefits of providing higher levels of service against the costs. Some companies offer less service than their competitors and charge a lower price. Other companies offer more service and charge higher prices to cover higher costs.

Major Logistics Functions

Given a set of logistics objectives, the company designs a logistics system that will minimize the cost of attaining these objectives. The major logistics functions are *warehousing, inventory management, transportation*, and *logistics information management*.

Warehousing

Production and consumption cycles rarely match, so most companies must store their goods while they wait to be sold. For example, Snapper, Toro, and other lawn mower manufacturers run their factories all year long and store up products for the heavy spring and summer buying seasons. The storage function addresses differences in needed quantities and timing, ensuring that products are available when customers are ready to buy them.

A company must decide on *how many* and *what types* of warehouses it needs and *where* they will be located. The company might use either *storage warehouses* or *distribution centers*. Storage warehouses store goods for moderate to long periods. In contrast, **distribution centers** are designed to move goods along rather than just store them. They are large and highly automated warehouses designed to receive goods from various plants and suppliers, take orders, fill them efficiently, and deliver goods to customers as quickly as possible.

Distribution center
A large, highly automated warehouse designed to receive goods from various plants and suppliers, take orders, fill them efficiently, and deliver goods to customers as quickly as possible.

For example, Amazon operates more than 800 distribution and fulfillment centers in the United States, which fill online orders and handle returns. Many of these centers are huge and highly automated. For example, the Amazon fulfillment center in Tracy, California, covers 1.2 million square feet (equivalent to 27 football fields). At the center, 3,000 employees control an inventory of 21 million items and ship out up to 700,000 packages a day to Amazon customers in Northern California and parts of the Pacific Northwest. On a big purchasing day, such as Amazon Prime Day or Cyber Monday, Amazon's fulfillment center network fills customer orders at a rate of more than 1,000 items per second globally. During the most recent year-end holiday season, Amazon delivered more than 1.5 billion packages to customers worldwide.[30]

High-tech distribution centers: Amazon employs teams of super-retrievers—Day Glo–orange Kiva robots—to keep its fulfillment centers humming.

Like almost everything else these days, warehousing has seen dramatic changes in technology in recent years. Outdated materials-handling methods are steadily being replaced by newer, automated systems requiring fewer employees. Computers and scanners read orders and direct lift trucks, electric hoists, or robots to gather goods, move them to loading docks, and issue invoices. For example, Amazon uses an army of robots to make its fulfillment centers more efficient:[31]

When you buy from Amazon, the chances are good that your order will still be plucked and packed by human hands. However, the humans in Amazon's fulfillment centers are now assisted by an army of more than 100,000 squat, ottoman-size, Day Glo–orange robots, developed by the digital giant's own Amazon Robotics division. At Amazon's Akron fulfillment center, robots outnumber the 5,000 employees by a two-to-one ratio. The robots bring racks of merchandise to workers, who in turn fill boxes with orders. The robots make warehouse work less tedious and physically taxing for employees while also creating efficiencies that let a customer order something as small as dental floss and receive it within two days or even on the same day. Dubbed the "magic shelf," racks of items simply materialize in front of workers, with red lasers pointing to items to be picked. The robots then drive off and new shelves appear. The super-efficient robots work tirelessly 16 hours a day, seven days a week. They never complain about the workload or ask for pay raises, and they are pretty much maintenance free. "The robot will work the same all day long," says an Amazon warehouse supervisor. And "their stomachs don't grumble."

Inventory Management

Inventory management also affects customer satisfaction. Here, managers must maintain the delicate balance between carrying too little inventory and carrying too much. With too little stock, the firm risks not having products when customers want to buy. To remedy this, the firm may need costly emergency shipments or production. Carrying too much inventory results in higher-than-necessary inventory-carrying costs and stock obsolescence. Thus, in managing inventory, firms must balance the costs of carrying larger inventories against resulting sales and profits.

Many companies have greatly reduced their inventories and related costs through *just-in-time* logistics systems. With such systems, producers and retailers carry only small inventories of parts or merchandise, often enough for only a few days of operations. New stock arrives exactly when needed rather than being stored in inventory until being used. Just-in-time systems require accurate forecasting along with fast, frequent, and flexible delivery so that new supplies will be available when needed. However, these systems result in substantial savings in inventory-carrying costs.

When it comes to managing inventories, Walmart doesn't mess around with its suppliers. With the goal of having just enough but not too much inventory on its shelves, Walmart demands "On-Time, In-Full" (OTIF) deliveries to its stores. Current Walmart guidelines require that 98 percent of a supplier's shipments arrive OTIF within a designated delivery window. Suppliers who miss the window pay the price. "Two days late? That'll earn you a fine," says an analyst. "One day early? That's a fine, too. Right on time but goods aren't packed properly? You guessed it—fine." While this delivery policy seems severe, Walmart pays a huge price for having too little inventory (lost sales) or too much (inventory carrying costs). "Variability is the No. 1 killer in the supply chain," says a Walmart operations manager.[32]

Marketers are always looking for new ways to make inventory management more efficient. For example, many companies use some form of RFID or "smart tag" technology, by which small transmitter chips are embedded in or placed on products, packaging, and shipping pallets for everything from flowers, fashions, and razors to tires. Such smart tags can make the entire supply chain—which accounts for up to 75 percent of a product's cost—intelligent and automated. Many large and resourceful marketing companies, such as Walmart, Macy's, P&G, and IBM, are investing heavily to make the full use of RFID technology a reality.

Transportation

The choice of transportation carriers affects the pricing of products, delivery performance, and the condition of goods when they arrive—all of which will affect customer satisfaction. In shipping goods to its warehouses, dealers, and customers, the company can choose among five main transportation modes: truck, rail, water, pipeline, and air along with an alternative mode for digital products—the internet.

Trucks have increased their share of transportation steadily and now account for 65 percent of total tons transported in the United States. Trucks are highly flexible in their routing and time schedules, and they can usually offer faster service than railroads. They are efficient for short hauls of high-value merchandise. Trucking firms have evolved in recent years to become full-service providers of global transportation services. For example, large trucking firms now offer everything from satellite tracking, internet-based shipment management, and logistics planning software to cross-border shipping operations.[33]

Transportation: In shipping goods to their warehouses, dealers, and customers, companies can choose among many transportation modes, including truck, rail, water, pipeline, and air. Much of today's shipping requires multiple modes.

DigitalPen/Shutterstock

Railroads account for 10 percent of the total tons shipped. They are one of the most cost-effective modes for shipping large amounts of bulk products—coal, sand, minerals, and farm and forest products—over long distances. In recent years, railroads have increased their customer services by designing new equipment to handle special categories of goods, providing flatcars for carrying truck trailers by rail (piggyback), and providing in-transit services such as the diversion of shipped goods to other destinations en route and the processing of goods en route.

Although *air* carriers transport less than 1 percent of the of the nation's goods, they are an important transportation mode. Airfreight rates are much higher than rail or truck rates, but airfreight is ideal when speed is needed or distant markets have to be reached. Among the most frequently airfreighted products are perishables (such as fresh fish, cut flowers) and high-value, low-bulk items (technical instruments, jewelry). Companies find that airfreight also reduces inventory levels, packaging costs, and the number of warehouses needed.

Pipelines, which account for 18 percent of the tonnage transported, are a specialized means of shipping petroleum, natural gas, and chemicals from sources to markets. Most pipelines are used by their owners to ship their own products.

Water carriers account for slightly more than 4 percent of goods transported within the United States, using coastal and inland waterways. When it comes to global trade, however, ocean-borne transportation is critically important, accounting for around 90 percent of all traded goods. Although water transportation is the slowest mode and may be affected by the weather, the cost of water transportation is very low for shipping bulky, low-value, nonperishable products such as sand, coal, grain, oil, and metallic ores. Further, the invention of the standardized shipping container, which can be moved across continents using different transportation platforms such as ships, rail, and trucks, has dramatically altered the nature of transportation. Today, even relatively high-value items are packaged and shipped securely using shipping containers.[34]

Multimodal transportation
Combining two or more modes of transportation.

Shippers also use **multimodal transportation**—combining two or more modes of transportation—accounting for 3 percent of the nation's goods transported. *Piggyback* describes the use of rail and trucks; *fishyback*, trucks and water; *trainship*, water and rail; and *airtruck*, air and trucks. Combining modes provides advantages that no single mode can deliver. Each combination offers advantages to the shipper. For example, not only is piggyback cheaper than trucking alone, but it also provides flexibility and convenience. Numerous logistics companies provide single-source multimodal transportation solutions.

The *internet* carries digital products from producer to customer via satellite, cable, phone wire, or wireless signal. Software firms, the media, music and video companies, and educational organizations all make use of the internet to deliver digital content. The internet holds the potential for lower product distribution costs. Whereas planes, trucks, and trains move freight and packages, digital technology moves intangible bits of information.

Logistics Information Management

Companies use information to manage their supply chains. Channel partners often link up to share information and make better joint logistics decisions. From a logistics perspective, flows of information, such as customer transactions, billing, shipment and inventory levels, and even customer data, are closely linked to channel performance. Companies need simple, accessible, fast, and accurate processes for capturing, processing, and sharing channel information.

Information can be shared and managed in many ways. But most sharing takes place through *electronic data interchanges* (*EDI*), the digital exchange of data between organizations, primarily via the internet. Walmart, for example, requires EDI links with its more than 100,000 suppliers through its Retail Link sales data system. If new suppliers don't have the required EDI capability, Walmart will work with them to find and implement the needed tools.[35]

In some cases, suppliers might actually be asked to generate orders and arrange deliveries for their customers. Many large retailers—such as Walmart and The Home Depot—work closely with major suppliers such as P&G or Moen to set up *vendor-managed inventory (VMI)* systems or *continuous inventory replenishment* systems. Using VMI, the customer shares real-time data on sales and current inventory levels with the supplier. The supplier then takes full responsibility for managing inventories and deliveries. Some retailers even go so far as to shift inventory and delivery costs to the supplier by simply directing customer orders to them and empowering them to directly take care of packaging and delivery. Such systems require close cooperation between the buyer and seller.

Integrated Logistics Management

Integrated logistics management
The logistics concept that emphasizes teamwork—both inside the company and among all the marketing channel organizations—to maximize the performance of the entire distribution system.

Today, more and more companies are adopting the concept of **integrated logistics management**. This concept recognizes that providing better customer service and trimming distribution costs require *teamwork*, both inside the company and among all the marketing channel organizations. Inside, the company's various departments must work closely together to maximize its own logistics performance. Outside, the company must integrate its logistics system with those of its suppliers and customers to maximize the performance of the entire distribution network.

Cross-Functional Teamwork Inside the Company

Most companies assign responsibility for various logistics activities to many different departments—marketing, sales, finance, operations, and purchasing. Too often, each function tries to optimize its own logistics performance without regard for the activities of the other functions. However, transportation, inventory, warehousing, and information management activities interact, often in an inverse way. Lower inventory levels reduce inventory-carrying costs. But they may also reduce customer service and increase costs from stockouts, backorders, special production runs, and costly fast-freight shipments. Because distribution activities involve strong trade-offs, decisions by various functions must be coordinated to achieve better overall logistics performance.

The goal of integrated supply chain management is to harmonize all of the company's logistics decisions. Close working relationships among departments can be achieved in several ways. Some companies have created permanent logistics committees composed of managers responsible for different physical distribution activities. Companies can also create supply chain manager positions that link the logistics activities of functional areas. For example, P&G has created product supply managers who manage all the supply chain activities for each product category. Many companies have a vice president of logistics or a supply chain VP with cross-functional authority.

Finally, companies can employ sophisticated, systemwide supply chain management software, now available from a wide range of software enterprises large and small, from Oracle and SAP to Logility. For example, Oracle's supply chain management software solutions help companies to "gain sustainable advantage and drive innovation by transforming their traditional supply chains into integrated value chains."[36] It coordinates every aspect of the supply chain, from value chain collaboration to inventory optimization to transportation and logistics management. The important thing is that the company must coordinate its logistics, inventory investments, demand forecasting, and marketing activities to create high market satisfaction at a reasonable cost.

Integrated logistics management: Oracle's supply chain management software solutions help companies to "gain sustainable advantage and drive innovation by transforming their traditional supply chains into integrated value chains."

Oracle Corporation

Building Logistics Partnerships

Companies must do more than improve their own logistics. They must also work with other channel partners to improve whole-channel distribution. The members of a marketing channel are linked closely in creating customer value and building customer relationships. One company's distribution system is another company's supply system. The success of each channel member depends on the performance of the entire supply chain. For example, furniture retailer IKEA can create its stylish but affordable furniture and deliver the "IKEA lifestyle" only if its entire supply chain—consisting of thousands of merchandise designers and suppliers, transport companies, warehouses, and service providers—operates with high efficiency and customer-focused effectiveness.

Smart companies coordinate their logistics strategies and forge strong partnerships with suppliers and customers to improve customer service and reduce channel costs. Many companies have created *cross-functional, cross-company teams*. For example, Nestlé's Purina pet food unit has a team of dozens of people working in Bentonville, Arkansas, the home base of Walmart. The Purina Walmart team members work jointly with their counterparts at Walmart to find ways to squeeze costs out of their distribution system. Working together benefits not only Purina and Walmart but also their shared, final consumers.

Other companies partner through *shared projects*. For example, many large retailers conduct joint in-store programs with suppliers. The Home Depot allows key suppliers to use its stores as a testing ground for new merchandising programs. The suppliers spend time at The Home Depot stores watching how their product sells and how customers relate to it. They then create programs specially tailored to The Home Depot and its customers. Clearly, the supplier, the retailer, and the ultimate consumer all benefit from such partnerships. The point is that all supply chain members must work together to bring value to final consumers.

Third-Party Logistics

Although most big companies love to make and sell their products, many loathe the associated logistics "grunt work." They detest the bundling, loading, unloading, sorting, storing, reloading, transporting, customs clearing, and tracking required to supply their factories and get products to their customers. They hate it so much that many firms outsource some or all of their logistics to **third-party logistics (3PL) providers** such as C.H. Robinson, XPO Logistics, UPS Supply Chain Solutions, and J.B. Hunt.[37]

Third-party logistics (3PL) provider
An independent logistics provider that performs any or all of the functions required to get a client's product to market.

Companies use third-party logistics providers for several reasons. First, because getting the product to market is their main focus, these logistics providers can often do it more efficiently and at lower cost. Second, outsourcing logistics frees a company to focus more intensely on its core business. Finally, integrated logistics companies understand how to manage complex logistics issues, including those related to transiting border customs and inspection, paying tariffs, and claiming insurance payments in case of damage during transit.

For example, UPS knows that, for many companies, logistics can be a real nightmare. But logistics is exactly what UPS does best. To UPS, logistics is today's most powerful force for creating competitive advantage. To its supply chain customers, UPS stands for "United Problem Solvers." At one level, UPS can simply handle a company's package shipments. But on a deeper level, UPS can help businesses sharpen their own logistics systems to cut costs and serve customers better. At a still deeper level, companies can let UPS take over and manage part or all of their logistics operations. For example, consider premium mattress maker Kingsdown, which sells its sleep systems through a network of more than 2,000 retailers worldwide:[38]

> Kingsdown excels at producing innovative products. But in an increasingly competitive marketplace, Kingsdown's delivery fleet was plagued by costly inefficiencies and delivery errors, causing relationship problems with the firm's very demanding retailers. UPS stepped in to help manage Kingsdown's logistics. Although Kingsdown still loads its own trailers, UPS now provides the trucks and drivers. But more than just vehicles and the people to drive them, UPS provides unmatched transportation technology, including handheld GPS-enabled scanning devices at every turn. With UPS, each product is tagged and scanned when loaded and then again when delivered. In between, UPS provides an optimized trip plan for each driver with directions for each stop.
>
> Near real-time data on individual products and entire loads let Kingsdown monitor deliveries throughout the trip. The system handles unexpected delays as they occur via text messaging between drivers and operations supervisors. The automated system even directs drivers in filling empty trailers for return trips, either with raw materials for Kingsdown or with third-party freight. Thus, UPS relieved Kingsdown from dealing with logistics issues, letting

it focus on what it does best—making and selling premium mattresses and managing dealer relationships. In the process, Kingsdown's fleet efficiency improved dramatically—overall transportation costs went down and delivery errors virtually disappeared, to the benefit of both Kingsdown and its retailer customers. "Customers are expecting the world from you," says UPS. "We can help you deliver."

3PL providers like UPS can help clients tighten up sluggish, overstuffed supply chains; slash inventories; and get products to customers more quickly and reliably. According to one report, 90 percent of *Fortune* 500 companies now use 3PL (also called *outsourced logistics* or *contract logistics*) services. General Motors, P&G, and Walmart each use 50 or more 3PLs. The 3PL market is expected to grow rapidly from about $1 billion in 2019 to about $1.7 trillion by 2027.[39]

Reviewing and Extending the Concepts

Objectives Review

Some companies pay too little attention to their distribution channels; others, however, have used imaginative distribution systems to gain a competitive advantage. A company's channel decisions directly affect every other marketing decision. Management must make channel decisions carefully, incorporating today's needs with tomorrow's likely selling environment.

OBJECTIVE 12-1 Explain why companies use marketing channels and discuss the functions these channels perform.

In creating customer engagement and value, a company can't go it alone. It must work within an entire network of partners—a value delivery network—to accomplish this task. Individual companies and brands don't compete; their entire value delivery networks do.

Most producers use intermediaries to bring their products to market. They forge a *marketing channel* (or *distribution channel*)—a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user. Through their contacts, experience, specialization, and scale of operation, intermediaries usually offer the firm more than it can achieve on its own.

Marketing channels perform many key functions. Some help *complete transactions* by gathering and distributing *information* needed for planning and aiding exchange, developing and spreading persuasive *communications* about an offer, performing *contact* work (finding and communicating with prospective buyers), *matching* (shaping and fitting the offer to the buyer's needs), and entering into *negotiation* to reach an agreement on price and other terms of the offer so that ownership can be transferred. Other functions help to *fulfill* the completed transactions by offering *physical distribution* (transporting and storing goods), *financing* (acquiring and using funds to cover the costs of the channel work), and *risk taking* (assuming the risks of carrying out the channel work). The company also coordinates with upstream members of the supply chain to achieve its market-related goals.

OBJECTIVE 12-2 Discuss how channel members interact and how they organize to perform the work of the channel.

The channel will be most effective when each member assumes the tasks they can do best. The success of individual channel members depends on overall channel success. Therefore, all channel firms should work together smoothly. They should understand and accept their roles, coordinate their goals and activities, and cooperate to attain overall channel goals. By cooperating, they can more effectively sense, serve, and satisfy the target market.

In a large company, the formal organization structure assigns roles and provides needed leadership. But in a distribution channel composed of independent firms, leadership and power are often not formally set. Traditionally, distribution channels have lacked the leadership needed to assign roles and manage conflict. In recent years, however, new types of channel organizations—such as vertical marketing systems—have appeared that provide stronger leadership and improved performance.

Changes in technology and the explosive growth of direct and online marketing have had a profound impact on the nature and design of marketing channels. One major trend is toward *disintermediation* or *channel disruption* by which innovative new channels emerge to displace traditional ones. Companies must continually review, innovate, and update their channels or risk being left behind.

OBJECTIVE 12-3 Identify the major channel alternatives open to a company.

Channel alternatives vary from direct selling to using one, two, three, or more intermediary *channel levels*. Marketing channels face continuous and sometimes dramatic change. Three of the most important trends are the growth of *vertical, horizontal*, and *multichannel marketing systems*. These trends affect channel cooperation, conflict, and competition.

Channel design begins with assessing customer channel service needs and company channel objectives and constraints. The company then identifies the major channel alternatives in terms of the *types* of intermediaries, the *number* of intermediaries, and the *channel responsibilities* of each. Each channel alternative must be evaluated according to economic, control, and adaptive criteria. *Channel management* calls for selecting qualified intermediaries and motivating them. Individual channel members must also be evaluated regularly.

OBJECTIVE 12-4 Explain how companies select, motivate, and evaluate channel members.

Producers vary in their ability to attract qualified marketing intermediaries. Some producers have no trouble signing up channel members, whereas others have to work hard to line up enough qualified intermediaries. When selecting intermediaries, the company should evaluate each channel member's qualifications and select those that best fit its channel objectives.

Once selected, channel members must be continuously motivated to do their best. The company must sell not only *through* the intermediaries but also *with* them. It should forge strong partnerships with channel members to create a marketing system that meets the needs of both the manufacturer *and* the partners.

OBJECTIVE 12-5 Discuss the nature and importance of marketing logistics and integrated supply chain management.

Marketing logistics (or *physical distribution*) is an area of potentially high cost savings and improved customer satisfaction. Marketing logistics addresses not only *outbound logistics* but also *inbound logistics* and *reverse logistics*. That is, it involves the entire *supply chain management*—managing value-added flows between suppliers, the company, resellers, and final users. No logistics system can both maximize customer service and minimize distribution costs. Instead, the goal of logistics management is to provide a *targeted* level of service at the least cost. The major logistics functions are *warehousing, inventory management, transportation*, and *logistics information management*.

The *integrated supply chain management concept* recognizes that improved logistics requires teamwork in the form of close working relationships across functional areas inside the company and across various organizations in the supply chain. Companies can achieve logistics harmony among functions by creating cross-functional logistics teams, integrative supply manager positions, and senior-level logistics executive positions with cross–functional authority. Channel partnerships can take the form of cross–company teams, shared projects, and information-sharing systems. Today, some companies are outsourcing their logistics functions to third-party logistics (3PL) providers to save costs, increase efficiency, and gain faster and more effective access to global markets.

Key Terms

OBJECTIVE 12-1

Value delivery network
Marketing channel (distribution channel)
Channel level
Direct marketing channel
Indirect marketing channel

OBJECTIVE 12-2

Channel conflict
Conventional distribution channel
Vertical marketing system (VMS)
Corporate VMS
Contractual VMS
Franchise organization
Administered VMS
Horizontal marketing system
Multichannel distribution system
Disintermediation (or channel disruption)
Direct-to-consumer (DTC) brands

OBJECTIVE 12-3

Marketing channel design
Intensive distribution
Exclusive distribution
Selective distribution

OBJECTIVE 12-4

Marketing channel management

OBJECTIVE 12-5

Marketing logistics (physical distribution)
Supply chain management
Distribution center
Multimodal transportation
Integrated logistics management
Third-party logistics (3PL) provider

Discussion Questions

12-1 Why is the concept of the value delivery network becoming increasingly important? Explain. (AACSB: Written and Oral Communication; Reflective Thinking)

12-2 Why is it often necessary and advantageous to have intermediaries in a marketing or distribution channel? (AACSB: Communication; Reflective Thinking)

12-3 How do decisions about marketing channels relate to other marketing mix decisions—for example, decisions about pricing, products, or promotion? (AACSB: Written and Oral Communication; Reflective Thinking)

12-4 How would you distinguish between exclusive and selective distribution? (AACSB: Communication; Reflective Thinking)

12-5 How can distributors and retailers increase channel efficiency? (AACSB: Written and Oral Communication; Reflective Thinking)

12-6 What are third-party logistics (3PL) providers, and what value do they provide for companies? (AACSB: Written and Oral Communication; Reflective Thinking)

Critical Thinking Exercises

12-7 Amazon and Best Buy form a horizontal marketing system to sell Amazon smarthome devices, as discussed in the chapter. What might their relationship look like if they formed a conventional distribution channel instead? (AACSB: Written and Oral Communication; Reflective Thinking)

12-8 Ford has nearly 3,000 automobile dealerships in the United States and 10,000 dealer locations worldwide. How do Ford's channel members help it compete with other automobile manufacturers? (AACSB: Written and Oral Communication; Reflective Thinking)

12-9 It has been estimated that the top 100 third-party logistics companies worldwide control around a third of the estimated $270 billion outsourced logistics. Market growth is between 6 and 8 percent. Do some research to find out why this logistics model is so successful. (AACSB: Communication; Use of IT; Reflective Thinking)

APPLICATIONS AND CASES

Digital Marketing Members Only?

Instacart is an online grocery delivery and pickup service that partners with more than 500 retailers across the United States and Canada. Costco is a major membership-only big box retailer operating in these two countries. Costco partners with Instacart for last-leg delivery of many grocery products. While membership is required to shop in-store and online at Costco.com, membership is not required when ordering from Costco via Instacart. While the added convenience of big-box retail delivery is undeniable, this relationship creates a loophole in who has access to Costco products.

12-10 Why does Costco offer products for nonmembers through Instacart? (AACSB: Integration of Real-World Business Experiences; Application of Knowledge)

12-11 What changes will Costco have to make if it offers same-day delivery for its in-store products? (AACSB: Integration of Real-World Business Experiences; Application of Knowledge)

Marketing Ethics Ethical Sourcing

Lush, the fresh handmade cosmetics company, was launched in 1994 and included the same creative team who designed many amazing products for The Body Shop. In less than 20 years of its establishment, Lush has grown to a network of over 850 stores in more than 50 countries worldwide and over 6,000 employees. From the outset, the company was keen on ensuring that they sourced their product ingredients ethically. This has become their key proposition, and together with the anti-animal-testing stance and the ethos of making fresh cosmetics, the business stands apart from most of its competitors. It does mean that the prices of their products are marginally higher, but this is offset by the unique, minimalist packaging and general vibe of the brand. When Lush looks for suppliers, they consider the whole picture; they take into account the conditions under which the workers may operate and also consider how the production of the ingredients affects the environment. For Lush, it is important that the ingredients used for the cosmetics be vegetarian, not tested on animals, and have minimal impact as far as transportation is concerned. Today, the company indirectly supports 400 women in Ghana who supply fair-trade shea butter and has stopped using palm oil from Indonesia in order to protect the natural habitat of the orangutan. They also buy directly from small farmers in Tunisia, Costa Rica, the Dominican Republic, and Laos.

12-12 Write a brief report on a business of your choice that supports ethical sourcing. What criteria are being used to establish the ethical standards under which they operate? (AACSB: Written and Oral Communication; Reflective Thinking)

12-13 Should ethical sourcing be the default standard for all businesses? (AACSB: Written and Oral Communication; Reflective Thinking; Ethical Understanding and Reasoning)

Marketing by the Numbers Drinking from the Source

The post-Prohibition "three-tier system" requires the separation of the production, distribution, and retailing of alcohol in most states. That was not a major issue for craft brewers during the explosive growth years, such as 2011–2015, when craft beers doubled their beer-market share and had trouble keeping up with demand. However, when craft beer volume through the three-tier system declined steadily from 2016–2020, craft brewers turned to direct distribution for growth. Adding direct distribution, mainly through operation of taprooms and brewpubs, results in approximately 4 percent volume growth. Taprooms are locations where consumers can buy beer, and brewpubs are restaurants with their own breweries. Taprooms account for almost 8 percent of all U.S. bar traffic. Small craft brewers are excited about this—they make higher margins selling direct compared to using an indirect channel of distributors and bars. A brewer's average cost per keg of craft beer is $70, and a keg sells to distributors for $120. The distributor then resells the keg to a bar for $150. Each keg serves about 100 14.5-ounce glasses, the amount typically poured into a 16-ounce glass at a bar to accommodate a foam head. Therefore, a bar's cost per glass of craft beer poured is approximately $1.50 per glass. The standard in the bar industry is to have 19 percent liquor cost, meaning 19 percent of the price to consumers represents the bar's cost of goods sold, leaving 81 percent for the bar's margin.

12-14 Calculate the price at which a bar will sell one 14.5-ounce glass of craft beer if the desired 81 percent margin is based on selling price. What is the bar's dollar markup on a glass of craft beer? Refer to Setting Price Based on External Factors in Appendix 2: Marketing by the Numbers to learn how to do this analysis. (AACSB: Analytical Thinking)

12-15 Determine the brewer's cost per 14.5-ounce serving (one glass). What price would a brewer sell that glass of beer for to achieve an 81 percent margin based on its selling price at its own taproom or brewpub? What dollar and percentage margin would a brewer realize if the glass of beer was sold for the same price as it is sold in bars? Is the brewer better off using the direct channel compared to the "three-tiered system" indirect channel? (AACSB: Analytical Thinking; Reflective Thinking)

Company Case Weyerhaeuser: Riding Out the Supply Chain Storm

In the investment world, commodities are typically pretty boring. From livestock to grains to steel and other metals, commodities have their ups and downs. But long term, the world will always need them. Even if demand goes down, it tends to return as markets correct themselves.

Take the lumber industry, for example. When the housing market crashed in 2007, demand for lumber plummeted. For Weyerhaeuser Company, the largest producer of lumber in the United States and third largest in the world, the dramatic dive in demand for its primary products resulted in a 50 percent drop in revenues over a two-year period from 2007 and 2009. But the market slowly corrected, and over the following decade, things returned to business as usual for Weyerhaeuser.

That is, until a few years ago. That's when a perfect storm of factors began to emerge, causing major supply chain disruptions that sent market prices for lumber—Weyerhaeuser's primary product—skyrocketing by as much as five times. In a highly unusual manner, the factors that negatively affected the supply of lumber did not negatively affect demand. In fact, demand for lumber only increased. This left Weyerhaeuser with record surpluses of raw materials—trees waiting to be cut—in the 26.4 million acres of timberlands under its management. But capacity constraints at sawmills and disruptions to downstream links in the supply chain have created bottlenecks. What are these factors, and when will they stabilize, allowing the flow of raw lumber to return to a predictable state? While these supply chain factors have eased to some extent, the market remains volatile, affecting the ability to rely on accurate forecasts.

The Storm Begins

The United States exports a lot of lumber to other countries. China is by far the biggest foreign buyer of U.S. lumber. In fact, through 2018, China purchased roughly 45 percent of the logs and lumber produced in the United States—$9.6 billion worth in 2018. China-based companies use that lumber to produce everything from furniture to hardwood flooring. China then exports most of those finished wood products to the rest of the world. And the biggest buyer of those products? The United States. In 2018, the United States imported more than $9 billion worth of finished wood products from China—roughly the same value as the raw wood exports from the United States to China.

So why doesn't the United States simply make more of its own finished wood products rather than complicating matters by exporting raw materials only to re-import those materials in the form of finished goods? The answer is simple—wages. The costs of wages to produce goods are so much lower in China that they offset the costs of logistics to move products back and forth between the two countries. And since the demand for logs and lumber is derived from the demand for finished wood products, any decline in the latter negatively affects the former.

In 2018, the first of several factors disrupting the supply chain of Weyerhaeuser's products began to have a negative impact. Reversing decades of trade policy, the United States increased existing tariffs and imposed new ones on exports of various products to other countries, with the stated purpose of reducing the U.S. trade deficit and sparking an increase in domestic jobs and demand for goods made in the United States. The biggest target of these tariffs was China, as the United States slapped a 10 percent tariff on furniture and other finished wood products imported from China. In retaliation, China imposed 25 percent tariffs on U.S. logs and lumber. Essentially, finished wood products from China suffered a 35 percent tax practically overnight.

The new tariffs produced predictable results. U.S. log and lumber exports to China dropped by 50 percent from 2018 to 2019. Prior to the levying of these trade taxes, analysts projected record increases of U.S. lumber exports to China. According to one industry watchdog group, the growth of the Chinese lumber market was expected to be "unlike anything ever encountered in the industry." But for many companies, Weyerhaeuser included, lumber sales to China practically stopped overnight. As a result, Weyerhaeuser's revenues decreased by 12 percent.

The Storm Intensifies

As the United States and China made small steps toward resolving what can only be described as a trade war, the supply chain fire was suddenly stoked with a pile of dry kindling. As the COVID-19 pandemic took the world by surprise, corporations and organizations everywhere closed factories and facilities, slowing and even halting the production of many goods.

Weyerhaeuser initially kept facilities open, instituting numerous precautions such as sanitization, social distancing, and mask-wearing procedures to safeguard the health of employees. For the most part, the cutting and transport of lumber continued. Nonetheless, milling capacity at sawmills was dramatically reduced by pandemic closures and cuts to production based on speculation that the pandemic would lead to a decrease in demand. In a similar manner, the flow of milled lumber through supply chains was also disrupted as factories told employees to stay home and world governments mandated "stay-at-home" orders. These factors temporarily but dramatically reduced global production of finished wood and paper products.

But even as bottlenecks developed at every link in supply chains, something unexpected happened to the demand for wood. As people stayed home to work, they got online and bought stuff. As the pandemic scare gripped people, they hoarded paper products such as toilet paper and paper towels. What's more, the demand for new homes spiked as homeowners stayed put and the supply of existing homes for sale dropped. Additionally, many who remained at home with extra time on their hands dove into DIY projects that required lumber. In other words, as the lumber supply took a hit in the wake of tariffs and the spread of the COVID-19 pandemic, demand stacked up.

As if a trade war and a pandemic weren't enough, the assault on the global supply chain of lumber and wood products was further intensified by other unforeseen factors. The transportation industry, including trucking and rail, suffered constraints as COVID-19 infections and associated shutdowns reduced the availability of labor. In August 2020, Hurricane Laura made landfall as the strongest storm on record for the state of Louisiana. On top of that, the 2020 wildfire season in the United States burned 8.8 million acres, 2.3 million acres more than the 10-year average and nearly double the area burned during 2019. Both events launched rebuilding efforts that further increased the demand for lumber.

The Effects of the Lingering Storm

It doesn't take a math genius to figure out what happened to the supply and price of lumber. Over a period of just 13 months, the commodity price of lumber exploded by a factor of six. Thus, if the cost of lumber for a new home in April 2020 was $10,000, the same amount of lumber rose to $60,000 just over one year later. "Mills wanted to increase output, but they couldn't find workers," said a forest industry analyst. "This is basic economics: when the supply curve shifts backwards and demand increases, prices will go up."

Making matters worse, shortages left many individuals and companies scrambling to find the lumber they needed. Even as the prices of homes spiked due to the low supply of homes on the market combined with record-low mortgage rates, builders and homeowners pressed forward undeterred. "Not only has it surprised me, it's just surprised the whole industry," said one lumber industry executive of the building boom. "Housing and construction, repair and remodel, that's where so much money was pointed by American consumers that the sheer scale of demand was hard to fathom."

As the price of lumber soared, the social media meme machine climbed on board. "Not even one police escort," noted one Twitter photo of a truck stacked with lumber rolling down the highway. "Wow, neighbors just casually flaunting their wealth," quipped another, alongside an image of a pile of boards in front of a home. The hysteria also spawned conspiracy theories—that lumber companies, mills, and other powers that be of the forest were hiding lumber in mass quantities. And customers in general simply could not wrap their heads around the shortages faced at lumber retailers. "Customers pressing me about why I don't have lumber like I'm supposed to go out back and cut a tree down for them," joked one Home Depot employee on social media.

In time, markets absorb such disruptions and correct themselves. But because of the magnitude of the disruption and the large number of factors involved, the correction was slow in the global supply chain for lumber and wood-related products. Even though Weyerhaeuser and its competitors had plenty of raw material still growing in forests, the lumber processing and the production of wood and paper goods were slow to ramp up. Companies remained conservative about going full steam with the pandemic still raging. Complicating matters, producers had to dig their way out of a big demand hole, still constrained by limits of production. Companies at every stage of the supply chain could invest in increasing capacity. But such investments require long-term financial commitments at a time when there is little certainty as to how long it will take before supply and demand find an equilibrium. In such an environment, companies exhibit a "wait-and-see" attitude toward long-term commitments.

Although some relief in supply chain disruptions started to show promise over the past year, new factors began to emerge, maintaining the volatility of markets in general. For starters, worker absences and departures resulted in an increase in average wages. Not only did this add to the strain on supply through the increase in costs, but higher wages failed to add enough workers to make up for increased demand and limited supply. In the lumber industry, mechanization has raised the required skill and training levels for employees, making hiring new employees more difficult.

Making matters worse, floods, fires, and pine beetle infestations in British Columbia and economic sanctions against Russia have dramatically reduce the export of lumber from two major production centers, negatively affecting the global supply. With similar supply chain factors affecting the petroleum industry, the price of fuel has risen steadily, more than doubling over the past two years. This has not only contributed to higher transportation costs, it has also been a major factor in high levels of inflation, the likes of which have not been seen in decades. This has prompted the Federal Reserve Bank to increase interest rates.

As customers and organizations at many different levels of the supply chain pay the price financially, raw material producers like Weyerhaeuser are doing well. Unit sales may be down, but prices are up. As a result, Weyerhaeuser's revenues rose 15 percent for 2020 and a whopping 26 percent for 2021. After taking a net loss in 2019, Weyerhaeuser posted a profit of nearly $800 million for 2020, a number that more than tripled last year. "Each of our businesses delivered remarkable results in the face of unprecedented operating and market challenges," wrote Devin Stockfish, Weyerhaeuser CEO in a letter to shareholders. Even as construction markets appear to be cooling as inflation and interest rates rise, Weyerhaeuser remains bullish on its future. Says Stockfish, "Looking forward, we remain constructive on the demand fundamentals that will drive growth for our businesses and are well positioned to deliver superior long-term value and returns for our shareholders."[40]

Questions for Discussion

12-16 As completely as possible, sketch the value delivery network for Weyerhaeuser, from tree to installed flooring.

12-17 Is Weyerhaeuser a producer, a consumer, or an intermediary in the value network? Explain.

12-18 Is integrated logistics management particularly important in a value delivery network such as the one for finished lumber products? Explain.

12-19 *Small group exercise*: Looking forward beyond the recent disruptions, advise Weyerhaeuser's top management on specific changes it should make to its value creation and delivery network to lessen the impact of any similar future crises.

13 Retailing and Wholesaling

OBJECTIVES OUTLINE

OBJECTIVE 13-1 Explain the role of retailers in the distribution channel and describe the major types of retailers.

OBJECTIVE 13-2 Discuss how retailers are using omni-channel marketing to meet the cross-channel shopping behavior of today's digitally connected consumers.

OBJECTIVE 13-3 Describe the major marketing decisions that retailers make.

OBJECTIVE 13-4 Discuss the major trends and developments in retailing.

OBJECTIVE 13-5 Explain the major types of wholesalers and their marketing decisions.

CHAPTER PREVIEW

We now look more deeply into the two major intermediary marketing channel functions: retailing and wholesaling. You already know something about retailing—retailers of all shapes and sizes serve you every day, both in stores and online. However, you probably know much less about the numerous wholesalers working behind the scenes. In this chapter, we examine the characteristics of different kinds of retailers and wholesalers, the marketing decisions they make, and emerging retail trends.

When it comes to retailers, you have to start with Walmart. This megaretailer's phenomenal success has resulted from an unrelenting focus on bringing value to its customers. Day in and day out, Walmart lives up to its promise: "Save money. Live better." But with recent massive shifts toward digital and mobile buying, the giant store retailer now finds itself locked in the fight of its life with another, more recent retail titan: Amazon.

WALMART: A Battle between Titans in the New World of Retail

Walmart is almost unimaginably big. It's the world's largest retailer—the world's largest company. It rang up an incredible $572 billion in sales last year—more than three times the sales of competitors Target, Macy's, Kohl's, and TJ Maxx combined. If Walmart were a country, its sales would rank it 22nd in the world in GDP, just behind Argentina and ahead of Sweden. Walmart is the number-one seller in numerous consumer product categories, including groceries, apparel, toys, and pet care products. On average, it serves more than 230 million customers per week through more than 10,500 stores in 24 countries.

Walmart is passionately dedicated to its long-time, low-price value proposition and what those low prices mean to customers: "Save money. Live better." The iconic retailer grew rapidly by offering a broad selection of goods at "unbeatable low prices," day in and day out. No other retailer has come nearly so close to mastering everyday low prices and one-stop shopping. As a result, for the past several decades, Walmart has dominated retailing.

Yet, despite its incredible success, in recent years mighty Walmart has faced challenges. Having grown so big, the maturing giant has had difficulty maintaining the rapid growth rates of its youth. Its same-store sales growth stagnated throughout the 2010s, averaging just 2 percent per year. For Walmart, even moderate growth requires massive revenue increases. Think about this: To grow just 6 percent next year, Walmart would have to add more than $35 billion in new sales. That's a sales *increase* greater than the *total* sales of all but the top 88 companies on the *Fortune* 500, including the likes of Coca-Cola, McDonald's, Marriott, Starbucks, and Tesla.

But more than just its size, Walmart's malaise resulted from a massive shift in how consumers buy. Although Walmart still dominates store retailing and outperforms most of its store-based rivals, consumers have increasingly shifted toward digital and mobile buying. Thus, Walmart is now locked in the fight of its life with another retail titan: online seller Amazon.

Whereas overall U.S. retail sales are inching up only a few percent per year, online sales are surging. Amazon captures an amazing 41 percent of all U.S. online sales. Although Walmart is now the number-two U.S. online retailer, it remains a distant second to Amazon with 7 percent of online sales. And whereas Walmart's overall revenues are growing each year by single-digit increases, Amazon's sales increased by 122 percent last year to $470 billion—more than doubling in just three years. Unthinkable as it might have seemed only a few years ago, Amazon is on track to overtake Walmart in total revenues in the next year or two.

Walmart's recent twists and turns—and the colossal battle raging between giants Walmart and Amazon—provide a vivid example of what's happening in today's retailing world—or even in today's broader world. Digital technologies have reshaped the very foundations of how the world works. And the recent COVID-19 pandemic only intensified the shift to digital shopping, as more and more shut-in consumers learned more about and grew fonder of shopping online. More than ever, Walmart is feverishly at work reinventing its strategies to meet the needs of today's mobile-first, omni-channel consumers—buyers who shop readily across physical and digital platforms from home, from work, in stores, or anywhere in between.

In the battle of the titans, each has advantages. No company does store retailing better than Walmart. In turn, no company does online retailing better than Amazon. Now, however, each is invading the other's domain, hoping to give customers the seamless omni-channel blend of in-store and digital options they seek. In short, Walmart wants to become Amazon before Amazon can become Walmart.

For its part, Amazon is adding physical stores to its powerful online empire. For example, it acquired upscale grocery chain Whole Foods Market, which not only accelerated its push into grocery retailing but also provided a physical store platform for selling and delivering other kinds of goods. Amazon is also opening futuristic Amazon Go convenience and grocery stores, which use cameras and sensors to detect what customers take from shelves and let customers "just walk out," automatically charging purchases to their accounts. Beyond its own stores, Amazon has formed partnerships with Kohl's and UPS Stores, by which they process Amazon returns at their many locations. All these physical stores employ large doses of digital, online, and mobile technology that help Amazon connect the physical and digital worlds.

Walmart still has a huge physical store advantage. In fact, 90 percent of the U.S. population lives within 10 miles of a Walmart store. And it continues to bolster that advantage by spiffing up its stores and expanding its private label lines of goods that you simply can't buy at Amazon.com. But during the past few years,

Walmart has invested heavily to build its omni-channel capabilities to better serve today's mobile-first, omni-channel consumers.

BigTunaOnline/Shutterstock

Walmart has also invested heavily to build its own omni-channel capabilities. It wants to better serve today's "busy families"—busy, money-challenged households with two working parents who are tethered to their phones at home and at work and are looking for even more convenience and savings.

First, Walmart has expanded its online and mobile options. Every year, Walmart spends billions of dollars to further develop its websites, mobile apps, and supply chain and automation technologies to improve the online shopping experience. In just five years, the number of items it offers online exploded from 20 million to 160 million. After aligning with Google and Apple for voice shopping via Google Home and Siri, Walmart is now testing its own app features that let users add items to their shopping list and text it to the cart in their Walmart app, regardless of the device or voice assistant they use (take that, Alexa!). Further, to bolster its online presence and learn more about doing things digital, Walmart has acquired a slew of trendy niche online sites. Its online portfolio of e-tailers includes home furnishings merchant Hayneedle, outdoor gear site Moosejaw, men's apparel retailer Bonobos, women's apparel retailer Eloquii, and Art.com, the largest online retailer of art and wall decor.

Second, to make buying online from Walmart easier and to leverage its store locations, the company is linking online and mobile services to its massive network of stores. For example, customers can initiate returns on the Walmart app with options to "bring it in" or "ship it back." The retailer is expanding its corps of "personal shoppers" who select and package online grocery orders for same-day, curbside pickup. Walmart also launched its own version of Amazon Prime, called Walmart+. For a set price of $98 a year, subscribers get free two-day or next-day shipping, free delivery of groceries from their local store, and Mobile Scan & Go—a Walmart app feature that lets shoppers check out in stores with one quick scan.

Still, although Walmart's online business is growing rapidly, it lags far behind Amazon. But at the same time, Amazon can't come close to matching

Walmart has long dominated retailing. It's the world's largest retailer—the world's largest company. But with recent massive shifts toward digital and mobile buying, Walmart is now redefining how it delivers on its "Save money. Live better." promise.

Walmart's mammoth network of stores. And Walmart isn't just out to beat Amazon. It aims to reshape the very future of retail commerce. To that end, it created Store No8, a technology development arm on a mission to "incubate, design, and build new . . . shopping experiences that will enhance how customers interact with Walmart." Walmart recently opened its first drone delivery hub in northwest Arkansas. And it has established a driverless delivery route in Bentonville with its own fleet of autonomous trucks, an operation that makes repeated runs multiple times per day, seven days a week. More and more, everything Walmart does is becoming part of a unified online-offline, omni-channel system.

In the long run, it won't matter much who has more stores or more online. The future of retailing belongs to the merchant that best merges the physical and digital worlds into a seamless omni-channel experience that fits the ways that today's consumers shop. In reimagining how it delivers on its longstanding "Save money. Live better." promise, Walmart is acting more like a startup than an aging giant. "We are building a business," says Walmart's CEO. "We are learning something new."[1]

THE WALMART STORY sets the stage for examining the fast-changing world of today's resellers. This chapter looks at *retailing* and *wholesaling*. In the first section, we look at the nature and importance of retailing, the major types of retailers, the decisions retailers make, and the future of retailing. In the second section, we discuss these same topics as they apply to wholesalers.

Author Comment | You already know a lot about retailers. You deal with them every day—store retailers, service retailers, online and mobile retailers, and others.

Retailing

OBJECTIVE 13-1 Explain the role of retailers in the distribution channel and describe the major types of retailers.

Retailing
All the activities involved in selling goods or services directly to final consumers for their personal, nonbusiness use.

Retailer
A business whose sales come *primarily* from retailing.

What is retailing? We all know that Costco, The Home Depot, Best Buy, and Trader Joe's are retailers, but so are Amazon.com, the local Econo Lodge, Ticketmaster, the local movie theater, and a doctor seeing patients. **Retailing** includes all the activities involved in selling products or services directly to final consumers for their personal, nonbusiness use. Many institutions—manufacturers, wholesalers, and retailers—do retailing. But most retailing is done by **retailers**, businesses whose sales come *primarily* from retailing. Retailing plays a very important role in most marketing channels. Retailers now account for more than $5.5 trillion of annual sales to final consumers.[2]

Retailing: Connecting Brands with Consumers

Shopper marketing
Focusing the marketing process on turning shoppers into buyers as they move along toward the point of sale, whether during in-store, online, or mobile shopping.

Retailers connect brands with consumers throughout the buying process and at the point of purchase. In fact, many marketers are now embracing the concept of **shopper marketing**, focusing the marketing process—from product and brand development to logistics, promotion, and merchandising—toward turning shoppers into buyers as they move along toward the point of sale. Of course, every well-designed marketing effort focuses on customer buying behavior. What differentiates the concept of shopper marketing is the suggestion that these efforts should be coordinated around the customer's buying journey itself.

Shopper marketing builds around what P&G has long called the "First Moment of Truth"—the critical three to seven seconds that a shopper considers a product on a store shelf. However, with the dramatic growth of online and mobile shopping, the retailing "moment of truth" no longer takes place only in stores. Instead, Google defines a "zero moment of truth" and "micro-moments," brief seconds of decision making when consumers turn to their online or mobile devices to search for, learn about, or buy something. According to Google, 73 percent of consumers make a purchase decision based which brand is most useful during micro-moments of retail research. Thus, these days, shopper marketing and the "point of purchase" go well beyond in-store buying.[3]

The Shifting Retailing Model

Online and mobile technologies have caused a massive shift in how and where people buy. Today's consumers are increasingly *omni-channel buyers,* who make little distinction between in-store and online shopping and who shop across multiple retail channels. More than ever, consumers are "mobile-first" shoppers who begin—and sometimes end—their buying processes on mobile devices. Purchases often consist of researching a product online and buying it from an online retailer without ever setting foot in a retail store. Or they might involve using a smartphone to research a purchase on the fly or while in retail store aisles. Although a majority of all purchases are still made in stores, one recent study found that mobile devices influence more than half of all retail sales. More than 25 percent of actual online purchases are made on mobile devices. By 2025, digital commerce is expected to account for more than $7.4 trillion in global annual sales.[4]

The shift toward digital and omni-channel buying was greatly accelerated by the COVID-19 pandemic. According to consulting firm Kantar, the pandemic led to “the most rapid and forced transformation in history” in U.S. retailing, as the crisis forced homebound, socially distanced, and financially stressed shoppers to interact with retailers in new ways. Online sales were forecast to account for 15 percent of all U.S. sales in 2020. But by April of that year, 25 percent of all sales were moving via online channels. Nine of the top 10 global e-commerce companies saw double-digit revenue growth in 2020. And global e-commerce app downloads surged by 48 percent in early 2021 as COVID-19 raged. More and more consumers adopted and learned to love online buying and home delivery across a wide range of categories. Much of this shift toward online buying has continued even as the pandemic has ebbed. “Shopping may never be the same again,” says one retail analyst.[5]

Omni-channel marketing
Creating a seamless cross-channel buying experience that integrates in-store, online, and mobile shopping.

These dramatic shifts have shaken up the retailing industry. Amazon and other online merchants have boomed. Many traditional retailers such as Walmart, Target, Best Buy, and others have rapidly built their own online retailing capabilities. But other traditional store retailers who have not adjusted to the new reality have struggled. In what some analysts have called a “retail apocalypse,” retail bankruptcies and store closings have soared to record levels. Things got even tougher during the pandemic for retailers without a strong online presence. Even as overall retail spending has grown in recent years, retail icons ranging from Sears, JCPenney, and Toys “R” Us to Neiman Marcus, Lord & Taylor, and Stein Mart have been forced into bankruptcy. Other large retailers, including Macy’s, Kohl’s, and The Limited, have shuttered stores as their sales have stagnated and profits have shrunk.

The new retailing model: Digital technologies have caused a massive shift in how and where people buy. Today’s retailers must adopt omni-channel marketing that integrates in-store, online, and mobile shopping.

AS photostudio/Shutterstock

Given these seismic shifts in consumer buying, some experts are predicting an end to retailing as we know it today and perhaps even the eventual death of physical stores altogether. That won’t happen. The Amazons of the world aren’t likely to swallow up the brick-and-mortar retailing world. But it’s no longer a matter of online sellers *versus* physical stores. Instead, successful retailers of the future must adopt **omni-channel marketing**, creating a seamless cross-channel buying experience that integrates in-store, digital, and mobile shopping. Thus, to meet the needs of connected customers who work across multiple channels as they shop, traditional store retailers are rapidly integrating online and mobile shopping into their operations. And many once-online-only retailers—such as Amazon, Warby Parker, and Glossier—are setting up physical stores.

We discuss online and omni-channel marketing in detail later in this chapter and in Chapter 14. But first, because a majority of retailing still happens in stores, we examine the various types of store retailers, along with several forms of traditional non-store direct retailing.

Store Retailing

Store retailers come in all types and sizes—from your local hairstyling salon or family-owned restaurant to national specialty chain retailers such as REI or Williams-Sonoma and megadiscounters such as Costco or Walmart. The most important types of retail stores are described in **Table 13.1** and discussed in the following sections. They can be distinguished along multiple dimensions, including the *amount of service* they offer, the breadth and depth of their *product lines*, the *relative prices* they charge, and how they are *organized*.

Amount of Service

Different types of customers and products require different amounts of service. To meet these varying service needs, retailers may offer one of three service levels: self-service, limited service, and full service. *Self-service retailers* serve customers who are willing to perform their own *locate-compare-select* process within the store to save time or money. Self-service is typically used

Table 13.1 | Major Store Retailer Types

Type	Description	Examples
Specialty store	A store that carries a narrow product line with a deep assortment, such as apparel stores, sporting-goods stores, furniture stores, florists, and bookstores.	REI, Sephora, LensCrafters, Old Navy
Department store	A store that carries several product lines—typically clothing, home furnishings, and household goods—with each line operated as a separate department managed by specialist buyers or merchandisers.	Macy's, Nordstrom
Supermarket	A relatively large, low-cost, low-margin, high-volume, self-service operation designed to serve the consumer's total needs for grocery and household products.	Kroger, Publix, Safeway, SuperValu, H-E-B
Convenience store	A relatively small store located near residential areas, open 24/7, and carrying a limited line of high-turnover convenience products at slightly higher prices.	7-Eleven, Circle K, Kwik Trip, Speedway, Sheetz
Superstore	A very large store that meets consumers' total needs for routinely purchased food and nonfood items. This includes *supercenters*, combined supermarket and discount stores, and more-focused *category killers*, which carry a deep assortment in a particular category.	Walmart Supercenter, SuperTarget, Meijer (discount stores); Best Buy, Petco, Staples, Bed Bath & Beyond (category killers)
Discount store	A store that carries standard merchandise sold at lower prices with lower margins and higher volumes.	Walmart, Target, Kohl's
Off-price retailer	A store that sells merchandise bought at less-than-regular wholesale prices and sold at less than retail. These include *factory outlets* owned and operated by manufacturers; *independent off-price retailers* owned and run by entrepreneurs or by divisions of larger retail corporations; and *warehouse* (*or wholesale*) *clubs* selling a limited selection of goods at deep discounts to consumers who pay membership fees.	TJ Maxx, Marshalls (independent off-price retailers); Costco, Sam's Club, BJ's (warehouse clubs); Mikasa, Saks OFF 5th (factory outlet)

by discount operations and by retailers selling convenience goods (such as supermarkets) and nationally branded, fast-moving shopping goods (such as Target or Kohl's). *Limited-service retailers* such as Macy's or JCPenney provide more sales assistance because they carry more products about which customers need information. *Full-service retailers* such as high-end specialty stores (for example, Tiffany or Williams-Sonoma) and high-quality department stores (such as Nordstrom) assist customers in every phase of the shopping process. This enhanced customer service increases operating costs, which are passed along to customers as higher prices.

Today, customers across the board are increasingly well informed because of their access to online and social media–based information. They can also obtain detailed and accurate online product-related information when in stores. Therefore, even in full-service stores, direct customer–salesperson interaction is now less important than it used to be.

Product Line

Retailers can also be classified by the length and breadth of their product assortments. Some retailers, such as **specialty stores**, carry narrow product lines with deep variety within those lines. Specialty stores offer a complete shopping experience within the targeted need area. Williams-Sonoma carries all kinds of kitchenware; REI offers a wide selection of outdoor clothing and gear. Today, specialty stores are flourishing. The increasing use of market segmentation, market targeting, and product specialization has resulted in a greater need for stores that focus on specific products and segments.

Specialty store
A retail store that carries a narrow product line with a deep variety within that line.

In contrast, **department stores** carry a wide variety of product lines. For example, a walk through a Macy's store takes the customer past separate departments focused on men's, women's, and children's clothing; footwear; jewelry and accessories; personal care and makeup products; household goods and appliances; and more. In recent years, mainstream department stores have been squeezed between more focused and flexible specialty stores on the one hand and more efficient, lower-priced discounters on the other. In response, many have added promotional pricing to meet the discount threat. Others have

Department store
A retail store that carries a wide variety of product lines, each operated as a separate department managed by specialist buyers or merchandisers.

stepped up the use of store brands and single-brand *shop-in-shop* concepts to compete with specialty stores. High-end department stores such as Nordstrom and Saks are also emphasizing exclusive merchandise and high-quality service.

The shift toward online and mobile buying has also hit department stores hard, causing many major chains—from Macy's and Kohl's to JCPenney and Dillard's—to close stores and adapt their strategies. Most major chains have added online and mobile selling but still have a long way to go to catch up with the Amazons and Walmarts of the retailing world. "The world is moving faster than department stores are adapting," says a store retailing executive.[6]

Supermarket
A large, low-cost, low-margin, high-volume, self-service store that carries a wide variety of grocery and household products.

Supermarkets are the most frequently visited type of retail store. Today, however, they are facing slow sales growth because of slower population growth and an increase in competition from discounters (Walmart, Costco, and Dollar General) on the one hand and specialty food stores (Whole Foods Market, Trader Joe's, ALDI, Sprouts, Lidl) on the other. Like department stores, supermarkets are also facing challenges from Amazon and other online shopping options, such as food and recipe delivery services like Blue Apron and HelloFresh. As grocery store chains have boosted their own digital and mobile sales efforts, online grocery buying captured 13 percent of total grocery sales last year and will grab an estimated 20.5 percent by 2026.[7]

In the battle for "share of stomachs," some supermarkets—such as ALDI, Lidl, and WinCo—are competing head-on with large discounters such as Costco and Walmart by cutting costs, carrying a smaller product assortment with many store brands, establishing more-efficient operations, and lowering prices. Other supermarkets—such as Wegmans, Fresh Market, and Whole Foods—have moved upscale, providing improved store environments, higher-quality food assortments, and superior service. Across the board, retailers are adding online buying options with home delivery, in-store pickup, or curbside pickup. They are beefing up their websites and mobile apps with shopping list creators, recipes and meal ideas, and other features.

For example, like most other supermarket chains, Southeastern supermarket giant Publix offers full online shopping services with on-demand home delivery and in-store and curbside pickup. But to stay ahead of the digital and delivery trends sweeping the food retailing industry, Publix has partnered with online grocery platform Instacart to launch Publix Quick Picks on Instacart, an online convenience store available across its entire seven-state footprint. The Quick Picks virtual storefront offers a compact and carefully chosen selection of products, including fresh groceries, bottled and canned drinks, pantry and household essentials, prepared meals, snacks, and more. Quick Pick's biggest draw? The orders are delivered within as little as 30 minutes or as fast as 15 minutes in major markets like Miami. Beyond residential consumers, Publix's Quick Picks also serves customers in business and institutional markets, such as hotels, assisted-living facilities, universities, and office campuses. As a senior Instacart manager notes: "Customer demand for convenience and rapid delivery continues to grow, and both speed and selection have become fundamental to grocery ecommerce."[8]

Today's convenience stores are moving upscale. Denver-based Choice Market offers "modern convenience," where "grocery meets fast casual dining meets upscale convenience store."

Courtesy of Choice Market

Convenience store
A small store, located near a residential area, that is open long hours seven days a week and carries a limited line of high-turnover convenience goods.

Convenience stores are small stores that carry a limited line of high-turnover convenience goods. After several years of stagnant sales, these stores are now growing. Most major convenience store chains—such as 7-Eleven, Speedway, Sheetz, and Casey's General Stores—long ago shed the image of a "truck stop" where people go to buy gas, beer, cigarettes, or shriveled hot dogs on a roller grill and are instead offering freshly prepared foods and cleaner, safer, more-upscale environments. They have expanded their offerings to attract "fill-in" shoppers—people looking to pick up a few items between major grocery store trips. For example, Denver-based retailer Choice Market offers "modern convenience," where "grocery meets fast casual dining meets upscale convenience store":[9]

At each Choice Market, consumers can find a range of breakfast, lunch, and dinner foods; a space for restaurant-style dining; fresh groceries that include many organic choices; kombucha and nitro beverages on tap; fuel pumps; and even electric car supercharging stations that charge a modest fee per kilowatt-hour. The store's prepared foods are locally sourced and free of pesticides, antibiotics, and hormones. The store offers catering services that include vegan and Beyond Meat choices. Choice Market also embraces technology-driven services. It offers online ordering, curbside pickup, home delivery in environmentally friendly electric vehicles, and an app-based loyalty points program. Some locations even offer "frictionless technology," letting customers enter payment information into an app before entering the store and "just walk out" when done shopping. Hundreds of ceiling cameras and shelf sensors determine what customers selected to buy, and minutes later, an e-receipt appears on their phone. Choice Market taps into the needs and preferences of millennials, who prefer to eat healthy foods but also to reduce time spent on cooking at home, seek quick online ordering and pickup or delivery, and want to group activities such as grocery shopping, picking up a quick dinner, and fueling their car at one go.

Superstore
A store much larger than a regular supermarket that offers a large assortment of routinely purchased food products, nonfood items, and services.

Superstores are much larger than regular supermarkets and offer a large assortment of routinely purchased food products, nonfood items, and services. Walmart, Target, Meijer, and other discount retailers offer *supercenters*, very large combination food and discount stores. The average Walmart supercenter is about five times the size of a traditional supermarket.[10]

Some superstores are actually giant specialty stores, the so-called *category killers* (for example, Best Buy, Home Depot, PetSmart, and Bed Bath & Beyond). They feature stores the size of airplane hangars that carry a very deep assortment of products related to a specific customer need area. Category killers are found in a wide range of categories, including electronics, home-improvement products, books, home goods, sporting goods, and even pet supplies.

Category killers grew rapidly during the 1980s and 1990s, and many are still doing well. However, others have faced hard times at the hands of mass-market retailers such as Walmart, Target, and Amazon, especially with the emergence of the supercenters. Many supercenters are large enough to devote substantial space to a wide selection of goods in category killer specialty areas. For example, Walmart toy sections stretch a dozen or more aisles, offering products ranging from building blocks and bicycles to learning toys and dolls. So why make a special visit to a Toys "R" Us when you can shop for toys at Walmart while also taking care of the weekly grocery shopping? Or better, why not buy toys conveniently online from Amazon's vast selection for next-day home delivery? Not surprisingly, once-thriving category killers such as Borders, Toys "R" Us, Circuit City, Sports Authority, Blockbuster, and others have shuttered their stores in recent years.

Service retailer
A retailer whose product line is actually a service; examples include hotels, airlines, banks, colleges, and many others.

Finally, for many retailers, the product line is actually a service. **Service retailers** include hotels and motels, banks, airlines, restaurants, colleges, hospitals, movie theaters, tennis clubs, bowling alleys, repair services, hair salons, and dry cleaners. Service retailers in the United States are growing faster than product retailers. An interesting new development in service retailing involves individual consumers teaming up as part-time service retailers. For example, technology platforms such as Airbnb and Uber create two-sided markets, connecting consumers who own assets—homes and vehicles, respectively—on one side with consumers who seek to use those assets on the other side. And product firms are becoming increasingly interested in delivering services alongside their products to create complete customer solutions. Therefore, retailers must think beyond physical products lines and pay careful attention to the design and delivery of services.

Relative Prices

Retailers can also be classified according to the prices they charge (see Table 13.1). Most retailers charge regular prices and offer normal-quality goods and customer service. Others offer higher-quality goods and service at higher prices. Retailers that feature low prices are discount stores and "off-price" retailers.

Discount store
A retail operation that sells standard and own-branded merchandise at lower prices by accepting lower margins and selling at higher volume.

Discount Stores. A **discount store** (for example, Target, Kohl's, or Walmart) sells standard merchandise at lower prices by accepting lower margins and selling higher volume. The early discount stores cut expenses by offering few services and operating in warehouse-like facilities in low-rent, heavily traveled districts. Today's discounters have improved their store environments and services while still keeping prices low through lean, efficient operations. To keep costs low, discounters increasingly offer products under their own brand.

Discounter Dollar General, the nation's largest small-box discount retailer, makes a powerful value promise for the times: "Save Time. Save Money. Every Day. Dollar General."

Gary Armstrong

Leading "big-box" discounters, such as Walmart and Target, now dominate the retail scene. However, even "small-box" discounters are thriving in the current economic environment. For example, dollar stores are now one of today's fastest-growing retail formats. Back in the day, dollar stores sold mostly odd-lot assortments of novelties, factory overruns, closeouts, and outdated merchandise—most priced at $1. Not anymore. Dollar General, the nation's largest small-box discount retailer, makes a powerful value promise for the times: "Save Time. Save Money. Every Day. Dollar General." It keeps shopping simple by offering only a selected assortment of popular brands at everyday low prices in small and convenient locations. Dollar General's slimmed-down product line and smaller stores add up to a quick trip—the average customer is in and out of the store in less than 10 minutes. And although its stores are less than luxurious, the chain's prices on the popular brand-name products it carries are an estimated 20 to 40 percent lower than grocery store prices and on par with Walmart. Dollar General now operates more than 18,000 stores within five miles of 75 percent of the U.S. population.[11]

The biggest challenge that discount stores—whether Walmart or Dollar General—now face is inflation, which has galloped in the shadow of the COVID-19 pandemic, raising the costs of the products they sell and forcing price increases. For example, after 35 years of sticking to its "One buck at a time" philosophy, discounter Dollar Tree recently relented and increased prices to $1.25 for most of its merchandise, with some products in the Dollar Tree Plus sections of the stores priced as high as $3 and $5. Still, there is little doubt that even with such price increases, strategic shoppers can still make their budgets stretch at discount stores.[12]

Off-price retailer
A retailer that buys at less-than-regular wholesale prices and sells at low retail prices.

Off-Price Retailers. As the major discount stores traded up, a new wave of **off-price retailers** moved in to fill the ultralow-price, high-volume gap. Ordinary discounters buy at regular wholesale prices and accept lower margins to keep prices down. By contrast, off-price retailers buy at less-than-regular wholesale prices and charge consumers less than retail. Off-price retailers can be found in all areas, from food, clothing, and electronics to no-frills banking and discount brokerages.

The three main types of off-price retailers are independents, factory outlets, and warehouse clubs. *Independent off-price retailers* may be independently owned and run. An example is online furniture, home decor, bedding and bath, kitchen, and home-improvement goods retailer Overstock.com, which began by buying excess inventory and closeout merchandise from manufacturers, distributors, and other retailers and reselling them online at steep discounts. Others are or are divisions of larger retail chains. Examples include store retailers such as TJ Maxx, Marshalls, and HomeGoods, all owned by TJX Companies. TJ Maxx promises brand-name and designer fashions for 20 to 60 percent off department store prices.

Factory outlets are manufacturer-owned off-price retail stores—operated by firms such as Gap, Levi Strauss, and others—that have traditionally sold a wide range of mostly surplus, discontinued, irregular, or refurbished goods at deeply discounted prices. They often group together in *factory outlet malls* and *value-retail centers.* Whereas outlet malls consist primarily of manufacturers' outlets, value-retail centers combine manufacturers' outlets with off-price retail stores and department store clearance outlets.

Outlet malls in general are now moving upscale—and even dropping *factory* from their descriptions. Many now feature luxury brands such as Coach, Polo Ralph Lauren, Dolce & Gabbana, Giorgio Armani, Burberry, and Versace. As consumers become more value-minded, even upper-end retailers are accelerating their factory outlet strategies, emphasizing outlets such as Nordstrom Rack, Neiman Marcus Last Call, Bloomingdale's

Outlets, and Saks OFF 5TH. Many companies now regard outlets not simply as a way of disposing of problem merchandise but as a platform for fresh merchandise. The combination of quality brands and low prices provides powerful shopper appeal, especially in thriftier times. Outlet malls allow high-profile brands to serve more price-sensitive market segments without diluting their brand cachet.

Warehouse clubs (also known as *wholesale clubs* or *membership warehouses*), such as Costco, Sam's Club, and BJ's, operate in huge, warehouse-like facilities and offer few frills. In exchange for the bare-bones environment, they offer ultralow prices and surprise deals on selected branded merchandise. Warehouse club retailers appeal not only to low-income consumers seeking bargains on bare-bones products but also to all kinds of customers shopping for a wide range of goods, from necessities to extravagances.

Consider Costco, now the world's fifth-largest retailer behind only Walmart, Amazon, Aldi, and Germany's Schwarz Group. Low price is an important part of Costco's equation, but what really sets Costco apart is the products it carries and the sense of urgency that it builds into the Costco shopper's store experience:[13]

Warehouse clubs: Costco is a retail treasure hunt, where both low-end and high-end products meet deep-discount prices.

Oleksiy Maksymenko Photography/Alamy Stock Photo

> Costco is a retail treasure hunt, where both low-end and high-end products meet deep-discount prices. Alongside the gallon jars of peanut butter, four-packs of toothpaste, and 2,250-count packs of Q-Tips, Costco offers an ever-changing assortment of high-quality products—even luxuries—all at tantalizingly low margins. Costco famously sells hot dog and soda combinations for only $1.50, as they have been for more than three decades. At the same time, it sells diamonds at up to $100,000 per item. It is the nation's biggest baster of rotisserie chickens, sold at $4.99 each, but it's also the country's biggest seller of fine wines. Just for fun, Costco.com once offered a Pablo Picasso drawing at only $129,999.99!
>
> Each Costco store is a theater of retail that creates buying urgency and excitement. Mixed in with its regular stock of staples, Costco features a glittering, constantly shifting array of one-time specials that you just won't find anywhere else. In fact, 25 percent of the items that Costco carries are designated as "treasure items" (Costco's words). The deals come and go quickly, and the changing assortment and great prices keep people coming back. Costco also creates a sense of adventure and exploration through its many sampling stations that offer small servings of hot and cold food items stocked in the store. An enterprising family can put together a mini-brunch on a Sunday morning across these sampling stations. There was a time when only people on a tight budget shopped at off-price retailers. But Costco has changed all that. Now, it seems, almost everyone shops at Costco.

Organizational Form

Although many retail stores are independently owned, others band together under some form of corporate or contractual organization. The four major types of retail organizations are *corporate chains, voluntary chains, retailer cooperatives*, and *franchise organizations*.

Corporate chains
Two or more outlets that are commonly owned and controlled.

Corporate chains are two or more outlets that are commonly owned and controlled. They have many advantages over independents. Their size allows them to buy in large quantities at lower prices and gain promotional economies. They can hire specialists to deal with areas such as pricing, promotion, merchandising, inventory control, and sales forecasting.

The great success of corporate chains caused many independents to band together in one of two forms of contractual associations. One is the *voluntary chain*—a wholesaler-sponsored group of independent retailers that engages in group buying and common merchandising. Examples include the Independent Grocers Alliance (IGA), Western Auto, and True Value hardware stores. The other type of contractual association is the *retailer cooperative*—a group of independent retailers that bands together to set up a jointly owned, central wholesale operation and conduct joint merchandising and promotion efforts. Examples are Associated Grocers and Ace Hardware. These organizations give independents the buying and promotion economies they need to meet the prices of corporate chains, facilitate the sharing of best practices across the group, increase negotiating clout, and help represent their interests more powerfully to regulatory and other authorities.

Franchising: Franchising covers a lot more than just burger joints and fitness centers. Century 21 consists of over 127,000 independent agents working in more than 9,400 franchise offices in 80 countries.

Gado Reportage/Alamy Stock Photo

Another form of contractual retail organization is a **franchise**. The main difference between franchise organizations and other contractual systems (voluntary chains and retail cooperatives) is that franchise systems are normally based on some unique product or service; a method of doing business; or the trade name, goodwill, or patent that the franchisor has developed. Franchising has been prominent in fast-food restaurants, motels, health and fitness centers, auto sales and service dealerships, and real estate agencies.

However, franchising covers a lot more than just burger joints and fitness centers. Franchises have sprung up to meet just about any need. For example, Mad Science Group franchisees put on science programs for schools, scout troops, and birthday parties. Soccer Shots offers programs that give kids ages two to eight an introduction to basic soccer skills at daycare centers, schools, and parks. Glass Doctor repairs and replaces cracked windows or shower doors for homeowners, while Mosquito Joe rids their yards of mosquitos and Garage Living stands ready to upgrade your garage from floor to ceiling. And, Century 21 franchises provide residential real estate sales services. It consists of more than 127,000 independent agents working in more than 9,400 franchise offices in 80 countries.

Franchise
A contractual association between a manufacturer, wholesaler, or service organization (a franchisor) and independent businesspeople (franchisees) who buy the right to own and operate one or more units in the franchise system.

Franchising can allow more rapid and fuller growth opportunities for brands with unique value propositions. For example, franchisor Restore Hyper Wellness offers a science-based “whole health” experience, positioning itself as “a lifestyle that improves the lives of our customers”:

> In an increasingly stressful world, franchisor Restore offers recovery and wellness services for customers ranging from athletes and weekend warriors to stressed executives and health-conscious millennials. It’s on a mission “to make Hyper Wellness widely accessible and affordable so that we can restore lives and enable our customers to do more of what they love to do.” Restore’s cryotherapy services, along with science- and medicine-based services related to balanced hydration, hyperbaric oxygen therapy, muscle compression and stretching, and infrared sauna therapy, help customers with everything from stress reduction, injury recovery, and weight management to skin conditioning. Through franchising, in only seven years, Restore has grown rapidly to more than 82 locations in 28 states. It recently ranked in first place on *Inc.* magazine’s list of Hottest Franchise Businesses in America and second place on *Entrepreneur* magazine’s list of Top New Franchises.[14]

There are now more than 750,000 franchises in the United States. These days, it’s nearly impossible to stroll down a city block or drive on a city street without seeing a McDonald’s, Subway, Jiffy Lube, or Hampton Inn. One of the best-known and most successful franchisers, McDonald’s, now has more than 38,000 stores in more than 100 countries. It serves 69 million customers a day and racks up more than $113 billion in annual systemwide sales. More than 93 percent of McDonald’s restaurants worldwide are owned and operated by franchisees.[15]

Non-Store Direct Retailing

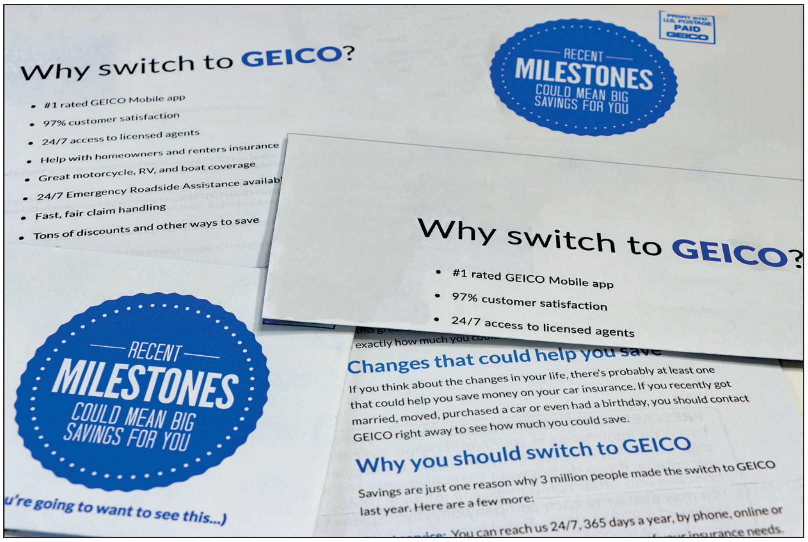
In addition to store retailing, many companies practice traditional non-store direct retailing. The major traditional forms of direct retailing are direct-mail marketing, catalog marketing, telemarketing, and direct-response television (DRTV) marketing.

Direct-Mail Marketing

Direct-mail marketing
Marketing that occurs by sending an offer, announcement, reminder, or other item directly to a person at a particular address.

Direct-mail marketing involves sending an offer, announcement, reminder, or other item to a person at a particular address. Using highly selective mailing lists, direct marketers send out millions of mail pieces each year—letters, catalogs, ads, brochures, samples, videos, and other “salespeople with wings.” Direct mail is well suited to direct, one-to-one communication. It permits high target market selectivity, can be personalized, is flexible, and allows the easy measurement of results.

Some analysts have predicted the eventual demise of traditional forms of direct mail in the coming years as marketers switch to newer digital forms, such as email and online, social media, and mobile marketing. The newer digital direct marketing approaches deliver messages at incredible speeds and lower costs compared to the U.S. Post Office's "snail mail" pace. However, although the volume of traditional direct mail has decreased during the past decade, it is still heavily used by many marketers. Mail marketing offers some advantages over digital forms. It provides something tangible for people to hold and keep, and it can be used to send samples. In fact, spending on conventional advertising and direct marketing media has increased recently. "Mail makes it real," says one analyst. And with spam filters and ad blockers filtering out email and mobile ads these days, says a direct marketer, "sometimes you have to lick a few stamps."[16]



Direct-mail marketing: GEICO uses lots of good old direct mail to break through the glut of insurance advertising clutter.

Deutschlandreform/Shutterstock

Traditional direct mail can be an effective component of a broader integrated marketing campaign. For example, GEICO relies heavily on TV advertising to establish broad customer awareness and positioning. However, it also uses lots of direct mail offers that invite carefully targeted customers to act immediately to save money on their auto insurance by visiting geico.com, calling 1-800-947-AUTO, or contacting a local GEICO agent. GEICO makes its direct mailers as un-skippable as its TV and digital ads. For example, potential customers might receive a personally addressed mail piece with a "save money" message and scannable code on the front of the envelope, inviting them to look inside or simply scan the code with their smartphone. Scanning the code takes them directly to GEICO's mobile site, where they receive additional information and calls to action.

Catalog Marketing

Catalog marketing
Direct marketing through print, video, or digital catalogs that are mailed to select customers, made available in stores, or presented online.

Advances in technology, along with the move toward personalized, one-to-one marketing, have resulted in exciting changes in **catalog marketing**. With the stampede to the internet and digital marketing, more and more catalogs are going digital and mobile. A variety of online-only catalogers have emerged, and most print catalogers have added web-based catalogs and mobile catalog apps to their marketing mixes. For example, catalogs from retailers such as Macy's, Anthropologie, L.L.Bean, Williams-Sonoma, Restoration Hardware, and West Elm are now only a swipe away on a mobile device.

Digital catalogs eliminate printing and mailing costs. They also allow real-time merchandising. Whereas printed catalogs are frozen in time, digital catalogs let sellers add or remove products and features as needed and adjust prices instantly to match demand. And whereas space is limited in a print catalog, online catalogs can offer an almost unlimited amount of merchandise. Customers can carry digital catalogs anywhere they go, even when shopping in stores. Digital catalogs and apps can be interactive, and they can offer a broader assortment of presentation formats, including search, video, and augmented reality (AR). For these and other reasons, some retailers are discontinuing their print catalogs altogether. For example, after a 70-year run, IKEA recently dropped its iconic print catalog, now relying solely on high-tech digital catalogs.

Despite the advantages of digital catalogs, however, as your overstuffed mailbox may suggest, printed catalogs are still thriving. U.S. direct marketers mailed out almost 10 billion catalogs last year. Although that's less than half the number mailed out a decade ago, it's still a lot of catalogs. Beyond their ability to drive immediate sales, paper catalogs create emotional connections with customers. Most of today's print catalogs are much more than just big books full of product pictures and prices.

Catalog marketing: Whereas most store retailers have moved to digital catalogs, some online retailers—like Amazon—are adding print catalogs. The key is to carefully integrate catalogs with online and store marketing efforts.

Gary Armstrong

For example, retailer Anthropologie calls its catalogs "journals" and fills them with lifestyle images.

Importantly, printed catalogs are one of the best ways to drive in-store, online, and mobile sales. Consumers often unwind after a long day by browsing through catalogs received in the mail. These moments offer marketers unparalleled opportunities to cut through the clutter that crowds consumers' lives, drawing attention to the featured products even if consumers don't order directly from the catalogs. For instance, furniture retailer Restoration Hardware says that its catalogs, which it calls "source books," are "a key driver of sales through both our websites and retail stores." "I think their catalog is a work of art," says a retail consultant. "It's very, very high end. People end up wanting to see the products [in stores] because of how beautiful they look on the page." Catalogs and online sales together make up 45 percent of Restoration Hardware's revenues.[17]

And just as store retailers are turning to digital catalogs, some digital marketers are adding printed catalogs. For example, even Amazon.com now sends out annual printed catalogs before each holiday season—a holiday toy catalog with QR codes to help customers find items at its online site. Thus, the key to catalog marketing today is to carefully integrate catalogs with online and store marketing efforts.[18]

Telemarketing

Telemarketing
Using the telephone to sell directly to customers.

Telemarketing involves using the telephone to sell directly to consumers and business customers. Marketers use *outbound* telephone marketing to sell to consumers and businesses. They also use *inbound* toll-free numbers to receive orders referred from television and print ads, direct mail, catalogs, websites, and phone apps.

Properly designed and targeted telemarketing provides many benefits, including purchasing convenience and increased product and service information. However, the explosion in unsolicited outbound telephone marketing over the years annoyed many consumers, who objected to the almost daily "junk phone calls." In 2003, U.S. lawmakers responded with the National Do Not Call Registry, which is managed by the Federal Trade Commission (FTC). The legislation bans most telemarketing calls to registered phone numbers (although people can still receive calls from nonprofit groups, politicians, and companies with which they have recently done business).

Despite do-not-call laws, however, consumers still face an epidemic of illegal spam robocalls for everything from lower credit card interest rates and debt-relief services to auto warranties and home security systems. Dubious telemarketers have also engaged in spoofing, which involves the creation of false calling numbers that make it through the safeguards and onto consumers' devices. For example, direct marketers often call from simulated numbers that are recognized by caller ID as being in the local calling code area. Consumers respond to local calls because they think those calls will likely be relevant, only to find a telemarketer at the other end. Such abuses have done substantial damage to the legitimate consumer outbound telemarketing industry and have forced telecom companies such as AT&T and Verizon to work on technologies that deter spoofing.

Despite all these drawbacks, two major forms of telemarketing remain strong and growing. The first—inbound consumer telemarketing—involves consumers calling the company in response to an ad or other marketing stimulus they have encountered. The other—outbound B-to-B telemarketing—involves companies calling business customers to introduce their products and create opportunities for business development.

Direct-Response Television Marketing

Using *direct-response television (DRTV) marketing*, direct retailers air television spots, often 60 or 120 seconds in length, which persuasively describe a product and give customers a toll-free number or an online site for ordering. DRTV also includes full 30-minute or longer advertising programs, called *infomercials*, for a single product.

Successful direct-response television advertising campaigns can ring up big sales. For example, little-known infomercial maker Guthy-Renker has helped propel Proactiv acne treatment, Crepe Erase, Meaningful Beauty, and other "transformational" beauty products into multimillion-dollar power brands. Guthy-Renker combines DRTV with social media campaigns to create a powerful integrated direct marketing channel that builds consumer involvement and buying. Successful pitchpersons have also driven hugely successful DRTV campaigns. Legendary campaigns include those featuring Billy May's OxiClean, Tony Little's AbRider, Susan Powter's "Stop the Insanity" weight loss plan, Jared Zimmerman's Black Magic Tire Shine, and George Foreman's Lean Mean Fat Reducing Grilling Machine.

DRTV ads are sometimes associated with somewhat loud or questionable pitches for cleaners, stain removers, kitchen gadgets, and nifty ways to stay in shape without working very hard at it. In recent years, however, a number of large companies—from P&G, AT&T, and GEICO to L'Oréal—have used infomercials to sell their wares, refer customers to retailers, recruit members, or attract buyers to their online, mobile, and social media sites. And many direct-to-consumer brands—such as Peloton, Dollar Shave Club, and Chewy (pet supplies)—have successfully used the power of mass-reach of DRTV to move beyond their digital and social media channels.[19]

Increasingly, as the lines continue to blur between TV and other screens, direct response ads and infomercials are appearing not just on TV but also on mobile, online, and social media platforms, adding even more TV-like interactive direct marketing venues. Also, most DRTV ads these days routinely feature web, mobile, and social media links that let multiscreen consumers connect in real time to obtain and share more information about advertised brands.

Author Comment To succeed in this age of retail upheaval, traditional retailers must adapt to the ways that today's digitally connected customers shop, providing seamless, cross-channel buying experiences.

Omni-Channel Marketing: Blending In-Store, Online, Mobile, and Social Media Channels

OBJECTIVE 13-2 Discuss how retailers are using omni-channel marketing to meet the cross-channel shopping behavior of today's digitally connected consumers.

Not all that long ago, shopping consisted mostly of going store to store—or perhaps flipping through catalogs—to gather product information, make price comparisons, and purchase goods. That was then. Now, online retailing is thriving. It currently accounts for about 17 percent of total U.S. retail sales and will reach an estimated 24 percent of all retail sales by 2025.[20]

Beyond direct online sales, retailer online sites, mobile apps, and social media also influence a large amount of in-store buying. In this age of websites, smartphones, mobile apps, social media, and other things digital, shopping typically involves a dazzling array of channels and platforms. These channels and platforms together make up the omni-channel setting.[21] We discuss the concept of omni-channel marketing here and then explore it in greater detail in Chapter 17.

Today's consumers have embraced omni-channel shopping. They readily research products and prices online, shopping digitally from home, from work, in stores, or anywhere in between. They scour retailer websites and social media for buying ideas, inspiration, reviews, and advice. They might see products in stores and order them online, see products online then buy them in stores, or buy goods online for in-store pickup or home delivery. For most customers, it's no longer a matter of deciding whether to shop in a store *or* to shop online. Today's omni-channel buyers shift effortlessly across online and in-store channels throughout the buying process.

Omni-channel *buying* by consumers calls for omni-channel *marketing* by sellers, integrating all available shopping channels and devices into a seamless customer shopping experience. Successful omni-channel retailers merge the virtual and physical worlds. Physical store operators are expanding to the digital world via websites, mobiles apps, and the social media. Meanwhile, many online merchants—including Amazon—are moving into the physical world with showrooms, pop-up shops, their own stores, and other ways of meeting shoppers face-to-face.

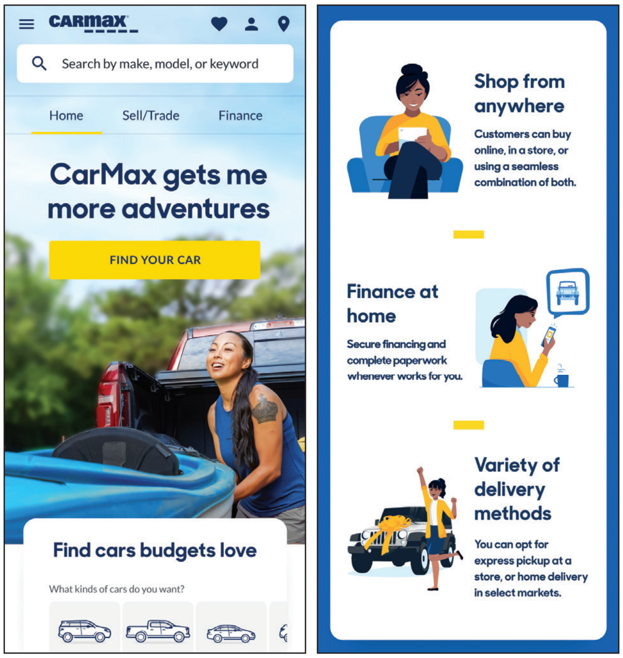
Consumers are increasingly adept at using their smartphones to plug information gaps. "The consumer has never been more informed, and that information comes from their phone," says a senior marketer at outdoor-gear retailer REI. "We love when someone enters the store holding their phone saying, 'I want this tent. I want this bike. Help me find this.'" This type of activity shows how digital and store retailing can come together to make a sale. By one estimate, close to two-thirds of all retail sales are now digitally influenced.[22]

Omni-channel requires carefully integrating the entire range of available shopping channels, both in-store and out, from discovery to purchase in the buying process. For example, as discussed in the chapter-opening story, Walmart is linking a greatly expanded set of online and mobile services to its massive network of stores. And it launched Walmart+, its own version of Amazon Prime by which subscribers get free two-day or next-day shipping, free delivery of groceries from their local store, Mobile Scan & Go for quick checkouts, and other unified online–offline, omni-channel linkages. In addition to websites, omni-channel retailers have integrated other digital shopping channels. Walmart, Target, Macy's, and other major retailers offer fully featured mobile apps that pull customers to both their websites and stores, let them prepare shopping lists, help them locate merchandise inside stores, and send daily alerts and exclusive discounts to their phones.

Social media also play an important part in omni-channel marketing. Most large store retailers now use social media extensively to engage customers, build community, and link buyers to their websites and stores. But beyond simply redirecting users to an online store, many major social media now offer opportunities for users to purchase products directly within the social media platform. For example, Instagram Shop allows sellers to set up shopping sites, use ads with product tags that viewers can directly click on, and feature new brands on an Instagram's Shop tab.

Most major brands are now working with TikTok, Instagram, Facebook, Pinterest, and other social media to offer digital storefronts and shoppable ads, videos, livestreams, and other content. For example, Walmart recently launched a campaign called "Joy. Fully." featuring shoppable livestreams and content. It included a partnership with Facebook that employed an AR lens that allowed customers to use facial expressions to pick products that "spark joy" for them as gifts during the holidays. Customers could "See it. Love it. Shop it." Similarly, Walmart's "Taste. Fully." campaign included shoppable recipes on Pinterest with partners such as General Mills, Kraft, and PepsiCo. And to amp up back-to-school enthusiasm, Walmart hosted an August livestream shoppable concert featuring musician Kane Brown, available on Walmart.com/live, YouTube.com/Walmart, Facebook.com/Walmart, Instagram.com/Walmart, Twitter.com/Walmart, and TikTok.com/@Walmart. Other shoppable livestreams on TikTok garnered seven times the expected number of viewers and boosted the retailer's TikTok following by 25 percent.[23]

But simply creating a digital-friendly store, high-powered website, shoppable content, and extensive social media presence doesn't constitute good omni-channel marketing. The key is to integrate these elements to create that critical seamless, anywhere, anytime, omni-channel shopping experience that today's customers seek. Rather than optimizing each channel individually, marketers must aim to maximize total company profits across all channels and platforms. Consider used-car giant CarMax:[24]



Omni-channel marketing: Used-car giant CarMax makes the entire used-car buying experience simple and seamless across its digital and store shopping channels.

Courtesy of CarMax

CarMax's product and technology personnel work closely together in cross-functional teams consisting of product managers, user experience designers, software developers, and data scientists. They even share the same office space. Their goal is to make the entire used-car buying experience, which consumers typically detest, simple, seamless, and even enjoyable across CarMax's digital and in-store shopping channels. On the CarMax website or mobile app, customers can research used-car models of interest, receive personalized vehicle recommendations, view 360-degree photos of the interiors of cars in stock, explore financing options, and get an appraisal offer for their trade-in. Then they can visit the nearest CarMax location, take the cars they're considering for a spin, sign the papers, and drive away. CarMax even offers customers the option to buy a vehicle online, then pick it up at the store or have it delivered to their home or workplace. "Buy a car your way," says CarMax, "however you like to shop, whatever you want to buy.

Online or in store, browse, reserve, and have cars brought to you from any CarMax." CarMax's positive work culture plays a big role in encouraging employees to work across silos and channels to serve customer omnichannel needs. In fact, CarMax recently celebrated its 18th year on *Fortune* Magazine's list of 100 Best Companies to Work For. By seamlessly blending digital and in-store experiences across the omni-channel customer journey, CarMax remains the nation's top used-car merchant, having sold more than 10 million cars cumulatively across over 230 locations in 41 states.

Author Comment | Not surprisingly, retailers must make the same types of segmentation, positioning, and marketing mix of decisions as any other marketer.

Retailer Marketing Decisions

OBJECTIVE 13-3 Describe the major marketing decisions that retailers make.

Retailers are always searching for new marketing strategies to attract and hold customers. As shown in **Figure 13.1**, retailers face major marketing decisions about *segmentation and targeting*, *store differentiation and positioning*, and the *retail marketing mix*.

Segmentation, Targeting, Differentiation, and Positioning Decisions

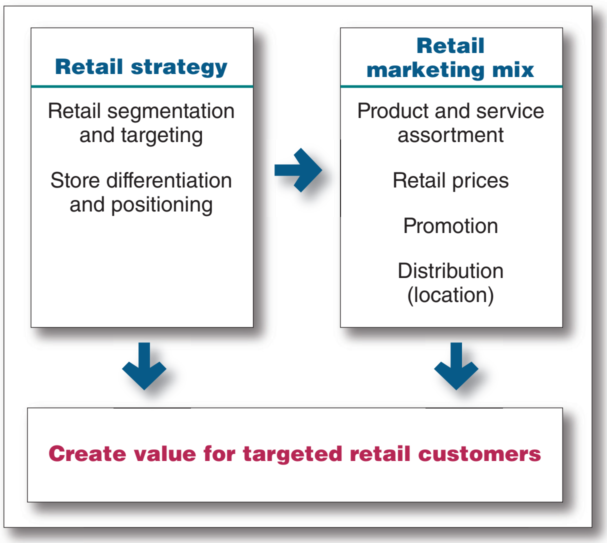
Retailers must first segment and define their target markets and then decide how they will differentiate and position themselves in these markets. Should they focus on high-income, middle-income, or low-income shoppers? Do target shoppers want variety, depth of assortment, convenience, or low prices? What blend of shopping platforms do they prefer among in-store, online, and social media? Until they define and profile their markets, retailers cannot make consistent decisions about product assortment, services, pricing, advertising, store decor, online and mobile site design, or any of the other decisions that must support their positions.

Successful retailers define their target markets well and position themselves strongly. For example, Trader Joe's has established its "cheap gourmet" value proposition. Target emphasizes "cheap chic." Walmart is powerfully positioned on low prices and what those always-low prices mean to its customers. And highly successful outdoor products retailer Bass Pro Shops positions itself strongly as being "as close to the Great Outdoors as you can get indoors!"

With solid targeting and positioning, a retailer can compete effectively against even the largest and strongest competitors. This is true not only for product retailers but also for service retailers. For example, consider health insurance company Oscar Health:[25]

> To most people, traditional health insurance companies are little more than faceless corporate entities. And for individuals who don't get their health insurance through an employer, buying insurance in the open marketplace can be a complex and uncertain process. Fast-growing

FIGURE 13.1
Retailer Marketing Strategies



As with other types of marketers, the name of the game for retailers is to find the customer value-driven marketing strategy and mix that will let them create value for customers and capture value in return. Think of Walmart's "Save money. Live better." value proposition. And Olive Garden's "When you're here, you're family."

Retail targeting and positioning: Oscar Health targets young, digitally savvy consumers with simple, affordable health insurance plans "that won't make your head explode, . . . and if it does, you're covered." Oscar's business is booming.

Oscar Health Insurance

startup Oscar is changing all that. Oscar positions itself on making insurance simple. "Insurance is confusing. Oscar makes it simple," says the company. Oscar gives you "health insurance that won't make your head explode,... and if it does, you're covered."

Predominantly web-based Oscar targets young, digitally savvy consumers with simple, affordable health insurance plans. It offers a slew of high-tech features that make the user experience more personal and tangible. For example, every member is assigned a dedicated Oscar concierge team: "You talk to the same people each time, so you get personalized help when you need it." Oscar's innovative web and mobile apps make it easier for members to manage their health care. They can use the apps for everything from accessing their health histories and account information to finding a doctor, having a free virtual visit, and getting prescriptions. Oscar also offers free 24/7 doctor consultation and telemedicine services. It's "stupidly easy," says the company. Just open the Oscar app, request a call from a doctor, and get a call back in about 10 minutes. You can even attach a picture of your symptoms. Oscar Health is not big. Its policy premiums total $3.44 billion, which pales in comparison to industry leader UnitedHealth's more than $170 billion. But business is booming. Oscar makes its small size a strength with focused targeting and positioning.

Product Assortment and Services Decision

Retailers must decide on three major product variables: product assortment, services mix, and store atmosphere. These decisions, more than any other, can help store retailers differentiate themselves from online sellers. Of course, store retailers must blend effective web and mobile elements into omni-channel marketing mixes. But they must also leverage assets that the Amazons of retailing can't match, such as in-person service and in-store sensory experiences related to touch, smell, and taste.

The retailer's *product assortment* should differentiate it while matching target shoppers' expectations. One strategy is to offer a highly targeted product assortment: Torrid carries plus-size clothing for teens and young adults; Five Below offers "hot stuff. cool prices."—mostly priced at $1 to $5; and Battery Depot offers about every imaginable kind of replacement battery. Alternatively, a retailer can differentiate itself by offering merchandise that no other competitor carries, such as store brands or national brands on which it holds exclusive rights. For example, Kohl's gets exclusive rights to carry well-known labels such as Simply Vera by Vera Wang and a Food Network–branded line of kitchen tools, utensils, and appliances. Kohl's also offers its own private-label lines, such as Sonoma, Croft & Barrow, Candies, EVRI, and Apt. 9, which bring in nearly half of Kohl's annual sales.

The *services mix* can also help set one retailer apart from another. For example, some retailers invite customers to ask questions or consult service representatives in person or via phone or tablet. Home Depot offers a diverse mix of services to do-it-yourselfers, from "how-to" classes and kid workshops to a proprietary credit card. Nordstrom delivers top-notch service and promises to "take care of the customer, no matter what it takes." Even the words used to convey information can change how customers feel. For example, when full up, Ritz-Carlton doesn't say "we are fully booked." Instead, to elevate sold-out situations into something that signals a deep devotion to customer service, it says "we are fully committed."[26]

The *store's atmosphere* is another important element in the reseller's product arsenal. Retailers want to create a unique store experience, one that suits the target market, enhances brand positioning, and moves customers to buy. Many retailers practice *experiential retailing*. Consider adidas's flagship store on Fifth Avenue in New York City, its largest store in the world:[27]

> The mammoth four-story store carries pretty much every product that adidas offers for men, women, and children in separate areas for soccer, basketball, tennis, and outdoor gear. But the store focuses as much on offering customer experiences as on selling products. The giant emporium showcases an adidas design concept that mimics a sports arena. Customers enter through a tunnel-like entrance, climb cement stairs to reach different floors, sit on bleachers to watch games broadcast live on large screens, and pay for their purchases at stations designed to look

Experiential retailing: adidas's stadium-like flagship store on Fifth Avenue in New York City carries about every product that adidas offers. But the store focuses as much on offering customer experiences as on selling products.

Eyal Dayan Photography

like ticket booths. The store features a miniature running track where customers can take a test run or get their stride analyzed to ensure they're buying the right shoe. Another floor includes a turf field where customers can test soccer balls, kettle bells, and other workout equipment. The store offers product customization stations, a print shop, fitness consultants, a concierge service, and same-day hotel delivery.

East Coast grocery chain Wegmans has also mastered the art and science of experiential retailing. Just ask its following of loyal customers—proudly known as Wegmaniacs (see Real Marketing 13.1).

The next time you step into a retail store—whether it sells consumer electronics, hardware, food, or high fashion—stop and carefully consider your surroundings. Think about the store's layout and displays. Listen to the background music. Check out the colors. Smell the smells. Chances are good that everything in the store, from the layout and lighting to the music and even the colors and smells, has been carefully orchestrated to help shape your shopping experience—and open your wallet.

Many retailers have developed signature scents that you smell only in their stores. Anytime Fitness pipes in "Inspire," a eucalyptus-mint fragrance to create a uniform scent from store to store and mask that "gym" smell. Bloomingdale's uses different essences in different departments: the soft scent of baby powder in the baby store, coconut in the swimsuit area, lilacs in intimate apparel, and sugar cookies and evergreen scent during the holiday season. Singapore Airlines (SIA) has been experimenting with sonic and scent marketing to deliver a differentiated, meaningful, and contextual customer experience. After successfully launching its sonic signatures—three instrumental tracks titled "Singapore Airlines Landing Music," "Singapore Airlines Boarding Music," and "Singapore Airlines Lounge Music"—the airline created a signature scent known as Batik Flora by Singapore Airlines. The scent, which captures the smell of the six flowers in SIA's batik motif, was developed in partnership with Singaporean artisanal perfume company Scent by SIX. The scent was introduced at SIA's customer-facing locations, including Singapore's Changi Airport terminals and lounges, and is available as reed diffusers, pillow mists, and eau de toilette fragrances. The airline also signed an exclusive agreement with KrisShop.com to sell Batik Flora. Using signature sonic and scent branding, the airline subtly reinforces its brand imagery and positioning.[28]

Price Decision

A retailer's price policy must fit its target market and positioning, product and service assortment, the competition, and economic factors. All retailers would like to charge high markups and achieve high volume, but apart from a few notable exceptions such as electronics giant Apple, the two seldom go together. Most retailers seek *either* high markups on lower volume (most specialty stores) *or* low markups on higher volume (mass merchandisers and discount stores).

Thus, 120-year-old Bergdorf Goodman caters to the upper crust by selling apparel, shoes, and jewelry created by designers such as Chanel, Prada, Hermès, and Jimmy Choo. The

Real Marketing 13.1 | Wegmans: Creating Retail Experiences

When *Business Insider* reporter Irene Jiang moved to New York City from the Pacific Northwest, she couldn't help but notice how the locals raved about Wegmans—the family-owned grocery chain based in Rochester, New York. "What's so great about Wegmans?" she asked a friend. Her friend was incredulous, maybe even a bit disdainful—she couldn't believe that Jiang had never experienced the wonders of Wegmans. So Jiang investigated by attending the opening of a new Wegmans in Brooklyn.

She was not alone—when a new Wegmans opens, people line up. They drive or even fly in from near and far to join thousands of other eager Wegmaniacs for opening-day festivities. Wegmans has mastered the art of retail atmospherics. It offers an unsurpassed variety and quality of products, and its famed customer service borders on telepathic. But what really sets Wegmans apart is best summarized by one long-time loyal customer from Raleigh, North Carolina: "Wegmans is not a grocery store," she says. "Wegmans is an experience."

What makes the Wegmans experience unique? Beyond selection and award-winning service, the grocery chain designs its stores in a way that creates an unmistakably Wegmans atmosphere. The chain itself is modest in size—just over 100 stores in seven states. But when it comes to designing the space inside its stores, Wegmans is unashamedly big. Stores range in size from 75,000 to 140,000 square feet, two to three and a half times the size of an average U.S. supermarket. That lets Wegmans stock a broad and rich assortment—an average of 60,000 SKUs per store compared to the supermarket average of 40,000. Whereas chains like Trader Joe's, ALDI, and Lidl follow a "less is more" approach, at Wegmans, it's "bigger is better."

But far more than size and assortment, the interior design and layout of Wegmans stores make them special. Inside, a Wegmans is actually like two stores in one. Turn right and you're in a large grocery store with high, warehouse-like ceilings, wide aisles laid out in a standard grid, and a large selection of everyday products with reasonable prices. This part of the store more than meets shoppers' everyday needs. And with impeccable cleanliness and friendly employees to offer assistance, that side is a great grocery store by itself.

But turn left when you enter, and you find yourself in a world of fresh food and culinary delights, brimming with gourmet goodies and enticing smells. This side of the store dazzles the senses and beckons visitors to meander and explore, immersing them in a warm blanket of abundance. By design, Wegmans stores are "destination stores" with the look and feel of European open-air markets.

For example, the spacious produce section abounds with fresh, colorful produce displayed in bins that rival blue ribbon state fair exhibits. "The produce was displayed in creative ways that inspired the inner chef in me," said reporter Jiang on her first encounter. "Each kind of item had its home, and each home had personality." Cute and colorful handwritten blackboard signs with homey descriptions bring the flavors of each individual item to life, like "Red Pears—pleasing floral aroma—classic pear flavor—buttery texture," or "D'Anjou Pears—so juicy!—sweet, citrusy flavor."

Produce is a primary attraction at Wegmans. With an unmatched variety—up to 700 different fruits and vegetables—Wegmans give shoppers options, from affordable everyday varieties to local, organic, and exotic offerings of exceptional quality. The grocer maintains the quality and quantity of its produce by developing partnerships with nearby family farms. In season, locally grown fruits and vegetables are picked daily and delivered directly to each store.

A closer look reveals that the atmosphere in a Wegmans store isn't created just by the layout, selection, and presentation of products. The experience is enhanced by each store's carefully designed infrastructure. For example, consider the role of store lighting. The more conventional side of a Wegmans store is illuminated by ceiling fixtures that cast bright light evenly overall, much as you'd find in any grocery store. On the market side, however, the lighting is carefully orchestrated to enhance what people see and even to help direct how shoppers move through the maze of bins. In the produce and other fresh food sections, Wegmans keeps ambient light low while accenting individual displays with brightly focused spotlights. The spotlights are mounted on tracks so that lighting angles can be adjusted for optimum effect. Thus, Wegmans's lighting highlights the color, texture, and dimension of foods, even for products low on these attributes, such as meats and cheeses.

And speaking of cheeses, Wegmans' cheese section is stocked with more than 300 specialty and artisan cheeses produced domestically or imported from around the world. Many of these cheeses have been aged in one of Wegmans Cheese Caves, 12,000-square-foot state-of-the-art buildings designed to mimic the environment of Europe's famed caves. In these facilities, Wegmans nurtures soft and washed-rind cheeses to delicious ripeness, with multiple caves to keep cheese flavors distinct. In stores, special misting cases preserve the flavor and texture of the cheeses. Among Wegmans's signature cave-ripened items are its Professor's Brie (lush and buttery, with a mushroomy rind), the Full Ver-Monty (Alpine style with a fresh, buttery, nutty flavor and a smooth, melt-on-the-tongue texture), and the Showmmmz (imported from a small French village and washed in Wegmans' Cheese Caves with apple cider).

Each station on the market side of a Wegmans store is carefully designed to reinforce the fresh market atmosphere. The seafood department features a massive live lobster tank and an array of fresh, seasonal

Experiential retailing: Wegmans has mastered the art and science of retail atmospherics. Beyond a deep product selection and award-winning service, store sections are carefully designed to reinforce the fresh market atmosphere of a European open-air market.

Courtesy of Wegmans Food Markets

seafood delivered daily from ports across the country. The Mediterranean Bar houses 90 items, including imported and domestic olives, hummus, marinated mushrooms, artichokes, and roasted peppers. The meat department sells everything from ground chuck to Wagyu beef to ground wild boar. The dessert station dips strawberries by hand. And the bakery serves up everything from bagels and muffins to artisan breads and specialty pastries such as Wegmans' famous fresh-baked peach crostatas.

All these fresh food stations are complemented by Wegmans Market Café—a collection of stations serving restaurant-quality foods, complete with expansive indoor and patio seating. All Market Café offerings are prepared fresh and on the spot. The sushi station displays classic favorites, its own innovative creations, and made-to-order poke fare. The pizza shop uses fresh dough, proprietary sauces, and the highest-quality toppings for unforgettable chef-developed and create-your-own varieties. Options abound with stations for Asian, Italian, subs, salads, and coffee. And if one of these many fresh and prepared foods stations isn't enough, many Wegmans also feature a dedicated restaurant. The most famous is Wegmans's own Burger Bar, one of the best burger joints in the country.

Wegmans's attention to store atmosphere works. The super grocer racks up a trophy case full of accolades and awards every year, including the number-one ranking in the Harris Poll Reputation Quotient, a study of the "100 most-visible companies." Wegmans is also a regular favorite on every "best places to work" and "best customer service" list, evidence that the grocer puts as much into creating satisfied customers and hiring, training, and rewarding its happy and helpful employees as it does into atmospherics.

At the end of the day, Wegmans's financial results complete the story. On average, the chain's 106 stores ring up annual sales of $105 million per store, nearly double the average for Walmart stores. That's because people don't just go to Wegmans to do their grocery shopping. They go to Wegmans to soak up the experience. In the process, they spend a lot. Dedicated Wegmaniacs simply can't imagine life without their favorite store. As one dedicated shopper put it, "I'd never move anywhere there isn't a Wegmans."[29]

Retail price positioning: TJ Maxx sells brand-name clothing at everyday discount prices aimed at middle-income Americans.

Matthew Staver/Bloomberg/Getty Images

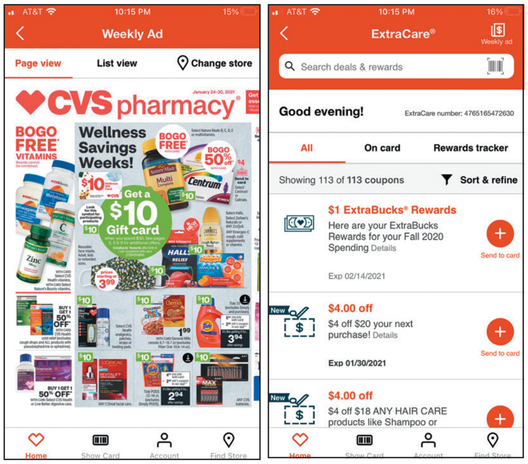
upmarket retailer pampers its customers with services such as a personal shopper and in-store showings of the upcoming season's trends with cocktails and hors d'oeuvres. In contrast, TJ Maxx sells brand-name clothing at everyday discount prices aimed at middle-income Americans. TJ Maxx buyers are constantly on the lookout for deals. "So when a designer overproduces and department stores overbuy," says the company, "we swoop in, negotiate the lowest possible price, and pass the savings on. No sales. No gimmicks." says the retailer. "Just brand name and designer fashions for you … for up to 60 percent off department store prices."[30]

Retailers must also decide on the extent to which they will use sales and other price promotions. Some retailers use no price promotions at all, competing instead on product and service quality rather than on price. For example, it's difficult to imagine Bergdorf Goodman holding a two-for-the-price-of-one sale on Chanel handbags, even in a tight economy. Other retailers—such as Walmart, Costco, ALDI, and Family Dollar—practice *everyday low pricing (EDLP)*, charging constant, everyday low prices with few sales or discounts.

Still other retailers practice *high-low pricing (Hi-Lo)*—charging higher prices in general but coupled with frequent sales and other price promotions to increase store traffic, create a low-price image, or attract customers who will buy other goods at full prices (Macy's, Kohl's, JCPenney, for example). Recent fierce retail competition, both online and offline, has caused a rash of high-low pricing, as retailers have poured on price cuts and promotions to coax bargain-hunting customers into their stores. Which pricing strategy is best depends on the retailer's overall marketing strategy, the pricing approaches of its competitors, and the economic environment.

Promotion Decision

Retailers use various combinations of the four promotion tools—advertising, personal selling, sales promotion, and public relations—to reach consumers. They advertise in newspapers and magazines and on radio and television. Advertising may be supported by newspaper inserts and catalogs. Store salespeople greet customers, meet their needs, and build relationships. Sales promotions may include in-store demonstrations, displays, sales, and loyalty programs. PR activities, such as new-store openings, special events, newsletters and blogs, store magazines, and public service activities, are also available to retailers. Retailers also interact digitally with customers using mobile ads and apps, websites and digital catalogs, online ads and video, social media, blogs, and email. In these days of omni-channel marketing, almost every retailer, large or small, maintains a full social media presence.



Retailer promotion: Many retailers personalize promotions to individual customers via their websites, mobile apps, and other digital platforms. CVS/pharmacy uses its mobile app and email to send personalized promotions to the chain's 80 million ExtraCare loyalty program members.

CVS Caremark Corporation

Digital promotions let retailers personalize offers to individual customers with carefully targeted messages. For example, CVS/pharmacy distributes personalized promotions to the chain's 80 million ExtraCare loyalty program members through email and its CVS app. Based on ExtraCare members' characteristics and previous purchases, the personalized promotions highlight sales items and offers of special interest to each specific customer. For example, if a customer buys a certain shampoo, CVS will highlight that shampoo in the member's customized weekly ad when it's on sale.[31]

Place Decision

Store retailers often point to three critical factors in retailing success: location, location, and location! It's very important that retailers select store locations that are accessible to the target market in areas that are consistent with the retailer's positioning. For example, Apple locates its stores in high-end malls and trendy shopping districts—such as the Magnificent Mile on Chicago's Michigan Avenue or Fifth Avenue in Manhattan—not low-rent strip malls on the edge of town. In contrast, to keep costs down and support its "cheap gourmet" positioning, Trader Joe's places its stores in lower-rent locations with little glitz. Small retailers may have to settle for whatever locations they can find or afford. Large retailers, however, usually employ specialists who use advanced methods to select store locations.

Many stores today cluster together to increase their market pulling power and give consumers the convenience of one-stop shopping. Central business districts were the main form of retail cluster until the 1950s. Every large city and town had a central business district with department stores, specialty stores, banks, and movie theaters. When people began moving to the suburbs, however, many of these central business districts, with their traffic, parking, and crime problems, began to lose business. In recent years, many cities have joined with merchants to revive downtown shopping areas but with only mixed success.

Shopping center
A group of retail businesses built on a site that is planned, developed, owned, and managed as a unit.

A **shopping center** is a group of retail businesses built on a site that is planned, developed, owned, and managed as a unit. A *regional shopping center*, or *regional shopping mall*, the largest and most dramatic shopping center, has from 50 to more than 100 stores, including two or more full-line department stores. It is like a covered mini-downtown and attracts customers from a wide area. A *community shopping center* contains between 15 and 50 retail stores. It normally contains a branch of a department store or variety store, a supermarket, specialty stores, professional offices, and sometimes a bank. Most shopping centers are *neighborhood shopping centers* or *strip malls* that generally contain between 5 and 15 stores. These centers, which are close and convenient for consumers, usually contain a supermarket, perhaps a discount store, and several service stores—dry cleaner, drugstore, hardware store, local restaurant, or other stores.[32]

Power centers are huge unenclosed shopping centers consisting of a long strip of retail stores, including large, freestanding anchors such as Walmart, Home Depot, Costco, Best Buy, Michaels, PetSmart, and Office Depot. Each store has its own entrance with parking directly in front for shoppers who wish to visit only one store. By contrast, *lifestyle centers* are smaller, open-air malls with upscale stores, convenient locations, and nonretail activities, such as a playground, skating rink, hotel, dining establishments, and a movie theater complex.

The past few years have brought hard times for many shopping centers. The country has long been "overmalled"—between 1970 and 2015, U.S. malls grew at twice the rate of the population. More recently, online shopping has siphoned off shoppers and reduced the need for mall visits. And as embattled department store and specialty chains have announced record store closings, vacancy rates at the nation's enclosed malls have soared.

Although the largest and best regional malls are still prospering, many weaker and smaller regional malls are suffering. Power centers have also been hard hit hard as their big-box retailer tenants such as Kmart, Circuit City, Borders, Sports Authority, Mervyns, Toys "R" Us, and Linens N Things have gone out of business and others such as Sears, JCPenney, Macy's, Gap, Barnes & Noble, and Office Depot have reduced the number or size of their stores. In all, according to one prediction, one out of every three U.S. malls is at risk of dying off as a result of store closings. The restrictions on public gatherings during the COVID-19 pandemic also accelerated the steady decline of conventional store retailers and malls.[33]

Despite this grim situation, the future for the stronger malls remains bright. Traditional malls are reinventing themselves to meet the changing needs of shoppers. They are adding lifestyle elements—such as fitness centers, restaurants, children's play areas, common areas, and multiplex theaters—to make themselves more social and welcoming. In all, today's centers are more like places to hang out, with a strong focus on the customer experience, rather than just places to shop.

Author Comment | Retailers must constantly adapt their marketing strategies and mixes to today's challenging, fast-changing retail environment.

Retailing Trends and Developments

OBJECTIVE 13-4 Discuss the major trends and developments in retailing.

Retailers operate in a harsh and fast-changing environment, which offers threats as well as opportunities. Consumer demographics, lifestyles, and spending patterns are changing rapidly, as are retailing technologies. To be successful, retailers need to choose target segments carefully and position themselves strongly. They need to take the following retailing developments into account as they plan and execute their competitive strategies.

Increased Uncertainty and Disruption

The business environment is becoming increasingly uncertain and disruptive. Retailers are faced with changing consumer demographics, large economics swings, social and political turmoil, and environmental and climate issues. Rapid digital and technological advances have disrupted traditional buyer–seller relationships and consumer buying patterns. Such disruptions create both threats and opportunities for retailers.

The COVID-19 pandemic and the attendant economic crisis hit the retail industry like a sledgehammer. As consumers sheltered in place and tightened their spending, 2020 saw record levels of retail bankruptcies and store closings. As just one example, about 17 percent of U.S. restaurants permanently closed their doors in 2020. Furniture store sales fell by nearly 59 percent, and automobile, and electronics, and appliance sales fell by 53 percent. Other retail sectors were significantly affected. The pandemic also greatly accelerated the shift from in-store to digital buying. In all, the pandemic caused huge changes in what, where, and how people buy, forcing retailers to adapt rapidly.[34]

While some retail sectors have rebounded, many pandemic-related shifts have endured even as the pandemic ebbed. For example, the popularity of digital shopping with curbside pickup or home delivery—for everything from groceries to takeout food to consumer electronics—soared during the pandemic. As a result, many consumers learned and liked new shopping patterns that have become the "new normal." "I think a lot of these behaviors will be sticky and continue post-pandemic," says one retail consultant. "Once you've joined Amazon Prime or used Instacart, the likelihood of quitting is low."[35] In response, retailers must strengthen their omni-channel marketing capabilities and reshape their businesses to take advantage of such shifts.

Beyond simply reacting to unexpected disruptions, retailers must look ahead and prepared for more uncertain futures. They must embrace the concept of *scenario analysis*—the art and science of preparing for multiple imagined futures. Then they must carefully plan for a range of unlikely future scenarios so that they are better prepared to thrive, and even survive, if one of those future scenarios happens.

Tighter Consumer Spending

Following many years of good economic times, the Great Recession of 2008–2009 turned many relatively free-spending consumers into value-seeking ones. A little more than a decade after that disruption, the COVID-19 pandemic dealt the economy another blow. Retailers will feel the effects of changed consumer spending patterns well into the future.

Some retailers actually benefit from more frugal consumer spending. For example, as consumers have cut back and looked for ways to spend less on what they buy, big discounters such as Costco have scooped up new business from bargain-hungry shoppers. And price-oriented and off-price retailers such as ALDI, Dollar Tree, and Marshalls have attracted greater numbers of more frugal buyers.

For other retailers, however, tighter consumer spending has required adjustments to their marketing strategies and tactics. Many retailers have added new value pitches to their positioning. For example, Lowe's replaced its older "Never Stop Improving." theme with a thriftier one: "Do it right for less. Start at Lowe's." Retailers ranging from Walmart and Kohl's to Macy's and Kroger have emphasized more economical private-label brands. Target recently built on its "Expect More. Pay Less." positioning with a campaign titled "What We Value Most Shouldn't Cost More."

When reacting to economic shifts, retailers must be careful that their short-run actions don't damage their long-run reputations and positioning. Iconic retailer Macy's has fallen into the "deep discount trap"—such as this Labor Day sale with "25%–75% off storewide"—resulting in shuttered stores and steadily declining sales and profits.

CatLane/Getty Images

When reacting to economic shifts, retailers must be careful that their short-run actions don't damage their long-run reputations and positioning. For example, cost-cutting and drastic price discounting can increase immediate sales but damage the brand. One analyst calls this "death by discount" and suggests that "virtually every retailer—at both the high and the low end—has fallen so deeply into the trap that discounting has become an expectation of customers rather than a bonus."[36] A stroll through your local shopping mall confirms this assessment.

Iconic retailer Macy's has fallen into this trap. To prop up sales, it offers a never-ending stream of deep discounts, damaging its profit margins. To prop up its profits, it has centralized its merchandising and reduced its sales staff, resulting in lower levels of customer service. "Macy's has worked very hard to kill their points of difference—sales help," laments one consultant. "The sales professionals who knew their customers got trashed in the name of efficiency." Because of such actions, Macy's sales and profits have declined steadily over the past several years, forcing it to shutter many locations.[37] Instead of relying on cost-cutting and price reductions, Macy's and other retailers should focus on building greater customer value within their long-term store positioning strategies.

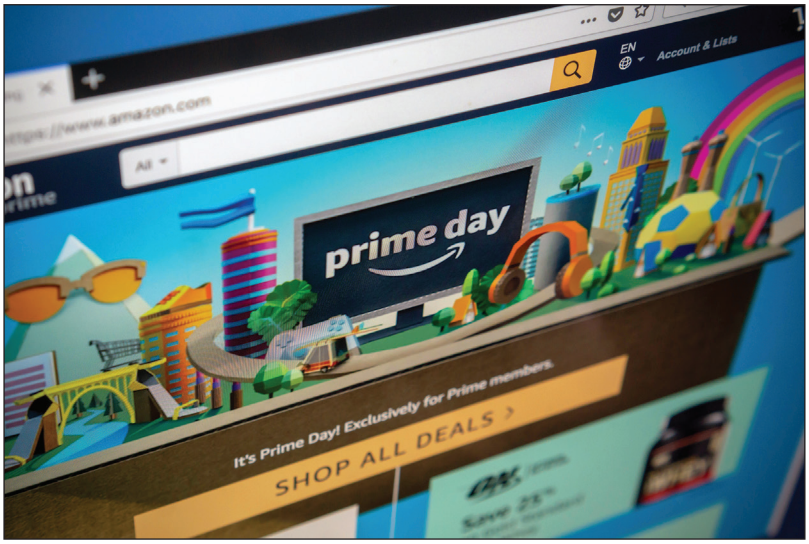
New Retail Forms, Shortening Retail Life Cycles, and Retail Convergence

New retail forms continue to emerge to meet new situations and consumer needs, but the life cycles of the new retail forms are getting shorter. Department stores took about 100 years to reach the mature stage of the life cycle; more recent forms, such as warehouse stores, reached maturity in about 10 years. In such an environment, seemingly solid retail positions can crumble quickly. Of the top 10 discount retailers in 1962 (the year that the first Walmart, Kmart, Target, and Kohl's stores opened), not one still exists today. Even the most successful retailers can't sit back with a winning formula. To remain successful, they must keep adapting.

New retail forms are always emerging. As discussed, online retailing is a juggernaut today, swaggering through the traditional retail landscape and leaving a trail of destruction in its wake. Online, mobile, and social media marketing and retailing have been embraced by both digital-only and progressive physical store retailers. By contrast, many retailers that have ignored this revolution have perished.

Other retailing innovations occur regularly. For example, many retailers now use limited-time *pop-up stores* that let them promote their brands to seasonal shoppers and create buzz in busy, high-rent areas. Shopping malls are also jumping in with pop-up options to freshen their store mixes. Large mall operator Simon has set up a permanent section for pop-ups—called "The Edit @ Roosevelt Field"—in one of its Long Island, New York, area malls. Offering short-term leases (versus standard 5- to 10-year leases), The Edit @ Roosevelt Field hosts numerous pop-ups, primarily online-only retailers that want to experiment with retail to reach consumers who may hesitate to buy online without seeing and touching the goods. The mix of retailers at The Edit @ Roosevelt Field rotates periodically. Pop-ups at The Edit @ Roosevelt Field have included Lively (bras), Beltology (belts), Raden (luggage), JARS (desserts), and Winky Lux (cosmetics).[38]

The online and mobile equivalent of pop-ups is online *flash sales*. Originally found on flash sale-only sites, such as Gilt and Zulily, flash sales can help move inventory or create buzz and excitement. For example, Target has one-day only flash sales on specific product lines, such as Halloween costumes on a day in October. And Amazon runs flash sales—called Lightning Deals—throughout the year and especially during Amazon Prime Day and



New retail forms: Amazon runs flash sales—called Lightning Deals—throughout the year and especially during Amazon Prime Day and the holiday season. The Lightning Deals are offered in limited quantities for a short period of time, one per customer, until available inventory runs out.

Richard Levine/Alamy Stock Photo

the holiday season. The Lightning Deals are offered in limited quantities for a short period of time, one per customer, until available inventory runs out.[39]

Today's retail forms appear to be converging. Increasingly, different types of retailers now sell the same products at the same prices to the same consumers thanks in part to the pricing and product transparency the internet provides. For example, you can buy brand-name home appliances at department stores, discount stores, home-improvement stores, off-price retailers, electronics superstores, and a slew of online sites that all compete for the same customers. If you can't find the microwave oven you want at Home Depot or Lowe's, you can step across the street and potentially find one for a better price at Target or Best Buy—or just order one online from Amazon.com or Build.com. This merging of consumers, products, prices, and retailers is called *retail convergence*. Such convergence means greater competition for retailers and greater difficulty in differentiating the product assortments of various types of retailers.

The Rise of Megaretailers

The rise of huge mass merchandisers and specialty superstores, the formation of vertical marketing systems, the rapid growth of online retailers like Amazon, and a rash of retail mergers and acquisitions have created a core of superpower megaretailers. With their size and buying power, these giant retailers can offer better merchandise selections, good service, and strong price savings to consumers. As a result, they can grow even larger by squeezing out their smaller, weaker competitors.

The megaretailers have shifted the balance of power between retailers and producers. A small handful of retailers now control access to enormous numbers of consumers, giving them the upper hand in dealings with manufacturers. For example, in the normal push and pull between Walmart and its suppliers, it is Walmart—the biggest grocer in the United States with a more than 26 percent share of all U.S. grocery sales—that usually gets its way. Take supplier Kellogg, for instance. Although Kellogg's strong consumer brand preference gives it significant negotiating power, Walmart simply holds more cards. Sales to Walmart make up 19 percent of Kellogg's sales, whereas Kellogg's products account for only 0.5 percent of Walmart's purchases, making Walmart by far the dominant partner. Similarly, Smucker's brand relies on Walmart for 32 percent of its sales yet tallies only about 0.5 percent of Walmart's volume. And it's not just smaller brands that operate under Walmart's influence. P&G relies on Walmart for about $10.5 billion in annual sales and 15 percent of its yearly revenues but comprises only 2 percent of Walmart's total sales.[40]

Rapid Advances in Retail Technology

As digital and omni-channel shopping become the norm, retail technologies have become critically important as competitive tools. Progressive retailers are using advanced information technology and software systems to produce better forecasts, control inventory costs, interact digitally with suppliers, send information between stores, and sell to customers within stores. They have adopted sophisticated systems for checkout scanning, RFID inventory tracking, merchandise handling, information sharing, and customer interactions.

Perhaps the most startling advances in retail technology concern the ways in which retailers are assessing and connecting with consumers. In this age of big data, retailers large and small can apply advanced analytics to mountains of in-store and online data to gain insights into customer needs and behaviors. Using artificial intelligence, they can tailor merchandise, promotions, recommendations, and service to individual customer profiles.

As the surge in online and mobile shopping has changed retail customer shopping behavior and expectations, a wide range of retailers are merging the physical and digital worlds to create new-age retail experiences (see Real Marketing 13.2). One striking example of the technology-driven future of store retailing is high-tech Chinese supermarket retailer 7Fresh, developed by Chinese online marketing giant JD.com:[41]

> The 7Fresh shopping experience features smart shopping carts that follow consumers around the store, leaving their hands free for tasks ranging from picking up and examining products to managing their children. Items placed in the cart are automatically scanned. Magic mirrors located above display shelves sense when a customer picks up a product and automatically display detailed information about the product's origins and nutritional value. At the end of the shopping trip, a cart-mounted camera employs face-recognition technology to automate payment. Beyond its impressive in-store technology, 7Fresh also reaches outside to consumers digitally. For example, 7Fresh serves more than 200 residential compounds in the city of Dongguan through its partnership with over 180 Tianfu convenience stores. Consumers can place orders online through the JD's Friends Shop mini-program on the WeChat app and get orders delivered to the Tianfu store in their residential compound the same day.

Other retailers are experimenting with *augmented (AR)* and *virtual reality (VR)* to enhance and extend the shopping experience. Augmented reality merges digitally augmented objects with real-world images. AR can help consumers design, try out, and visualize products before buying them. For example, the Sherwin-Williams Color Visualizer app lets you "Color It Before You Paint It!" by uploading actual room images and painting them virtually. And at the NIKEiD Direct Studio in London, augmented video mapping lets visitors design their own one-of-a-kind Nikes and watch the designs come to life before their very eyes.

AR and VR in retailing: Carmaker Audi has installed virtual reality in many of its showrooms, letting customers put on a headset and earphones to experience the sights and sounds of their customized car in realistic virtual environments.

Audi of America

Whereas AR augments customers' existing environments, VR immerses them in whole new virtual environments. For example, automaker Audi has installed VR in 1,000 dealer showrooms worldwide. Customers use tablets to select any Audi model and customize each element. They then put on a headset and earphones to experience the sights and sounds of their customized car in virtual reality. They can move around the outside of the car, open the trunk and doors, check under the hood, and even sit in the driver's seat. Future versions may even add the cool feel of the leather upholstery and the rich new car smells.[42]

Retailers can use VR to help customers experience products in simulated real-world environments. For example, customers at North Face's Manhattan store can don virtual-reality headsets that transport them to remote hiking, climbing, or even base-jumping locations where they can experience gutsy jumps off a 420-foot cliff, all while using North Face gear. And Walmart is experimenting with VR applications that enhance "the contextual shopping experience." The retail giant's innovation arm—called Store No. 8 (named after an early Walmart store remembered by founder Sam Walton as an "experiment")—recently demonstrated a VR app that allows shoppers to try out camping gear in a virtual Yosemite National Park. "You can see the tent in the environment in which you'll use it," says the head of Store No. 8. "You can unzip the opening, get inside, lay on the ground and say, 'You know what? this is too tight,' then swipe your hand to try another tent." Whereas Walmart doesn't have room to set up even one or two tents in its physical stores, with virtual reality, it could let customers experience its entire inventory.[43] Although augmented and virtual reality technologies are difficult and expensive to implement now, they hold exciting promise for the future.

Sustainable Retailing

Today's retailers are increasingly adopting environmentally and socially sustainable practices. They are greening up their stores and operations, promoting more environmentally responsible products, launching programs to help customers be more responsible, working

Real Marketing 13.2 | The Future of Retailing: Using Technology to Enhance the Customer Experience

Imagine a store where you can fill up your shopping cart and just walk out the door without waiting in line, checking out, opening your wallet, or interacting with another human. Or a store that knows so much about you that it can recommend products you might need but hadn't thought about and lead you right to them.

There's no need to imagine that world—it's already here at a fast-growing number of Amazon Go checkout-free convenience stores. Other chains rolling out checkout-free options include Kroger, Sam's Club, 7-Eleven, and ALDI. Using such systems, shoppers enable an app, enter the store, grab items off the shelves, and walk out without checking out. Cameras and sensors track what customers pick up and put down. The apps even make recommendations or give special offers based on individual shopper data. As customers leave, purchases are automatically charged to a credit card. Besides making shopping easier for customers, these "just walk out" systems reduce operating costs, facilitate inventory management, and yield a gold mine of customer data.

The technologies behind Amazon Go demonstrate how retailers today are making the retail experience ever more convenient and engaging by eliminating pain points—the irksome elements that get in the way of positive and productive shopping experiences. Touchless or self-checkout kiosks can reduce friction in the buying process, QR codes let consumers learn about products without having to find salespeople, and mobile apps provide a whole raft of useful functions in and out of the store. Much of this technology aims to turn e-commerce into Q-commerce—"quick" and seamless buying, free of bumps and barriers, that serves consumer desires for convenience and simplicity.

But creating a seamless and rewarding shopping experience is about much more than just making it quick and easy. Retailers are also using technology to enhance and extend the shopping experience and make it more engaging and productive. Many are using augmented reality (AR) and virtual reality (VR), fueled by artificial intelligence (AI), to create enhanced, personalized, and highly engaging retail experiences that transcend physical world limits.

For example, retailers ranging from Macy's to adidas offer virtual fitting room apps that let customers "try on" apparel and footwear items from the comfort of their own homes. And personal care and beauty products marketer Sephora's Virtual Artist makeup app scans customers' faces and lets them remotely experiment with different combinations of eye, lip, and cheek makeup until they find ones they like before buying.

Many retailers are now blending the physical and virtual worlds within their stores. For example, multi-brand wellness, home, and design retailer Showfields uses virtual technologies to create immersive in-store experiences that it calls "magic"—"that feeling that only comes when all five senses are activated and so many diverse factors can come together to make something beautiful." Using the retailer's Magic Wand app, customers visiting a Showfields can do almost everything without touching anything or interacting with anyone.

Magic Wand lets customers browse and locate the store's merchandise, scan items for product information, put items in a virtual cart, pay for products, and collect purchased items at one of several pickup points throughout the store, all without a physical exchange. If people need assistance, they can use the app to request an associate. If not, everything happens digitally. "We think of Magic Wand as an extension of your physicality," says Showfields's founder. "It lets you roam the space and explore, while giving you control over where you draw the line."

Many other retailers now routinely use augmented reality-enabled apps to provide a more engaging experience for consumers both at home and in stores. Through markers placed on menus, restaurant chains such as Canada's Boston Pizza make dinner selection an interactive experience by showing customers how a dish would look and letting them examine various ingredients. Lacta, the Brazilian chocolate maker, uses AR to strengthen brand communities. Rather than putting clever messages on wrappers as some candy brands do, Lacta lets customers use an AR app to write interactive messages to send to other users, activated when the recipients point their phones at a Lacta wrapper.

Augmented reality can help consumers design, try out, and visualize furniture, clothing, cosmetics, or just about any other type of product before buying it. This not only enhances the customer experience, it also increases retailer revenues and lowers costs by raising purchase likelihood and reducing returns. So whether using AR to try on glasses at Warby Parker, luxury watches at WatchBox, or apparel at various retailers through FaceCake's Infinite Virtual Closet platform, customers are more likely to find, buy, and keep products.

Sophisticated advances are turning "augmented reality" into "actual reality." Consider the IKEA Studio app, for example. Using the light detection and ranging sensors (LiDAR) in the latest iPhone, IKEA Studio app users can scan rooms in their homes and create full 3D plans that include the placement of every piece of furniture. They can then use the app to move their current furniture out and IKEA's furniture in. IKEA Studio even lets users experiment with room color schemes. "You're talking about changing the whole experience of how you shop for, in this case, furniture and other objects that you can place around the home," says Apple CEO Tim Cook, referring to IKEA Studio and Apple's augmented reality technology.

Beyond using augmented and virtual reality technologies to draw shoppers into stores or to give them out-of-store

Retail technology: Retailers are now merging the physical and digital worlds to create new-age experiential retailing environments. "If you want to glimpse the future of retail, check out an Amazon Go store."

experiences, retailers can use them to bring their stores to shoppers, wherever they might be. For example, you won't likely find a Nike store in a small town. But Nike could create a virtual Nike store and put it anywhere. Using artificial intelligence, such virtual stores could provide interactive experiences personalized to each shopper's demographics, preferences, purchase histories, and actions while navigating the store. Because some virtual reality gear can track exactly what a user is viewing, virtual store apps could use AI to adapt an individual shopper's experiences based on what they are most interested in. "Right now stores have zero customization, so they're trying to appeal to everyone," says the analyst. "VR solves that."

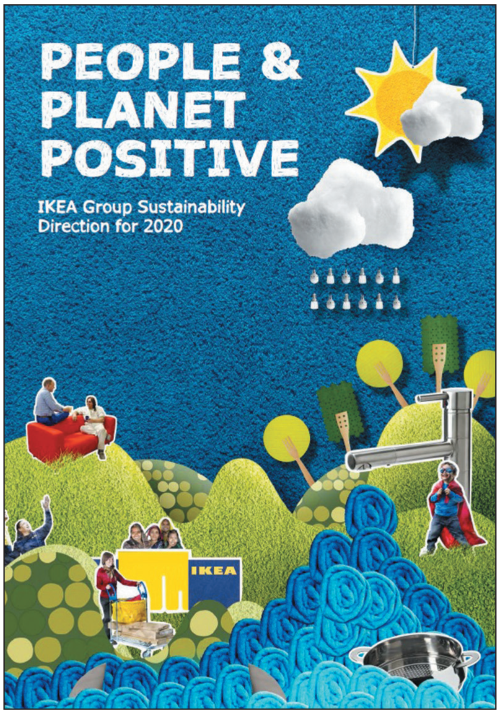
Wild-eyed virtual reality futurists envision virtual stores—or even real stores—populated by AI-driven salespeople synced to individual shopper characteristics and preferences. Customers in some stores or situations might prefer assistance from a man, others from a woman. Some might need salespeople with a specific knowledge set. A physical store can only hire so many salespeople. With virtual reality, stores could create whatever the customer wants. For instance, imagine walking into a Nike store and being approached by a holographic Serena Williams, tennis superstar and Nike spokesperson. You could ask virtual Serena Williams anything, and it would understand and respond personally as the real Williams might.

Many of today's new retailing technologies are still works in progress. Most retailers are still only experimenting with these potentially powerful technologies for attracting and engaging customers. But to hear Apple's Tim Cook tell it, that's what makes the future of retailing so exciting. "The first step in making it a mainstream kind of experience is to put it in the operating system . . . opening it to developers—and unleashing the creativity of millions of people. Even we can't predict what's going to come out."[44]

with channel partners to reduce their environmental impact, and working to address economic and other inequities in their communities.

At the most basic level, most large retailers are making their stores more environmentally friendly through sustainable building design, construction, and operations. For example, under its "People & Planet Positive" sustainability strategy, home furnishings retailer IKEA's long-term goal is to become 100 percent sustainable:[45]

> With the goal of creating "A better life for the many people," IKEA's "People & Planet Positive" strategy begins with making its more than 500 retail locations more energy independent and efficient. IKEA has committed to owning and operating wind turbines and solar farms and has installed solar panels on almost all of its stores, generating 51 percent of the electricity used by all of IKEA. IKEA locations in countries such as the United States and Poland now generate more electricity than they consume. Inside its stores, IKEA uses only energy-efficient LED lighting. Most stores also sort food waste from in-store customer restaurants for composting or send it to treatment centers where it is turned into animal feed or biogas to fuel cars and buses. Some IKEAs offer customer recycling centers for products such as plastic, paper, CFL light bulbs, batteries, and even end-of-life appliances. IKEA's sustainability ambitions for 2030 include inspiring and enabling more than a billion people to live a better everyday life within the boundaries of the planet, becoming climate positive and creating a positive social impact for everyone across the IKEA value chain.



Sustainable retailing: Under its "People & Planet Positive" sustainability strategy, home furnishings retailer IKEA's long-term goal is to become 100 percent sustainable, both in its operations and in the products it sells.

Used with the permission of Inter IKEA Systems B.V.

Retailers are also making their product assortments more sustainable. For example, IKEA now sells only LED lighting products in its stores, and a growing proportion of the home furnishing products it sells are made from sustainable and renewable cotton, wood, and other resources. IKEA suppliers must adhere to the retailer's IWAY supplier code of conduct sustainability standards. IKEA's goal is to have all of its home furnishings made from renewable, recyclable, or recycled materials. "At IKEA, sustainability is central to our business," says the company, "to ensure that we have a positive impact on people and the planet."

Many retailers have also launched programs that help consumers make more environmentally responsible decisions. Staples's Easy Sustainability Program helps customers to identify sustainable products sold in its stores and to recycle printer cartridges, mobile phones, computers, and other office technology products. More than 16,000 of its products, accounting for more than 30 percent of its U.S. product sales, incorporate environmentally-friendly features related to sustainable raw materials, responsible manufacturing, or sustainable packaging. Each year, Staples recycles close to 50 million pounds of e-waste, which includes electronics, batteries, and ink and toner cartridges.[46]

Finally, many large retailers are joining forces with suppliers and distributors to create more sustainable products, packaging, and distribution systems. For example, beyond its own substantial sustainability initiatives, Walmart wields its huge buying power to urge and support its army of suppliers to improve their environmental impact and practices.[47] A decade ago, Walmart committed to buying 70 percent of its products from suppliers that aligned with the Sustainability Insight System Index (THESIS). THESIS is an "independent, science-based, holistic sustainability performance solution that allows brands and manufacturers to understand the sustainability story of their products." More than 1,600 Walmart suppliers are now part of the THESIS program.

Sustainable retailing yields both top- and bottom-line benefits. Sustainable practices lift a retailer's top line by attracting consumers looking to support environmentally friendly sellers and products. For example, Walmart.com has a separate section that highlights eco-friendly products including biodegradable rice drinking straws and earth-friendly shower cleaners. Sustainable practices also help the bottom line by reducing costs. For example, IKEA's more energy-efficient buildings not only appeal to customers and help reduce the company's environmental impact but also cost less to operate.

Global Expansion of Major Retailers

Retailers with unique formats and strong brand positions are increasingly moving into other countries. Many are expanding internationally to escape saturated home markets. Over the years, some giant U.S. retailers, such as McDonald's and Walmart, have become globally prominent because of their marketing prowess.

However, some U.S. retailers are still significantly behind Europe and Asia when it comes to global expansion. Although 11 of the world's top 20 retailers are U.S. companies, only four of these retailers have set up operations outside North America (Walmart, Walgreens, Amazon, and Costco). Of the nine non-U.S. retailers in the world's top 20, six have stores in at least 10 countries. Non-U.S. retailers that have gone global include France's Groupe Auchan; Germany's Schwarz, ALDI, and Rewe Group; Netherlands' Ahold; Britain's Tesco; and Japan's Seven & I and Aeon.[48]

International retailing presents challenges as well as opportunities. Retailers can face dramatically different retail environments when crossing countries, continents, and cultures. Simply adapting the operations that work well in the home country is usually not enough to create success abroad. Instead, when going global, retailers must understand and meet the needs of local markets.

Author Comment | Whereas retailers primarily sell goods and services directly to final consumers for personal use, wholesalers sell primarily to those buying for resale or business use. Because wholesalers operate behind the scenes, they are largely unknown to final consumers. But they are very important to their business customers.

Wholesaling

OBJECTIVE 13-5 Explain the major types of wholesalers and their marketing decisions.

Wholesaling
All the activities involved in selling goods and services to those buying for resale or business use.

Wholesaler
A firm engaged *primarily* in wholesaling activities.

Wholesaling includes all the activities involved in selling goods and services to those buying them for resale or business use. Firms engaged *primarily* in wholesaling activities are called **wholesalers**.

Wholesalers buy mostly from producers and sell mostly to retailers, industrial consumers, and other wholesalers. As a result, many of the nation's largest and most important wholesalers are largely unknown to final consumers. For example, how much do you know about McKesson Corporation, the huge $238 billion diversified health care–services provider and the nation's leading wholesaler of pharmaceutical, health and beauty care, home health-care, and medical supply and equipment products? Or how about wholesaler Arrow Electronics, which supplies $34.5 billion worth of computer chips, capacitors, and other electronics and computer components annually to more than 175,000 original equipment manufacturers and commercial customers through a global network of more than 330 locations? And you may never have heard of a company called Grainger, even though it is very well known and much valued by its more than 4.5 million business and institutional customers in more than 150 countries:[49]

> Grainger may be the biggest market leader you've never heard of. It's a $13 billion business that offers more than 2 million maintenance, repair, and operating (MRO) products from 5,000 manufacturers to more than 4.5 million active customers. Through its branch network, service centers, sales reps, catalog, and online and social media sites, Grainger links customers with the supplies they need to keep their facilities running smoothly—everything from light bulbs, cleaners, and display cases to nuts and bolts, motors, valves, power tools, test equipment, and safety supplies. Grainger's nearly 600 branches, 33 strategically located distribution centers, more than 24,000 employees, and innovative web and mobile sites handle more than 100,000 transactions a day. Grainger's customers include organizations ranging from factories, garages, and grocers to schools and military bases.
>
> Grainger operates on a simple value proposition: to make it easier and less costly for customers to find and buy MRO supplies. "For the ones who get it done," says the company, "Grainger is here to help." It starts by acting as a one-stop shop for products needed to maintain facilities. On a broader

Wholesaling: Many of the nation's largest and most important wholesalers—like Grainger—are largely unknown to final consumers. But they are very well known and much valued by the business customers they serve.

Kristoffer Tripplaar/Alamy Stock Photo

level, it builds lasting relationships with customers by helping them find *solutions* to their overall MRO problems. Acting as consultants, Grainger sales reps help buyers with everything from improving their supply chain management to reducing inventories and streamlining warehousing operations. Think of Grainger as the grease that makes companies work. We're "here to help you build, fix, and move our world," says Grainger. "We keep the world working."

So how come most people have heard little about Grainger? Perhaps it's because the company operates in the not-so-glamorous world of MRO supplies, which are important to businesses but not so important to consumers. More likely, it's because Grainger is a wholesaler. And like most wholesalers, it operates behind the scenes, selling mostly to other businesses.

Why are wholesalers important to sellers? For example, why would a producer use wholesalers rather than selling directly to retailers or consumers? Simply put, wholesalers add value by performing one or more of the following channel functions:

- ***Selling and promoting.*** Wholesalers' sales forces help manufacturers reach many small customers at a low cost. The wholesaler has more contacts and is often more trusted by the buyer than the distant manufacturer.
- ***Buying and assortment building.*** Wholesalers can select items and build assortments needed by their customers, thereby saving much work.
- ***Bulk breaking.*** Wholesalers save their customers money by buying in truckload lots and breaking bulk (breaking large lots into small quantities).
- ***Warehousing.*** Wholesalers hold inventories, thereby reducing the inventory costs and risks of suppliers and customers.
- ***Transportation.*** Wholesalers can provide quicker delivery to buyers because they are closer to buyers than are producers.
- ***Financing.*** Wholesalers finance their customers by giving credit, and they finance their suppliers by ordering early and paying bills on time.
- ***Risk bearing.*** Wholesalers absorb risk by taking title and bearing the cost of theft, damage, spoilage, and obsolescence.
- ***Market information.*** Wholesalers give information to suppliers and customers about competitors, new products, and price developments.
- ***Management services and advice.*** Wholesalers often help retailers train their salesclerks, improve store layouts and displays, and set up accounting and inventory control systems.

Types of Wholesalers

Merchant wholesaler
An independently owned wholesale business that takes title to the merchandise it handles.

Broker
A wholesaler who does not take title to goods and whose function is to bring buyers and sellers together and assist in negotiation.

Agent
A wholesaler who represents buyers or sellers on a relatively permanent basis, performs only a few functions, and does not take title to goods.

Manufacturers' and retailers' branches and offices
Wholesaling by sellers or buyers themselves rather than through independent wholesalers.

Wholesalers fall into three major groups (see **Table 13.2**): *merchant wholesalers, brokers and agents*, and *manufacturers' and retailers' branches and offices*. **Merchant wholesalers** are the largest single group of wholesalers, accounting for roughly 50 percent of all wholesaling. Merchant wholesalers include two broad types: full-service wholesalers and limited-service wholesalers. *Full-service wholesalers* provide a full set of services, whereas the various *limited-service wholesalers* offer fewer services to their suppliers and customers. The different types of limited-service wholesalers perform varied specialized functions in the distribution channel.

Brokers and *agents* differ from merchant wholesalers in two ways: They do not take title to goods, and they perform only a few functions. Like merchant wholesalers, they generally specialize by product line or customer type. A **broker** brings buyers and sellers together and assists in negotiation. **Agents** represent buyers or sellers on a more permanent basis. *Manufacturers' agents* (also called *manufacturers' representatives*) are the most common type of agent wholesaler. The third major type of wholesaling is that done in **manufacturers' and retailers' branches and offices** by sellers or buyers themselves rather than through independent wholesalers.

Wholesaler Marketing Decisions

Wholesalers now face growing competitive pressures, more-demanding customers, new technologies, and more direct-buying programs on the part of large industrial, institutional, and retail buyers. As a result, they have taken a fresh look at their marketing strategies. As

Table 13.2 | Major Types of Wholesalers

Type	Description
Merchant wholesalers	Independently owned businesses that take title to all merchandise handled. There are full-service wholesalers and limited-service wholesalers.
Full-service wholesalers	Provide a full line of services: carrying stock, maintaining a sales force, offering credit, making deliveries, and providing management assistance. Full-service wholesalers include wholesale merchants and industrial distributors.
Wholesale merchants	Sell primarily to retailers and provide a full range of services. General merchandise wholesalers carry several merchandise lines, whereas general line wholesalers carry one or two lines in great depth. Specialty wholesalers specialize in carrying only part of a line.
Industrial distributors	Sell to manufacturers rather than to retailers. Provide several services, such as carrying stock, offering credit, and providing delivery. May carry a broad range of merchandise, a general line, or a specialty line.
Limited-service wholesalers	Offer fewer services than full-service wholesalers. Limited-service wholesalers are of several types:
Cash-and-carry wholesalers	Carry a limited line of fast-moving goods and sell to small retailers for cash. Normally do not deliver.
Drop shippers	Do not carry inventory or handle the product. On receiving an order, drop shippers select a manufacturer, who then ships the merchandise directly to the customer. Drop shippers operate in bulk industries, such as coal, lumber, and heavy equipment.
Rack jobbers	Serve grocery and drug retailers, mostly in nonfood items. Rack jobbers send delivery trucks to stores, where the delivery people set up toys, paperbacks, hardware items, health and beauty aids, or other items. Rack jobbers price the goods, keep them fresh, set up point-of-purchase displays, and keep inventory records.
Producers' cooperatives	Farmer-owned members that assemble farm produce for sale in local markets. Producers' cooperatives often attempt to improve product quality and promote a co-op brand name, such as Sun-Maid raisins, Sunkist oranges, or Diamond nuts.
Mail-order or web wholesalers	Send catalogs to or maintain websites for retail, industrial, and institutional customers featuring jewelry, cosmetics, specialty foods, and other small items. Its primary customers are businesses in small outlying areas.
Brokers and agents	Do not take title to goods. The main function is to facilitate buying and selling, for which they earn a commission on the selling price. Generally specialize by product line or customer type.
Brokers	Bring buyers and sellers together and assist in negotiation. Brokers are paid by the party who hired the broker and do not carry inventory, get involved in financing, or assume risk. Examples include food brokers, real estate brokers, insurance brokers, and security brokers.
Agents	Represent either buyers or sellers on a more permanent basis than brokers do. There are four types:
Manufacturers' agents	Represent two or more manufacturers of complementary lines. Often used in such lines as apparel, furniture, and electrical goods. A manufacturer's agent is hired by small manufacturers who cannot afford their own field sales forces and by large manufacturers who use agents to open new territories or cover territories that cannot support full-time salespeople.
Selling agents	Have contractual authority to sell a manufacturer's entire output. The selling agent serves as a sales department and has significant influence over prices, terms, and conditions of sale. Found in product areas such as textiles, industrial machinery and equipment, coal and coke, chemicals, and metals.
Purchasing agents	Generally have a long-term relationship with buyers and make purchases for them, often receiving, inspecting, warehousing, and shipping the merchandise to buyers. Purchasing agents help clients obtain the best goods and prices available.
Manufacturers' and retailers' branches and offices	Wholesaling operations conducted by sellers or buyers themselves rather than operating through independent wholesalers. Separate branches and offices can be dedicated to either sales or purchasing.
Sales branches and offices	Set up by manufacturers to improve inventory control, selling, and promotion. Sales branches carry inventory and are found in industries such as lumber and automotive equipment and parts. Sales offices do not carry inventory and are most prominent in the dry goods and notions industries.
Purchasing offices	Perform a role similar to that of brokers or agents but are part of the buyer's organization. Many retailers set up purchasing offices in major market centers, such as New York and Chicago.

with retailers, their marketing decisions include choices of segmentation and targeting, differentiation and positioning, and the marketing mix—product and service assortments, price, promotion, and distribution (see **Figure 13.2**).

Segmentation, Targeting, Differentiation, and Positioning Decisions

Like retailers, wholesalers must segment and define their target markets and differentiate and position themselves effectively—they cannot serve everyone. They can choose a target group by size of customer (for example, large retailers only), type of customer (convenience stores only), the need for service (customers who need credit), or other factors. Within the target group, they can identify the more profitable customers, design stronger offers, and build better relationships with them. They can propose automatic reordering systems, establish management-training and advisory systems, or even sponsor a voluntary chain. They can discourage less-profitable customers by requiring larger orders or adding service charges to smaller ones.

Marketing Mix Decisions

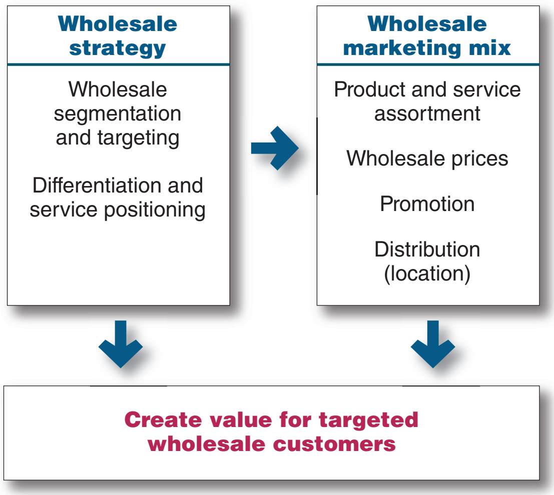
Like retailers, wholesalers must decide on product and service assortments, prices, promotion, and place. Wholesalers add customer value though the *products and services* they offer. They are often under great pressure to carry a full line and stock enough for immediate delivery. But this practice can damage profits. Wholesalers today are cutting down on the number of lines they carry, choosing to carry only the more profitable ones. They are also rethinking which services count most in building strong customer relationships and which should be dropped or paid for by the customer. The key for companies is to find the mix of services most valued by their target customers.

Price is a critical wholesaler decision because it directly influences retail pricing decisions, which ultimately drive demand and profitability. Therefore, wholesale pricing decisions must ideally take entire system profits—across the manufacturer, wholesaler, and retailer—into account. This, in turn, can call for some interesting pricing approaches, including the wholesaler being paid out of the retailer's profits rather than out of a wholesale margin added to the product. A key goal for wholesalers, retailers, and other channel members is *channel coordination.* They must coordinate their strategies to maximize and then share the total channel profits rather than compete with each other within the channel.

However, in practice wholesalers typically mark up the cost of goods by a standard percentage. As retail and industrial customers face increasing costs and margins pressures, they turn to wholesalers, looking for lower prices. Wholesalers may, in turn, cut their margins on some lines to keep important customers. They may also ask suppliers for special price breaks in cases when they can turn them into an increase in the supplier's sales.

Although *promotion* can be helpful in specific contexts, many wholesalers are not promotion minded. They have historically used largely scattered and unplanned

FIGURE 13.2
Wholesaler Marketing Strategies



Why does this figure look so much like Figure 13.1? You guessed it. Like retailers, wholesalers must develop customer-driven marketing strategies and mixes that create value for customers and capture value in return. For example, Grainger helps its business customers "save time and money by providing them with the right products and solutions to keep their facilities up and running."

trade advertising, sales promotion, personal selling, and public relations. Like other business-to-business marketers, wholesalers need to make a team effort to sell, build, and service major accounts. Wholesalers also need to adopt some of the nonpersonal promotion techniques used by retailers. They need to develop an overall promotion strategy and make greater use of supplier promotion materials and programs.

Digital and social media are playing an increasingly important role in wholesaler promotion. For example, Grainger maintains an active presence on Facebook, YouTube, Twitter, LinkedIn, and Instagram. It also provides a feature-rich mobile app. On its YouTube channel, Grainger lists more than 700 videos on topics ranging from the company and its offerings to keeping down inventory costs. And Grainger's dozens of industry-specific catalogs are available digitally and searchable online.

Finally, *distribution* (location) is important. Wholesalers must choose their locations, facilities, and other locations carefully. There was a time when wholesalers could locate in low-rent, low-tax areas and invest little money in their buildings, equipment, and systems. Today, however, as technology zooms forward, such behavior results in outdated systems for material handling, order processing, and delivery.

Instead, today's large and progressive wholesalers have reacted to rising costs by investing in automated warehouses and IT systems. Orders can be fed from the retailer's information system directly into the wholesaler's system, the items picked up by mechanical devices and robots, and automatically taken to a shipping platform where they are assembled. Most large wholesalers use software tools to carry out accounting, billing, inventory control, and forecasting. Modern wholesalers are adapting their services to the needs of target customers and finding cost-reducing methods of doing business. They are also transacting more business online. For example, e-commerce is Grainger's fastest-growing sales channel. Seventy-five percent of the company's orders now originate through digital channels, mobile purchasing now accounts for almost two-thirds of the wholesaler's total sales, and Grainger ranks as the 11th largest e-commerce merchant in North America.[50]

Trends in Wholesaling

Today's wholesalers face considerable challenges. The industry remains vulnerable to one of its most enduring trends—the need for ever-greater efficiency. Tight economic conditions and retailer woes have led to demands for even lower prices and the winnowing out of suppliers who are not adding value based on cost and quality. COVID-19 has wreaked havoc on global supply chains. Progressive wholesalers constantly watch for better ways to meet the changing needs of their suppliers and target customers. They recognize that their only reason for existence comes from adding value, which occurs by increasing the efficiency and effectiveness of the entire marketing channel.

As with other types of marketers, the goal is to build value-adding customer relationships. For example, consider Sysco, the $51 billion wholesale food distribution company that operates behind the scenes to supply more than 650,000 restaurants, schools, hospitals, colleges, and other commercial customers that prepare meals away from home.[51]

Giant food distribution wholesaler Sysco lives up to its "Good things come from Sysco" motto by procuring and delivering food and food service supplies more dependably, efficiently, and cheaply than customers could ever hope to do on their own.

Sysco Corporation

Whether it's a hot dog from Reliant Stadium in Houston, the original Italian sub from Jersey Mike's, crab cakes from a Hilton Hotel, or a ham and cheese sandwich at the local hospital cafeteria, the chances are good that the ingredients were supplied by Sysco, the nation's top food supplier. Sysco supplies anything and everything needed to run an eating establishment, from boxes of seafood, chicken, and beef to 25-pound bags of rice or pasta to gallon jars of ketchup or salsa to boxes of plastic gloves and jugs of dishwashing detergent. What makes Sysco so valuable to its customers is that it procures and delivers these supplies more dependably, efficiently, and cheaply than customers could ever hope to do on their own. For example, Lowell's, the iconic restaurant in Seattle's Pike Place Market, procures almost all of its products conveniently through the

Sysco Market online ordering system. Its orders are processed quickly and accurately at Sysco's automated distribution center. Then Lowell's—by itself or with the help of Sysco sales associates and dispatchers—can track the location of individual deliveries via the My Sysco Truck program. Sysco constantly seeks new ways to add more value and build trust, from product traceability for safety to sourcing products from local, small- to mid-sized farms, ranches, and processors to serve the needs of customers whose businesses are positioned on sustainability and community. In short, Sysco more than lives up to its motto: "Good things come from Sysco."

Wholesalers will continue to increase the services they provide to retailers—retail pricing, cooperative advertising, marketing and management information services, accounting services, online transactions, and others. However, both the more value-focused environment and the demand for increased services have put the squeeze on wholesaler profits. Wholesalers that do not find efficient ways to deliver value to their customers will soon drop by the wayside. Fortunately, the increased use of digital, automated, and internet-based systems will help wholesalers contain the costs of ordering, shipping, and inventory holding, thus boosting their productivity.

Reviewing and Extending the Concepts

Objectives Review

Retailing and wholesaling consist of many organizations bringing goods and services from the point of production to the point of use. In this chapter, we examined the nature and importance of retailing, the major types of retailers, the decisions retailers make, and the future of retailing. We then examined these same topics for wholesalers.

OBJECTIVE 13-1 Explain the role of retailers in the distribution channel and describe the major types of retailers.

Retailing includes all the activities involved in selling goods or services directly to final consumers for their personal, nonbusiness use. Retailers play an important role in connecting brands to consumers. *Shopper marketing* involves focusing the entire marketing process on turning shoppers into buyers as they move along toward the point of sale, whether during in-store, online, or mobile shopping.

Recent dramatic shifts in how today's connected consumers shop and buy have caused an upheaval in the retailing industry. Today's buyers are omni-channel consumers who navigate multiple channels as they shop, changing the role of retail stores in the buying process. As Amazon and other online merchants have boomed, many traditional store retailers have struggled. Today's successful retailers are adopting *omni-channel marketing*, creating a seamless and coordinated cross-channel buying experience that integrates in-store, online, and mobile shopping and aims to maximize the company's total profits across all channels.

Retail stores come in all shapes and sizes, and new retail types keep emerging. Store retailers can be classified by the *amount of service* they provide (self-service, limited service, or full service), *product line sold* (specialty stores, department stores, supermarkets, convenience stores, superstores, and service businesses), and *relative prices* (discount stores and off-price retailers). Today, many retailers are banding together in corporate and contractual *retail organizations* (corporate chains, voluntary chains, retailer cooperatives, and franchise organizations) to increase their buying power and negotiating clout.

In addition to store retailing, many companies practice traditional non-store direct retailing. The major traditional forms of direct retailing are direct-mail marketing, catalog marketing, telemarketing, and direct-response television (DRTV) marketing.

OBJECTIVE 13-2 Discuss how retailers are using omni-channel marketing to meet the cross-channel shopping behavior of today's digitally connected consumers.

The retail shopping process has changed radically in this age of websites, smartphones, mobile apps, social media, and other things digital. Today's omni-channel buyers shift easily across online and in-store channels throughout the buying process. They readily research products and prices online and shop digitally from home, from work, in stores, or anywhere in between. These shifts call for massive changes in how retailers operate. Omni-channel *buying* calls for omni-channel *marketing*, integrating all available shopping channels and devices into a seamless customer shopping experience.

Omni-channel marketing goes beyond just helping in-store customers as they cross-shop on mobile devices. It requires carefully integrating the entire range of available shopping channels, both in-store and out, from discovery to purchase in the buying process. To that end, most large retailers are now boosting their online and digital selling options and linking them with stores. The key is to integrate these elements to create the critical seamless, anywhere, anytime, omni-channel shopping experience that today's customers seek, with the overall goal of maximizing the total profits across channels.

OBJECTIVE 13-3 Describe the major marketing decisions that retailers make.

Retailers are always searching for new marketing strategies to attract and hold customers. They face major marketing decisions about segmentation and targeting, store differentiation and positioning, and the retail marketing mix.

Retailers must first segment and define their target markets and then decide how they will differentiate and position themselves in these markets. Those that try to offer "something for everyone" end up not satisfying anybody. By contrast, successful retailers define their target markets well and position themselves strongly to appeal to those markets.

Guided by strong targeting and positioning, retailers must decide on a retail marketing mix—product and services assortment, price, promotion, and place. Retail stores are much more than simply an assortment of goods. Beyond the products and services they offer, today's successful retailers carefully orchestrate virtually every aspect of the consumer store experience. A retailer's price policy must fit its target market and positioning, products and services assortment, and competition. Retailers use various combinations of the four promotion tools—advertising, personal selling, and sales promotion—to reach consumers. Online, mobile, and social media tools are playing an ever-increasing role in helping retailers to engage customers. Finally, it's very important that store retailers select locations that are accessible to the target market in areas that are consistent with the retailer's positioning.

OBJECTIVE 13-4 Discuss the major trends and developments in retailing.

Retailers operate in a harsh and fast-changing environment, often characterized by disruptions that offer threats as well as opportunities. Following years of good economic times, retailers have now adjusted to the new economic realities imposed by the spread of COVID-19, the rise of technology, and the growth in thrift-minded consumers. New retail forms continue to emerge. At the same time, however, different types of retailers are increasingly serving similar customers with the same products and prices (retail convergence), making differentiation difficult. Other trends in retailing include the increase in market uncertainty, the rise of megaretailers, the growing importance of retail technology, a surge in sustainable retailing, and the global expansion of major retailers.

OBJECTIVE 13-5 Explain the major types of wholesalers and their marketing decisions.

Wholesaling includes all the activities involved in selling goods or services to those who are buying for resale or business use. Wholesalers fall into three groups. First, *merchant wholesalers* take possession of the goods. They include *full-service wholesalers* and *limited-service wholesalers.* Second, *brokers* and *agents* do not take possession of the goods but are paid a commission for aiding companies in buying and selling. Finally, *manufacturers' and retailers' branches and offices* are wholesaling operations conducted by non-wholesalers to bypass the wholesalers.

A key goal for wholesalers, retailers, and other channel members is channel coordination, where they work to coordinate their strategies to maximize and then share the total channel profits rather than compete with each other.

Like retailers, wholesalers must target carefully and position themselves strongly. And, like retailers, wholesalers must decide on product and service assortments, prices, promotion, and place. Progressive wholesalers constantly watch for better ways to meet the changing needs of their suppliers and target customers. They recognize that, in the long run, their only reason for existence comes from adding value, which occurs by increasing the efficiency and effectiveness of the entire marketing channel. As with other types of marketers, the goal is to build value-adding customer relationships.

Key Terms

OBJECTIVE 13-1

Retailing
Retailer
Shopper marketing
Omni-channel marketing
Specialty store
Department store
Supermarket
Convenience store
Superstore
Service retailer
Discount store
Off-price retailer
Corporate chains
Franchise
Direct-mail marketing
Catalog marketing
Telemarketing

OBJECTIVE 13-3

Shopping center

OBJECTIVE 13-5

Wholesaling
Wholesaler
Merchant wholesaler
Broker
Agent
Manufacturers' and retailers' branches and offices

Discussion Questions

13-1 What is omni-channel marketing? How did the COVID-19 pandemic impact omni-channel marketing? (AACSB: Written and Oral Communication)

13-2 Describe the key dimensions used to organize and distinguish retailers. (AACSB: Written and Oral Communication; Reflective Thinking)

13-3 How would you describe the key elements of a workable retail marketing mix? (AACSB: Communication)

13-4 What is catalog marketing? Why do retailers continue to use catalogs in an increasingly digital retail environment? (AACSB: Written and Oral Communication; Reflective Thinking)

13-5 How is technology improving the customer experience? (AACSB: Application of Knowledge)

13-6 Retailers are increasingly adopting sustainable practices. Provide three examples of how retailers are engaging in more environmentally and socially sustainable practices. (AACSB: Integration of Real-World Business Experiences)

Critical Thinking Exercises

13-7 Suppose that you need interview attire and there are many retail options. Using the information in the text, choose three different major store retailer types and select a specific store for each type chosen. Visit each store (in person or online) and describe each store's segmentation and positioning strategy and retail marketing mix—product, price, place, and promotion. How do the product assortments differ? What is each store's pricing approach? What promotional tools are used? Discuss store locations. (AACSB: Integration of Real-World Business Experiences; Reflective Thinking)

13-8 The COVID-19 pandemic resulted in uncertainty and disruptions for many retailers. In a small group or on a discussion board, describe how retailers might prepare for future disruptions. (AACSB: Written and Oral Communication; Reflective Thinking)

13-9 Makeup retailer Glossier (glossier.com) started as a blog with a direct-to-consumer business model. In markets such as Miami, Los Angeles, and London, where it has deep penetration, it has established permanent stores. It has also experimented with pop-up stores in markets with established customer bases. Why might a native online brand like Glossier want to have a physical retail presence? What are the benefits of pop-ups compared to permanent locations for a brand like Glossier? (AACSB: Reflective Thinking; Application of Knowledge)

APPLICATIONS AND CASES

Digital Marketing Taco Bell's Social Media Strategy

Taco Bell is proficient at using social media to drive demand. America's beloved low-price Tex-Mex fast-food chain is a formidable social media marketer because it creates and curates user-focused and user-generated content tailored to each platform. The chain manages accounts on Facebook, Twitter, YouTube, Instagram, TikTok, and LinkedIn along with monitoring emerging social platforms. It even created an in-house think tank called the "Center for Social Excellence" at company headquarters in Irvine, California. Its core social media team maintains a content calendar with enough structure to maintain continuous engagement and enough flexibility to capitalize on spur-of-the-moment activity as the need arises. The team routinely solicits input from other employees. According to *Ad Age,* Taco Bell's social media dominance drives their better-than-average yearly sales growth. While rewarding followers with coupons and incentives is not new, Taco Bell uses social media to generate anticipation for and increase trials of new products such as the Cool Ranch & Fiery Doritos® Locos Tacos, Mexican Pizza, and Nacho Fries. When it was first introduced, the Cheez-It Tostada sold out in one week.

13-10 At the bottom of Taco Bell's web page at www.tacobell.com, you will find links to various social media platforms, including Facebook, Instagram, and Twitter. Working in a small group, choose one of the platforms. Explore and describe Taco Bell's presence and activities on that platform, including consumer-generated content. How does Taco Bell use your chosen platform for building the brand and generating product demand? (AACSB: Integration of Real-World Business Experience; Reflective Thinking)

13-11 What role does Taco Bell's social media play in making the brand resilient to shocks in the marketing environment, like economic downturns and pandemics? (AACSB: Reflective Thinking)

Marketing Ethics Nordstrom's 2025 Corporate Social Responsibility Goals

Upscale department store chain Nordstrom recently set its 2025 corporate social responsibility goals. Nordstrom made commitments to improve the environmental sustainability of its operations and product value chains, to improve human rights through positive labor practices and women's empowerment, and to support families and organizations in the communities it serves. Nordstrom works closely with organizations such as The G7 Fashion Pact, the Sustainable Apparel Coalition, and CDP Supply Chains to align with best practices within the industry. The 2025 goals build from Nordstrom's 2020 goals, where it sourced more energy from renewables in deregulated markets, achieved 100 percent pay equity for employees, and further empowered women in its global supply chain. All these goals are part of Nordstrom's efforts to operate as a responsible company so that customers, employees, and communities associated with Nordstrom can be proud.

13-12 Evaluate the advantages and disadvantages of Nordstrom's sustainability and social responsibility approach. (AACSB: Written and Oral Communication; Ethical Understanding and Reasoning)

13-13 Upscale retailers that sell luxury and fashion goods have been criticized for promoting materialism and increasing waste. Does Nordstrom's public commitment to corporate social responsibility satisfactorily address these concerns? Why or why not? (AACSB: Ethical Understanding and Reasoning)

Marketing by the Numbers The Hauz of Spize

The Malaysian food and grocery retail market offers the same breadth of products that consumers would expect, including packaged and unpackaged food, beverages, and household products. In 2018, the Malaysian food and grocery retail market was worth an estimated $48.2 billion with an annual growth rate of around 9.4 percent. Of this $48.2 billion, 83.2 percent, or $40.1 billion, was related to food purchases. A further increase in the market took place after the Malaysian Ministry of Finance scrapped a 6 percent tax on goods and services. This had a significant impact on the price of food and beverages.

Priti Gathani, a Malaysian restaurateur, has operated four What Tasty Food restaurants for nine years, and in March 2021, she opened her first grocery store in affluent Bangsar, a residential suburb on the outskirts of Kuala Lumpur, under the banner The Hauz of Spize.

Gathani and her partners hope that they will break even within the first eight months of operation. Gathani hopes to open a chain of stores over the next few years with a focus on fresh vegetables, hand-ground spices, and organic produce.

However, finding the right balance of products and stocking levels is challenging. Not stocking enough merchandise—in this case, fresh produce—results in lost sales. But carrying too much inventory increases costs and lowers margins, especially because of perishability. Both conditions reduce profits. One measure of a reseller's inventory management effectiveness is its *stockturn rate* (also called *inventory turnover rate* for manufacturers). Retailers want to realize a large volume of sales on as little inventory as possible while maintaining enough stock to meet customer demand. To determine this, Gathani needs to run short-term market tests in select stores to determine the optimum inventory levels.

13-14 Using the data below, determine The Hauz of Spize's weekly stockturn rate for fresh produce during one of the market tests. Refer to Analytic Ratios in Appendix 2, Marketing by the Numbers to learn how to calculate stockturn rate. (AACSB: Analytical Thinking)

	Week 1	Week 2	Week 3	Week 4
Cost of goods sold	$76,000	$73,000	$86,000	$98,000
Average inventory at cost	$35,000	$32,000	$38,000	$41,000

13-15 Interpret your answers in the previous question. Is the weekly stockturn rate of The Hauz of Spize good or bad? What factors should be considered to determine this? (AACSB: Written and Oral Communication; Reflective Thinking)

Company Case Ulta Beauty: Where the Experience Is Beautiful

In today's retail environment, there is plenty of buzz about the "retail apocalypse"—the growing phenomenon that has resulted in brick-and-mortar store closings. Numerous longtime specialty retailers such as Pier 1 Imports, Sports Authority, Toys "R" Us, and Payless Shoe Source have gone out of business in recent years. Still others such as The Gap and Victoria's Secret have been closing stores and showing signs of distress. And once-massive general merchandise retailers Sears and JCPenney have been shrinking for years. Each has filed for bankruptcy, leaving many to speculate that they will soon be out of business entirely.

But all the buzz about ailing retail chains overlooks the retail areas that are thriving. And it's more than e-commerce. While thousands of physical stores in the United States have closed every year, the net number of physical stores has remained relatively constant. And last year, as pent-up demand from shutdowns related to the COVID-19 pandemic relaxed, retailers opened 8,100 new stores—more than double the number of closures.

And while many chains have struggled and even died, plenty of brick-and-mortar chains are booming. One such company is Ulta Beauty—one of the largest U.S. beauty retailers and a premier destination for cosmetics, fragrance, skin care products, hair care products, and salon services. Not only is Ulta now in a dead heat with beauty megaretailer Sephora for dominance of this market, its revenues nearly doubled over a recent five-year period as the chain grew from 874 to over 1,300 stores. What's the secret to Ulta's success? Customers of all kinds enthusiastically flock to Ulta because, more than any other retailer, the chain offers a complete beauty experience.

Ulta opened its first store 32 years ago. But until a handful of years ago, Ulta operated quietly in the shadow of Sephora. Ulta's sales were good, but the company had a lackluster market presence and a tepid brand image. It had always operated as a beauty superstore where shoppers could find hundreds of beauty brands. But that wasn't enough set it apart from rivals—discount merchandise mega-chains such as Walmart and Target and the increasingly growing presence of online behemoth Amazon. It wasn't until Mary Dillon took over as Ulta's CEO that the brand really started to shine.

Strengthening Its Competitive Advantage

Dillon built a strategy that capitalizes on competitive advantages that store-based beauty retailers have over online competitors. Shopping for beauty products is a deeply personal, uniquely emotional experience. Only in a real-world store can customers perfectly match a shade, see how a fragrance suits them, or feel the effects of a product's performance. Customers often need advice about options or instructions on using products, something the online world has yet to perfect. And when a person needs a product *immediately*, even same-day delivery will not suit.

Dillon's strategy amplifies the "personal" and "emotional" elements of the beauty shopping experience. For starters, Ulta invested heavily to hire, train, and reward the right employees, creating an army of frontline associates who not only welcome customers but make them feel at home. Ulta employees are pros at reading customers, understanding their needs and motives, and making recommendations that feel perfect to them. In turn, this builds trust, and trust increases the time and money customers spend in a store.

To make stores more fulfilling, Ulta also created an unparalleled product assortment. It boasts of "more than 25,000 products from approximately 600 brands." But that's only part of the product story. Ulta also focuses on introducing hot, new cosmetic brands such as Morphe, Revolution Beauty, and Jeffrey Star, many with exclusive distribution rights. For example, in its early years, the massively popular Kylie Cosmetics brand was available only through its own online store. But Ulta scored a huge victory by becoming the only physical store chain to carry the brand's growing beauty portfolio. With one of the biggest and youngest social media followings, Kylie Cosmetics is a perfect example of brands that have increased Ulta's store traffic and sales. Such "gotta-have-it" new brands are bringing in younger consumers, giving Ulta a strong base across all age demographics.

Ulta has developed other enticements to enhance the shopping experience. Cosmetic shoppers love samples. Not only are they free, samples let customers try a product for a limited time to see how they like it. Although most beauty retailers provide in-store "testers" as well as mini versions of products to take home, they do so only for higher-end brands. But Ulta offers samples across a wider range of products than other retailers, including so-called "drugstore" brands such as Maybelline and CoverGirl.

Beyond its amazing selection of goods, Ulta distinguishes itself by offering in-store services such as haircuts and facials. This not only drives store traffic and generates additional revenue, the sights, sounds, and smells of these services enhance the energy level in stores. Ulta's data show that salon services guests spend almost three times as much as other customers. This prompted Dillon to move the Benefit Brow Bar—a station for eyebrow shaping—to the front of the store so that shoppers would see services being performed the moment they enter. It worked. Salon sales increased by 15 percent in just nine months following this move.

The Power of Rewards

One of Dillon's strongest strategy moves is the makeover of Ulta's previously stale loyalty program. Now with well over 33 million active members, the rebranded Ultamate Rewards program is far more simple and engaging. Like any good loyalty program, the newly improved Ultamate Rewards positively affects the customer experience in multiple ways. For starters, rather than simply tossing out gratuitous giveaways, Ultamate Rewards uses pricing as a relationship-building tool. Rather than the former blunt-force approach that doled out freebies for reaching certain points milestones, Ultamate Rewards now lets customers use their accumulated points as store credit for items of their own choosing. This not only gives customers more autonomy, it lets them apply points to high-end brands such as Urban Decay—brands that never go on sale.

Ultamate Rewards also lets Ulta interact with each customer in a personal way. It can design messages, incentives, and rewards to suit individuals based on all the information in company databases, including shopping history. "There's a lot of information we have to work with to deliver that targeted offer to the right person," says Ulta's director of loyalty marketing. "The majority of our promotions and engagement with guests has transitioned to the loyalty program, so we're now creating even more value in the currency around points and the ability to accrue them toward other products." As icing on the cake, Ulta can pair Ultamate Rewards with a company credit card for an immediate customer benefit of double points. The new rewards program is working well. Ultamate Rewards membership continues to grow, and rewards members account for a whopping 90 percent of company sales.

Ulta's chain of brick-and-mortar stores gives it substantial competitive advantage. However, the chain also has a strong e-commerce presence, making it a true omni-channel retailer. When it comes to online beauty products sales, Amazon is far and away the leader. This is Amazon's second-most-shopped category and one of its fastest-growing ones. But in addition to lacking face-to-face interaction with customers, Amazon makes a sizable portion of its cosmetics sales through third-party vendors, priced 35 to 40 percent higher than the same products at Ulta. Even with its massive scale, Amazon achieved less than two-thirds Ulta's revenue in beauty products last year. And of all beauty products Amazon sells, cosmetics is showing the lowest growth.

Building physical stores is critical to Ulta's growth strategy. But Ulta is equally invested in boosting Ulta's online shopping experience. Recent investments in Ulta's distribution system have dramatically improved its e-commerce processing. But Ulta has also made major improvements in its online customer interface with an infusion of tutorials, tips, and social content. "People want to buy online, and they want to come into the store and try things," says Dillon. She notes that Ulta can more effectively guide customers through the shopping process and into new experiences online than in stores. Ulta's e-commerce business is growing more rapidly than in-store sales, and purchases originated online now account for more than 23 percent of Ulta's total revenue. Thus, e-commerce is both a key part of the Ulta customer experience and a major contributor to the company's financial performance.

With customer experience now at the forefront in all aspects of its retail business, Ulta Beauty is in a good position to escape the negative effects of the "retail apocalypse." More broadly, beauty and cosmetics remains a genuine growth industry, and Ulta, Sephora, Amazon, and others are doing well. So long as Ulta focuses on continually improving the customer experience, its future looks as bright and vibrant as the palettes of colors throughout its stores.[52]

Questions for Discussion

13-16 How does Ulta Beauty provide a truly differentiated customer experience?

13-17 How did Ulta Beauty design its marketing mix (four Ps) to become the nation's leading beauty retailer?

13-18 Looking forward, provide specific ideas for Ulta Beauty to continue to profitably grow.

13-19 *Small group exercise*: A number of successful beauty brands have come up in the direct-to-consumer (DTC) space, where they market to consumers mainly from their online and mobile websites and apps. Given Ulta Beauty's heavy brick-and-mortar presence, its CEO is concerned. Looking forward, recommend specific steps Ulta Beauty should take to provide a seamless, cross-channel customer experience.

14 Engaging Consumers and Communicating Customer Value

Integrated Marketing Communications Strategy

OBJECTIVES OUTLINE

OBJECTIVE 14-1 Define the four promotion mix tools for communicating customer value.

OBJECTIVE 14-2 Discuss the changing communications landscape and the need for integrated marketing communications.

OBJECTIVE 14-3 Outline the communication process and the steps in developing effective marketing communications.

OBJECTIVE 14-4 Explain the methods for setting the promotion budget and factors that affect the design of the promotion mix.

CHAPTER PREVIEW In this and the next two chapters, we'll examine the last of the marketing mix tools—promotion. Beyond just creating customer value, marketers must clearly and persuasively communicate that value. Promotion is not a single tool but rather a portfolio of several tools. Ideally, under the concept of *integrated marketing communications,* a company will carefully coordinate these promotion tools to engage customers and clearly and consistently deliver information about itself and the customer value it creates.

We'll begin by introducing the various promotion mix tools. Next, we'll examine the rapidly changing communications environment—especially the addition of digital, mobile, and social media—and the need for integrated marketing communications. Finally, we'll discuss the steps in developing marketing communications and the promotion budgeting process. In the next two chapters, we'll present the specific marketing communications tools: advertising and public relations (Chapter 15) and personal selling and sales promotion (Chapter 16).

Let's start by looking at the Philippine fast-food brand Jollibee, which is growing rapidly worldwide after enjoying huge success in its home market. The fast-food brand successfully used traditional media to grow in its market and has now begun using non-traditional media and digital media to reach out to a global audience in different parts of the world.

JOLLIBEE: Communicating Family Values

One of the Philippines' most famous fast-food brands, Jollibee operates more than 1,400 stores around the world. It is the largest fast-food chain in the Philippines and surpasses the combined market share of the other multinational fast-food chains in the country. The brand is a favorite among the local population. The smiling red bee that can be seen in all of its stores enjoys high brand recognition among the Filipino population, especially children—for many of them, birthday parties are incomplete without the giant bee dressed in a red vest and a white chef's hat dancing and entertaining everyone.

The fast-food chain began in 1975 as an ice-cream parlor in Cubao, Quezon City, and Quiapo, Manila, owned and operated by Tomy Tan Caktiong and his family. At their customers' request, they started serving hot food items that soon became more popular than the ice cream. This encouraged the Caktiong family to convert the parlor into a fast-food restaurant.

Jollibee is a brand that focuses on and promotes the familial values of sharing, being together, and being happy. Its mission is to spread joy to its customers by serving them great-tasting food. Customer-centricity, a spirit of family and fun, speed with excellence, and the humility to listen and learn form the basis on which the brand value of Jollibee is constructed. Its promotional campaigns are developed to communicate these brand values. Even the choice of a bee as its logo was done to communicate the hard work a bee does and for its association with honey.

Jollibee's popularity extends beyond the Philippines, and it has more than 270 outlets in the United States, Canada, Hong Kong, Macau, Brunei, Vietnam, Singapore, Malaysia, Saudi Arabia, the United Arab Emirates, Qatar, Oman, Kuwait, Bahrain, Italy, and the United Kingdom. In its promotional poster displayed in its Manila office, it refers to itself as the largest Asian fast-food company in the world. The brand is known as the McDonald's of the Philippines and has successfully benchmarked the American giant's operations and business model. By doing so, Jollibee has been able to enhance its service quality to international standards. It has consistently maintained a strong focus on strict quality standards, including high-quality and great-tasting food, quick and efficient service, and cleanliness. Some of the brand's most popular items are its delicious Chickenjoy, Yum burger, and Jolly Spaghetti.

By heavily using traditional and non-traditional media for advertising, Jollibee has established a strong brand equity. Many of its advertisements show everyday settings with a slice-of-life execution style which emphasizes familial values and Filipino pride. This strategy has struck the right chord with its home market and contributed to the brand's growth. Having a Filipino fast-food brand that can compete with international brands like KFC, Burger King, and McDonald's has been a source of pride for many Filipinos, and Jollibee makes sure it is reinforced through its marketing communications.

Another key aspect of Jollibee's message execution strategy is the use of celebrity endorsements. During its expansion phase in the Philippines, Jollibee partnered with Aga Mulach, one of the most popular Filipino movie stars, for its advertisements and public relations initiatives. Jollibee constantly reemphasizes its core philosophy of togetherness by undertaking socio-civic programs that are designed to engage and serve the community where it operates. One of its oldest and most successful campaigns is "MaAga ang Pasko sa Jollibee." Mulach collaborated with Jollibee Food Corporation to run a toy and book donation campaign throughout the country for children in need. The campaign has become an annual event for Jollibee and encourages the participation of children as the Jolly Toy Scouts. The scouts encourage children to make other children happy by sharing toys and books with them. During the campaign, Jollibee donation boxes are placed in its stores nationwide; here, children make their donations, sing Christmas carols with the Jollibee mascot, and spread joy during the festive season. At the forefront of the campaign are famous child actors who become the leading Jolly Toy Scouts, inspiring kids across the country to share their toys and books with others. In this way, Jollibee sends a strong message of community-building and fosters a national spirit. It believes that Christmas for Filipinos is not just a time to celebrate but also a time to share. This and similar initiatives have contributed to the company's overall success, not only with its customers but with all its stakeholders.

By focusing on familial values, Jollibee's campaigns reemphasize their brand philosophy.

Richard R Handley/Alamy Stock Photo

In addition to advertising and public relations campaigns, Jollibee creatively uses various sales promotion tools at its stores and through its online promotions. Some of its recent sales promotions include free Jollibee loot bags with the purchase of bucket chicken meals, Jollibee promotion codes that can be scanned to redeem exclusive Jollibee app deals, and Jollyween, an online Halloween event that involves children in their favorite costume celebrating in an online event for over an hour, with meals being delivered to their homes.

Jollibee has a robust presence on social media, which it leverages to engage with customers directly and to announce its new schemes and offers, its achievements, and the launch of new products, campaigns, and advertisements. Jollibee's Facebook page has over 7.8 million followers. Similarly, the brand's popularity has been increasing on Instagram, with over half a million posts related to the brand on the platform.

Jollibee Food Corporation's short promotional Kwentong Jollibee videos often create a stir in social media. In 2017, it launched three heart-tugging videos as part of its Valentine's Day campaign to strengthen brand recognition among millennials. The videos racked up a whopping 40 million views on YouTube and Facebook. But more than reach and views, the customer interaction was viewed by Jollibee as the

Year after year, Jollibee runs a series of integrated marketing communication campaigns that engage brand fans and keep the Jollibee brand fresh, relatable, and contemporary.

most important factor in the campaign's success. The campaign boosted sales significantly, with the sale of Chickenjoy doubling and Yum burgers quadrupling in the weeks following the release of the videos. In 2019, Jollibee celebrated grandparents, their unconditional love, and their selflessness through its "Garapon" video. The video is anchored in Jollibee's core philosophy and narrates the story of how a grandmother sets aside any amount she can just to gift her grandson something that would make him happy.

During the COVID-19 pandemic, when people could not host in-person parties at their stores, Jollibee introduced virtual parties to connect with its customers and continue to be part of their lives. Jollibee offered a virtual e-venue where friends and family could connect to celebrate their loved ones' birthdays with party hats, balloons, and Jollibee giveaways, and to have their favorite Jollibee meal delivered to them. To encourage consumption of its products, Jollibee introduced e-gifts so that customers can easily send electronic gift codes to friends and family. The e-gifts are available in the form of e-vouchers and e-certificates. When social interaction was limited to video conferencing and e-meetings, Jollibee introduced various virtual backgrounds that included some of its most recognizable menu items and its brand mascot.

Jollibee takes pride in being the Philippines' most popular fast-food chain that is increasing its global presence rapidly. Its website has a page called the Buzz Room, which is constantly updated with news related to new menu options, special promotions, the opening of new store locations, and new offerings. In international markets, the brand resonates well with the youth, and social media seems to be playing a vital role in it—more and more global influencers have been talking about Jollibee. Many bloggers have shared YouTube videos of them trying out items from Jollibee's menu. To keep pace with the digital world and the increasing of use technology, in 2021, Jollibee launched its app to reach its customers directly and has been heavily promoting it through its various communication channels. Jollibee even ran a two-week long promotion after the launch of the app, offering the brand's iconic Peach Mango Pie for free to consumers placing orders using the new platform.[1]

BUILDING GOOD CUSTOMER RELATIONSHIPS calls for more than just developing a good product, pricing it attractively, and making it available to customers. Companies must also strategically engage with and communicate their value propositions to customers. All the company's communications must be blended into carefully integrated marketing communications programs.

Author Comment | The promotion mix is the marketer's bag of tools for engaging and communicating with customers and other stakeholders. To deliver a clear and compelling message, each tool must be carefully coordinated with others under the concept of integrated marketing communications (IMC).

The Promotion Mix

OBJECTIVE 14-1 Define the four promotion mix tools for communicating customer value.

Promotion mix (marketing communications mix)
The specific blend of promotion tools that the company uses to persuasively communicate customer value and build customer relationships.

Advertising
Any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor.

Sales promotion
Short-term incentives to encourage the purchase or sale of a product or a service.

Personal selling
Personal presentation by the firm's sales force for the purpose of engaging customers, making sales, and building customer relationships.

Public relations (PR)
Activities designed to engage the company's various publics and build good relations with them.

A company's total **promotion mix**—also called its **marketing communications mix**—consists of the specific blend of advertising, sales promotion, personal selling, and public relations tools that the company uses to engage consumers, persuasively communicate customer value, and build customer relationships. The four major promotion tools are defined as follows:[2]

- **Advertising**. Any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor.
- **Sales promotion**. Short-term incentives to encourage the purchase or sale of a product or service.
- **Personal selling**. Personal customer interactions by the firm's sales force to engage customers, make sales, and build customer relationships.
- **Public relations (PR)**. Activities designed to engage the company's various publics and build good relations with them.

Each category involves specific promotional tools. For example, *advertising* includes digital, broadcast, print, outdoor, and other forms. *Sales promotion* includes discounts, coupons, displays, demonstrations, and events. *Personal selling* includes sales presentations, trade shows, and incentive programs. *Public relations* includes news updates, stories, sponsorships, events, and webpages.

At the same time, marketing communication goes beyond these specific promotion tools. The product design, price, package, and the stores that sell it—*all* communicate something to buyers. Thus, although the promotion mix is the company's primary engagement and communications activity, the entire marketing mix—promotion *and* product, price, and place—must be coordinated for greatest impact.

Author Comment | Integrated marketing communications—IMC—is changing quickly and profoundly today. A big reason is the huge surge in customer engagement through digital media—online, mobile, and social media marketing.

Integrated Marketing Communications

OBJECTIVE 14-2 Discuss the changing communications landscape and the need for integrated marketing communications.

In past decades, marketers perfected the art of mass marketing: using mass-media communication techniques to sell highly standardized products to masses of consumers. Even now, large companies routinely invest millions or even billions of dollars in television, magazine, or other mass-media advertising, reaching tens of millions of customers with a single ad. Today, however, marketing managers increasingly face some new realities. Perhaps no other area of marketing is changing so profoundly as marketing communications, creating both exciting and challenging times for marketers.

The New Marketing Communications Model

Today's marketing communications environment is rapidly evolving. First, *marketing strategies* are changing. As mass markets have fragmented, marketers are shifting away from mass marketing and toward more focused marketing aimed at narrower micromarkets. Second, in this digitally connected, mobile age, *consumers* are better informed and more communications-empowered. Instead of relying only on marketer-supplied information, they use the internet, social media, and other technologies to find information on their own. They connect easily with other consumers to exchange brand-related information or even create and communicate their own brand messages and experiences.

Finally, advances in *digital technology* have remarkably transformed caused remarkable changes in the ways how companies and customers communicate with each other. The digital age has spawned a host of new communication tools and platforms, from smartphones and IoT devices to the many faces of the internet—brand websites, social media, email, the mobile web, streamed content, online communities, and now the metaverse. Just as mass marketing once gave rise to a new generation of mass-media communication models, digital and social media have now given birth to a range of more targeted, social, and engaging marketing communication models.

In recent years, although TV remains a potent advertising medium, TV ad spending growth has flattened or declined. Ad spending in magazines, newspapers, and radio has also lost significant ground. Meanwhile, spending in digital media has surged. Total digital ad spending now captures more than 62 percent of all U.S. ad spending and will grow to an estimated 75 percent of total ad spending by 2024. Advertising on mobile devices now accounts for more than three-quarters of all digital ad spending and by itself exceeds the amount spent on TV advertising.[3]

Large advertisers are increasingly moving toward a "digital-first" approach. For example, last year L'Oreal, Hershey, and Unilever increased their digital advertising more than 100 percent over the previous year. In fact, consumer package goods brands are expected to increase their digital advertising spending by more than 50 percent over the next five years. ● Consider Unilever, one of the world's largest advertisers and a leader in the digital advertising and communications revolution:[4]

● **Many large advertisers are moving toward a "digital-first" approach to build their brands. Marketing powerhouse Unilever now spends as much as 45 percent of its huge global marketing budget on digital media, making it a leader in the digital advertising revolution.**

rafapress/Shutterstock

> Unilever has built in-house digital marketing skills clustered around 40 digital hubs within the company and now spends as much as 45 percent of its more than $9 billion global marketing budget on digital media. For example, Unilever has shifted ad resources from television advertising to digital streaming and gaming platforms. It now partners with the hugely popular Fortnite and Animal Crossing gaming platforms to engage younger consumers. Unilever's Hellmann's brand created its own Hellmann's Island on Nintendo's Animal Crossing: New Horizon. Each time a player donated a virtual vegetable within the game, Hellmann's made a donation to FareShare, a UK charity fighting hunger

and food waste. And Unilever holds monthly gaming "master classes" where leading professional gamers keep Unilever's marketing teams attuned to the latest developments and trends in gaming and virtual role playing.

Traditional marketing approaches often interrupt customers and force-feed them mass messages. Today's new digital media formats let marketers reach smaller communities of consumers in more engaging ways. For example, consumers can now watch their favorite television programs on just about any screen—on televisions but also tablets, smartphones, or laptops. And they can choose to watch programs whenever and wherever they wish, often without commercials. Increasingly, programs, ads, and videos are being produced only for online viewing.

Despite this shift toward digital, traditional mass media remain important. Thus, rather than the old-media model collapsing completely, most marketers foresee a shifting mix of both traditional mass and digital media that engages more-targeted consumer communities in a more personalized way. In the end, the key is to integrate all these communications channels and media to best engage customers, communicate brand messages, and enhance customer experiences.

Content marketing
Creating, inspiring, and sharing brand messages and conversations with and among consumers across a fluid mix of paid, owned, earned, and shared communications channels and media.

The roles and skill sets of marketing communicators are also evolving. Rather than just creating and placing "TV ads" or "print ads" or "Instagram stories," many marketers now view themselves more broadly as **content marketing** managers. As such, they create, inspire, and share brand messages and conversations with and among customers across a fluid mix of *paid, owned, earned,* and *shared* communication channels and media. These channels include media that are both traditional and new as well as controlled and not controlled. As one ad agency executive notes: "It's about [communications] context and channels now, rather than just the message itself. It's about mapping the customer journey to start a conversation with consumers, one that leads to engagement, purchase, loyalty, and advocacy at different touchpoints against this integrated journey" (see Real Marketing 14.1).[5]

The Need for *Integrated* Marketing Communications

Integrated marketing communications (IMC)
Carefully integrating and coordinating the company's communications channels to deliver a clear, consistent, and compelling brand and company message.

The shift toward a richer mix of media and content poses a problem for marketers. Consumers are now bombarded by brand messages from numerous sources. But companies often fail to integrate their various communication channels. A company's mass-media ads may say one thing, but its website, social media pages and posts, videos, or emails may say something different.

One problem is that marketing content may come from different parts of the company. Advertising messages are prepared by the marketing department or an ad agency. Other departments or agencies prepare public relations messages, sales promotion events, and online, mobile, or social media content. In the consumer's mind, such brand-related content from different sources—whether it's a Super Bowl ad, in-store display, mobile app, or friend's social media post—all merge into a single message about the brand or company. As a result, conflicting content can result in confused company images and fuzzy brand positionings.

FIGURE 14.1
Integrated Marketing Communications

Today's customers are bombarded by brand content from all directions. For example, think about all the ways you interact with companies such as Nike, Apple, or Coca-Cola. Integrated marketing communications means that companies must carefully coordinate all of these customer touch points to ensure clear brand messages.

Thus, the explosion of digital marketing media presents tremendous opportunities but also big challenges. It gives marketers rich new tools for understanding and engaging customers. At the same time, it complicates and fragments overall communications. The challenge is to bring it all together in an organized way. To that end, most companies practice the concept of **integrated marketing communications (IMC)**. Under this concept, as illustrated in **Figure 14.1**, the

Real Marketing 14.1 | Just Don't Call It Advertising: It's Content Marketing

In the good old days, life seemed so simple for advertisers. When a brand needed an advertising campaign, everybody knew what that meant. The brand team and ad agency came up with a creative strategy, developed a media plan, produced and placed a set of TV commercials and magazine or newspaper ads, and maybe issued a press release to stir up some news.

But in these digital times, the old practice of placing "advertisements" in well-defined "media" within the tidy framework of a carefully managed "advertising campaign" just doesn't work anymore. Instead, the lines are rapidly blurring between traditional advertising and new digital content. To be relevant, today's brand messages must be digital, social, mobile, interactively engaging, and multi-platformed.

The new digital landscape has called into question the very definition of advertising. "What Is Advertising Anyway?" asks one provocative headline. Call it whatever you want, admonishes another, but "Just Don't Call It Advertising." Instead, these days it's "content marketing," creating and distributing a broad mix of compelling content that engages customers, builds relationships with and among them, and moves them to act and advocate the brand to others. To feed today's digital and social media machinery and to sustain "always-on" consumer conversations, brands need a constant supply of fresh content across a breadth of traditional and digital platforms.

Many advertisers and marketers now view themselves more broadly as content marketing managers who create, inspire, share, and curate marketing content—both their own content and that created by consumers and others. Rather than using traditional media breakdowns, they subscribe to a new framework that builds on how and by whom marketing content is created, controlled, and distributed. The new classification identifies four major types of media: paid, owned, earned, and shared (POES):

Paid media. Promotional channels paid for by the marketer, including traditional media (such as TV, radio, print, or outdoor) and online and digital media (paid search ads, web and social media display ads, mobile ads, or email marketing).

Owned media. Promotional channels owned and controlled by the company, including company websites, corporate blogs, owned social media pages, proprietary brand communities, sales forces, and events.

Earned media. PR media channels, such as television, newspapers, blogs, online video sites, and other media not directly paid for or controlled by the marketer but that include the content because of viewer, reader, or user interest.

Shared media. Media shared by consumers with other consumers, such as social media, blogs, mobile media, and viral channels as well as traditional word of mouth.

In the past, advertisers focused on traditional paid (broadcast, print) or earned (public relations) media. Now, however, content marketers must develop integrated marketing content that leverages the combined power of all the POES channels.

The new "content marketing" campaigns look a lot different from the old "advertising" campaigns. For example, consider Tide's #TurnToCold campaign, aimed at reducing the environmental impact of consumers washing their clothes. As part of parent company P&G's Ambition 2030 sustainability initiative last year, Tide set a new goal—that by 2030 three out of every four loads of laundry in the United States will be washed in cold water. Two-thirds of Tide's climate impact comes not from making and distributing the product but from consumers washing clothes. And 90 percent of the energy required to do laundry comes from heating the water. With 25 billion loads of laundry done every year in North America, achieving Tide's objective would eliminate 4.25 million metric tons of greenhouse gas emissions annually, the equivalent of removing about one million cars from the road each year.

To that end, Tide launched its #TurnToCold campaign for Earth Month in April 2021. At the core of the campaign was a series of humorous ads. In the ads, people with cold names or associations "cold called" others to get the message out. Rapper Ice-T and retired wrestler "Stone Cold" Steve Austin called celebrities like Vanilla Ice and former NHL hockey player Mark Messier and stressed the benefits to the environment of cold-water washing with Tide as well as consumer benefits such as saving money on energy bills, extending the life and look of clothes, and getting clothes cleaner with new Tide cold-water formulations. "The concept of using cold callers and people with cold names was so sticky and memorable," says a P&G marketer.

The campaign's ads played heavily on good old TV. But befitting today's broader digital content environment, they also played across Tide's YouTube, Facebook, Instagram, and Twitter channels. And beyond the ads, on its own and working with partners, Tide created or inspired a deluge of other #TurnToCold marketing content. It posted campaign images, videos, and messages on the brand's many social media pages. And it

Content marketing: As the lines are rapidly blurring between traditional advertising and new digital content, many marketers now view themselves more broadly as content marketing managers who create, inspire, share, and curate marketing content—both their own and that created by consumers and others.

designer491/Shutterstock

launched a #TurnToCold microsite with full campaign messaging, an energy savings calculator, a "Take the Pledge" button, and a dashboard showing real-time results for savings on energy bills ($8.6 million to date), CO_2 (18.1 million tons), and electricity used (enough to charge 2.3 billion phones).

To create even more and more varied content, Tide partnered with other brands. Hanes hosted a "wash in cold" call to action on its packaging along with Tide POD samples and coupons. The World Wildlife Fund joined #TurnToCold celebrities in posting campaign videos and messages to its digital channels. And Tide soon announced a partnership with the National Football League, taking the campaign into the hearts and laundry rooms of 80 million households of passionate fans. As spokesperson for the NFL, Indianapolis Colts quarterback Matty "Ice" Ryan joined the cold-calling teams in posting the ads and videos. To generate buzz, 16 NFL teams committed to washing their team laundry in cold water. The NFL was perfect for illustrating Tide's cleaning power in cold water. "The NFL does one million pounds of grass-stained, sweaty laundry every season," notes a P&G spokesperson. "If equipment managers can trust washing in cold water with Tide, so can dads and moms at home."

The NFL partnership kicked Tide's earned content campaign into high gear in the form of a national media blitz. Executives from both Tide and the NFL spoke with the media and issued press releases. Matty Ice conducted interviews across national TV, print, and digital media outlets. Players from each NFL team spoke to local media. And to create even more involvement and buzz, Tide announced a sweepstakes in which fans could win a Tide Cold Washer—a customized washing machine featuring the voices of NFL players urging people to wash on cold.

With the Tide brand team, celebrities, and partners all creating and posting #TurnToCold content across a full range of POES channels, the campaign's message has been seen and shared broadly by the large followings of each organization and celebrity. For example, a single Instagram video announcing the Tide Cold Washer sweepstakes was viewed more than 500,000 times. And the NFL partnership alone generated 220 earned placements in business, trade, sports, and entertainment outlets, including write-ups in *Variety*, *People*, *ProFootballTalk*, Yahoo.com, *Forbes*, and *USA Today*. In all, awareness for #TurnToCold among Tide consumers is up 21 percent since the start of the campaign.

So we can't just call it "advertising" anymore. Today's shifting and sometimes chaotic marketing communications environment calls for more than just creating and placing ads in well-defined and controlled media spaces. Rather, like Tide's #TurnToCold brand team, today's marketing communicators must be marketing content strategists, creators, connectors, and catalysts who manage brand conversations with and among customers and help those conversations catch fire across a fluid mix of channels. That's a tall order, but with today's new thinking, anything is POES-ible![6]

---

company carefully integrates its communication channels to deliver a clear, consistent, and compelling brand and company message.

Different media can play unique roles in engaging, informing, and persuading consumers. For example, a recent study showed that more than two-thirds of marketers now plan video ad campaigns that stretch across viewing platforms such as traditional TV and digital, mobile, and social media. Such *cross-platform* campaigns combine TV's core strength—vast reach—with digital's superior targeting, interaction, and engagement. These varied media and roles must be carefully coordinated under the integrated marketing communications plan. This coordination is becoming critically important as customers themselves are now navigating across channels and media in the purchase process.

One good example of a well-integrated marketing communications effort is automaker Land Rover's "Above & Beyond" integrated marketing communications campaign, which combines the clout and reach of traditional media with the power of digital media to create deep customer engagement:[7]

> The 75-year-old Land Rover brand uses plenty of good old traditional media advertising to drive home its luxury performance and outdoor adventure positioning. It runs Super Bowl spots, big-budget television ads, more targeted broadcast ads on AMC, ESPN, Food Network, and NFL Network, and print ads in *Architectural Digest*, *GQ*, *Wired*, *Vogue*, *The Wall Street Journal*, and other print media. But the Land Rover campaigns also integrate web and social media content that enriches the customer experience in ways that traditional media can't.
>
> For example, the Land Rover Stories section of the brand's website features travelogs in which adventure photographers relate their personal experiences riding Land Rovers through rugged and picturesque landscapes, each story illustrated with stunning visuals. The brand recently produced and posted a video series capturing the adventures of a couple and their young child during a trip across Europe in a Land Rover Discovery. And in another social media campaign, the company sought nominations from Land Rover owners and brand fans for its Defender Above & Beyond Service Awards, given to not-for-profit service organizations in categories such First Responders, Animal Welfare, and Coastal and Marine Conservation. Winning organizations in each category were awarded new-model Land Rover Defenders equipped to their specific needs. Videos highlighting the award

Integrated marketing communications: Land Rover's "Above & Beyond" marketing campaign integrates the clout and reach of traditional media with the power of digital and social media to create deep and personal customer engagement.

winners and their vehicles drew views and reactions across a wide range of social media platforms.

Thus, beyond the broad reach of its mass media advertising, Land Rover's digital integrations have earned it a host of engaged owners and fans. The brand boasts 16 million Facebook followers, 813,000 YouTube subscribers, 900,000 Twitter followers, and 8.8 million Instagram faithful who engage by the thousands with every post. By comparison, competitor Toyota's Landcruiser attracts only a paltry 115,500 Facebook followers and 88,000 Instagram fans.

To implement integrated marketing communications, many companies now appoint a marketing communications director who is responsible for coordinating the various promotion tools and the promotion mix. This increases communications consistency and sales impact. The communications director must unify the company and brand images as they are shaped across ever-expanding cross-platform communications activities.

Author Comment | To develop effective marketing communications, you must first understand the general communication process.

Developing Effective Marketing Communication

OBJECTIVE 14-3 Outline the communication process and the steps in developing effective marketing communications.

A View of the Communication Process

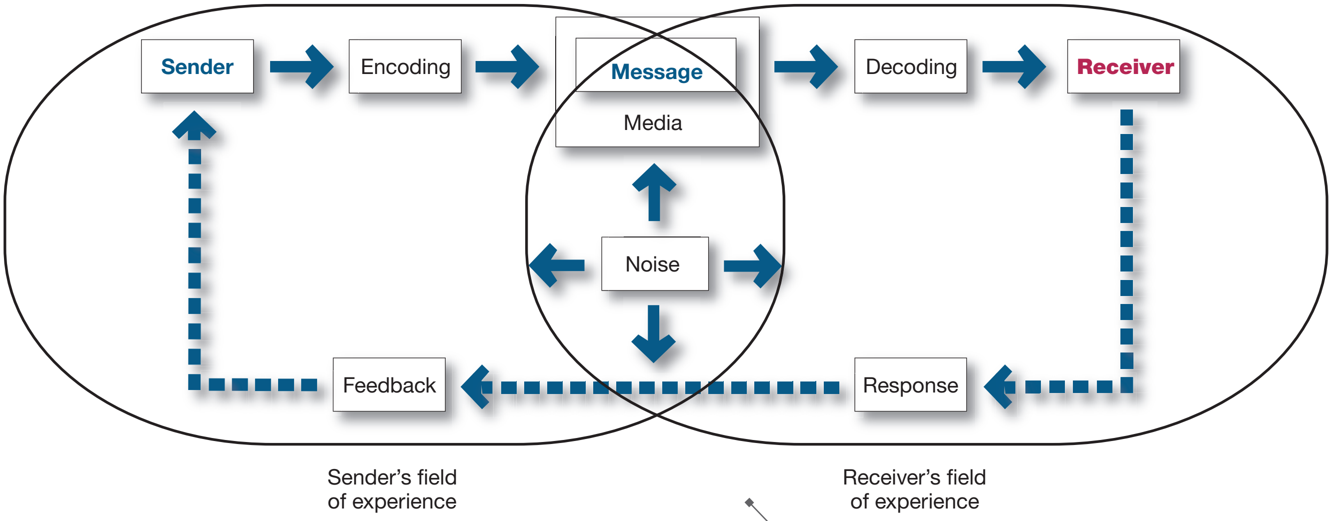
Too often, marketing communications focus on immediate and narrow goals related to brand awareness, perception, or preferences in the target market. But this approach is shortsighted. In contrast, integrated marketing communications involves identifying the target audience and shaping a well-coordinated promotional program across media and channels to obtain the desired audience response. Today, marketers are moving toward viewing IMC as an integral part of managing ongoing customer engagement and relationships with the company and its brands.

Customers differ. Therefore, communications programs must be developed for specific segments and even individuals. Further, today's communications technologies are increasingly two-way and interactive. Therefore, companies must ask not only "How can we engage our customers?" but also "How can we let our customers engage with us and with each other?"

Thus, the communications process should start with an audit of all the potential touch points between target customers and the company. For example, someone purchasing a new phone plan may talk to others, see television or magazine ads, visit online sites for prices and reviews, and check out plans at Best Buy, Walmart, or a wireless provider's kiosk or store. Marketers need to assess what influence each communication experience will have at different stages of the buying process. Based on this understanding, marketers can effectively allocate their communications budget.

To communicate effectively, marketers also need to understand how communication works. Communication involves the nine elements shown in **Figure 14.2**. Two elements are the major parties in a communication—the *sender* and the *receiver*. Two are the major communication tools—the *message* and the *media*. Four more are major communication functions—*encoding*, *decoding*, *response*, and *feedback*. The last element is *noise* in the system. These elements are now defined and applied to a Coca-Cola "Real Magic" commercial or other brand content.

FIGURE 14.2
Elements in the Communication Process



There's a lot going on in this model. For example, apply this model to Coca-Cola. To create great marketing content—such as the brand's "Real Magic" campaign—Coca-Cola must thoroughly understand its customers and how communication works.

- *Sender.* The *party sending the message* to another party—here, Coca-Cola.
- *Encoding.* The process of *putting thought into symbolic form*—for example, Coca-Cola's ad agency assembles words, sounds, and illustrations into a TV ad of social media video that will convey the intended message.
- *Message.* The *set of symbols* that the sender transmits—the actual Coca-Cola ad or video.
- *Media.* The *communication channels* through which the message moves from the sender to the receiver—in this case, specific television programs or social media platforms that Coca-Cola's selects.
- *Decoding.* The process by which the receiver *assigns meaning to the symbols* encoded by the sender—a consumer watches and interprets the words and images in the Coca-Cola commercial or video.
- *Receiver.* The *party receiving the message* sent—the customer who watches the Coca-Cola content.
- *Response.* The *reactions of the receiver* after being exposed to the message—any of hundreds of possible responses, such as the consumer likes Coca-Cola better, is more likely to drink Coca-Cola next time, advocates Coca-Cola to a friend, or does nothing.
- *Feedback.* The part of the *receiver's response communicated back to the sender*—Coca-Cola's research shows that consumers notice and remember the ad, post messages to Coca-Cola on its social media sites praising or criticizing the ad, or refer to the content on their own social media pages.
- *Noise.* The *unplanned static or distortion* during the communication process, which results in the receiver getting a weaker or different message than the one sent—the consumer could be distracted and miss the key points, a high-profile news event could overshadow the ad or video, or a breaking story about the negative health effects of carbonated drinks could blunt Coca-Cola's message.

For a message to be effective, the sender's encoding process and the receiver's decoding process must align. The best messages consist of words and symbols that are familiar to the receiver. The more the sender's field of experience overlaps with that of the receiver, the more effective the message is likely to be. Marketing communicators may not always *share* the customer's field of experience. For example, an advertising copywriter from one socioeconomic level might create content for customers from another level—say, wealthy business owners. To communicate effectively, the copywriter must nevertheless *understand* the business owner's field of experience.

This model highlights the key factors in good communication. Senders must know what audiences they wish to reach and what responses they want from them. They must encode messages that account for how target audiences will likely decode them. They must send messages through media that reach target audiences, and they must develop feedback channels to assess an audience's response to the message. Also, given today's interactive media, companies must be prepared to "flip" the communications process—to become good receivers of and responders to messages sent by consumers.

Author Comment | Now that we understand how communication works, it's time to turn all of those promotion mix elements into an actual marketing communications program.

Steps in Developing Effective Marketing Communication

To develop an effective integrated communications and promotion program, marketers must do the following: identify the target audience, determine the communication objectives, design a message, choose the media through which to send the message, select the message source, and collect feedback.

Identifying the Target Audience

A marketing communicator starts with a clear target audience in mind. The audience may be current or potential buyers, those who make the buying decision or those who influence it. The audience may be individuals, groups, special publics, or the public at large. The target audience will affect *what* will be said, *how* it will be said, *when* it will be said, *where* it will be said, and *who* will say it.

Determining the Communication Objectives

Five As
The five customer journey stages on the path from awareness of a brand to advocating it to others: awareness, appeal, ask, act, and advocacy.

Next, marketers must determine the desired response from the target audience. In many cases they will seek a purchase response. But purchases are only part of a broader customer journey—the sum of experiences consumers have with a brand. More broadly, marketing communicators aim to build customer–brand relationships and guide customers through the **five As** of the customer journey: *awareness* (I know about the product), *appeal* (I like the product), *ask* (I want to know more and be engaged with the brand), *act* (I'm buying and relating to the product), and *advocacy* (I'm telling others about the product).[8] The goal is to create experiences that will keep customers on the path of the five As.

Consumers in the marketing communicator's target market may be totally unaware of the brand, or they may not actively consider or engage with it. Thus, marketers often must first build active awareness and engagement, then move consumers to purchase and advocacy. ● An example is financial services firm Greenlight Financial Technology:[9]

● **Moving customers through the customer journey: Financial services firm Greenlight built awareness among potential customers with a creative Super Bowl ad. "Every time a parent hears about Greenlight, they love it."**

Courtesy of Greenlight

> Greenlight offers a prepaid debit card and app for kids and teens that lets parents help their children learn to manage their finances—saving, earning, spending, and investing. Although 5 million parents and kids already used Greenlight, the company saw tremendous potential among would-be customers who were not yet aware of the service. So, to boost awareness, Greenlight took extraordinary measures. It spent nearly $7 million on a Super Bowl LVI ad titled "I'll Take It." The humorous ad starred Ty Burrell, the actor who spent 11 years portraying "America's dad" Phil Dunphy on the hit sitcom *Modern Family*. In the ad, Burrell has difficulty resisting silly financial temptations ranging from a jetpack to a boat dubbed Tytanic. Instead of saying no, he simply says, "I'll take it."
>
> The goal of the ad was to "shine a light on the world of money for families and empower parents to raise financially-smart kids." The ad concluded with a dad telling

his approving children, "And that's why mom and I use Greenlight to teach you about money." The cost of the ad might seem steep for a relatively small company. But given the Super Bowl's more than 90 million viewers, Greenlight figured it was worth the 8-cents-per-person price. "Our whole investment [centers] around trying to increase the awareness of Greenlight, because every time a parent hears about Greenlight, they love it," says Greenlight's CEO. "Usually they'll say, 'I've been looking for something like that.'"

Of course, effective communications alone cannot drive engagement, preference, and purchases. The product itself must provide superior customer value. In fact, great marketing communications can speed the demise of poor products. The more quickly consumers learn about a poor product, the more quickly it fails. Thus, good marketing communication calls for "good deeds followed by good words."

Designing a Message

Having defined the desired audience response, the marketing communicator must then craft the message—deciding what to say (message content) and how to say it (message structure and format).

Message Content. The marketer must figure out an appeal or theme that will produce the desired responses. There are three types of appeals: rational, emotional, and moral. *Rational appeals* relate to the audience's self-interest. They highlight a product's quality, economy, value, or performance to show that it will deliver the desired benefits. Thus, an Aleve ad claims: "More pills doesn't mean more pain relief. Aleve has the strength to keep back, body, and arthritis pain away all day with fewer pills than Tylenol." Rational claims do not necessarily rely on words and numbers. Land Rover credibly demonstrated its off-roading capabilities with a video ad of a Range Rover Sport SUV carving its way down from the summit of a mountain in the Swiss Alps. And a video commercial for Flex Tape waterproof duct tape showed a wooden boat sawed in half being put back together with the super-strong, waterproof adhesive tape.[10]

Emotional appeals—ranging from love, joy, and humor to fear and guilt—invoke positive or negative emotions that can motivate purchase or other actions. Advocates of emotional messages claim they are better than rational messages at drawing attention and create strong beliefs. They reason that consumers often feel before they think and that persuasion is emotional in nature. The ASPCA does a great job of raising money and support for its good works by designing emotional television, print, and digital advertising that highlights the plight of suffering animals. Its ads tug at people's heartstrings while encouraging them to contribute to animal welfare support or to adopt a shelter animal.[11]

Moral appeals are directed to an audience's sense of what is "right" and "proper." They are often used to urge people to support social causes, such as a cleaner environment or aid to the disadvantaged. For example, a World Wildlife Fund ad shows two human lung-shaped forests side by side with one lung partially destroyed, calling for society to reduce environmental degradation and forest habitat destruction "Before it's too late." Another WWF ad series shows endangered wildlife species with a call to protect them in the face of climate change. And a Colgate ad campaign urges people to "Close the tap while brushing" their teeth. One ad shows a young boy in a developing economy with a water bucket atop his head, noting, "What you waste in two minutes is all his family needs for a day."

Emotional appeals: The ASPCA's ads use emotional appeals to tug at people's heartstrings while encouraging them to contribute to animal welfare support or to adopt shelter animals.

ASPCA® The American Society for the Prevention of Cruelty to Animals®

Message Structure. Marketers must make three decisions related to message structure. The first is whether to draw a conclusion or leave it to the audience. Research suggests that the advertiser is often better off asking questions and letting buyers come to their own conclusions. The second is whether to present the strongest arguments first or last. Presenting them first gets strong attention but may lead to an anticlimactic ending. Ending on a high note is usually better, especially if the aim is to get the customer to take some action.

The third is whether to present a one-sided argument (mentioning only the product's strengths) or a two-sided argument (mentioning both strengths and shortcomings). Usually, a one-sided argument is more effective in sales presentations—except when audiences are highly educated, skeptical, or likely to hear opposing claims or when the communicator has a negative association to overcome. In this spirit, Listerine ran the message "Listerine tastes bad twice a day." In such cases, two-sided messages can enhance an advertiser's credibility and help repel competitor attacks.

Message Format. The marketing communicator also needs a strong *format* for the message. In a print ad, the communicator has to decide on the headline, copy, illustration, and colors. To attract attention, advertisers can use novelty and contrast; eye-catching pictures and headlines; distinctive formats; message size and position; and color, shape, and movement. They can also entice viewers into mentally interacting with the ad. For example, a classic Volkswagen print ad brought to life the precision parking capability offered by Volkswagen's Park Assist technology. It highlighted the risks associated with the tight squeeze when parallel parking in a small space between two cars. The ad featured a simple, clever layout showing a spiky hedgehog parked between fragile bags of water containing goldfish. Anything less than precise parking would mean the end of the goldfish. As another example, Reese's Peanut Butter Cup ads are bold and simple. They feature the brand's familiar orange, yellow, and brown colors with text overlaying images of the classic candy. They feature clever headlines that unite the candy's two distinctive ingredients, such as "Chocolate and peanut butter walked into a bar. The rest is history."

Message format: To attract attention, advertisers can use novelty and contrast, eye-catching images and headlines, and distinctive formats, as in this Volkswagen ad.

Park Assist by Volkswagen

Communicators plan every detail carefully. In television or video messages, the communicator must incorporate motion, pace, and sound. When it comes to the product and packaging, the communicator must evaluate texture, scent, color, size, and shape. Color alone can significantly enhance message recognition for a brand—think about Target (red), John Deere (green and yellow), Twitter (blue), or Home Depot (orange). Thus, designing effective marketing communications calls for both creativity and painstaking attention to detail.

Choosing Communication Channels and Media

The communicator must next select the *channels of communication*. There are two broad types of communication channels: *personal* and *nonpersonal*.

Personal communication channels
Channels through which two or more people communicate directly with each other, including face-to-face, on the phone, via mail or email, on social media, or even through an internet "chat."

Personal Communication Channels. In **personal communication channels**, two or more people communicate directly with each other. They might communicate face-to-face, on the phone, via mail or email, on social media, or even through texting or chat. Personal communication channels are effective because they allow for personal addressing and feedback.

Some personal communication channels are controlled by the company. For example, company salespeople may interact with potential buyers. But other personal communications channels are not directly controlled. These channels include independent experts—consumer advocates, bloggers, and others—making statements to buyers. Or they might be neighbors, friends, family members, associates, or other customers interacting with target buyers or existing customers in person, via social media, within online

Personal communications channels: Red Bull's more than 4,000 Student Marketeers globally connect directly with Red Bull fans to generate awareness, excitement, and unforgettable brand experiences. They are "the face of the brand."

Zain Jafar/Red Bull Content Pool

consumer communities, or through other interactive channels. Today, such **word-of-mouth influence** strongly influences consumer decisions.

Personal influence carries great weight, especially for expensive, risky, or highly visible products. Recommendations from friends and family are by far the most influential: 92 percent of consumers believe suggestions from friends and family more than advertising. And 88 percent of people trust online reviews written by other consumers as much as they trust recommendations from personal contacts.[12]

Is it any wonder, then, that few consumers buy a big-ticket item before evaluating viewer feedback on a site such as Amazon.com? And who hasn't made an Amazon purchase based on the "Customers who bought this also bought. . ." section or decided against purchase because of negative customer reviews?

Companies must put personal communication channels to work for them. As discussed in Chapter 5, they can hire or create *opinion leaders* for their brands—people whose opinions are sought by others—by supplying influencers with the product on attractive terms or by educating them so that they can inform others. **Buzz marketing** involves cultivating opinion leaders and getting them to spread information about a product or a service to others in their communities.

For example, to reach its primarily 18- to 35-year-old target market, energy drink Red Bull has assembled an army of more than 4,000 "Student Marketeers" around the globe who generate awareness and excitement for the product and brand. The Student Marketeers serve as Red Bull brand ambassadors who "Get Wiiings. Give Wiiings," by connecting directly with Red Bull customers on campuses or at events and ensuring unforgettable brand experiences. They are "the face of the brand." Red Bull describes them as "charming, fun-loving, entrepreneurial, and dynamic individuals . . . who drive product trial, support sales, and work at Red Bull Events, . . .winning the hearts and minds of our customers through highly personalized interactions."[13]

Word-of-mouth influence
The impact of the personal words and recommendations of trusted friends, family, associates, and other consumers on buying behavior.

Buzz marketing
Cultivating opinion leaders and getting them to spread information about a product or a service to others in their communities.

Nonpersonal communication channels
Media that carry messages with minimal personal contact or feedback, including major media, atmospheres, and events.

Nonpersonal Communication Channels

Nonpersonal communication channels are media that carry messages with minimal personal contact or feedback. They include major media, atmospheres, and events. Major *media* include broadcast media (television, radio), print media (newspapers, magazines, direct mail), display media (billboards, signs, posters), and online and digital media (email, websites, and mobile and social media). *Atmospheres* are designed environments that create or reinforce the buyer's leanings toward buying a product. For example, lawyers' offices and banks are designed to communicate confidence and other qualities valued by clients. *Events* are staged occurrences that communicate messages to target audiences. For example, brands arrange shows and exhibits, public tours, and other events.

Nonpersonal and personal communications work best when coordinated well. Nonpersonal communications might first flow from television, magazines, and other mass media to opinion leaders and consumers, who may then interact at a more personal level. Influencers and opinion leaders can also carry mass-media messages to people who are less exposed to such media. Interestingly, marketers often use nonpersonal channels to mimic personal communications by embedding endorsements or word-of-mouth testimonials from consumers and experts in their television ads and other promotions.

Selecting the Message Source

In personal and nonpersonal communication, messages delivered by highly credible or popular sources are more persuasive. Thus, many companies promote to doctors, dentists, and other health-care providers to motivate these professionals to then recommend specific products to their patients. And marketers hire celebrity endorsers—well-known athletes, actors, and musicians—to deliver their messages. A host of NBA superstars lend their images to brands such as Nike, McDonald's, and Coca-Cola. Actress Sophia Vergara speaks for CoverGirl, State Farm, Comcast, Rooms to Go, and other brands and has her own Kmart clothing line. And Kim Kardashian was recently appointed Beyond Meat's Chief Taste Consultant. "I believe so much in the mission of Beyond Meat that I've stepped in to help with my greatest asset," Kardashian says in a video for the plant-based meat company. "My taste."[14]

But companies must select celebrity brand endorsers carefully. Picking the wrong spokesperson can tarnish the brand. For example, a dozen or more big brands—including Nike, Anheuser-Busch, Oakley, Trek bikes, and Giro helmets—were hurt when pro cyclist Lance Armstrong was stripped of his Tour de France titles and banned from competitive cycling for using performance-enhancing drugs. Armstrong once earned nearly $20 million in endorsement income in a single year. "Arranged marriages between brands and celebrities are inherently risky," notes one expert. "Ninety-nine percent of celebrities do a strong job for their brand partners," says another, "and 1 percent goes off the rails."[15]

Collecting Feedback

After sending the message, the communicator must understand its effect on the target audience. This involves marketing research to obtain information about whether target audience members remember the content, how often they saw it, what points they recall, how they felt about the content, and their past and present attitudes and behaviors toward the brand and company. Communicators can ask targeted consumers for this information. In addition, information related to many consumer actions can now be collected by digitally tracking consumer location, online browsing and search, and purchases.

Feedback on marketing communications may suggest changes in the marketing mix. For example, Macy's uses television, newspaper, and mobile advertising to inform area consumers about its stores, services, and merchandising events. Suppose feedback research shows that 80 percent of all shoppers in an area recall seeing the store's ads and are aware of its merchandise and sales. Sixty percent of these aware shoppers have visited a Macy's store in the past month, but only 20 percent of those who visited were satisfied with the shopping experience. These results suggest that although promotion is creating awareness, Macy's stores aren't giving consumers the satisfaction they expect. Therefore, Macy's needs to improve the shopping experience while retaining the successful communications program.

In contrast, suppose research shows that only 40 percent of area consumers are aware of the store's merchandise and events, only 30 percent of those aware have shopped recently, but 80 percent of those who have shopped return soon to shop again. In this case, Macy's needs to strengthen its promotion program to take advantage of its power to create customer satisfaction in the store.

Author Comment | In this section, we'll look at the promotion budget–setting process and at how marketers blend the various marketing communication tools into an effective integrated promotion mix.

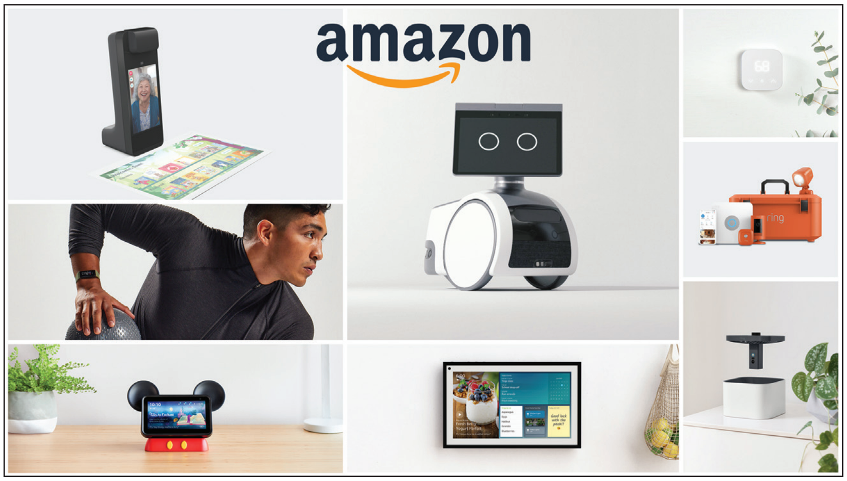
Setting the Total Promotion Budget and Mix

OBJECTIVE 14-4 Explain the methods for setting the promotion budget and factors that affect the design of the promotion mix.

We have looked at the steps in planning and sending communications to a target audience. But how does the company determine its total *promotion budget* and its allocation across the major promotional tools to create the *promotion mix*? By what process does it blend the tools to create integrated marketing communications? We now look at these questions.

Setting the Total Promotion Budget

One of the hardest marketing decisions facing a company is how much to spend on promotion. John Wanamaker, the department store mogul, once said, "I know that half of my



Setting the promotion budget: Amazon, the world's largest advertiser, spends $11.5 billion a year building its brand and advertising its full breadth of products and services. But is that too little, just right, or too much?

advertising is wasted, but I don't know which half. I spent $2 million for advertising, and I don't know if that is half enough or twice too much." For example, Amazon, the nation's largest advertiser, spends $11.5 billion a year building its brand and advertising its full breadth of products and services. But is that too little, just right, or too much? A perfect answer is difficult to find. Industries and companies within industries vary widely in how much they spend on promotion. Promotion spending may be 10 to 12 percent of sales for consumer packaged goods, 20 percent for cosmetics, and only 1.9 percent for household appliances.[16]

How does a company determine its promotion budget? Here, we look at four common methods used to set the total budget for promotion: the *affordable method*, the *percentage-of-sales method*, the *competitive-parity method*, and the *objective-and-task method*.

Affordable Method

Affordable method
Setting the promotion budget at the level management thinks the company can afford.

Companies using the **affordable method** set the promotion budget at the level they think they can afford. Small businesses often use this method. They start with total revenues, deduct operating expenses and capital outlays, and then devote some portion of the remaining funds to promotion.

Unfortunately, this method ignores the effects of promotion on sales. It tends to place promotion last among spending priorities, even when promotion is critical to the firm's success. It leads to an uncertain annual promotion budget, which makes long-range market planning difficult. Usually, though not always, the affordable method results in underspending on promotion.

Percentage-of-Sales Method

Percentage-of-sales method
Setting the promotion budget at a certain percentage of current or forecasted sales.

Companies that use the **percentage-of-sales method** set their budget at a certain percentage of current or forecasted sales. The method is simple to use and helps management think about the relationships between promotion spending, prices, and profit per unit.

Despite these claimed advantages, however, the percentage-of-sales method wrongly views sales as the *cause* of promotion rather than as the *result*. Of course, stronger brands with higher sales can afford the biggest ad budgets. Thus, the percentage-of-sales budget is based on the availability of funds rather than on opportunities. As a result, it may prevent the increased spending sometimes needed to turn around falling sales. Further, the budget varies with year-to-year sales, making long-range planning difficult. Finally, the method does not provide any basis for choosing a *specific* percentage, except what has been done in the past or what competitors are doing.

Competitive-Parity Method

Competitive-parity method
Setting the promotion budget to match competitors' outlays.

Companies using the **competitive-parity method** set their promotion budgets to match competitors' outlays. They monitor competitors' promotion activity or obtain industry promotion spending estimates from publications or trade associations and then set their budgets based on the industry average.

Two arguments support this method. First, competitors' budgets represent the collective wisdom of the industry. Second, spending what competitors spend helps prevent promotion wars. Unfortunately, neither argument is valid. There are no grounds for believing that the competition has a better idea of what a company should spend on promotion than does the company itself. Companies differ greatly and each has its own special promotion needs. Finally, there is no evidence that budgets based on competitive parity prevent promotion wars. In fact, if a competitor increases spending, the company ratchets up its own promotions in response under this method—this increases the intensity of competition.

Objective-and-Task Method

Objective-and-task method
Developing the promotion budget by (1) defining specific promotion objectives, (2) determining the tasks needed to achieve these objectives, and (3) estimating the costs of performing these tasks. The sum of these costs is the proposed promotion budget.

The most logical—and recommended—budget-setting method is the **objective-and-task method**. Here, the company sets its promotion budget based on what it wants to accomplish. This budgeting method entails (1) defining specific promotion objectives, (2) determining the tasks needed to achieve these objectives, and (3) estimating the costs of performing these tasks. The sum of these costs is the proposed promotion budget.

The advantage of this method is that it forces management to spell out its assumptions about the relationship between dollars spent and promotion results. The promotional outcomes can be tracked and evaluated accordingly. But it is also the most difficult method to use. Often, it is hard to figure out which specific tasks will achieve the stated objectives. For example, suppose Samsung wants a 95-percent-awareness level for its latest Galaxy smartphone model during the two-month introductory period. What specific advertising messages, brand content, and media schedules should Samsung use to attain this objective? How much would this content and media cost? Samsung management must consider such questions, even though they are hard to answer.

Author Comment | In this section, we'll look at how marketers blend the various marketing communication tools into a smooth-functioning, integrated, and engaging promotion mix.

Shaping the Overall Promotion Mix

The concept of integrated marketing communications suggests that the company must blend the promotion tools carefully into a coordinated *promotion mix*. But how does it determine what mix of promotion tools to use? Companies within the same industry differ greatly in their promotion mixes. For example, direct-to-consumer mattress maker Casper promotes its products primarily through its website and social media pages. By contrast, competitor Sleep Number uses a broad mix of promotional tools, from television ads and digital content to in-store personal selling and promotions. We now look at factors that influence the marketer's choice of promotion tools.

The Nature of Each Promotion Tool

Each promotion tool has unique characteristics and costs. Marketers must understand these characteristics in shaping the promotion mix.

Advertising. Advertising can reach large masses of dispersed buyers at a low cost per exposure. ● For example, 208 million Americans watched the most recent Super Bowl on TV and streaming media; the most recent Oscars telecast pulled in 16.6 million viewers.[17]

● **TV has vast reach: More than 96 million Americans watched the most recent Super Bowl on TV, and 42 percent of football fans watched Super Bowl ads on YouTube before, during, and after the game.**

KeyStock/Shutterstock

A TV ad's reach can now be extended through online and social media. A recent survey revealed that 20 percent of viewers tune in to the Super Bowl only to watch commercials, and 70 percent of them viewed commercials as entertainment. According to a Kantar survey, excluding those who had no interest in the Super Bowl, 72 percent of people rewatched at least some commercials before or after the game. In fact, YouTube launched a dedicated site—AdBlitz—that collected all Super Bowl LVI ads in categories including most comedic, dramatic, action-packed, and inspirational. In addition to the 200 million-plus TV viewers watching during the game, Amazon's Super Bowl "Mind Reader," which featured its Alexa interactive platform creating chaos in the lives of Scarlett Johansson and her spouse Colin Jost, gathered 69 million views on AdBlitz.[18] Thus, TV is still the place to be to reach a mass audience.

Beyond its reach, large-scale advertising sends positive signals about the seller's size, popularity, and success. Consumers view widely advertised products as being more legitimate. Advertising is also expressive; it allows the company to dramatize its products through the artful use of visuals, print, sound, and color. On the one hand, advertising can help build a long-term image for a product (such as Coca-Cola ads). Or advertising can trigger quick sales (as when Kohl's advertises local weekend specials).

Advertising also has some drawbacks. Mass-media advertising is impersonal and lacks the direct persuasiveness of company salespeople. For the most part, advertising can only ferry messages *to* an audience rather than support an interactive exchange. Advertising can also be very costly. Focused newspaper, radio, or online advertising can be done on smaller budgets, but network TV advertising requires very large budgets. For example, the Amazon Alexa 90-second "Mind Reader" ad during Super Bowl LVI cost $19.5 million for media time alone—or more than $216,000 per second—not counting the costs of producing the ad and paying for Johansson and Jost to feature in the ad.[19]

Personal Selling. Personal selling is very effective at certain stages of the buying process, particularly in building up buyers' preferences, convictions, and actions. It involves personal interaction between a seller and one or more customers. Firms with business customers often rely much more on personal selling than on advertising. The parties can gauge each other's needs, emotions, and reactions and respond accordingly. Personal selling allows all kinds of customer relationships to spring up, ranging from matter-of-fact selling relationships to personal friendships. An effective salesperson keeps customers' interests at heart to build long-term relationships by solving their problems. Finally, the buyer usually feels compelled to listen and respond, even if the response is a polite "No, thank you."

These unique qualities come at a cost, however. A sales force requires a longer-term commitment than does advertising—advertising can be turned up or down, but the size of a sales force is harder to change.

Sales Promotion. Sales promotion includes a wide assortment of tools—coupons, contests, discounts, premiums, and others. They attract consumer attention, engage consumers, offer strong incentives to engage, and can be used to dramatize product offers and boost sagging sales. Sales promotions invite and reward quick response. Whereas advertising says, "Buy our product," sales promotion says, "Buy it now." Sales promotion effects can be short lived, however, and often are not as effective as advertising or personal selling in building long-run brand preferences and customer relationships. In fact, poorly planned sales promotions can be unprofitable because, instead of attracting and retaining competitors' customers, they end up attracting existing customers who simply stock up at a lower price. To be successful, sales promotions must be tightly targeted at competitors' customers and new customers.

Public Relations. Customers often see well-designed public relations (PR) communications—whether news stories, features, sponsorships, or events—as more real and believable than ads. PR that is framed as "news and events" can also reach prospects who avoid sales- directed approaches such as the personal selling and advertisements. And, as with advertising, public relations can dramatize a company or product. While marketers tend to underuse public relations, a well-thought-out public relations campaign can be very effective when used in coordination with other promotion mix elements.

Promotion Mix Strategies

There are two basic promotion mix strategies: *push* promotion and *pull* promotion. **Figure 14.3** contrasts the strategies. A **push strategy** involves "pushing" the product through marketing channels to final consumers. The producer directs its marketing activities (primarily personal selling and trade promotion) toward channel members to induce them to carry the product and promote it to final consumers. For example, John Deere does very little promoting of its lawn mowers and garden tractors to final residential consumers. Instead, John Deere's sales force works with Lowe's, Home Depot, independent dealers, and other channel members, who in turn push the products to final consumers.

Push strategy
A promotion strategy that calls for using the sales force and trade promotion to push the product through channels. The producer promotes the product to channel members who in turn promote it to final consumers.

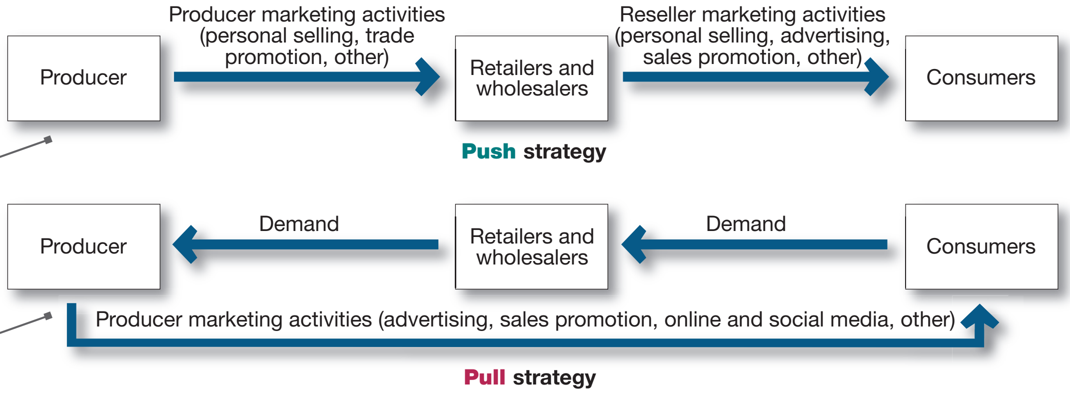
Using a **pull strategy**, the producer directs its marketing activities (primarily advertising content and consumer promotions) toward final consumers to induce them to engage with and buy the product. For example, P&G promotes its Tide laundry products directly to consumers using TV and print ads, websites and social media, and other channels. If the pull strategy is effective, consumers will then demand the brand from retailers such as Walmart, Target, Kroger, Walgreens, or Amazon, which will in turn demand it from P&G. Thus, under a pull strategy, consumer demand "pulls" the product through the channels.

Pull strategy
A promotion strategy that calls for targeting consumer advertising, promotion, and other content at final consumers to induce them to engage with and buy the product, creating a demand vacuum that "pulls" the product through the channel.

FIGURE 14.3
Push versus Pull Promotion Strategy

In a push strategy, the company "pushes" the product to resellers, which in turn "push" it to consumers.

In a pull strategy, the company promotes directly to final consumers, creating a demand vacuum that "pulls" the product through the channel. Most companies use some combination of push and pull.



The importance of different promotion tools varies between consumer and business markets. Business-to-consumer companies usually pull more, putting more of their funds into advertising, followed by sales promotion, personal selling, and then public relations. In contrast, business-to-business marketers tend to push more, putting more of their funds into personal selling, followed by sales promotion, advertising, and public relations. However, most companies use both. For example, P&G spends in the range of $8.6 billion each year on U.S. consumer advertising to create brand preferences and pull customers into stores that carry its products.[20] At the same time, it uses its sales force and trade promotions to push its brands through the channels so that they are in stock when consumers come calling.

Integrating the Promotion Mix

Having set the promotion budget and mix, the company must now ensure that each promotion mix element is smoothly integrated. Guided by the company's overall communications strategy, the promotion elements should work together to convey the firm's unique brand messages and selling points. Integrating the promotion mix starts with customers. Communications at each customer touch point must deliver consistent marketing content and positioning across the promotion mix elements. An integrated promotion mix ensures that communications efforts occur when, where, and how *customers* need them.

To achieve an integrated promotion mix, all of the firm's functions must jointly plan communications efforts. Many companies include customers, suppliers, and other stakeholders at various stages of the planning. Scattered or disjointed promotional activities can result in customer confusion. In contrast, an integrated promotion mix maximizes the combined effects of all a firm's promotional efforts.

Socially Responsible Marketing Communication

In shaping its promotion mix, a company must be aware of the relevant legal and ethical issues. Most marketers communicate openly and honestly. Still, abuses may occur. Public policy makers have developed laws and regulations to govern advertising, sales promotion, and personal selling—we discuss those next. We will discuss social responsibility issues regarding digital marketing in Chapter 17.

Advertising and Sales Promotion

By law, companies must avoid false or deceptive advertising. Advertisers must not make false claims, such as suggesting that a product cures something when it does not. They must avoid ads that have the capacity to deceive, even though no one actually may be deceived. An automobile cannot be advertised as getting 32 miles per gallon unless it does so under typical conditions, and diet bread cannot be advertised as having fewer calories simply because its slices are thinner.

Sellers must avoid bait-and-switch advertising that attracts buyers under false pretenses. For example, a large retailer advertised a sewing machine at $179. However, when consumers tried to buy the advertised machine, the seller downplayed its features, placed faulty machines on showroom floors, understated the machine's performance, and took other actions in an attempt to switch buyers to a more expensive machine. Such actions are both unethical and illegal.

A company's trade promotion activities also are closely regulated. For example, under the Robinson-Patman Act, sellers must make promotional allowances and services available to all resellers on proportionately equal terms.

Beyond simply avoiding legal pitfalls, companies now increasingly use advertising and other forms of promotion to champion socially responsible programs, actions, and ideas. Companies in almost every industry now support a range of social and environmental causes (see Real Marketing 14.2).

Real Marketing 14.2 | Promoting Social Responsibility: It's the Right Thing to Do

Most companies today have made social responsibility part of their corporate strategy, and they use advertising and marketing to promote socially responsible programs, actions, and ideas. More and more, companies and brands are taking a stand on relevant social issues, not just to make a buck but because it's the right thing to do. Let's look more deeply into three successful campaigns promoting social responsibility.

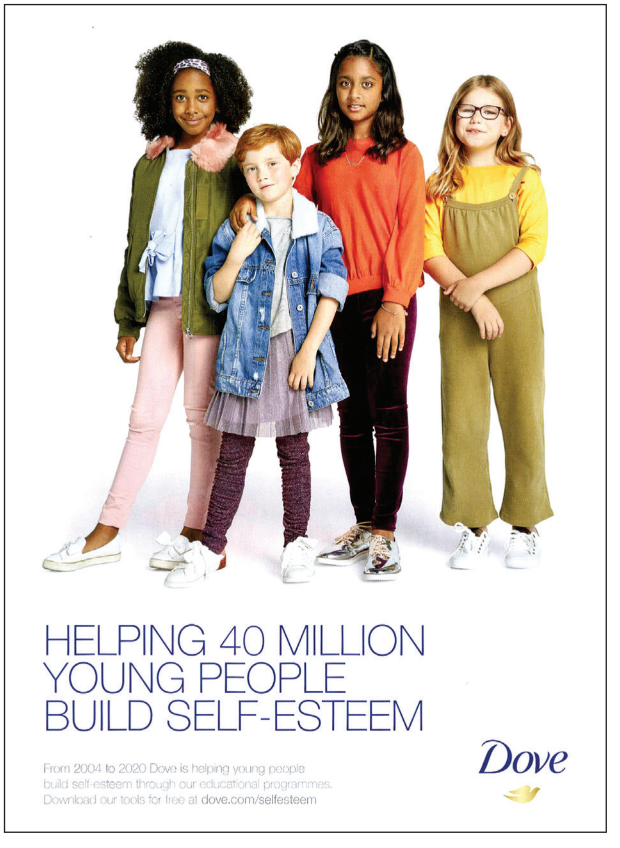
Dove: Defining Real Beauty

In 2004, Unilever's Dove brand launched what was to become an all-time classic social responsibility campaign. It all started with a Unilever study of the impact on women of defining beauty by the images seen in entertainment, in advertising, and on fashion runways. The startling result: Only 2 percent of 3,300 women and girls surveyed in 10 countries around the world considered themselves beautiful. Unilever's conclusion: It's time to redefine beauty.

The company launched the Dove Campaign for Real Beauty, dedicated to making "more women feel beautiful every day by broadening the definition of beauty." Ads featured candid and confident images of real women of all types (not actresses or models) and headlines that prompted consumers to ponder their perceptions of beauty. Among others, it featured full-bodied women ("Oversized or Outstanding?"), older women ("Gray or Gorgeous?" "Wrinkled or Wonderful?"), and a heavily freckled woman ("Flawed or Flawless?"). As the campaign's popularity skyrocketed, Dove introduced six new "real beauties" of various ethnicities and proportions, in sizes ranging from 6 to 14. These curvy women boldly appeared in magazines and on billboards wearing nothing but their underwear and big confident smiles.

The next iteration of the campaign, with a Super Bowl ad as its centerpiece, presented young girls battling self-esteem issues—not models, but real girls picked from schools, sports leagues, and Girl Scout troops. In the ad, one dark-haired girl wished she were a blond. Another thought she was ugly. A pretty young redhead hated her freckles. The campaign raised awareness that self-esteem is a real issue for young girls and urged people to get involved. Unilever set up the well-funded Self-Esteem Project, which works with renowned body image experts to develop educational programs and campaigns addressing self-esteem issues. Its aim is to educate one-quarter billion young people around the world on body confidence and self-esteem by 2030.

Over the years, the constantly-evolving Campaign for Real Beauty—consisting of ads, heavily-viewed digital videos, and other content—did much to serve the cause of helping women to be comfortable in their own skin. Although the campaign has officially passed into history, it lives on in new mission-driven Dove campaigns. For example, Dove's #MyBeautyMySay campaign features spot ads, longer videos, and images with stories of women who have stood up for their own beauty. And the now-15-year-old Dove Self-Esteem Project's #DetoxYourFeed campaign aims to empower teens to unfollow anyone or anything that doesn't make them feel good about themselves. Such campaigns have noble motives beyond sales and profits. But they have also contributed to Dove's success. During the first decade of the Campaign for Real Beauty, for example,



Dove's classic Campaign for Real Beauty helped to redefine beauty and make women feel beautiful every day. The brand's now-15-year-old, well-funded Dove Self-Esteem Project has raised awareness that self-esteem is a real issue for young girls and is educating young people around the word in body confidence and self-esteem.

Retro AdArchives/Alamy Stock Photo

the brand's annual revenues grew from $2.5 billion to more than $4 billion.

Walgreens: "Red Nose Day"

Walgreens supports Red Nose Day, a fund-raising effort to help end child poverty across the United States and around the world. To back its corporate commitment to child health, education, and well-being, Walgreens stepped forward eight years ago to become the official and exclusive retailer of Red Nose Day's Red Noses in the United States. Every year, in the weeks leading up to Red Nose Day, Walgreens promotes and sells Red Noses online and in each of its 9,000 U.S. stores serving 9 million customers each day. It sells the Red Noses for $1 each and donates the proceeds to Comic Relief US's Red Nose Day initiative.

Beyond selling Red Noses and collecting customer donations in stores and online, Walgreens supports Red Nose Day with a fully integrated marketing content campaign. In addition to its own website, social media support, and email channels, Walgreens promotes Red Nose Day through paid media that include TV ads, online video, social media, influencers, and podcasts. Walgreens also promotes Red Nose Day with events and challenges. For example, it invites everyone everywhere to donate and then post their Digital Red Nose selfies to show their support for the cause while challenging their friends to do the same.

Walgreens isn't alone in supporting Red Nose Day. But as the only outlet where official Red Nose Day noses can be purchased, it plays an essential role in moving people to donate. Each year, Walgreens generates more than a billion campaign impressions for Red Nose Day. More important, in its first eight years, Red Nose Day raised more than $275 million—$140 million of which was raised by Walgreens—and positively impacted more than 30 million children. "By focusing our efforts on initiatives like Red Nose Day," says a Walgreens executive, "we create a unique and powerful opportunity for our customers and the communities we serve to come together to help make an impact on a worthwhile cause like child poverty. By choosing Walgreens, our customers choose to make a difference in the life of a child in need."

The NFL: Football Is for Everyone

A few years ago, the NFL's new chief marketing officer noted that although overall ratings were strong, the league's 12-to-24-year-old audience was steadily declining. The reason: Young viewers were turned off by how the NFL was dealing with controversial social issues. The NFL knew that if it fell out of favor with young people, its future would be in trouble. So it set out to craft a new marketing strategy that reflected a more progressive approach to social justice.

The league began by admitting it had erred in how it responded to player protests, such as player Colin Kaepernick kneeling during the national anthem to call attention to the issues of racial inequality, police brutality, and the BlackLivesMatter movement. But the NFL made a much bigger move when it launched its "Football Is for Everyone" campaign. In the wake of Las Vegas Raiders defensive end Carl Nassib becoming the first active NFL player to come out as gay, the first ad of the "Football Is for Everyone" campaign opened boldly with the statement, "Football is gay." Then, to a drum solo and cheers, the ad progressed through more than a dozen phrases including, "Football is lesbian," "Football is culture," "Football is transgender," "Football is freedom," "Football is heart," "Football is everything," and finally, "Football is for everyone."

Today, a kinder, more-inclusive NFL has adopted a "helmets-off" marketing approach that places more emphasis on diverse player personalities. It gives NFL players a bigger platform to talk about the causes they believe in, a direct effort to make up for the league's failures with Kaepernick. One NFL program, "My Cause, My Cleats," features players plugging their personal causes, ranging from social justice to health and wellness initiatives. And the NFL has committed to spending $250 million over 10 years to help advance social justice issues via donations to relevant organizations.

Such inclusive and socially-responsible actions appear to be working. During 2020, for example, the NFL was the only pro sports league to grow its base among avid male fans aged 12 to 17. This past season, televised NFL games drew their highest ratings since 2015; the league's Thanksgiving Day ratings were the highest since 1998. Before the change in marketing strategy, says one advertising executive, "football was portrayed in one way: It was alpha male-centric, almost [like] these gladiators." Now, the NFL's spotlighting of diverse players, personalities, and ideas "goes to the diversity of who these people are and what they believe in." And that is the kind of thing that appeals to a young audience.[21]

Personal Selling

Salespeople must follow the rules of "fair competition." Most states have enacted deceptive sales acts that spell out what is not allowed. For example, salespeople may not lie to consumers or mislead them about a product. To avoid bait-and-switch practices, salespeople's statements must match advertising claims.

Different rules apply to consumers who are called on at home or who buy at a location that is not the seller's permanent place of business. People who are called on may be taken by surprise and may be vulnerable to high-pressure selling. Therefore, the Federal Trade Commission (FTC) has adopted a *three-day cooling-off rule*. Under this rule, customers who agree in their own homes, workplace, dormitory, or facilities rented by the seller on a temporary basis—such as hotel rooms, convention centers, and restaurants—to buy something costing more than $25 have 72 hours in which to cancel a contract or return merchandise and get their money back—no questions asked.

Reviewing and Extending the Concepts

Objectives Review

In this chapter, you learned how companies use integrated marketing communications (IMC) to communicate customer value. Modern marketing calls for more than just creating customer value by developing a good product, pricing it attractively, and making it available to target customers. Companies also must clearly and persuasively engage current and prospective consumers and *communicate* that value to them. To do this, they must blend four promotion mix tools, guided by a well-designed IMC strategy.

OBJECTIVE 14-1 Define the four promotion mix tools for communicating customer value.

A company's total *promotion mix*—also called its *marketing communications mix*—consists of the specific blend of *advertising, personal selling, sales promotion, and public relations* tools that the company uses to engage consumers, communicate value, and build customer relationships. *Advertising* includes any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor. In contrast, *public relations* consists of activities designed to engage various stakeholders and build good relations with them. *Personal selling* is undertaken by the firm's sales force to both sell and build customer relationships. Finally, firms use *sales promotion* to provide short-term incentives to encourage the purchase of a product or service.

OBJECTIVE 14-2 Discuss the changing communications landscape and the need for integrated marketing communications.

Given the explosive developments in communications technology, advertisers have now added a range of more-specialized and targeted tools—including online, mobile, and social media—to reach smaller customer segments with more-personalized, interactive messages. As they adopt richer but more fragmented media and promotion mixes to reach diverse markets, marketers risk creating a communications hodgepodge for consumers. To prevent this, companies have embraced *integrated marketing communications (IMC)*. Guided by an overall IMC strategy, the company coordinates the marketing content and promotional tools across media to create consistent and effective marketing campaigns.

OBJECTIVE 14-3 Outline the communication process and the steps in developing effective marketing communications.

The communication process involves nine elements: two major parties (sender, receiver), two communication tools (message, media), four communication functions (encoding, decoding, response, and feedback), and noise. To communicate effectively, marketers must understand how these elements combine to communicate value to target customers.

In preparing marketing communications, the communicator's first task is to *identify the target audience* and its characteristics. Next, the communicator has to determine the *communication objectives* and define the response sought. Beyond purchase, marketing communicators want to help build customer–brand relationships and guide customers through the five As of the customer journey: *awareness, appeal, ask, act,* and *advocacy*. Then a *message* should be constructed with effective content and structure. *Media* must be selected, both for personal and nonpersonal communication. The communicator must find highly credible sources to deliver messages. Finally, the communicator must collect *feedback* related to customer awareness, trial, and satisfaction.

OBJECTIVE 14-4 Explain the methods for setting the promotion budget and factors that affect the design of the promotion mix.

The company must determine how much to spend for promotion. The most popular approaches are to spend what the company can afford, use a percentage of sales, base the budget on competitors' spending, or, ideally, base it on an economic analysis of the communication objectives, tasks, and outcomes. The company has to divide the *promotion budget* among the major tools to create the *promotion mix*. Companies can pursue a *push* or a *pull* promotional strategy—or a combination of the two. People across the organization must be aware of the legal and ethical issues surrounding marketing communications. Companies must communicate openly, honestly, and agreeably with their customers and resellers.

Key Terms

OBJECTIVE 14-1

Promotion mix (or marketing communications mix)
Advertising
Sales promotion
Personal selling
Public relations (PR)

OBJECTIVE 14-2

Content marketing
Integrated marketing communications (IMC)

OBJECTIVE 14-3

Five As
Personal communication channels
Word-of-mouth influence
Buzz marketing
Nonpersonal communication channels

OBJECTIVE 14-4

Affordable method
Percentage-of-sales method
Competitive-parity method
Objective-and-task method
Push strategy
Pull strategy

Discussion Questions

14-1 Identify the promotion mix tools used for immediate response from customers. (AACSB: Communication)

14-2 Why is there a need for advertisers to use more specialized and highly targeted media and content? (AACSB: Communication; Reflective Thinking)

14-3 Why is it increasingly important to use integrated marketing communications (IMC)? (AACSB: Application of Knowledge; Reflective Thinking)

14-4 What are the five As of the customer journey, and how does understanding the customer journey help marketers with communication? (AACSB: Application of Knowledge)

14-5 What are the four main methods for determining a company's promotional budget? (AACSB: Written and Oral Communication; Reflective Thinking)

14-6 What key decisions must communicators make when developing and designing a marketing message? (AACSB: Written and Oral Communication; Reflective Thinking)

Critical Thinking Exercises

14-7 Compare and contrast personal and nonpersonal communication channels. How would you use each channel type to promote oral hygiene and oral care products such as toothpaste, mouthwash, dental floss, and power toothbrushes? Why? (AACSB: Written and Oral Communication; Reflective Thinking)

14-8 In 2020, the global brand Pepsi featured singer Amr Diab as the face of the brand in the Middle East. This 2020 campaign (which coincided with the release of his latest album) used nostalgia, showing the singer at various stages of his career. How did the consumers receive the campaign, and was it successful? (AACSB: Written and Oral communication; Reflective Thinking)

14-9 In 2019, in Bangkok a customer found a dead lizard in a pack of Irvins Salted Egg Fish Skin. Spearheaded by CEO Irvin Gunawan, the brand launched a masterful campaign of apology and promised to do better next time. The campaign was designed to show that Irvins really cared about its customers. What was the reaction to it? Did the campaign work? (AACSB: Written and Oral communication; Reflective Thinking)

APPLICATIONS AND CASES

Digital Marketing "Your Table Is Ready"

The James Beard Foundation's response to the COVID-19 pandemic was a campaign called Open For Good, which helped independent restaurants survive the crisis, rebuild better, and thrive in the long term. The Foundation enlisted strategic partners to increase consumer engagement. OpenTable featured and promoted independent restaurants. Stella Artois promoted a special 14-ounce "Open For Good" bottle, donating $0.50 to the James Beard Foundation for every bottle purchased. The bottle featured a custom QR code that informed customers of additional steps they could take to support their favorite restaurants. An ad starring *Top Chef* host Padma Lakshmi encouraged consumers to return to their favorite local restaurants. Other strategic partners used their vast social and local media platforms to drum up demand for local restaurant experiences.

14-10 Using your preferred search engine, explore the integrated marketing communications of Open For Good (#openforgood). Which components of the promotion mix were used to engage customers? (AACSB: Integration of Real-World Experiences; Reflective Thinking)

14-11 How would you assess the effectiveness of the Open For Good campaign given the short-term goal of increasing engagement and the long-term goals of helping independent restaurants survive the crisis, rebuild better, and thrive in the long term? (AACSB: Application of Knowledge; Reflective Thinking)

Marketing Ethics It's a Powerful Thing to Be Seen

Camera technology, specifically film, was not historically designed to capture everyone equally. The chemistry that creates color balance did not address yellow, brown, and reddish skin tones until the 1970s. When the chemistry that was more inclusive in terms of skin tones was introduced, it was motivated by the need to produce attractive advertising and brand content to promote products within communities of color. Many of today's filmless cameras perpetuate the legacy of delivering unflattering photos for people of color. Google's response to this problem of market inclusion is Real Tone, which more accurately highlights the nuances of diverse skin tones. Originally available only on the Pixel 6 Pro and Pixel 6, Real Tone is now also available as an app for Android and iOS.

14-12 How can Google communicate that it is creating a more equitable marketplace? What communication channels should it use? (AACSB: Ethical Understanding and Reasoning; Reflective Thinking)

14-13 Google worked closely with professional photographers, directors, and influencers to demonstrate the efficacy of Real Tone through photography focused on skin. This content, widely shared across the promotional mix, sparked curiosity and generated a flood of positive public relations. Simultaneously, it confused others, addressing problems they did not have or could not relate to. How should Google address this problem? (AACSB: Ethical Understanding and Reasoning; Reflective Thinking)

Marketing by the Numbers Never-Ending Cola War

Coca-Cola's market share increased from 17.3 percent to 17.8 percent during the past decade. That might not seem like much, but one share point equals 1 percent of market sales, so half a share point represents $405 million. Pepsi's market share decreased from 10.3 percent to 8.4 percent during the same period, a loss of 1.9 share points or $1.5 billion. Many marketers budget an upcoming year's advertising expenditures using a percentage of sales method based on past or projected sales. The industry average advertising expenditure-to-sales ratio for beverages is 4.1 percent of sales. Here are the worldwide advertising expenditures and sales revenues for the two competitors. All numbers are in billions of dollars.

	Coca-Cola		PepsiCo	
Year	**Advertising**	**Sales**	**Advertising**	**Sales**
2017	$2.40	$63.53	$3.96	$35.41
2018	$2.90	$64.66	$4.00	$31.86
2019	$3.00	$67.16	$4.25	$37.26
2020	$3.00	$70.37	$2.78	$33.01
2021	$3.50	$79.47	$4.10	$38.66

14-14 Calculate both companies' advertising-to-sales ratios for the years. What is each company's average ratio over the five-year period? Refer to the percentage-of-sales method in the chapter to learn about this method. (AACSB: Analytical Thinking)

14-15 If PepsiCo had decided to base its 2020 advertising budget on the industry average advertising-to-sales ratio for beverages, which is 4.1 percent, how much would PepsiCo have budgeted for advertising in 2020? Was Pepsi's action effective? (AACSB: Analytical Thinking; Reflective Thinking)

Company Case Nestlé: Integrating Marketing Communication into Daily Operations

With more than 2,000 brands, from global icons to local favorites, and present in 190 countries, Nestlé is one of the world's largest food-and-beverage companies. It operates in four different strategic business units: beverages, milk and milk products, prepared dishes and cooking aides, and chocolates. To design a proper marketing mix for all four product groups, Nestlé employs country- and market-specific marketing teams to design an IMC strategy, regardless of the product group.

Have a Break from TV. Have a KitKat.

KitKat's "take a break" message enjoys high-level recognition in more than 80 countries. The official website follows that philosophy faithfully: it literally just asks the visitor to take a break and have a KitKat. The brand's promotion is concentrated mainly in TV commercials and posters, where the powerful colors of the pack and the product reinforce the marketing message.

The brand has a history of very successful campaigns, like one in 2012, in which customers who discovered one of the six GPS-enabled chocolate bars were delivered a prize of £10,000 by helicopter. The campaign drew a huge number of visitors to its website and Facebook and Twitter pages, all eager to see how many bars were yet to be found. Building on its success, an additional contest was organized to win £2,012, the year in which the campaign was launched, by entering the code on the inside of their KitKat wrapper into a custom-made Facebook application. Customers were only allowed to enter after they had liked the KitKat page.

Another creative ad was the KitKat's 2015 Christmas commercial, which showed a blank screen for 30 seconds—a break from the holiday noise of the season. More conventionally, for the 2019 winter season in the UK and Ireland, KitKat launched on-pack promotion where customers who found a golden ticket in their KitKat won a "holiday break" to one of ten sunny exotic locations. Besides the ten holidays, the company offered other prizes to be won every day, like beach towels, luggage tags, sun visors, and KitKat-branded passport covers.

Besides advertising, Nestlé has used a wide range of IMC tools for KitKat, including sales promotion activities. Personal selling is costly, but large companies like Nestlé can afford it. One of its classic campaigns was a direct vendor selling activity in the summer months of June, July, and August in Lahore, Pakistan, during which a team of vendors clad in branded t-shirts, caps, and jackets, sold chilled 0.5-liter bottles to commuters on all major intersections. The brand got great mileage out of this campaign in terms of brand awareness, paid trial, image, as well as real sales.

KitKat has become a particular obsession in Japan. The introduction of KitKat Green Tea (Uji Matcha) in 2004 not only expanded the over 350 KitKat varieties available in Japan over the years but also drew more attention to the brand and increased sales volume. After its massive success in Japan, in February 2019, the KitKat Matcha was introduced in Europe.

In direct marketing, Nestlé has even used physical mail creatively. For instance, it sent out a mailer made to look like the card left by postal workers when they are unable to deliver a parcel, saying that the package, the KitKat chunky, was "too chunky for your letterbox." The recipients could exchange their card at their local news agency for a free KitKat Chunky.

Direct and Digital Marketing

Nestlé is active in social media marketing and connects and interacts with more than 11 million Facebook fans, 250,000 followers on Twitter, and more than 180,000 followers on Instagram. The company makes sure that its products are positioned for the wider but also the most appropriate audience using brilliant ideas for creative advertising. A campaign launched in India in 2015 provided a fresh take on its signature tag line. This campaign was about "celebrating the breakers," and recognized that people take many different types of breaks. Animated videos and ad photos of people snoozing at their desk, listening to music, and partying all night were posted with the hashtag #mybreak on Instagram. The campaign was a success, with a 42-point lift in ad recall and 6-point lift in message association.

Nestlé constantly responds to rapid technological changes in the marketing environment. In 2011, the company launched the Digital Acceleration Team (DAT) to design a better mix of traditional and digital IMC tools and enhance its product marketing and e-commerce. Inspired by hackathon culture, this involves an intensive and highly entrepreneurial eight-month training program where diverse high-potential leaders from across the globe gather at Nestlé's HQ in Switzerland to exchange marketing experiences. The DAT works on specific digital marketing topics, and the team returns with the expertise needed to lead the digital transformation in their home units. Beyond DAT, Nestlé has also endeavored to become more digitally connected by having an internal social network where more than 200 employees can engage with one another, and by enabling employees to blog and inspire or influence customers as a daily practice.

Developing Effective Communications

At Nestlé, the process of developing an effective IMC strategy for promotions begins with identifying the target audience. For KitKat the target audience is everyone—the mass consumer market. Next, the communication objectives, such as building awareness and knowledge, and providing information value for the customers, are determined. As KitKat is already a well-known product globally, the company advertises not so much to boost sales as to remind the customers about their favorite chocolate bar. It then decides on the suitable media, including personal and non-personal channels, for the marketing message. Nestlé uses all possible channels, including print media for its cost effectiveness and non-intrusiveness, which is a struggle in the digital era.

KitKat uses broadcast (radio, television) and display (billboards, signs, posters) media to reach a broader target audience. It uses print media mostly in the form of posters that celebrate an event in a funny way, focusing on the "Take a Break" slogan. In one example, when a "no Wi-Fi zone" was introduced in downtown Amsterdam in 2013, a street sign was installed with the "Take a Break" slogan. Nestlé also uses events: in 2013, Android launched its new operating system using the KitKat name.

Feedback is vital for measuring the effectiveness of communication tools, so Nestlé analyzes big data from retailers and internal processes such as how many people bought a product, talked to others about it, or visited a store. Insights from these analyses are then used by Nestlé for suggesting changes in the IMC strategy or in the product offer itself.

Budget-Setting

Nestlé sets its promotion budget based on what it wants to accomplish, defining specific promotion objectives, determining the tasks needed to achieve them, and estimating the costs of performing these tasks. The sum of these costs is the proposed promotion budget, which is then divided among various IMC tools. For example, KitKat announced that it would double its media spend in 2015 with the launch of a £10 million multimedia campaign after losing sales in the sweet biscuits category the year before. Seeking to reclaim the 11 percent of sales lost, the campaign involved heavy promotion in-store as well as on social media. Budget-setting is also in line with pricing policy: the price is dependent on the market of each individual product, so market leaders Nescafé and Maggi are priced with higher margins for the company as compared to the competition. To deliver a clear, consistent, and compelling message about the products, Nestlé ensures close cooperation with market- and marketing-specific local-country teams to consider culture and market differences.

Nestlé has worked hard to make sure that its traditional marketing approaches blend well with newer, tech-savvy ones, like printing of QR codes on candy bars and boosting social media engagement. Sales promotion is also done through interactive and responsive websites. For example, in the UK, the company printed individual codes on KitKat packaging that could either be entered on a dynamic website or texted on a mobile phone to win a prize—proof that traditional promotion can co-exist with digital tools. The particular blend of channels—of traditional and digital media—is based on observation of customer behavior. For instance, when marketing analytics indicate that a product appeals to a younger generation, digital is clearly the way for the company to go. However, this doesn't mean that Nestlé should abandon more traditional approaches; it continues to find ways to use traditional marketing to raise brand awareness with creative ideas that reinforce the marketing message.

To continue building attractive and rewarding brand experiences for customers, Nestlé designs its IMC strategy collaboratively with other groups, such as sales and e-business, R&D, technical applications, and agency partners. Through these well-defined steps in IMC and budget-setting, Nestlé has executed multiple campaigns with great success and is all set to continue that trend in the future.[22]

Questions for Discussion

14-16 What steps did Nestlé undertake to design KitKat's IMC and promotion program?

14-17 Should all companies have a digital acceleration team? What benefits did Nestlé get from having one?

14-18 How is the budget for IMC set at Nestlé? What factors might possibly influence it?

14-19 What IMC tool has Nestlé mainly used to promote KitKat and increase sales?

14-20 Explain the benefits of IMC efforts based on examples given in this case.

15 Advertising and Public Relations

OBJECTIVES OUTLINE

OBJECTIVE 15-1 Define the role of advertising in the promotion mix.

OBJECTIVE 15-2 Describe the major decisions involved in developing an advertising program.

OBJECTIVE 15-3 Define the role of public relations in the promotion mix.

OBJECTIVE 15-4 Explain how companies use PR to communicate with relevant publics.

CHAPTER PREVIEW

After analyzing integrated marketing communications (IMC) planning, we now dive into specific marketing communication tools. In this chapter, we explore advertising and public relations (PR). Advertising involves communicating the company or brand value proposition by using paid media to inform, persuade, and remind consumers. PR involves building good relations with various relevant company publics—from consumers, the general public, media, investors, donors, and government organizations. As with all the promotion mix tools, advertising and PR must be blended into the IMC program. In Chapter 16, we will discuss the remaining promotion mix tools: personal selling and sales promotion.

When everyone is talking about what makes them unique, standing out can be impossible. Iceland's tourism industry has overcome a reputation for being as uninviting as the moon by doing things a little differently, harnessing the power of its people.

Inspired by Iceland: One Giant Leap for Tourism

In many ways, countries are like brands. When the product is tourism, countries need to effectively market and sell to would-be consumers just as a company would. A key difference is that tourism campaigns are typically supported by a country's government, but they promote goods and services that the government itself rarely produces or offers, if at all. The inherent challenge lies in the fact that tourism is intangible; it can neither be seen or interacted with before a consumer makes the choice to spend their money. Factors such as seasons, travel logistics, and fluctuating prices and exchange rates add a significant degree of variability and make marketing a country very complicated. While many countries opt to produce ads that showcase their sights and experiences in fairly matter-of-fact ways, Iceland stands out with the unique approach taken by the Inspired by Iceland campaign.

Iceland's tourism industry has for a long time had a unique challenge—overcoming the country's reputation as a remote island with inhospitable terrain. The reason for that reputation isn't difficult to see; after all, NASA even trained for missions to the moon here as they considered the landscape comparable. It was only in the 1990s that the Icelandic tourism industry began to take off, thanks to global recognition of various Icelandic musical artists such as Bjork. This came to an abrupt halt in the late 2000s, when Iceland's tourism industry became one of the many casualties of the global 2008 recession, a crisis that placed the country at serious risk of national bankruptcy. The tourism industry briefly recovered in the period after the crisis, when a severely weak Icelandic króna started to attract tourists looking for relatively cheap holidays. But in 2010, the dormant volcano Eyjafjallajökull erupted, filling the skies with ash and disrupting air travel all around the world. Needless to say, this resulted in severe negative publicity, with highly visible media coverage from trusted sources such as the BBC and suggestions of safety risks from esteemed publications such as *National Geographic*.

How did the country go about overcoming all this? The challenge was to prove to the world that Iceland was not in fact a dangerous place but a worthwhile travel destination—and it had to be done immediately. The solution? A rapid and focused response with a marketing campaign that would replace the negative images and sentiments that had accumulated with a solid reason for people to visit the country, packaged with a unifying message. The Icelandic government partnered with the Iceland Tourism Board to create the Inspired by Iceland marketing campaign. The objective was to showcase that Iceland was not inhospitable, but in fact teeming with life. Using unconventional communications strategies, the campaign galvanized the people of Iceland to share their stories on social media, to talk about what made their country inspirational, and to share the human side of the country, the goal being to reframe what would-be tourists thought of the remote island. The idea was to tell the rest of the world that there had never been a more exciting time to visit the country, effectively dispelling the fear that had been spread over the volcanic eruption and pivoting the focus onto the unique attributes of the island.

Iceland's tourism industry has changed the country's narrative with subversive marketing campaigns that resonate with people around the world.
José Javier Ballester Legua/Alamy Stock Photo

Using social media such as YouTube, Vimeo, Facebook, and Twitter, the campaign launched on June 3, 2010, with the entire nation participating in sending tens of thousands of messages to their family and friends around the world, including links to videos of picturesque landscapes in parts of the country that were completely unaffected by the eruption and the resulting ash clouds. The campaign undoubtedly hinged on the power of user-generated content and viral marketing, but it also involved traditional methods such as promotional music videos performed by Icelandic artists. Interestingly, this organically led to the addition of celebrity endorsements in the form of anecdotes from those who had previously visited Iceland. The Inspired by Iceland campaign managed to turn the eruption into a billboard for Iceland's natural beauty, and the tourism industry grew over 400 percent between 2010 and 2018, with more than 2.3 million tourists in 2018. The sector directly contributed 8.6 percent to the national GDP in 2017 and, toward the latter end of the 2010s, employed around 30,000 people, or 15.7 percent of the workforce.

By putting a subversive spin on a widely discussed and highly visible current topic, Iceland was able to send a message that resonated with people all over the world. The strategy was simple yet novel for the time; rather than market to foreigners, the Iceland Tourism Board made a platform for the people of Iceland to share authentic and passionate stories about how inspiring their home is. By drawing upon the Icelandic people's enthusiasm and their personal connections to spread the message, the Board capitalized on an element of connection and relatability that they couldn't have otherwise. Inspired by Iceland has grown to become a public–private communication platform with the purpose of promoting Iceland and Icelandic products, owned and operated by Business Iceland.

By drawing upon the Icelandic people's enthusiasm and their personal connections to spread the message, the Tourism Board capitalized on an element of connection and relatability that they couldn't have otherwise.

The campaign's core strategy has endured into the present but has also evolved to incorporate more humor. When the COVID-19 pandemic wreaked havoc on not just the global tourism industry but on every individual's freedom to even leave their homes, Iceland saw another opportunity. In 2020, Inspired by Iceland released the Let it Out campaign. Recognizing that a pro-tourism campaign would be futile and that people all over the world were growing increasingly frustrated during pandemic lockdowns, the campaign created the website lookslikeyouneediceland.com, where visitors could record their screams to be played back on loudspeakers set up around some of Iceland's waterfalls, beaches, cliffs, and glaciers. The videos of their screams resonating through the picturesque landscapes were sent back to them to view and share via social media. The campaign generated 2.5 billion social media impressions in two weeks and was picked up by over 800 media outlets globally. As a result, there was a reported 48.5 percent increase in online searches for holiday bookings to Iceland.

Another example is the satirical Icelandverse campaign in 2021, hard on the heels of breaking news that social media giant Facebook had rebranded to Meta in an effort to orient the business toward the virtual reality–based Metaverse. Meta founder Mark Zuckerberg had sparked extensive social media debate by saying that in the Metaverse's digital hybrid world users would feel as if fellow users were actually present around them. These quotes were met with cynicism and mockery from several quarters, and Inspired by Iceland joined in by releasing an almost shot-for-shot remake of Meta's announcement, even including a Mark Zuckerberg lookalike presenting in a similar manner. The video well reflected the absurdity and vagueness that people saw in the concept; for example, it described visiting Iceland as an immersive experience that feels like you are really there—because you really are there. The video gained over 19 million views on YouTube, over 10,000 retweets, and even the attention of Zuckerberg himself, who responded in a public Facebook post with a promise to visit the country.

Though it has shifted somewhat from the more sincere tones of 2010 to a more humorous one in the present, the underlying intent is still the same—to resonate with people and inspire them to visit Iceland. The evolution of the nature of the specific campaigns shows a commitment to action and swiftness in response to what is foremost in people's minds at a given point in time. Recognizing a shift in attitudes, with millennials and Gen Z responding more positively to creative and satirical content rather than boilerplate marketing material, Iceland has been able to leverage its own unique sense of humor to great effect. Active engagement and involvement by the Inspired by Iceland social media accounts reflect and convey to would-be visitors that these are more than just advertisement campaigns; they are a reflection of the people who make up Iceland. By taking control of the trending discourse, Inspired by Iceland has repeatedly been able to push their brand and sell their unique product.[1]

COMPANIES MUST DO MORE than simply create customer value. They must also engage target customers and clearly and persuasively communicate that value to them. In this chapter, we take a closer look at two marketing communications tools: advertising and public relations.

Author Comment | You already know a lot about advertising—you are exposed to it every day. But here we'll look behind the scenes at how companies make advertising decisions.

Advertising

OBJECTIVE 15-1 Define the role of advertising in the promotion mix.

Advertising
Any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor.

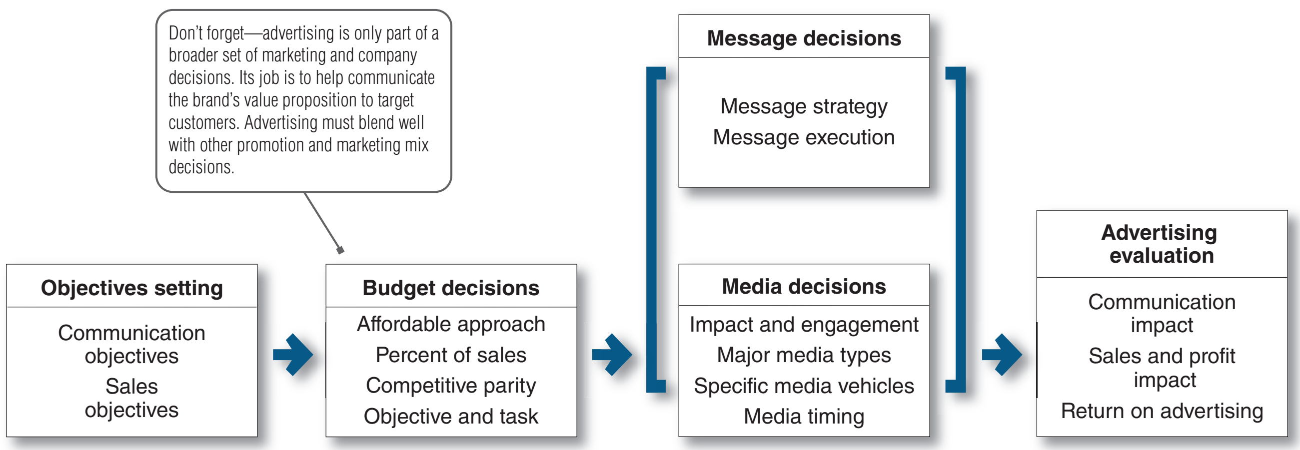
Advertising can be traced back to the very beginnings of recorded history. Archaeologists working in countries around the Mediterranean Sea have dug up signs announcing various events and offers. The Romans painted walls to announce gladiator fights, and the Phoenicians painted pictures on large rocks to promote their wares along parade routes. During the golden age in Greece, town criers announced the sale of cattle, crafted items, and even cosmetics. An early "singing commercial" went as follows: "For eyes that are shining, for cheeks like the dawn/For beauty that lasts after girlhood is gone/For prices in reason, the woman who knows/Will buy her cosmetics from Aesclyptos."

Modern advertising, however, is a far cry from these early efforts. U.S. advertisers now spend more than $285 billion on measured advertising media; worldwide, the spending is an estimated $763 billion. Amazon, the world's largest advertiser last year, spent $10.4 billion on U.S. advertising and promotion alone.[2]

Apart from business firms, many not-for-profit organizations, professionals, and social agencies use advertising to promote their causes. In fact, the U.S. government is the 47th-largest U.S. advertising spender. The U.S. Army alone spends some $400 million a year to attract new recruits.[3] Advertising is a good way to engage, inform, and persuade, whether the purpose is to sell Coca-Cola, attract recruits to the armed forces, or educate people on how to lead healthier lives.

Marketing management must make four important decisions when developing an advertising program (see **Figure 15.1**): *setting advertising objectives, setting the advertising budget, developing advertising strategy (message decisions and media decisions),* and *evaluating advertising effectiveness.*

FIGURE 15.1
Major Advertising Decisions



Major Advertising Decisions

OBJECTIVE 15-2 **Describe the major advertising decisions involved in developing an advertising plan.**

Setting Advertising Objectives

Advertising objective
A specific communication *task* to be accomplished with a specific *target* audience during a specific period of *time*.

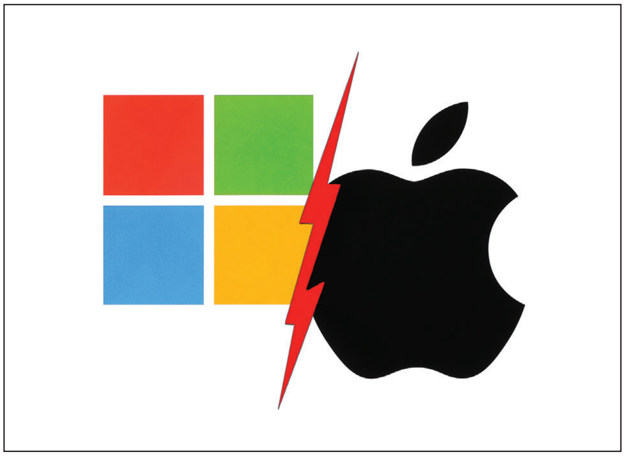
The first step is to set *advertising objectives*. These should be based on decisions about the target market, positioning, and the marketing mix, which define the job that advertising must do in the context of the overall marketing strategy. Here, we discuss specific advertising objectives that build toward the overall goal of engaging customers and building customer relationships by communicating customer value. An **advertising objective** is a specific communication *task* to be accomplished with a specific *target* audience during a specific period of *time*. Advertising objectives can be classified by their primary purpose—to *inform*, *persuade*, or *remind*. Table 15.1 provides examples of these specific objectives.

Informative advertising is used heavily when introducing a new product category. In this case, the objective is to build primary demand. Thus, early producers of all-electric vehicles (EVs) have to inform consumers of the economic and performance benefits of EVs. *Persuasive advertising* becomes more important as competition increases. For example, as EVs catch on, GM is now trying to persuade consumers that its Chevy Bolt offers more value for the price than the Tesla Model 3 or Nissan Leaf. Such advertising aims to engage customers and create brand preference. The Chevy Bolt offers "Technology: Limitless. Seamless." and "Affordable electric for everyone." Nissan's Leaf promises "Electric power, instant thrill."

Some persuasive advertising can become *comparative advertising* (or *attack advertising*), in which a company directly or indirectly compares its brand with competitors. Comparative advertising now occurs in almost every product category. For example, Microsoft and Apple have taken aim at each other time and again over the years. It started years ago with Apple's "Get a Mac" campaign, in which Apple ads portrayed Mac users as young, hip, and laid-back, whereas Windows-based PC users were stodgy, befuddled, error-prone, middle-aged nerds. Microsoft responded with comparative ads portraying Apple as too expensive, "too cool," and out of touch with mainstream consumers. Since introducing its own line of Surface computers, Microsoft has unleashed an almost constant barrage of ads directly (and favorably) comparing features of its Surface Pro laptops to those of various Apple devices. In a recent Super Bowl LV ad, a young user compares the Surface Pro 7 laptop

Table 15.1 | Possible Advertising Objectives

Informative Advertising	
Communicating customer value	Suggesting new uses for a product
Building a brand and company image	Informing the market of a price or design change
Telling the market about a new product	Describing available services and support
Explaining how a product works	Correcting false impressions
Persuasive Advertising	
Building brand preference	Persuading customers to purchase now
Encouraging switching to a brand	Creating customer engagement
Changing customer perceptions of product value	Building brand community
Reminder Advertising	
Maintaining customer relationships	Reminding consumers where to buy the product
Reminding consumers that the product may be needed in the near future	Keeping the brand in a customer's mind during off-seasons



Comparative advertising: Microsoft and Apple have taken direct aim at each other in their advertising time and again over the years.

rvlsoft/Shutterstock

to Apple's MacBook Pro, poking fun at the MacBook's unloved "touch bar." "Mac gave me this little bar, but why can't they just give me a whole touchscreen?" he asks. "Then there's the price (MacBook Pro $1,299; Microsoft Surface Pro, $890)."[4]

Comparative advertising often creates controversy. This can work well for challengers who want to shake things up, inject their brands into the conversation, and put themselves on equal footing with the leader. But such ads can invite competitor responses, resulting in a mutually destructive advertising war. Upset competitors might also file complaints with the self-regulatory National Advertising Division of the Council of Better Business Bureaus or even file false-advertising lawsuits.

Reminder advertising helps mature products maintain customer relationships and keep consumers thinking about them. For example, a recent ad for Silk soy milk tells consumers to "Fall back in love with Soymilk," reminding them of how "Silk helps you bloom." And Coca-Cola television ads help build and maintain the brand relationship rather than inform consumers or persuade them to buy it in the short run.

Advertising helps move consumers through the buying process. Some advertising aims to move people to immediate action. For example, a direct-response television ad by Weight Watchers urges consumers to go online and sign up right away, and a Walgreens mobile ad promoting weekend specials encourages immediate store visits. However, many ads focus on building or strengthening long-term customer relationships. For example, a Nike video clip in which everyday athletes work through extreme challenges in their Nike gear never directly pitches products or asks for a sale. Instead, the goal is to engage customers and change how they think or feel about Nike.

Setting the Advertising Budget

Advertising budget
The dollars and other resources allocated to a product or a company advertising program.

After determining its advertising objectives, the company next sets its **advertising budget** for each product. Four commonly used methods for setting promotion budgets are discussed in Chapter 14. Here we discuss some specific factors that should be considered when setting the advertising budget.

A brand's advertising budget often depends on its stage in the product life cycle. New products typically need large budgets to build awareness and to gain trial. In contrast, mature brands may require relatively low budgets. Also, brands in markets with many competitors and high advertising clutter must be advertised more heavily. Undifferentiated brands—those that closely resemble their competitors—may require heavy advertising to set them apart. When brands are well differentiated from competitors, advertising can highlight those differences to consumers.

Setting the advertising budget is no easy task. How does a company know if it is spending the right amount, or spending it on the right content and media? Within the overall budget, specific media buys can be difficult to assess. For example, dozens of advertisers spend lavishly on high-profile FIFA World Cup ads. Although they sense that the returns are worthwhile, that is often difficult to measure and prove (see Real Marketing 15.1).

As a result of such thinking, the advertising budget is one of the first to be cut in tough economic times. Cuts in brand-building advertising appear to do little short-term harm to sales. In the long run, however, slashing ad spending often damages a brand's image and market share. In fact, companies that maintain or even increase their advertising spending while competitors are decreasing theirs can gain a competitive advantage.

For example, during the Great Recession, car maker Audi increased its marketing and advertising spending. Audi "kept its foot on the pedal while everyone else [was] pulling back," said an Audi ad executive. "Why would we go backwards now when the industry is generally locking the brakes and cutting spending?" As a result, Audi's brand awareness and buyer consideration reached record levels during the recession, outstripping competitors and positioning Audi strongly for the post-recession era. Audi is now neck and neck with BMW and Mercedes in global luxury car sales.[5]

Real Marketing 15.1 | FIFA World Cup: The Mother of All Advertising Events—But Is It Worth It?

The FIFA World Cup easily ranks as one of the biggest sporting events in the world. The event captures the attention of millions of people and holds it for an extended period of time. With the exception of World War II, the World Cup has been held every four years without fail since 1930. The 2018 games garnered over 3.5 billion viewers, with 1.1 billion tuning in for the finals alone. FIFA made approximately $1.65 billion in sales of the marketing rights between 2015 and 2018 and is expected to have made $1.8 billion over the 2022 World Cup's cycle. FIFA sells the coveted broadcasting rights, marketing rights, and corporate sponsorship opportunities at a high premium. For example, NBC's Telemundo, the American Spanish-language network, paid $600 million for the rights to broadcast the World Cup in Spanish. Bidding wars are not uncommon, especially when it comes to broadcasting rights. Before their merger, Twenty-First Century Fox Inc. paid $425 million to beat Disney's ESPN for the rights to televise games up to and including 2022. Networks pay these tremendous amounts knowing that broadcasting the World Cup brings a massive audience, and that makes their advertising space all the more valuable.

Some brands have benefitted from a longstanding relationship with the World Cup that has helped them carve out recognizable identities. One of the oldest corporate partners of FIFA is Coca-Cola. The beverage corporation has been an official sponsor since 1978 and has had stadium advertising at every World Cup since 1950; it even sponsors several other FIFA-organized events around the world. Coca-Cola's 2014 Brazil World Cup campaign, known as The World's Cup, was their largest marketing program in the history of the company. The campaign ran in 85 percent of Coca Cola's markets around the world, a significant increase over the breadth of their 2012 London Olympics campaign, which only ran in 50 percent of their markets. The cost of the campaign reportedly exceeded the $100 million spent on previous Olympics marketing, with an estimated final spend of up to $400 million based on how much additional marketing budget was set aside for the 2014 World Cup. Where this campaign differed from previous ones for the World Cup and other sporting events was the heightened inclusion of fans around the world, acquired through digital as well as traditional media. In addition to the usual promotional media such as TV ads, social media posts, and specially themed packaging, Coca-Cola also unveiled what they dubbed The Happiness Flag, a photo mosaic made up of over 200,000 fan images from all over the world. The results of all that spending reportedly exceeded expectations—by the end of 2014, the company reported growth of 1 percent and 4 percent in global sales volumes and net revenues growth, respectively. Coca-Cola leaned even harder into the power of digital and fan involvement with their Believing Is Magic global campaign for the 2022 Qatar games. Leading up to the event, a suite of digital videos on Coca-Cola's social media pages featured fans promising to do something quirky if their team were to win and making predictions about scores and winners. The outlandishness of the promises, from getting tattoos to shaving heads, allowed fans to loudly and visibly proclaim their passion for their teams, and Coca-Cola profited from the association with such sentiments as the creator of the platform.

Campaigns specifically tailored for the World Cup remain popular in marketing, and despite the limited duration of an event that runs once every four years, their effectiveness keeps brands lining up. For example, South Korean automotive manufacturer Hyundai entered a partnership with FIFA for the 2002 games across Japan and South Korea, and it has continued to invest in World Cup marketing since. In 2010, Hyundai signed a deal that would see them continue to sponsor various FIFA football tournaments through to 2022. It is estimated that a deal of this magnitude easily amounts to $24–$44 million per year. But in return, they get access to a massive audience, such as the record 24.4 million television viewers that tuned in to watch the 2018 World Cup. Hyundai reported a significant increase in traffic to their website in the hour before kick-off.

Small brands are also vying for ad space to make their mark on the back of the tremendous reach and impact the World Cup has. Local brand Cerveza Cristal, the official World Cup sponsor in Chile, created a series of ads specifically for promotion during the tournament in 2014, allowing them to momentarily share the billboard with the likes of Coca-Cola and Hyundai. Corporate sponsors undoubtedly stand to gain tremendously by partnering with FIFA, such as long-time sponsor adidas, which saw sales of 8 million country jerseys during the 2014 World Cup. Adidas continued to be an official partner in 2022, supplying most of the kit, most notably the footballs themselves. It launched the Family Reunion campaign with videos showing beloved players from different teams preparing for the tournament together like one big happy family.

An event like the World Cup offers what is known as a set-piece advertising opportunity, a cost-effective means to reach younger, wealthier consumers on a grand scale. Moreover, it is able to reach people who are primed to spend, due to the almost festive nature of the event. Needless to say, a successful advertising campaign during the World Cup is a boon for firms wishing to drive growth and establish enduring brand recognition.

Besides directly advertising during the World Cup, the sheer scale of such an event lends itself well to ambush marketing. The term broadly refers to situations in which companies attempt to associate themselves or their products with major events to deliberately benefit from the attendant publicity without having contributed toward financing or sponsorship of the event. Brands can easily leverage an event like the World Cup and seek adjacent advertising, or strategically place their campaigns concurrent to the official campaigns from corporate sponsors or event partners. The benefit is that the brand engaging in this avoids the high costs of official sponsorship while drawing significant interest thanks to the hype from the main event. Ambush marketing has been so successful that marketers have seriously questioned the need to incur the cost of being an official sponsor that exists on top of the costs of creating the tailored campaigns.

Advertising budgets: Each year, dozens of advertisers spend lavishly to showcase their ads during the World Cup. But do the returns justify the outrageous costs?

Jonathan Larsen/Diadem Images/Alamy Stock Photo

A notable example of this is sportswear giant Nike, which has been an official partner of FIFA in the past. With its multi-award-winning 1998 World Cup ad "Airport 98," an action-packed short directed by John Woo, Nike changed the game when it came to how brands advertise on the World Cup. The ad was so effective that around 32 percent of viewers believed Nike was the official sponsor for the 1998 games. And in 2010, Nike's Write the Future campaign went viral with over 2.8 million views in five days, reaching up to 10 million views within the five days that followed, all without being an official sponsor. Though Nike could not advertise on the televised broadcast of the World Cup, they ran a version of the ad on shows that aired at the same time on other channels as well as on non–World Cup football matches that happened prior to the big event.

The ad itself features a depiction of the nail-biting moments of a football match interspersed with footage of fans and celebrities showing enthusiasm for an unnamed yet global football tournament. While it omitted any actual reference to the FIFA World Cup, it is abundantly clear what the ad was about. The cost of the ad is speculated to have been around $10 million, as it included several high-profile athletes and celebrities and was directed by famed director Alejandro Inarritu. However, the impact was a surge in social media followers; over the duration of the tournament, Nike Football's Facebook page saw an increase in fans of 336 percent, from 1.1 million to 4.8 million. Moreover, the ad led to an increase in Nike's sales to overtake their rival, the then World Cup sponsor adidas. Nike saw an increase of 39 percent in football-related revenues between May and July of 2010.

Another key example is Pepsi's Oh Africa campaign, which also went viral. Pepsi commissioned an original song with recording artist Akon and involved global football superstars in the official music video. The song itself was broadcast on radio stations and other venues, and Pepsi was able to achieve a high audience impact without having to invest in official sponsorship. The Qatar World Cup saw an interesting twist on this tactic, as some brands capitalized on some of the highly publicized controversies surrounding the games. Scotland-based BrewDog, for example, ran a series of "anti-sponsorship" campaigns on the back of some of the negative sentiments. Slogans such as "Eat, Sleep, Bribe, Football" benefitted not only from the exposure of the World Cup but also the added visibility and awareness stemming from the public discourse on the controversies—the furthest thing from an official partnership.

Ambush marketing certainly risks backlash from rival companies that do pay for the officially sanctioned rights to attach their brand names to the World Cup, and FIFA has tried to crack down on this style of adjacent advertising in the past too. For example, it trademarked the terms FIFA and World Cup, and during the Russian games in 2018, the host nation was required to turn over exclusive rights to control all advertising within a 1.25-mile radius of a match venue. Nevertheless, there is a limit to what FIFA can ostensibly control when it comes to how brands advertise, and companies are increasingly more comfortable begging for forgiveness instead of permission.[6]

Developing Advertising Strategy

Advertising strategy
The strategy by which the company accomplishes its advertising objectives. It consists of two key elements: creating advertising messages and selecting advertising media.

Advertising strategy consists of two key elements: creating advertising *messages* and selecting advertising *media*. In the past, many companies viewed media planning as secondary to message creation. After the creative department created advertisements, the media department purchased the best media for carrying them to target audiences. This often caused friction between creatives and media planners.

Today, however, soaring media costs, focused target marketing strategies, and the blizzard of new digital media have made media planning more important. The decision about which media to use—television, newspapers, magazines, video, a website, social media, mobile devices, or email—is now as critical as the creative elements. Also, brand content is now often co-created with consumers. As a result, most advertisers orchestrate a close harmony between messages and media. As discussed in the previous chapter, in this omni-channel world, the goal is to create and manage brand content across a full range of media, whether they are paid, owned, earned, or shared.

Creating the Advertising Message and Brand Content

No matter how big the budget, advertising can succeed only if it engages consumers and communicates well. Good advertising is especially important in today's costly and cluttered advertising environment.

Today, the average U.S. household receives more than 175 TV channels and accesses more than seven screens across devices. Consumers can choose from more than 7,400 print magazines and a wealth of digital ones. Add in the countless radio stations and a continuous barrage of catalogs, direct mail, out-of-home media, email, and online, mobile, and social media exposures, and consumers are being bombarded with ad content at home, work, and all points in between. For example, Americans are exposed to an estimated 5.3 trillion online ad impressions each year and a daily diet of 500 million tweets, 720,000 hours of new YouTube videos, 95 million Instagram photos, 5 million Pinterest article pins, and 4.75 billion pieces of shared content on Facebook.[7]

Breaking Through the Clutter. If all this clutter bothers consumers, it also causes huge headaches for marketers. Take the situation facing network television advertisers. They pay anywhere from $20,000 to $1 million to produce a single 30-second commercial. Then each time they show it, they pay an average of $105,000 for 30 seconds of advertising time

Advertising clutter: Today's cord-cutting consumers have a rich new set of information and entertainment options. Advertisers can no longer force-feed the same old cookie-cutter messages and content to captive consumers through traditional media.

Rasulov/Shutterstock

on a national network. They pay even more if it's an especially popular program, such as *Sunday Night Football* ($811,579), *This Is Us* ($317,981), or a mega-event such as the Super Bowl (averaging $6.5 million per 30 seconds!). Then their ads are sandwiched in with a clutter of other commercials, network promotions, and other nonprogram material totaling as much as 20 minutes per primetime hour, with long commercial breaks coming every six minutes on average. Such clutter has created an increasingly hostile advertising environment.[8]

Today's viewers are no longer captive audiences. They have a rich new set of information and entertainment options—the internet, content streaming, social and mobile media, tablets and smartphones, and others. Consumers are increasingly becoming "cord cutters"—skirting cable and satellite subscriptions in favor of often ad-free internet-based or wireless streaming. Today's consumers can easily skip, mute, block, or avoid TV and digital content they don't want to watch. And, increasingly, they are choosing not to watch ads. Simply interrupting or disrupting consumers with cookie-cutter messages no longer works. Unless ads provide content that is engaging, useful, or entertaining, many consumers will simply ignore or skip them.

Merging Advertising and Entertainment. To break through the clutter, marketers are now merging advertising and entertainment to reach consumers with more engaging content. This merging takes one of two forms: advertainment or brand integrations. The goal of *advertainment* is to make ads and brand content so entertaining or so useful that people *want* to watch them. There's no chance that you'd watch ads on purpose, you say? Think again. For example, the Super Bowl has become an annual advertainment showcase. In fact, according to one study, 42 percent of Super Bowl viewers tune in just to watch the advertisements.[9] And ads and related content posted online before, during, and after the big game draw hundreds of millions of views. These days, it's common to see and share an entertaining ad on YouTube long before it is on TV.

Advertisers are also creating content forms that look less like ads and more like short films or shows. A range of messaging platforms—from webisodes and blogs to long-form online videos and social media posts—now blur the line between ads and other consumer content. For example, a recent Google video documentary, titled "Forward Rhythm," related the emotional story of how Google-developed machine learning and AI technologies empowered a musician to overcome a debilitating injury and return to his lifelong passion of playing the drums:[10]

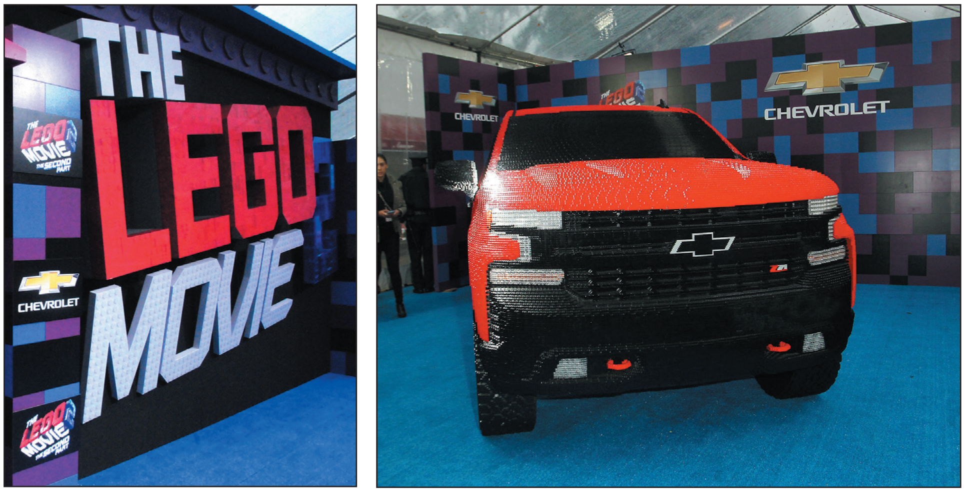
> As the six-and-a-half-minute video begins, Jason Barnes's mother recounts how Jason loved playing drums even as a little boy. While still in diapers and a highchair, Jason would tap on the table to keep the beat with music. This passion for music didn't change when Jason lost his right hand and lower arm in an electrical accident at age 22. Within three weeks of returning home, he attached a drumstick to his residual limb and began drumming again. But he was limited in how fast and how well he could play.
>
> That's when Georgia Tech roboticists and experts from Google's TensorFlow machine learning and AI team stepped in. The video documents how Jason and the Google and Georgia Tech teams worked together to co-develop the world's most advanced robotic drumming arm. Sensors in the artificial hand pick up electrical signals from Jason's arm and map them into complex drumstick movements. "It feels as close to a real hand as it can get without being a real hand," says Jason. The video ends on an emotional high with Jason drumming with confidence and precision. The inspiring "Forward Rhythm" video never "sells" anything Google. Instead, it engages viewers and effectively relates the Google TensorFlow team's mission to help "to make everyone's dreams more accessible."

Marketers use all kinds of novel ways to break through the clutter and engage consumers. For example, JCPenney once posted incoherent tweets, grabbing widespread attention and leading to speculation that the retailer's social media person was either drunk or had been hacked. Instead, says JCPenney, the person was tweeting with mittens on to promote its winter merchandise. When a viewer recently tweeted a photo of a supermarket aisle bursting with Old Spice deodorant sticks with the caption "Old Spice has 50 million antiperspirants to choose from ☺," the brand tweeted back: "That's because there are 15 billion armpits in the world. Try GentleMan's Blend."[11]

Brand integrations (or *branded entertainment*) involve making the brand an inseparable part of some other form of entertainment or content. The most common form of brand integration is product placements—embedding brands as props within other programming.

It might be characters using Skype in an episode of *Grey's Anatomy*, Jimmy Dean sausage appearing in a scene on *Young Sheldon*, or celebrity chef Rachael Ray plugging Old El Paso Taco Shells on her daily TV show. Or product placement might be scripted into a movie or episodes of TV shows, as when several episodes of *This Is Us* were built around integrations highlighting the special relationship between State Farm insurance agents and their customers. And some of the most iconic of all product placements relate to the automobile brands ranging from Aston Martin and Lotus Esprit to Land Rover and Rolls-Royce that star in the James Bond movie series.

Brand integration has now spread beyond TV and movies into other media such as video games, comic books, Broadway musicals, and even pop music. In fact, brand integration has played a central role in some productions. ● For example, the acclaimed film *The LEGO Movie* was pretty much a 100-minute product placement for iconic LEGO construction bricks. According to one writer, "The audience happily sits through a cinematic sales pitch…that shows off the immense versatility of the product while placing it in a deeply personal context….This film [is] product placement perfection." *The LEGO Movie* boosted LEGO sales by 13 percent the year after it opened. A follow-up movie, *The LEGO Movie 2: The Second Part*, even offered product placement opportunities for other brands. For example, it featured a LEGO version of the new Chevrolet Silverado. Chevrolet launched tie-in ads on Facebook, Twitter, and Instagram showing characters from the movie, Emmet and Lucy, riding in a LEGO-sized Silverado.[12]



● **The highly acclaimed film *The LEGO Movie* was pretty much a 100-minute product placement for iconic LEGO construction bricks. The sequel offered product placement opportunities for other brands, such as a LEGO version of the Chevy Silverado.**

Barry King/Alamy Stock Photo; WENN Rights Ltd/Alamy Stock Photo

As with everything else in marketing, technology is playing an increasing role in product placements. For example, Amazon recently announced an Amazon Virtual Product Placement tool that it can use to integrate brand ads directly into its Amazon Originals shows after the fact. Global product placement spending by marketers grew 13.9 percent last year to $23.3 billion.[13]

Native advertising
Advertising or other brand-produced online content that looks in form and function like the other natural content surrounding it on a web or social media platform.

A related form of brand integration is **native advertising** (also called *sponsored content*), advertising content that appears to be "native to" the web or social media site in which it is placed. The brand content looks in form and function like the other natural content surrounding it. It might be an article on a website such as *The Huffington Post*, *BuzzFeed*, *Mashable*, or even *The New York Times* or *The Wall Street Journal* that is paid for, written by, and placed by an advertiser but uses the same format as articles written by the editorial staff. Or it might be brand-prepared videos, pictures, posts, or pages integrated into social media such as Facebook, YouTube, Instagram, Pinterest, or Twitter that match the form and feel of native content on those media. Examples include Twitter's promoted tweets, Facebook Stories ads, *BuzzFeed*'s sponsored posts, or Instagram Stories ads.

Native advertising blurs the line between editorial and brand content, and this can be a concern. That said, it is an increasingly popular form of advertising. It lets advertisers create relevant associations between brand and consumer content. Thus, it draws reader attention, often bypasses ad blockers, and seems less intrusive than pop-up ads or banners. As a result, native advertising grew more than 45 percent last year and now accounts for more about two-thirds of all digital display advertising spending.[14]

By blending of advertising and entertainment, today's marketers aim to make brand messages a part of the broader flow of consumer content and conversation rather than an intrusion or interruption of it. As an ad from advertising agency JWT puts it, "We believe advertising needs to stop *interrupting* what people are interested in and *be* what people are interested in." However, advertisers must ensure that the new content forms themselves don't become too cluttered. With all the new brand content formats, the merging of advertising and entertainment might create even more of the clutter that it was designed to break through.

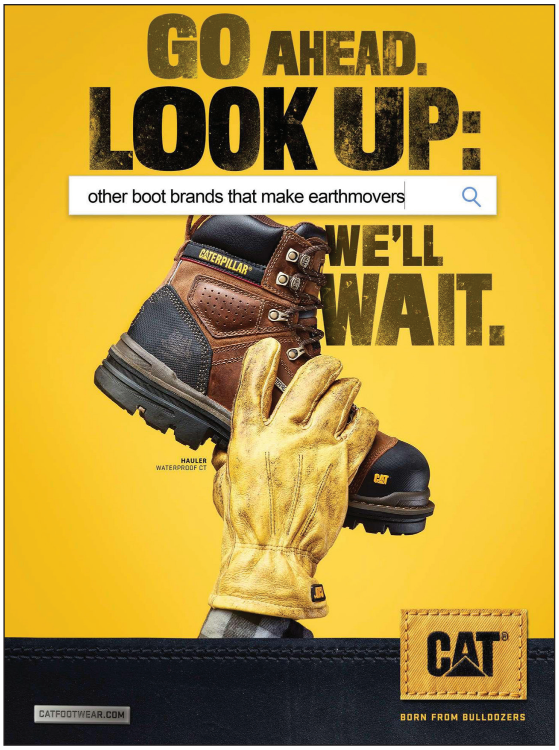
Message and Content Strategy. The first step in creating effective advertising content is to plan a message strategy—the general message that will be communicated to consumers. Customers will engage and react only if they believe they will benefit from doing so. Thus, advertisers must begin by identifying customer *benefits* that can be used as content appeals. Ideally, the message strategy will follow directly from the company's broader positioning and customer value-creation strategies.

Creative concept
The compelling "big idea" that will bring an advertising message strategy to life in a distinctive and memorable way.

Message strategy statements tend to be plain, straightforward outlines of benefits and positioning points that the advertiser wants to stress. The advertiser must next develop a compelling **creative concept**—or *big idea*—that will bring the message strategy to life in a distinctive and memorable way. At this stage, simple message ideas become great ad campaigns. The creative concept may emerge as a visualization, a phrase, or a combination of the two.

The creative concept will guide the choice of specific appeals to be used in the campaign. *Advertising appeals* should have three characteristics. First, they should be *meaningful*, pointing out customer benefits that make the product more desirable or interesting. Second, appeals must be *believable*. Consumers must believe that the product or service will deliver the promised benefits. However, the most meaningful and believable benefits may not be the best ones to feature. Appeals should also be *distinctive*. They should highlight how the product is better than competing brands. For example, the most meaningful benefit of owning a wristwatch is that it keeps accurate time, yet few watch ads feature this benefit. In contrast, for years, Timex has been the affordable watch that "takes a licking and keeps on ticking." Rolex ads talk about the brand's "obsession with perfection" and the fact that "Rolex has been the preeminent symbol of performance and prestige for more than a century." And Geneva-based Patek Philippe stresses the timeless value and heritage of its watches with the striking claim: "You never actually own a Patek Philippe. You merely look after it for the next generation."

Similarly, the most meaningful benefits of high-quality work boots are ruggedness and durability. ● But Wolverine sets its Cat Earthmovers footwear apart through its association with the well-respected Caterpillar construction equipment brand. Cat Earthmovers boots are "born from bulldozers." "Cat Footwear comes from a world of industry and action," says the brand. "A world where you can build anything. Where effort is everything. Where hard work pays off. Where others see obstacles, we see opportunity. We are Earthmovers."



● **Distinctive advertising appeals: Wolverine sets its Cat Earthmovers footwear apart through its association with the well-respected Caterpillar brand. Cat Earthmovers boots are "born from bulldozers."**

Courtesy Young & Laramore and Cat Footwear

Message Execution. The advertiser must now turn the big idea into actual content executions that will capture the target market's attention and interest. The creative team must find the best approach, style, tone, words, and format for message executing. The team can choose from various **execution styles**:

Execution style
The approach, style, tone, words, and format used for executing an advertising message.

- *Slice of life.* This style shows "typical" people using the product in a normal setting. For example, IKEA content—from microsites and Instagram posts to print ads, digital catalogs, and television commercials—features people living in rooms furnished with IKEA furniture and household goods.
- *Lifestyle.* This style shows how a product fits in with a particular lifestyle. For example, an ad for Athleta activewear shows a woman in a complex yoga pose and states: "If your body is your temple, build it one piece at a time."
- *Fantasy.* This style creates a fantasy around the product or its use. For example, an ad for Nestlé Pure Life water shows a young girl diving into a water-filled fantasy land where children blow soap bubbles high on a gondola lift and paddle a boat through the clouds, suggesting "a future full of possibilities starts by drinking pure bottled water now."
- *Mood or image.* This style builds a mood or image—such as beauty, love, intrigue, serenity, or pride—around the product. Few product claims are made except through

suggestion. For example, a warm, soul-stirring three-minute "Little Moments" ad for HP's phone-sized Sprocket printer uses printed images to capture the evolving relationship between a father and his moody 12-year-old daughter as she starts sixth grade. "Hold onto the ones you love," the ad urges. "Reinvent memories."

- *Musical.* This style employs music or dance to engage viewers. For example, Apple introduced its Siri-powered HomePod with a captivating four-minute musical short in which English singer-dancer FKA Twigs revives body and soul after arriving home at the end of a hard day's work by dancing to inspirational music selected for her by Siri.
- *Personality symbol.* This style creates a character that represents the product. The character might be animated (Mr. Clean, the GEICO Gecko, or the Travelocity Gnome) or real (perky Progressive Insurance spokesperson Flo, KFC's Colonel Sanders, or Ronald McDonald).
- *Technical expertise.* This style shows the company's expertise in making the product. Thus, Jim Koch of the Boston Beer Company highlights his years of experience in brewing Samuel Adams beer.
- *Scientific evidence.* This style presents survey or scientific evidence that the brand is better or better liked than competitors. For years, Crest toothpaste has used scientific evidence to convince buyers that Crest is better than other brands at fighting cavities.
- *Testimonial evidence or endorsement.* This style features a highly believable or likable source endorsing the product. It could be ordinary people saying how much they like a given product. For example, in its "It's Free" marketing campaign, Angi features a variety of real customers endorsing the service. Or it might be a celebrity presenting the product, such as Dwayne "The Rock" Johnson for Under Armour or Steve Carrell and Cardi B in a Super Bowl ad for Pepsi.

Novel formats can make an advertisement stand out. This Rocket Mortgage by Quicken Loans ad compels readers to flip the ad, where they get the brand's "Go Waitless" message.

Quicken Loans

The advertiser also must choose a *tone* for the ad. For example, P&G always uses a positive tone. Other advertisers, like Doritos, Burger King, and Bud Light, use edgy humor to break through the clutter. The advertiser must also use memorable and attention-getting *words* in the ad. For example, rather than just saying that its prescription sunglass lenses protect your eyes and look good at the same time, a LensCrafters ad announces, "Sunblock Never Looked So Good." Rather than claiming that "a BMW is a well-engineered automobile," BMW uses more creative and higher-impact phrasing: "The ultimate driving machine." And instead of stating plainly that it delivers inexpensive shaving products direct to your door, Dollar Shave Club invites you to "Shave Time. Shave Money."

Finally, *format* elements make a difference in an ad's impact as well as in its cost. A small change in an ad's design can make a big difference in its effect. In a print or display ad, the *illustration* is the first thing the reader notices—it must be strong enough to draw attention. Next, the *headline* must effectively entice the right people to read the copy. Finally, the *copy*—the main block of text in the ad—must be simple but strong and convincing. Moreover, these elements must effectively work *together* to engage customers and persuasively present customer value. For example, in one Quicken Loans Rocket Mortgage ad, the headline and subhead are upside down, suggesting that the person in the ad is floating weightlessly above the ground. Curious readers are compelled to flip the ad and the headline becomes clear: "Go Waitless—Don't get held down by an outdated mortgage process. Go completely online for a fast, convenient approval." And EyeHealth1st, Australia's largest optometry booking service, ran an ad called "Eyesberg." It shows an eyeball as a floating iceberg. All seems fine above the surface, but things are deteriorating below the waterline. The headline—"Eye disease. There's a lot you don't see. But your optometrist will."—confirms the problem and suggests the solution. In all, the striking visual and headline make viewers stop, take notice, think about eye health, and consider scheduling a visit to the eye doctor using EyeHealth1st.

Consumer-Generated Content. Taking advantage of today's digital and social media, companies are now tapping consumers for marketing content, message ideas, or even actual ads and videos. Sometimes the results are outstanding; sometimes they are forgettable. If done well, user-generated content can incorporate the voice of the customer into brand messages and generate greater customer engagement.

For example, carmaker Tesla held a fan-made ad contest, with three winning "charmingly low-budget" commercials selected from 10 finalists by public voting (via Twitter likes). Tesla posted the finalist ads online simultaneously with the launch of its Model 3 sedan, drawing millions of views and sparking interactions among dedicated Tesla fans. One top-three winner: "Sonja's Super Quick Tesla Fan Video" by YouTuber Sonja Jasansky of Minnesota, a super-quick and ultra-quirky video highlighting Tesla specifications and debunking common misconceptions. More broadly, although Tesla does no advertising of its own, its loyal, techy customer base generates a constant stream of fan-made content, from testimonials to action videos, that amounts to free advertising for the brand. In fact, Tesla founder Elon Musk has been known to reply to good fan-made ads with a thumbs-up emoji on Twitter, passing them along to his more than 55 million Twitter followers.[15]

Not all consumer-generated content efforts, however, are successful. As many big companies have learned, amateur-generated ads and other content can be . . . well, pretty amateurish. If done well, however, consumer-generated content efforts can yield new creative ideas and fresh brand perspectives. Such campaigns can boost consumer engagement and get customers talking about a brand.

Advertising media
The vehicles through which advertising messages are delivered to their intended audiences.

Selecting Advertising Media

The major steps in **advertising media** selection are (1) determining *reach, frequency, impact,* and *engagement*; (2) choosing among major *media types*; (3) selecting specific *media vehicles*; and (4) choosing *media timing*.

Engaging the right consumers with the right media: The adidas "Here to Create Legend" Boston Marathon campaign created ultrapersonalized highlight videos for each of 30,000 marathon participants, identified by RFID chips on their adidas bibs, and made available online within hours.

Marcio Jose Bastos Silva/Shutterstock

Determining Reach, Frequency, Impact, and Engagement. To select media, the advertiser must determine the reach and frequency needed to achieve the advertising objectives. *Reach* is the *percentage* of people in the target market who are exposed to an ad campaign in a given period of time. For example, the advertiser might try to reach 70 percent of the target market during the first three months of a campaign. *Frequency* is a measure of how many *times* the average person in the target market is exposed to a message. For example, the advertiser might want an average exposure frequency of three.

Beyond reach and frequency, the advertiser must determine the desired *media impact*—the *qualitative value* of message exposure through a given medium. For example, the same message in one magazine (say, *Travel+Leisure*) may be more believable than in another (say, the *National Enquirer*). For products that need to be demonstrated, television ads or online video content may have more impact than print or radio messages because they use sight, motion, and sound. Products for which consumers provide input on design might be better promoted at a website or social media page than in a direct mailing.

More generally, an advertiser must choose media that will *engage* consumers rather than simply reach them. For example, when adidas wanted to connect personally with avid runners and influencers, it launched a "Here to Create Legend" Boston Marathon campaign that created personalized highlight videos for each of 30,000 marathon participants:[16]

> Using data generated by RFID chips on bibs worn by runners and video footage captured by eight cameras along the 26.2-mile course, adidas blended personal highlights with general race day scenes and inspirational music, creating 30,000 unique videos for 30,000 runners—giving every runner "a legend of their own." Participants could retrieve their videos at an adidas "Here to Create Legend" website within hours of the race and share them via Facebook, Twitter, Instagram, and other social media. Although the campaign didn't deliver the big audience numbers of a TV ad

campaign, such ultrapersonalization and engagement could be achieved only with digital media. More than 57 percent of runners who completed the race viewed their videos, and more than one-quarter shared the video on Facebook. Across all social media, the content drew hundreds of thousands of views, resulting in a nearly 1,200 percent spike in online sales.

Although marketing insights giant Nielsen is beginning to measure *media engagement* levels for some television, radio, and social media, such measures are still hard to find in most cases. Current media measures include such things such as ratings, readership, listenership, and click-through rates. However, engagement primarily happens inside the head of the consumer. It's hard enough to measure how many people are exposed to a given television ad, online video, or social media post, let alone measure the depth of engagement with that content. Still, marketers need to know how customers connect with an ad and brand idea as a part of the broader brand relationship.

Engaged consumers are more likely to act upon brand messages and even share them with others. Thus, rather than simply tracking consumer *impressions* for a media placement—how many people see, hear, or read an ad—Coca-Cola also tracks the consumer *expressions* that result, such as a comment, a "Like," uploading a photo or video, or sharing brand content on social networks. Today's empowered consumers often generate more messages about a brand than a company can.

Choosing among Major Media Types. As summarized in Table 15.2, the major media types are digital, mobile, and social media; television; newspapers; direct mail; magazines; radio; and outdoor. Each medium has its pros and cons. Media planners must choose a media mix that will present the advertising message well. Thus, they must consider each medium's impact, effectiveness, and cost.

As discussed earlier in the chapter, traditional mass media remain important. However, in recent years, companies have shifted spending toward digital media that target more effectively and engage consumers more immediately, personally, and fully. Today's marketers now employ a full mix of *paid, owned, earned, and shared media* that create and deliver engaging brand content to target consumers.

In addition to the explosion of online, mobile, and social media, cable and satellite television systems are still thriving. Such systems allow narrow programming channels, such as all sports, all news, nutrition, arts, home improvement and gardening, cooking, travel, history, finance, and others that target select groups. Cable operators are even testing

Table 15.2 | Profiles of Major Media Types

Medium	Advantages	Limitations
Digital, mobile, and social media	High selectivity; low cost; immediacy; engagement capabilities	Potentially low impact; high audience control of content and exposure
Television	Good mass-marketing coverage; low cost per exposure; combines sight, sound, and motion; appealing to the senses	High total costs; high clutter; fleeting exposure; less audience selectivity
Newspapers	Flexibility; timeliness; good local market coverage; high believability	Short life; poor reproduction quality; small pass-along audience
Direct mail	High audience selectivity; flexibility; no ad competition within the same medium; allows personalization	Relatively high cost per exposure; "junk mail" image
Magazines	High geographic and demographic selectivity; credibility and prestige; high-quality reproduction; long life and good pass-along readership	Long ad purchase lead time; high cost; no guarantee of position
Radio	Good local acceptance; high geographic and demographic selectivity; low cost	Audio only; fleeting exposure; low attention ("the half-heard" medium); fragmented audiences
Outdoor	Flexibility; high repeat exposure; low cost; good positional selectivity	Little audience selectivity; creative limitations

systems that will let them target specific types of ads to TVs in specific neighborhoods or to specific customers. For example, ads for a Spanish-language channel would run in only Hispanic neighborhoods, or only pet owners would see ads from pet food companies.

Finally, in their quest for less costly and more highly targeted ways to reach consumers, advertisers have discovered a dazzling collection of *alternative media*. These days, no matter where you go or what you do, you will probably run into some new form of advertising:

> Tiny billboards attached to shopping carts urge you to buy Pampers, while ads roll by on the store's checkout conveyor touting your local Chevy dealer. Step outside, and there goes a city trash truck sporting an ad for Glad trash bags or a school bus displaying a Little Caesar's pizza ad. A nearby fire hydrant is emblazoned with advertising for KFC's "fiery" chicken wings. You escape to the ballpark, only to find billboard-size video screens running Budweiser ads. On a rainy day, as thunder booms and the rain begins, groundskeepers cover the infield with a colorful Skittles-branded "Taste the Rainbow" tarp.
>
> These days, you're likely to find ads—well—anywhere. Taxicabs sport electronic messaging signs tied to GPS location sensors that can pitch local stores and restaurants wherever they roam. Ad space is being sold on parking-lot tickets, subway turnstiles, gas pumps, ATMs, municipal garbage cans, and even police cars, doctors' examining tables, and church bulletins. In Italy, Netflix launched Season 4 of *Stranger Things*, the supernatural series set in the 1980s, through an immersive experience at the Piazza del Duomo, an iconic landmark in Milan, Italy. Previews of the episodes were shown with giant projections on the building facades of the Palazzo, ending with a message that Milan would be taken back to the 1980s. The next morning, the Piazza area was indeed taken back to the 1980s era, decorated with advertising messages from brands like Polaroid and Coca-Cola and featuring nostalgic experiences including rockers, hipsters, and old editions of newspapers and magazines.[17]

Marketers have discovered a dazzling array of alternative media, like this clever promotion for the fourth season of *Stranger Things* at the Piazza del Duomo.

Francesco Prandoni/Getty Images

Such alternative media sometimes irritate consumers who resent it all as "ad nauseam." But these media can save money and provide a way to reach selected consumers where they live, shop, work, and play.

Another important trend affecting media selection is the rapid growth in the number of *media multitaskers*, people who absorb more than one medium at a time. For example, it's not uncommon to find someone watching TV with a smartphone in hand, tweeting, Instagramming friends, and chasing down product information on Google. One recent survey found that 88 percent of consumers use another digital device while watching TV. Another study found that millennials and Gen X consumers engage in an average of three additional media activities while watching television, including online browsing, text messaging, and reading email. Although some of this multitasking is related to TV viewing—such as looking up related product and program information—most multitasking involves unrelated tasks. Marketers need to take such media interactions into account when selecting the media mix they will use.[18]

Selecting Specific Media Vehicles. Media planners must also choose the best media vehicles—specific media within each general media type. For example, television vehicles include *Young Sheldon* and *ABC World News Tonight*. Magazine vehicles include *People, Better Homes and Gardens*, and *ESPN The Magazine*. Online and mobile vehicles include Twitter, Facebook, Instagram, TikTok, and YouTube.

Media planners must compute the cost per 1,000 persons reached by a vehicle. If a full-page, four-color ad in the national edition of *Fortune* costs $165,000 and its readership is 3.6 million people, the cost of reaching each group of 1,000 persons is about $45. The same ad in *People* costs $445,600 but reaches 28.6 million people—at a cost per 1,000 of about $15.58.[19] The media planner may favor magazines with the lower cost per 1,000 if their readers are similar. But if targeting business managers, *Fortune* would likely be the more cost-effective buy, even at lower overall readership and a higher cost per thousand.

Media planners must also consider the costs of producing ads for different media. Newspaper ads may cost little to produce, but high-quality television ads can be very costly. Likewise, many online and social media ads may cost little to produce, but made-for-the-web or mobile video ad series can be costly.

In selecting specific media vehicles, media planners must balance media costs against several media effectiveness factors. First, the planner should evaluate the media vehicle's audience quality. For a Huggies disposable diapers ad, for example, *Parents* magazine would have a high exposure value. Second, the media planner should consider audience engagement. Readers of *Vogue*, for example, typically pay more attention to ads than do *People* readers. Third, the planner should assess the vehicle's credibility. *People* and *The Wall Street Journal* are more believable than *Star* or the *National Enquirer*.

Deciding on Media Timing. An advertiser must also decide how to schedule the advertising over time. Suppose sales of a product peak in December and drop in March (for winter outdoor gear, for instance). The firm can vary its advertising to follow the seasonal pattern, oppose the seasonal pattern, or be steady all year. Most firms do some seasonal advertising. For example, weight-loss marketers invest more in advertising after the first of the year, targeting consumers who let their appetites get the better of them over the holiday season and whose New Year's resolutions are focused on healthier lifestyles. Weight Watchers, for instance, spends more than a quarter of its annual advertising budget in January. Similarly, although online flower companies like 1-800-Flowers or Teleflora advertise all year long, they boost spending substantially during the winter holidays and other special occasions such as Mother's Day. "Christmas/Hanukkah, Valentine's Day, and Mother's Day are the holy trinity for the floral industry," notes one analyst.[20] Some marketers do *only* seasonal advertising: For instance, P&G advertises its Vicks NyQuil mostly during the cold and flu season.

Media timing: 1-800-Flowers.com and other online flower companies advertise all year long but boost spending substantially during winter holidays and other special occasions.

1-800-Flowers.com

Today's online and social media let advertisers create content that responds to events in real time. In a classic example, Oreos reacted in a timely way to a power outage during Super Bowl XLVII with an outage-related "Power out? No problem. You can still dunk in the dark" tweet ad. The fast-reaction ad was retweeted and shared tens of thousands of times in only 15 minutes, attracting more attention for Oreo than the brand's big-budget first-quarter advertisement. In today's digital and social media environment, however, effective real-time marketing involves much more than only spontaneous, one-off tweets. Instead, it requires well-planned, equity-building campaigns and a steady flow of content that engages consumers in the moment.

Brands large and small can take advantage of real-time marketing's immediacy and targeting qualities. For example, Red Roof Inn regularly links airline flight data from flight tracking service FlightAware with Google's online search ads to beam real-time ads to stranded travelers facing flight cancellations. For example, when Chicago's O'Hare Airport once experienced a major bout of flight cancellations, Red Roof managed to secure the top ad spot in three-quarters of the Google search results for "hotels near O'Hare," resulting in a 60 percent jump in bookings from those searches.[21]

Evaluating Advertising Effectiveness and the Return on Advertising Investment

Return on advertising investment
The net return on advertising investment divided by the costs of the advertising investment.

Measuring advertising effectiveness and the **return on advertising investment** has become a hot issue for most companies. Top management at many companies is asking marketing managers, "How do we know that we're spending the right amount on advertising?" and "What return are we getting on our advertising investment?"

Advertisers should evaluate two types of outcomes: the communication effects and the sales and profit effects. Measuring *communication effects* indicates whether the ads and media are communicating the intended message well. Individual ads can be tested before or after they are run. Before an ad is placed, the advertiser can show it to consumers, ask how they like it, and measure resulting message recall or attitude changes. After an ad is run, the advertiser can measure how the ad affected consumer recall or product awareness, engagement, knowledge, and preference. Pre- and post-communication effects can be measured for entire advertising campaigns as well. The research tools from Chapter 4 can be useful in this context.

Compared to communication effects, the *sales and profit* effects of advertising and other content are often more difficult to measure. For example, what sales and profits are produced by an ad campaign that increases brand awareness by 20 percent and brand preference by 10 percent? Sales and profits are affected by many factors other than advertising—such as product features, price, and availability.

One way to measure the sales and profit effects of advertising is to statistically model how sales and profits move with advertising spending over time. Another way is through experiments. For example, to test the effects of different advertising spending levels, Coca-Cola could vary the amount it spends on advertising in different, randomly selected market areas and measure the differences in the resulting sales and profit levels. More complex experiments could be designed to include variables such as differences in the ads or media used.

Sales effects are often easier to measure with digital advertising. The digital environment is very friendly to experimentation. With online and mobile media, marketers can quickly and easily manipulate content across customer groups with readily measurable results. They can run multiple experiments in the digital space—also called A/B testing—to identify and refine which content works best.

Still, because so many factors affect advertising effectiveness, some controllable and others not, pretesting ads and measuring the results of advertising spending remains an inexact science. Managers often must rely on large doses of judgment along with quantitative analysis when assessing advertising performance. That's especially true in this content-hungry digital age, where large quantities of ads and other content are produced and run on a real-time basis. Thus, while companies carefully pretest traditional big-budget media ads before running them, digital content is often refined on the fly.

Other Advertising Considerations

In developing advertising strategies and programs, the company must address three additional questions. First, how will the company organize its advertising and marketing content function—who will perform which advertising tasks? Second, how will the company adapt its advertising strategies and programs to the complexities of international markets? Finally, is the company properly addressing issues of diversity, equity, and inclusion (DEI) in its ads and advertising strategy?

Organizing for Advertising

Companies vary a lot in how they manage the advertising function. In small companies, advertising might be handled by someone in the sales department. Large companies have advertising departments whose job it is to set the advertising budget, coordinate with marketing managers and ad agencies, and handle other advertising not done by an

Advertising agency
A marketing services firm that assists companies in planning, preparing, implementing, and evaluating all or portions of their advertising programs.

agency. Most large companies use outside advertising agencies because they offer several advantages.

How does an **advertising agency** work? Advertising agencies originated in the mid- to late 1800s from salespeople and brokers who worked for the media and received a commission for selling advertising space to companies. As time passed, the salespeople began to help customers prepare their ads. Eventually, they formed agencies and grew closer to the advertisers than to the media.

Some ad agencies are huge. In recent years, many agencies have grown by gobbling up other agencies, thus creating huge agency holding companies. The largest of these, WPP, includes several large advertising, PR, digital, media, and promotion agencies with combined worldwide revenues of more than $16.9 billion.[22]

Today's agencies employ specialists who can often perform advertising and marketing content tasks better than the company's own staff can. Agencies also bring an outside point of view to solving the company's problems along with lots of experience from working with different clients and situations. So, today, even companies with strong advertising departments of their own use advertising agencies. Large advertising agencies have staff and resources to handle all phases of an advertising campaign, from creating a marketing plan to developing ad and content campaigns and preparing, placing, and evaluating ads and content. Large brands commonly employ several agencies that handle everything from mass-media advertising campaigns to shopper marketing to digital and social media marketing.

International Advertising Decisions

International advertisers face complexities not encountered by domestic advertisers. The most basic issue concerns the degree to which global advertising should be adapted to various country markets.

Some advertisers have attempted to support their global brands with highly standardized worldwide advertising, with campaigns that work the same in Bangkok as they do in Baltimore. For example, Coca-Cola follows a "one brand" strategy under which it unifies its creative elements and brand presentation under a global "Real Magic" theme. Oreo's "Open Up with Oreo" runs in 50 global markets with a simple universal message—"Open your heart to people who are different and you will discover similarities." And no matter where you go in the world—whether it's Indiana or India—IKEA's advertising portrays the IKEA lifestyle. According to IKEA, "a better home creates a better life. So we work to create better homes, every day, through the products and solutions we offer." In turn, IKEA's advertising worldwide drives home its global positioning themes of creating a better life for everyday people through quality furniture at affordable prices.

International advertising: No matter where in the world you go—here India—IKEA's advertising portrays IKEA's "better home" themes of creating a better life for everyday people through quality furniture at affordable prices.

Used with permission of Inter IKEA System B.V.

In recent years, the increased popularity of digital marketing and social media sharing has boosted the need for global advertising standardization. Connected consumers can now zip across borders virtually, making it difficult for advertisers to roll out adapted campaigns in a controlled, orderly fashion. As a result, at the very least, most global consumer brands coordinate their digital sites internationally. For example, Coca-Cola web and social media sites around the world, from Australia and Argentina to Canada, France, and Romania, are surprisingly uniform. All feature splashes of familiar Coke red, iconic Coke bottle shapes, and Coca-Cola's music and "Real Magic" themes.

Standardization produces many benefits—lower advertising costs, greater global advertising coordination, and a more consistent global image. But it also has drawbacks. Most important, it ignores the fact that country markets differ greatly in their cultures, demographics, and economic conditions. Thus, most international advertisers "think globally but act locally." They develop global advertising *strategies* that make their worldwide efforts more efficient and consistent. Then they adapt their advertising *programs* to make them more responsive to consumer needs and expectations within local markets. For example, although IKEA employs its IKEA lifestyle themes globally, ads in specific locales employ local languages, actors, and inspiring local imagery that make the theme relevant to the local markets in which they appear.

Other realities sometimes force customization at the country level. For instance, advertising media costs and availability differ vastly from country to country. So does the extent to which countries regulate advertising practices. Many countries impose extensive systems of laws restricting how much a company can spend on advertising, the media used, the nature of advertising claims, and other aspects of the advertising program. Thus, although an advertiser may develop a unified global marketing strategy, specific advertising programs must usually be adapted to meet local cultures and customs, media characteristics, and regulations. We discuss international advertising in more detail in Chapter 19.

Diversity, Equity, and Inclusion (DEI) in Advertising

In 1971, the global environment was riddled with divisiveness, caused by the Vietnam War, the Civil Rights Movement, and the sexual revolution. Coca-Cola, then and still the world's most-recognized brand, pulled together 65 people representing a full range of cultures and ethnicities on a hilltop in Italy to make an ad. The diverse group sang the now iconic refrain "I'd like to teach the world to sing, in perfect harmony."[23] The ad delivered a simple message with emotional power at a time when the world needed it badly—that people can set aside their differences and celebrate what they have in common as human beings. The message resonated so strongly with viewers that Coca-Cola received more than 100,000 handwritten letters, all singing praises to the commercial. (How many tweets and retweets would that be today?) The song "I'd Like to Buy the World a Coke" rose immediately to the top of the charts in countries around the world.

That Coca-Cola ad foreshadowed things to come. Although slow to develop at first, issues of **diversity, equity, and inclusion (DEI) in advertising** have grown now to become highly important to consumers and marketers alike. *Diversity* refers to the presence of differences in an entity, including race, gender, religion, ethnicity, nationality, socioeconomic status, ability, age, and more. *Equity* means ensuring that everyone has access to the same resources and opportunities. And *inclusion* is about people from different groups feeling and being valued and welcomed. Seventy percent of U.S. consumers today expect companies to take a stand on DEI issues, and 61 percent of consumers see diversity in marketing as crucial. These figures are typically higher for younger demographics and people identifying as members of marginalized groups.[24]

Diversity, equity, and inclusion (DEI) in advertising
Applying DEI values with and within advertising to ensure full, accurate, and inclusive representations across different gender, religious, racial, ethnic, nationality, ability, age, sexuality, and socioeconomic groups.

Ads and marketing content perceived as diverse and inclusive achieved higher recall rates. Two-thirds of respondents in one study indicated they have acted upon an ad they perceived to be inclusive or diverse, while 57 percent of consumers are more loyal to brands that act to address social inequities. Brands with the most representative ads achieved 83 percent higher preference and 69 percent better performance compared with brands with less DEI representation. Additionally, firms with strategies and measures for improving DEI in their companies achieve higher rates of growth than those without.[25]

Thus, more and more, marketers are committing to addressing matters of diversity, equity, and inclusion. This commitment is increasingly reflected in brand advertising and marketing content messages (see Real Marketing 15.2).

Author Comment | Not long ago, public relations was an overlooked element of the promotion mix because of its limited marketing use. That situation has changed rapidly in recent years, however, as more marketers recognize PR's brand building, customer engagement, and social power.

Public Relations

OBJECTIVE 15-3 **Define the role of public relations in the promotion mix.**

Another major promotion tool, **public relations (PR)**, consists of activities designed to engage the company's various publics and build good relations with them. PR may include any or all of the following functions:[26]

Public relations (PR)
Activities designed to engage the company's various publics and build good relations with them.

- Press relations or press agency. Creating and placing newsworthy information in the media to attract attention to a person, product, or service.
- Product and brand publicity. Publicizing specific products and brands.
- Public affairs. Building and maintaining national or local community relationships.

Real Marketing 15.2 | Diversity, Equity, and Inclusion in Advertising (DEI): More Than a Catchphrase

If you ask Amazon's Alexa "What is love?," Alexa will share a response from one of eight people representing eight different backgrounds. "Love is supporting people in pursuing their dreams, no matter their abilities," says Rajee, a disability activist who was given up for adoption in her native India after polio left her with limited leg mobility. "We gotta look out for each other, that's how we show love," says Jim, an anti-bullying activist who experienced bullying throughout his childhood. "Love is when true allies protect my voice," says Shujaa, a student who started activism work at age 10 working for a collective focused on health justice for Black people. "Love is opening your doors to others without expecting anything in return," says Igor, a filmmaker from Mexico who experienced injustices because he was an immigrant. Each voice presents a different take on love. But they all center on a common theme—that an everyday act by someone made them feel seen, heard, included…loved.

Alexa's response isn't just a clever tactic designed to make people see Amazon as a caring entity. Rather, it's representative of the kind of inclusive storytelling that lies at the heart of "Love Has No Labels," a multimedia campaign produced in partnership by Amazon and the Ad Council. "We made sure from the concept through the production…to make this as inclusive as possible," says an Amazon marketer. "Love is unique. It's very complex, and it's different for everyone. I think this is a celebration of that."

At the center of the campaign is a documentary-style film that takes a deep dive into the stories and life experiences of the eight people who lent their voices to the campaign. Campaign elements include Amazon audio ads, Amazon streaming TV ads, social media placements, and digital formats, as well as a campaign microsite where people can learn more about the campaign, the film, the individuals featured, and how to take action to make others feel loved and included. Ads in the broader Ad Council "Love Has No Labels" campaign proclaim that love has no race, no religion, no sexuality, no disability, no age, and no gender.

The "Love Has No Labels" campaign is just one example of how brands large and small are working to make a difference by highlighting issues related to diversity, equity, and inclusion (DEI). There's Nike's award-winning "You Can't Stop Us" campaign—one 90-second ad, 24 sports, 53 athletes, and 72 clips joined by split-screen magic to celebrate, as only Nike can, the similarities and differences of athletes around the world. Or Etsy's "Gift Like You Mean It" campaign, made up of multiple videos highlighting how gifts purchased on Etsy make people of diverse backgrounds feel seen. Dating app Bumble's "Find Me on Bumble" campaign delivers a powerful message of diversity simply by highlighting a diverse group of real-life Bumble users of different genders, races, abilities, religions, and sexualities.

Almost every brand these days addresses DEI issues in its advertising and marketing, whether it's diversity and representations of people in their ads, full campaigns supporting DEI causes, or both. Whatever they do, it's critical that such efforts be authentic. Consumers want more than just superficial DEI tactics. They want to see evidence that companies practice what they preach.

Nabisco's Oreo brand does just that. The longtime leading cookie brand has also been a longtime leader in supporting the cause of LGBTQ+ rights. For example, two years ago Oreo launched its #ProudParent campaign, designed to educate and empower parents and families to come out in loud, public support of their LGBTQ+ child and inspire others to do the same. "As a brand that is interlaced with family bonds," says the company, "we've resolved to take a stand in moments where these bonds may be threatened. …A loving world starts with a loving home." The #ProudParent campaign was a collaborative effort with PFLAG—the first and largest support organization for the LGBTQ+ community. PFLAG works with dozens of other "Pride Partners"—ranging from Walmart, Bank of America, Verizon, and GEICO to J.Crew, GM, Marriott, MetLife, and Major League Baseball.

The first phase of the #ProudParent campaign—"Inform the Head"—was all about providing information and resources to families to provide education and direction. The second phase—"Trigger the Heart"—consisted of a short film telling the heartwarming story of a young woman bringing her girlfriend home to meet her family for the first time. In the campaign's final phase, "Encourage Action," Oreo created 10,000 packages of #ProudParent Oreos, with seven different-colored cream fillings inspired by the colors of the Pride flag. The limited-production cookies were distributed free of charge to people who followed the @Oreo account on Instagram or Twitter and tagged it in their photos along with the #ProudParent hashtag.

Within hours of kickoff, the #ProudParent campaign took over the internet. On social media, it produced more than 315 million impressions and 2 million engagements. On Instagram alone, more than 600,000 people posted the campaign hashtag to show their support. In total, the campaign generated more than 400 press placements on every major media outlet. And #ProudParent took multiple honors in last year's Shorty Awards for real-time short-form content across the social web.

Like Oreo, brands in every industry are committed to efforts across a wide range of DEI issues. For example, to address potential

Successfully incorporating DEI into the fabric of a brand's advertising and identity requires a deep and continuous commitment. Love has no race, no age, no gender, no religion… no labels.

Courtesy of Ad Council

problems related to misrepresenting or underrepresenting different groups in its marketing and advertising, Google launched a training course to tackle diversity in its campaigns. The result was more diverse and thought-provoking campaigns, such as a commercial for its Pixel 2 phone called "The Picture-Perfect Life." The ad shows real photos of diverse Google Pixel users while also tackling the topic of mental illness. It aims to show that people who look happy in photos might actually be struggling with mental distress on the inside.

P&G is another company with a long history of deep support for a variety of DEI issues. Along with including people from diverse backgrounds in its general-market advertising, P&G has sponsored numerous dedicated DEI campaigns. For example, its Always brand's highly regarded #LikeAGirl campaign sought to empower adolescent girls by showing that they can do anything despite the societal limitations that stand in their way. And P&G's long-running My Black Is Beautiful (MBIB) movement aims "to ignite and support a sustained national conversation by, for, and about Black women" and to "serve as the catalyst for a movement that effects positive change." Lately, MBIB has focused on issues of discrimination, with videos such as "The Talk" (which shows moving situations in which Black parents convey to their children the prejudices they will face in life) and "The Look" (which shines a light on racial bias by showing the experience of a Black man and the "looks" he might get daily).

Some brands simply post promotional images and ads that feature some element intended to communicate diversity, equity, and inclusion—a catchphrase, a nod to a hot DEI issue, or brand and ad elements modified in a certain way. But successfully incorporating DEI values into the fabric of a brand's advertising and identity requires a deep and continuous commitment. Says one analyst about Oreo's #ProudParent campaign, "Oreo has been supporting the LGBTQ+ cause for years. It's not a trend they jumped on; it's a stance the company has taken for some time." Oreo created a platform targeting the real problem faced by real people and designed a campaign to connect with people emotionally, educate them, and move them to act. "Acceptance shouldn't be a single-month event," says another analyst. "In fact, acceptance shouldn't be the standard. The real objective should be social progress."[27]

- Lobbying. Building and maintaining relationships with legislators and government officials to influence legislation and regulation.
- Investor relations. Maintaining relationships with shareholders and others in the financial community.
- Development. Working with donors or members of nonprofit organizations to gain financial or volunteer support.

Public relations is used to promote products, people, places, ideas, activities, organizations, and even nations. Companies use PR to build good relations with consumers, investors, the media, and their communities. PR can help build support for newsworthy company events and actions. For example, a few years ago when CVS Health announced its bold decision to stop selling cigarettes and tobacco products in its stores, even though it meant sacrificing $2 billion in tobacco-related revenues, it knew that the decision would make headlines. But it left little to chance about how the full story would be told. Instead, CVS crafted a comprehensive "CVS Quits for Good" public relations campaign to tell consumers, Wall Street, and the health-care community that the decision would benefit both customers and the company:[28]

> The "CVS Quits" PR campaign kicked off with full-page ads in *The New York Times, The Wall Street Journal, The Boston Globe*, and other major newspapers along with multimedia news releases featuring video announcements from CVS's president and other company leaders. The ads and releases explained that dropping tobacco products "is simply the right thing to do for the good of our customers and our company," consistent "with our purpose—helping people on their path to better health." CVS also created an information-packed cvsquits.com website along with a #cvsquits hashtag and banners announcing the decision on the company's many web and social media sites. The "CVS Quits" story was snapped up by major print and broadcast media, creating some 2,557 broadcast mentions and more than 218 million total media impressions. The news also went viral online, becoming a top trending topic on both Facebook and Twitter.
>
> On the day the decision was activated, CVS's CEO rang the New York Stock Exchange bell, and CVS Health executives stubbed out a 50-foot-high cigarette at an event in New York City's Bryant Park. Both events received substantial media coverage. Finally, CVS launched a nationwide campaign to help smokers kick the habit, cementing the company's message of "helping people on their path to better health" and generating even more positive news.
>
> The "CVS Quits" PR campaign achieved impressive results. On Capitol Hill, eight U.S. senators, 12 House members, and other influential leaders released statements urging other retailers to follow in CVS's footsteps. CVS's stock price jumped 9.2 percent in the three weeks following the announcement. And a survey showed that one in four consumers not currently shopping at CVS pharmacies said they would switch their prescriptions there after it quit tobacco. "CVS Quits" was named *PR Week*'s campaign of the year. "This is a new standard in PR," said one judge. "Great business decision that led to amazing PR results [that had] a real business impact on stock value, consumer behavior, and brand reputation."

The Role and Impact of PR

Like other promotional forms, public relations can engage consumers and make a brand part of their lives and conversations. However, public relations can have a strong impact at a much lower cost than advertising can. Interesting brand stories, events, videos, or other content can be picked up by different media or shared virally by consumers, giving it the same impact as or even greater impact than advertising that would cost millions of dollars. Consider the PR campaign by large Wall Street investment firm State Street Global Advisors:[29]

> On the eve of International Women's Day 2017, State Street placed a small, 4-foot-high bronze statue in the heart of New York City's financial district, opposite Wall Street's much larger Charging Bull statue, the iconic symbol of strength in corporate America. Though small in stature, the statue—named "Fearless Girl"—sent a powerful message. It depicted a proudly defiant young girl with hands on hips and chin held high. It was intended to promote State Street's "Gender Diversity Index" fund, which invests in large companies that rank high in gender diversity across their senior leadership. More important, it kicked off a Fearless Girl campaign that highlighted State Street's support of gender diversity on corporate boards. The plaque below the statue read: "Know the power of women in leadership. SHE makes a difference." (SHE is also the fund's NASDAQ ticker symbol.) On the day that it unveiled the statue, State Street called on the more than 3,500 companies it invests in on behalf of clients to take steps to increase the number of women on their corporate boards.
>
> Fearless Girl was an instant sensation. It drew huge crowds in New York and generated more than 10 billion social, print, and digital media impressions across six continents, sparking global conversations about the power of women in corporate leadership. The campaign also inspired more than 420 companies globally to add a female director to their previously all-male boards. Originally given a one-week city permit, the statue remained in place until December 2018, when both it and the Charging Bull were moved to a location facing the New York Stock Exchange. And in early 2019, State Street installed a Fearless Girl replica in London's Paternoster Square, facing the London Stock Exchange, where it serves as a constant reminder that having women in leadership is good for business. The moral: A simple statue with a big message, backed by an imaginative PR campaign, has had a larger and more lasting impact than even the most memorable Super Bowl ad, probably at a lower cost.

The power of public relations: A simple statue with a big message, backed by an imaginative PR campaign, has had a larger and more lasting impact than even the most memorable Super Bowl ad, probably at a lower cost.

quietbits/Shutterstock

In the past, despite its potential strengths, public relations was often avoided because of its sometimes limited and scattered use. The PR department was often located at corporate headquarters or handled by a third-party agency. Its staff was so busy dealing with various publics—stockholders, employees, legislators, and the press—that PR programs to support product marketing objectives were ignored. Moreover, marketing managers and PR practitioners did not always speak the same language. Whereas many PR practitioners saw their jobs as simply communicating, marketing managers tended to be much more interested in how advertising and PR affected brand building, sales and profits, and customer engagement and relationships.

This situation has changed, however. Although public relations usually captures only a modest portion of the overall marketing budgets, PR can be a powerful brand-building tool. Especially in this digital age, the lines between advertising, PR, and other content have blurred. For example, consider brand websites, blogs, video content, and social media activities. Are they advertising, PR, or something else? All are part of a company's broader marketing content efforts. And as the use of earned and shared digital content grows rapidly, PR is playing a bigger role in marketing.

More than any other department, PR has always been responsible for creating relevant marketing content that draws consumers to a brand rather than pushing messages out. "PR pros are an organization's master storytellers. In a word, they *do* content," says one expert. "The rise of social media [is] moving public relations professionals from the backroom, crafting press releases and organizing events, to the forefront of brand development and customer engagement," says another. PR professionals "have an edge because they have always had to earn attention, while [ad people] have bought attention."[30] The point is that PR should work hand in hand with advertising within an integrated marketing communications program to help build customer engagement and relationships.

Major Public Relations Tools

OBJECTIVE 15-4 Explain how companies use PR to communicate with relevant publics.

Public relations uses several tools. One of the major tools is *news*. PR professionals find or create favorable news about the company and its products or people. Sometimes news stories occur naturally; sometimes the PR person can suggest events or activities that would create news. Another common PR tool is *special events*, ranging from news conferences and speeches, brand tours, and sponsorships to multimedia presentations or educational programs designed to reach and interest target publics.

Public relations people also prepare *written materials* to reach and influence their target markets. These materials include annual reports, brochures, articles, and company newsletters and magazines. *Videos* are being used increasingly as communication tools. *Corporate identity materials* can also help create a corporate identity that the public immediately recognizes. Logos, stationery, brochures, signs, business forms, business cards, buildings, uniforms, and company cars and trucks all become marketing tools when they are attractive, distinctive, and memorable. Finally, companies can improve public goodwill by contributing money and time to *public service activities*.

As previously discussed, the web and social media are also important PR channels. Websites, blogs, and social media provide ways to reach and engage people. As noted, storytelling and engagement are core PR strengths, and that plays well into the use of online, mobile, and social media.

As with the other promotion tools, in considering when and how to use product public relations, management should set PR objectives, choose the PR messages and vehicles, implement the PR plan, and evaluate the results. The firm's PR should be blended smoothly with other promotion activities within the company's overall integrated marketing communications effort.

Reviewing and Extending the Concepts

Objectives Review

Companies must do more than make good products; they have to engage consumers, inform them persuasively about product benefits, and carefully position products in consumers' minds. To do this, they must master *advertising* and *public relations*.

OBJECTIVE 15-1 Define the role of advertising in the promotion mix.

Advertising—the use of paid media by a seller to inform, persuade, and remind buyers about its products or its organization—is an important promotion tool for engaging customers and communicating the value that marketers create for customers. American marketers spend more than $285 billion each year on advertising; worldwide spending exceeds $763 billion. Advertising takes many forms and has many uses. Although advertising is employed mostly by business firms, a wide range of not-for-profit organizations, professionals, and social agencies also employ advertising to promote their causes. *Public relations*—engaging the company's various publics and building good relations with them—is the least used of the major promotion tools despite its substantial and growing potential.

OBJECTIVE 15-2 Describe the major decisions involved in developing an advertising program.

Advertising decision making involves making decisions about the advertising objectives, budget, messages and media, and evaluation of the results. Advertisers should set clear target, task, and timing objectives, whether the aim is to inform, engage, persuade, or remind buyers. Advertising's goal is to move consumers through the customer journey stages discussed in Chapter 14. Some advertising is designed to move people to immediate action, but much is focused on building or strengthening long-term customer engagement and relationships. The advertising budget depends on many factors, and setting and allocating the budget can be challenging.

Advertising strategy consists of two major elements: creating advertising messages and content and selecting advertising media. The message decision calls for planning a message strategy and executing it effectively. Good content is especially important in today's costly and cluttered advertising environment. Just to gain and hold attention, today's messages must be better planned, more imaginative, more entertaining, and more rewarding to consumers. In fact, many marketers are now merging advertising and entertainment to break through the clutter. The *media decision* involves defining reach, frequency, impact, and engagement goals; choosing major media types; selecting media vehicles; and choosing media timing. Message and media decisions must be coordinated for maximum campaign effectiveness.

Finally, *evaluation* calls for assessing the communication and sales effects of advertising before, during, and after ads are placed. Advertising accountability has become a hot issue for most companies. Increasingly, top management is asking: "What return are we getting on our advertising investment?" and "How do we know that we're spending the right amount?" Other important advertising issues involve *organizing* for advertising, dealing with the complexities of *international* advertising, and properly addressing issues of diversity, equity, and inclusion (DEI) in ads and advertising strategy.

OBJECTIVE 15-3 Define the role of public relations in the promotion mix.

Public relations, or *PR,* is used to promote products, people, places, ideas, activities, organizations, and even nations. Companies use PR to engage and build good relationships with consumers, investors, the media, and their communities. PR can have a strong impact on public awareness at a much lower cost than advertising can, and PR results can sometimes be spectacular. Although PR still captures only a modest portion of the average marketing budget, it is playing an increasingly important brand-building role. In the digital, mobile, and social media age, the lines between advertising and PR are blurring.

OBJECTIVE 15-4 Explain how companies use PR to communicate with relevant publics.

Companies use PR to communicate with their publics by setting PR objectives, choosing PR messages and vehicles, implementing the PR plan, and evaluating PR results. To accomplish these goals, PR professionals use several tools, including news and special events. They also prepare written, video, and corporate identity materials and contribute money and time to public service activities. The internet has also become an increasingly important PR channel, as websites, blogs, and social media are providing interesting new ways to reach more people.

Key Terms

OBJECTIVE 15-1

Advertising

OBJECTIVE 15-2

Advertising objective
Advertising budget
Advertising strategy
Native advertising
Creative concept
Execution style
Advertising media
Return on advertising investment
Advertising agency
Diversity, equity, and inclusion (DEI) in advertising

OBJECTIVE 15-3

Public relations (PR)

Discussion Questions

15-1 What is the role of advertising in the marketing mix? (AACSB: Written and Oral Communication; Reflective Thinking)

15-2 What is the difference between informative advertising and persuasive advertising? (AACSB: Written and Oral Communication; Reflective Thinking)

15-3 Name and explain the two major elements in developing advertising strategy. (AACSB: Written and Oral Communication)

15-4 What are the key factors that influence the advertising budget? (AACSB: Written and Oral Communication; Reflective Thinking)

15-5 What are the key decisions to made in international advertising? (AACSB: Diverse and Multicultural Work Environments; Reflective Thinking)

15-6 How can be PR be used as a productive component of the marketing mix? (AACSB: Written and Oral Communication)

Critical Thinking Exercises

15-7 Choose *any two* ads from the most recent Super Bowl. For each of the two ads, identify the audience targeted and the execution styles used (choosing from the nine styles listed in the chapter). Do the ads work well for the targeted audience? How could each ad be improved? Be prepared to present the two commercials and support your conclusions. (AACSB: Application of Knowledge; Integration of Real-World Business Experiences)

15-8 Renewal by Andersen is one of nation's largest window replacement companies. The company operates through numerous, geographically dispersed Anderson-certified contactors. Leaflets and pamphlets that are mailed to homeowners are one of Andersen's primary outreach and advertising tools. These leaflets and pamphlets, which regularly appear in the mailboxes of homeowners, typically feature a range of windows and often highlight ongoing price promotions. Andersen has been concerned about the return on investment (ROI) related to such advertising. How can Andersen calculate the ROI? (AACSB: Analytical Thinking; Reflective Thinking)

15-9 Product placements in movies have proliferated. View this ending of *Sonic the Hedgehog*, which features a government official dropping off an Olive Garden gift card to the hero of the movie, small-town sheriff Tom Wachowski (see www.youtube.com/watch?v=cWLnvRRRtHM&ab_channel=SonicMovieClips). What is your reaction to this product placement effort? More generally, how can marketers ensure that a product placement in a movie works well in terms of strengthening the brand and driving sales? (AACSB: Application of Knowledge; Integration of Real-World Business Experiences)

APPLICATIONS AND CASES

Digital Marketing Volkswagen's "The Last Mile" Campaign

In an era of enormous boat-like cars with tailfins that could impale people, the Volkswagen Beetle was a breath of fresh air. Launched in 1938, it personified the appeal to "Think Small." With more than 21 million cars produced, the Beetle holds the record for the long-running and most-manufactured car on a single platform. It was fitting, then, for Volkswagen to bid farewell to this beloved icon after more than eight decades with the animated "The Last Mile" campaign in 2020. The campaign was anchored by a 90-second animated clip set to a version of "Let It Be" by the Beatles, sung by the Pro Musica Youth Chorus (see www.youtube.com/watch?v=Vvt8G01jVzg&ab_channel=AdsofBrands). A 2021 Cleo Award winner, the clip packed a range of historical moments into an emotional-laden tribute that made it feel like the people of the world were saying goodbye to a beloved family member. Featured in the clip were tributes to Andy Warhol, who painted an iconic image of the Beetle; Kevin Bacon, who famously jaunted around in a Beetle in *Footloose*; Vietnam-era protestors; and ordinary families whose beloved Beetles were unofficial family members. The campaign was backed up by a social media campaign under the hashtag #TheLastMile (for example, read through some comments at www.facebook.com/VW/videos/2493766500870019).

15-10 What combination of execution styles did Volkswagen use for "The Last Mile"? How did it work out? (AACSB: Application of Knowledge; Integration of Real-World Business Experiences)

15-11 *Small group exercise*: Create an outline for a marketing-focused public relations campaign to run alongside the "The Last Mile" campaign. How would it complement the advertising campaign? (AACSB: Application of Knowledge; Integration of Real-World Business Experiences)

Marketing Ethics YesStraws

An estimated 500 million plastic straws are used daily in the United States alone. Plastic is one of the biggest enemies of the environment—nonbiodegradable and prone to collecting in water bodies including the seas, thereby posing a hazard to marine life. Plastic straws are also typically manufactured from raw materials that are derived from the crude oil refining process, which has its own negative environmental impact. Against this sobering backdrop, YesStraws aims to make a difference (see https://yesstraws.com/pages/brand-story). Under the tagline of "Guilt-free slurping," the company makes biodegradable straws from 100 percent natural materials—wheat and cane stems—with no harmful chemicals involved in manufacturing. YesStraws has even pioneered its own manufacturing processes to clean and sterilize the stems. The company has partnered with Hilton hotels and drink maker Pernod Ricard to popularize its products and broadcast its message.

15-12 Although plastic is a huge environmental problem, YesStraws can make but a minor overall impact even if successful. Therefore, customers often view such corporate initiatives with skepticism. How can YesStraws design an effective ad campaign that comes off as genuine and inspired? (AACSB: Application of Knowledge; Reflective Thinking)

15-13 *Small group exercise*: Consider this situation: A prominent social media influencer has criticized YesStraws, claiming that all that its products do is to allow people to feel a bit less guilty about consuming large quantities of carbonated drinks, which are harmful to their health and impose significant social costs related to long term healthcare. How would you react in your role as YesStraws's marketing team? (AACSB: Written and Oral Communication; Ethical Reasoning; Reflective Thinking)

Marketing by the Numbers Advertising Costs

A common measure of advertising efficiency is cost per thousand (CPM), which is the ad cost per thousand potential audience contacts. Although all audience members are important for advertisers, the 18–49 demographic is the most coveted by many because they are the most difficult to reach with advertising messages. Because these viewers basically make or break a television show's success, television networks break out this demographic when giving audience numbers. The chart on the next page shows average costs (some estimated) and audience sizes for some of America's favorite primetime television (excluding live sports) shows from September 21, 2020, to May 23, 2021.

Cost-per-thousand calculations for television programs are normally done on a household basis rather than viewer basis. However, comparing CPM per overall audience members versus CPM per 18–49 demographic audience members can help advertisers select appropriate media vehicles (that is, appropriate television programs) when trying to reach this demographic.

Program	Average Cost per 30-Second Spot	Average Number of Viewers (in millions)	Age 18–49 Viewers (in millions)
The OT	$433,866	9.77	2.8
The Masked Singer	$225,764	7.56	2.0
This Is Us	$476,352	9.27	2.0
The Bachelor	$154,886	3.5	1.8
The Bachelorette	$170,278	3.5	1.8
Equalizer	$204,792	11.78	1.7
Grey's Anatomy	$213,829	7.54	1.7
9-1-1	$190,000	9.6	1.7

15-14 Calculate both the overall CPM and the CPM for the 18-49 demographic for each show. Refer to the "Selecting Specific Media Vehicles" section of "Selecting Advertising Media" in the chapter to learn how to do this calculation. Which programs are the most efficient media buys for advertisers? (AACSB: Analytical Reasoning; Reflective Thinking)

15-15 If an advertiser wants to reach the 18–49 demographic, which programs would you suggest? Explain. (AACSB: Analytical Reasoning; Application of Knowledge)

Company Case Hyundai: An Integrated Marketing Communications Campaign That's "Wicked Smaht"

When carmaker Hyundai launched an all-new version of the Sonata—its longest-standing and most successful model—it did so on advertising's biggest stage: the Super Bowl. Like other event-sponsoring advertisers, however, Hyundai didn't just rely on an ad run during Super Bowl LIV. It made that ad the centerpiece of a fully integrated multimedia campaign. Developed by ad agency Innocean USA—an agency created in 2005 with Hyundai as its first client—the campaign not only became one of the most notable Super Bowl–based promotional campaigns that year, it surpassed numerous Hyundai objectives.

The campaign's main objectives were simple—to drive interest in the all-new Hyundai Sonata and to spark digital engagement for the brand. But as with any IMC campaign, although the objectives were simple, development and execution of the campaign was far more involved. The Hyundai campaign was titled "Smaht Pahk" after the snappy catchphrase that served as the hook for the 60-second Super Bowl ad. The ad's big idea: The new Sonata was chock-full of advanced style and technology, most notably the new Remote Smart Parking Assist feature. The full name of the feature would be hard to remember and a mouthful to pronounce. So the ad shortened the name to "Smart Park." And with an ad message that would include the words "smart," "park," and "car," the ad team added a humorous, more memorable theme using the uniquely "R-challenged" Boston accent. Thus, "Smaht Pahk."

With the Boston accent dominating the ad from start to finish, Innocean designed all elements of the ad to bring authenticity to the Boston theme. The ad was shot in Boston's South End (what better place to show off the techy Smart Park?) and directed by Boston native Bryan Buckley. It featured a star-studded cast of Boston originals, including Chris Evans (*Captain America*), John Krasinski (*The Office*), and Rachel Dratch (*Saturday Night Live*). The supporting cast was equally authentic with Bostonians Bob and Arthur Wahlberg, comedian Tony V., and Red Sox legend David "Big Papi" Ortiz. If that wasn't enough to convince viewers that this ad had Boston baked into it, the ad also featured numerous Boston-themed "easter eggs," including the well-known local sports anthem "Dirty Water" by the Standells.

The "Smaht Pahk" ad kicks off with the Wahlberg brothers attempting to park a Honda Accord in a seemingly impossibly narrow spot. Looking on, Evans and Dratch correctly predict failure. As the Honda pulls away, Krasinski drives up in a brand-new Hyundai Sonata, noses into the tight parking spot, and greets Evans and Dratch. In heavily Boston-accented terms, they tell him the same thing they told the Wahlbergs—"Oh, you're not fitting your cah in thehr." But Krasinski gets out of the vehicle and proclaims, "Stop being a smahty pants. Look whose got Smaht Pahk." He clicks a button on the key fob and the driverless Sonata then magically parks itself. That's followed by a rapid-fire dialogue across characters in which the words "smaht" and "pahk" are used separately or together no fewer than 15 times, with "wicked," "smaht," and "cah" sprinkled in liberally for added flavor. The ad ends with the announcer's summary, backed by the tagline "Bettah drives us."

Putting Celebrities to Work

Ads with famous faces are nothing new. But the minds behind "Smaht Pahk" went above and beyond to ensure that the ad's celebrities enhanced the message and not the other way around. For starters, the three main characters were A-list celebrities, instantly recognizable by just about everyone. Next, the Boston heritage of the entire cast was relevant to the ad's creative concept. And third, the celebrities remained secondary to the focus of the ad—the car. "It is a common construct for Big Game commercials to avoid the product for 45 seconds, then slip in a mention," said Barney Goldberg, creative director at Innocean USA. "We took the opposite approach and feel the ad is stronger—and funnier—for it."

Beyond the strong "Smaht Pahk" Super Bowl TV ad placement itself, Innocean drove the ad's message and intent home with a full slate of supporting promotional tactics. To get the PR machine rolling, the agency unveiled the ad six days before the

Sunday Super Bowl broadcast during NBC's *Today* show. It then featured the ad on a Wednesday prime time CBS special, "Super Bowl Greatest Commercials 2020," which not only aired the commercial but also featured a behind-the-scenes "making of the ad" segment. Hyundai became the first-ever automotive brand to integrate TikTok into a campaign. Dratch was featured on teaser spots where she prepped people on how to speak Bostonian, including one with Ortiz as a pupil. Dratch was also featured in the TikTok #onedayafterwatching challenge.

Extending the ad's message and humor, Hyundai took "Smaht Pahk" onto second screens during the Super Bowl broadcast. Robert Kelly and Tony Viveiros—two well-known Boston-area comedians—hosted four segments of *The Hyundai Quartertime Show*. The two-minute clips were filmed, edited, and published on Twitter throughout the game, showing the two veteran funny guys responding to Twitter fans in real time, adding their commentary on the game and the ads.

Putting sprinkles on the icing of the campaign, Hyundai targeted the Boston-area market. It ran a letter of appreciation in the *Boston Globe*, ran radio ads voiced by Dratch, littered the city with billboard ads, and employed targeted social media activities that displayed Hyundai's love for Boston's quirks.

More Than Just Funny

To say that the "Smaht Pahk" campaign was a success doesn't do it justice. The ad itself received rave reviews from the advertising press. It landed the number-two spot on the *USA Today* Ad Meter. Highly regarded advertising impact tracking firm Ace Metrix dubbed it the #1 Most Attention Grabbing and the #1 Best Overall Super Bowl Ad, going on to proclaim "Smaht Pahk" the "highest scoring Super Bowl ad of all time" in the firm's rankings of advertising effectiveness. News outlets agreed, running 3,400 stories about the ad, many of which showered the campaign with accolades, awards, and high rankings.

In marketing communications, entertaining the masses and getting awards are nice. But what matters most is whether a campaign achieves the advertiser's objectives. The "Smaht Pahk" effort did not disappoint. Five days after the ad's Super Bowl broadcast, "Smaht Pahk" was one of the most watched Big Game commercials on YouTube and had racked up more than 58 million views across Google's video channel, Facebook, and Twitter. It was a hot conversation topic on social media with 43,000 mentions. The ad became one of the top trending topics on Twitter on game day, and Twitter named the ad Twitter Brand Bowl's "12th Player" for best real-time engagement.

But even with such viral impact, the question remains as to whether all those shares, mentions, and praise translate into increases in brand-related activities. Again, "Smaht Pahk" delivered. During the game, Hyundai traffic on car shopping site Edmunds.com experienced a 6,982 percent lift, and the brand received a 961 percent surge to Hyundai car model pages on Cars.com. Traffic on the HyundaiUSA.com site also saw a surge. And in the days following the Super Bowl commercial, nearly 250,000 people visited the Sonata landing page created for the campaign. "This is Hyundai's biggest moment to shine in marketing and we were able to effectively reach millions of people on TV, online, and in social media," said Angela Zepeda, chief marketing officer for Hyundai Motor America. "The reception to the spot exceeded even our highest expectations and we've been successful at entertaining with creative storytelling and driving real interest in the all-new Sonata."

In the weeks following the Super Bowl, Hyundai keep its foot on the marketing accelerator. It reinforced messaging about the Sonata's high-tech features with more ads aired on TV and social media. In one ad, a Sonata owner shows his parents how they can borrow his car the old-school way, using the key fob, or the new-school way, with the Sonata's Digital Key by holding a smartphone to the driver's door handle. In another ad, a Sonata owner at a sidewalk café avoids a parking ticket by using the Remote Smart Park Assist to move the car to a new spot just before the meter expires. And in a third, an owner prepares for a date by using three of the Sonata's key features—Blind Spot View Monitor, LED Daytime Running Lights, and the 10.25-inch touchscreen.

The "Smaht Pahk" campaign was costly. The 60-second Super Bowl airing alone cost $11.2 million. Ad development and other campaign elements added many millions more. However, Hyundai got more than its money's worth from the campaign—and it wasn't the first time. Super Bowl LIV marked the 12th time in 13 years that Hyundai paid big money for a spot in the NFL's championship game—from Hyundai's ad for Super Bowl XLIV in which Brett Favre satirically highlights Hyundai's industry-leading 10-year warranty to the automaker's ad for Super Bowl 50 featuring comedian Kevin Hart stalking his daughter and her date via Hyundai's Car Finder. And although Hyundai didn't run an ad during the most recent Super Bowl LVI broadcast, it composed a very clever "faux" Super Bowl integrated content campaign centered around an ad featuring actor Anthony Anderson as an ad executive, brainstorming ideas with his team for Hyundai's new Ioniq 5 EV. But when it comes to its promotional campaigns, Hyundai has kept one thing constant. Whether it's through the Super Bowl or other media vehicles and channels, Hyundai has shown that it knows how to drive results though integrated marketing communications.[31]

Questions for Discussion

15-16 Which elements of the promotional mix did Hyundai's "Smaht Pahk" campaign employ?

15-17 Analyze Hyundai's "Smaht Pahk" campaign based on the process of creating an advertising message as outlined in the text.

15-18 In today's networked world, companies need to extend their campaigns across media and time to maximize their return on investment. How did Hyundai do that for the "Smaht Pahk" campaign? How else could Hyundai have extended the campaign?

15-19 *Small group discussion*: Hyundai's CEO wants to invest in a Super Bowl campaign next year but focus on its IONIQ electric vehicle. Take a couple of minutes to visit Hyundai's website and learn about the vehicle. Then design a Super Bowl ad concept based on the learnings from the chapter. Think creatively and out of the box!

16 Personal Selling and Sales Promotion

OBJECTIVES OUTLINE

OBJECTIVE 16-1 Discuss the role of a company's salespeople in engaging customers, creating customer value, and building customer relationships.

OBJECTIVE 16-2 Identify and explain the six major sales force management steps.

OBJECTIVE 16-3 Discuss the personal selling process, distinguishing between transaction-oriented marketing and relationship marketing.

OBJECTIVE 16-4 Explain how sales promotion campaigns are developed and implemented.

CHAPTER PREVIEW

In the previous two chapters, you learned about engaging customers and communicating customer value through integrated marketing communications (IMC) and two elements of the promotion mix: advertising and public relations. In this chapter, we examine two more elements: personal selling and sales promotion. Personal selling is the interpersonal arm of marketing communications, in which the sales force engages customers and prospects to build relationships and make sales. Sales promotion consists of short-term incentives to encourage the purchase or sale of a product or service. Although this chapter presents personal selling and sales promotion as separate tools, they must be carefully integrated with the other elements of the promotion mix.

First, let's look at a real-life sales force. When you think of salespeople, perhaps you think of pushy retail sales clerks, "yell and sell" TV pitchpeople, or the stereotypical glad-handing "used-car salesperson." But such stereotypes don't fit the reality of most of today's salespeople—sales professionals who succeed not by taking advantage of customers but by listening to their needs and helping to forge solutions. Consider Salesforce—the industry leader in customer relationship management solutions. Salesforce not only produces market-leading sales management software services, it also excels at practicing what it preaches: effective personal selling.

SALESFORCE: You Need a Great Sales Force to Sell Salesforce

Salesforce is way out front in the $58 billion market for customer relationship management (CRM) solutions. The Salesforce logo, set inside the image of a cloud, underscores Salesforce's highly successful cloud-based computing model (no software to install or own). Cloud-based systems are common today, but they were state-of-the-art when Salesforce pioneered the concept more than 20 years ago. Since then, the company has established itself as a leading innovator, constantly finding new ways to help client companies connect with customers and achieve greater sales force effectiveness using the latest online, mobile, social, artificial intelligence (AI), and cloud technologies.

Salesforce helps businesses to "supercharge their sales." It supplies what it calls a "Customer Success Platform," a wide array of cloud-based customer relationship management tools across sales, marketing, application development, and customer service. Salesforce's Tableau artificial intelligence and business intelligence system even lets clients predict customer outcomes based on sales data without their own data science teams. From its home in the cloud, Salesforce makes all these data and analyses readily available anytime, from anywhere, on any device with online access—desktops, laptops, tablets, or smartphones. Salesforce also provides real-time customer engagement and collaboration on its Salesforce Chatter platform, a kind of Facebook for enterprises.

Salesforce's innovative products have made it the world's number-one and fastest-growing CRM platform, ahead of blue-chip competitors such as Microsoft, Oracle, SAP, and IBM. The company's revenues hit $26.5 billion last year, up an impressive 25 percent over the previous year and almost fourfold what they were just four years ago. Salesforce has placed in the top three on the *Forbes* World's Most Innovative Companies list for 10 straight years. With the ongoing digital transformation causing a surge in the CRM market, Salesforce is on a growth trajectory to reach $50 billion in annual revenue by 2026.

Salesforce's cloud-based "Customer Success Platform" provides a wide array of customer relationship management tools that help its customers "supercharge their sales."

Sundry Photography/Shutterstock

Innovative products and platforms have played a major role in Salesforce's stunning success. But even the best products don't sell themselves. You need a great sales force to sell Salesforce, and the company excels at practicing what it preaches: effective personal selling. Like the companies that buy its services, Salesforce has its own army of experienced, well-trained, highly motivated sales reps who take the company's products to customers. In many respects, Salesforce's own sales force serves as a model for the products and services it sells—not just for using the Salesforce cloud but more generally for achieving the "supercharged" sales force results that the company promises its clients.

At Salesforce, developing an outstanding sale force starts with recruiting and hiring top-notch salespeople. Salesforce's aggressive but highly selective recruiting program skims the cream off the top of the global sales rep candidate pool. Indeed, Salesforce has a lower acceptance rate than Harvard University. And at Salesforce, experience counts. Salesforce expects a minimum of two years of prior sales experience for small-business sales reps and up to two decades of experience for sales execs assigned to major accounts. Salesforce counts on its high-energy culture and strong compensation package to attract experienced and successful candidates into the Salesforce fold.

Once hired, as you might expect, Salesforce salespeople have access to all the latest high-tech selling tools. In fact, the first major assignment of new hires is to study 20 hours of at-home video that teaches them the ins and outs of the Salesforce technologies that they won't be just selling but also using. But Salesforce would be the first to tell you that, although its cloud wizardry can help optimize customer contact and the selling process, it doesn't take the place of good personal selling skills. So in training and fine-tuning its own sales force, the company starts by preaching tried-and-true selling fundamentals, tempered by its own modern twists.The first fundamental of good selling at Salesforce is to listen and learn. All new recruits go through Salesforce's weeklong selling boot camp, taught at the company's Trailhead Academy—what the company used to call Salesforce U. They learn that they should begin building customer relationships by asking probing questions and getting customers to talk, seeking to understand everything they can about a customer's situation and needs. "Eighty-five percent of salespeople don't slow down enough to really understand their customer's business," says a senior Salesforce sales executive.

Understanding the customer leads to a second selling fundamental: empathize—let customers know that you understand their issues and feel their pain. Empathy builds rapport and trust, an important step toward closing sales and building long-term customer relationships. Listening, learning, and empathizing are important first steps, but more is needed. "If all you are is responsive and helpful, then all you are is an administrative assistant," says the Salesforce sales executive.

So the next important step is to offer solutions—to show how Salesforce leads the market in sales force automation and customer relationship management solutions. But even Salesforce's innovative products won't sell themselves. The company knows that it needs a great sales force to sell Salesforce.

Salesforce leads the market in sales force automation and customer relationship management solutions. But even Salesforce's innovative products won't sell themselves. The company knows that it needs a great sales force to sell Salesforce.

Salesforce's cloud-based solutions will help clients make their sales forces more effective and productive in connecting with and selling to customers. Salesforce believes that the best way to offer solutions is by telling good stories that highlight other customers' successes with its products. "Storytelling is very, very important," says Salesforce's sales productivity manager. "It can be the foundation of things like the corporate pitch and your interactions with your customers and prospects." When it comes to handling objections—such as "I don't trust putting our data in the cloud," "My current system is working fine," or "It costs too much"—Salesforce tells its salespeople that stories can be the most powerful tools they have. "When faced with objections, we always relate it back to a customer story," says a Salesforce marketing manager. "We're not the hero in our customer's stories," says another manager. "It's how the customer succeeded, not how we saved them."

When it comes to competitors, Salesforce's salespeople are ferocious. But Salesforce reps are trained to take the high road—to sell Salesforce's strengths, not competitors' weaknesses. And even though Salesforce boasts the best sales and customer connection tools in the business, backed by big data and combined with AI and plenty of other new-school techniques, its sales reps stay focused on old-school selling principles. At Salesforce—or anywhere else—good selling starts with the fundamentals of engaging and listening to customers, understanding and empathizing with their problems, and building relationships by offering meaningful solutions for mutual gain. That's how you build an incredibly successful sales force and Salesforce.[1]

IN THIS CHAPTER, we examine two more promotion mix tools: *personal selling* and *sales promotion*. Personal selling consists of interpersonal interactions with customers and prospects to make sales and maintain customer relationships. Sales promotion involves using short-term incentives to encourage customer purchasing, reseller support, and sales force efforts.

Author Comment | Personal selling is the interpersonal arm of the promotion mix. A company's sales force creates and communicates customer value by personally engaging customers and building customer relationships.

Personal Selling

OBJECTIVE 16-1 Discuss the role of a company's salespeople in engaging customers, creating customer value, and building customer relationships.

Robert Louis Stevenson once noted, "Everyone lives by selling something." Companies around the world use sales forces to sell products and services to business customers and final consumers. But sales forces are also found in many other kinds of organizations. For example, colleges use recruiters to attract new students. Museums and fine arts organizations use fundraisers to contact donors and raise money. Even governments use sales forces. The U.S. Postal Service, for instance, uses a sales force to sell Express Mail and other shipping and mailing solutions to corporate customers. In the first part of this chapter, we examine personal selling's role in the organization, sales force management decisions, and the personal selling process.

The Nature of Personal Selling

Personal selling
Personal presentations by the firm's sales force for the purpose of engaging customers, making sales, and building customer relationships.

Personal selling is one of the oldest professions in the world. The people who do the selling go by many names, including salespeople, sales representatives, agents, district managers, account executives, sales consultants, and sales engineers.

People hold many stereotypes of salespeople—including some unfavorable ones. *Salesperson* may bring to mind the image of Dwight Schrute, the opinionated Dunder Mifflin paper salesman from the old TV show *The Office*, who lacks both common sense and social skills. Or you may think of the real-life "yell and sell" TV pitchpeople, who hawk everything from the Flex Seal to the INSANITY Workout and the Power Air Fryer in infomercials. However, the majority of salespeople are a far cry from these unfortunate stereotypes.

As the opening Salesforce story shows, most salespeople are well-educated and well-trained professionals who add value for customers and maintain long-term customer relationships. They listen to their customers, assess customer needs, and organize the company's efforts to solve customer problems. The best salespeople are the ones who work closely with customers for mutual gain. Consider consumer products giant Procter & Gamble. It takes a lot more than a friendly smile and a firm handshake to sell P&G's billion-dollar brands to professional buyers at P&G's large retailer accounts:

P&G's sales force has long been an icon for personal selling at its very best. At P&G, however, they rarely call it "sales." Instead, it's "Customer Business Development" (CBD). And P&G sales reps aren't "salespeople"; they're "CBD managers" or "CBD account executives." Most P&G business customers are huge and complex firms—such as Walmart, Amazon, Walgreens, or Dollar General—with thousands of stores and billions of dollars in revenues. To deal effectively with such large accounts, P&G salespeople must be smart, well trained, and strategically grounded. They deal daily with high-level retail category buyers who may purchase hundreds of millions of dollars' worth of P&G and competing brands annually.

Thus, P&G salespeople aren't the stereotypical glad-handers who some people have come to expect when they think of selling. P&G's customer business development managers are skilled sales professionals who do all they can to help customers succeed. They don't just sell *to* customers, they work *with* customers as "strategic partners" to jointly identify strategies that create shopper value and satisfaction and drive profitable sales at the store level. Smart, honest, and open dealings are essential—P&G salespeople become trusted advisors to their retailer-partners, a status they work hard to maintain. "It took me four years to build the trust I now have with my buyer," says a veteran CBD account executive. "I could lose that trust in a heartbeat."

Professional selling: It takes a lot more than a friendly smile and a firm handshake to sell P&G's billion-dollar brands to professional buyers at P&G's large retailer accounts. P&G's customer business development managers work with customers as "strategic partners."

Jin Lee/Bloomberg via Getty Images

The term **salesperson** covers a wide range of positions. At one extreme, a salesperson might be largely an *order taker*, such as the department store salesperson standing behind the counter. At the other extreme are *order getters*, whose positions demand *creative selling*, *social selling*, and *relationship building* for products and services ranging from appliances, industrial equipment, and airplanes to insurance and IT services. In this chapter, we focus on the more creative types of selling and the process of building and managing an effective sales force.

Salesperson
An individual who represents a company to customers by performing one or more of the following activities: prospecting, communicating, selling, servicing, information gathering, and relationship building.

The Role of the Sales Force

Personal selling is the interpersonal arm of the promotion mix. It involves interpersonal interactions and engagement between salespeople and individual customers—whether face-to-face, by phone, via email or social media, through video or online conferences, or by other means. Personal selling can be very effective in complex selling situations. Salespeople can probe customers to learn more about their problems and then adjust the marketing offer and presentation to fit each customer's special needs.

The role of personal selling varies from company to company. Some firms have no salespeople at all—for example, companies that sell only online or companies that sell through manufacturers' reps, sales agents, or brokers. In most firms, however, the sales force plays a major role. In companies that sell business products and services, such as IBM, DuPont, Intel, or Salesforce, salespeople work directly with customers. In consumer product companies such as P&G or Nike, the sales force plays an important behind-the-scenes role. It works with wholesalers and retailers to gain their support and help them be more effective in selling the company's products to final buyers.

Linking the Company with Its Customers

The sales force serves as a critical link between a company and its customers. In many cases, salespeople serve two masters—the seller and the buyer. First, they *represent the company to customers*. They find and develop new customers and communicate information about the company's products and services. They sell products by engaging customers and learning about their needs, presenting solutions, answering objections, negotiating prices and terms, closing sales, servicing accounts, and maintaining account relationships.

At the same time, salespeople *represent customers to the company*, acting inside the firm as "champions" of customers' interests and managing the buyer–seller relationship. Salespeople relay customer concerns about company products and actions back inside to those who can handle them. They learn about customer needs and work with other marketing and nonmarketing people in the company to develop greater customer value.

Salespeople link the company with its customers. To many customers, the salesperson is the company.

Dean Drobot/Shutterstock

In fact, to many customers, the salesperson *is* the company—the only tangible manifestation of the company that they see. Hence, customers may become loyal to salespeople as well as to the companies and products they represent. This concept of *salesperson-owned loyalty* lends even more importance to the salesperson's customer-relationship-building abilities. Strong relationships with the salesperson will result in strong relationships with the company and its products. Conversely, poor salesperson relationships will probably result in poor company and product relationships.

Coordinating Marketing and Sales

Ideally, the sales force and other marketing functions (marketing planners, brand managers, marketing content managers, and researchers) should work together closely to jointly create value for customers. Unfortunately, however, some companies still treat sales and marketing as separate functions. When this happens, the separate sales and marketing groups may not get along well. When things go wrong, marketers blame the sales force for its poor execution of what they see as an otherwise splendid strategy. In turn, the sales team blames the marketers for being out of touch with what's really going on with customers. Neither group fully values the other's contributions. However, if not repaired, such disconnects between marketing and sales can damage customer relationships and company performance.

A company can take several actions to help bring its marketing and sales functions closer together. At the most basic level, it can increase communications between the two groups by arranging joint meetings and spelling out communication channels. It can create opportunities for salespeople and marketers to work together. Brand managers and researchers can tag along on sales calls or sit in on sales planning sessions. In turn, salespeople can sit in on marketing planning sessions and share their firsthand customer knowledge.

A company can also create joint objectives and reward systems for sales and marketing teams or appoint marketing-sales liaisons—people from marketing who "live with the sales force" and help coordinate marketing and sales force programs and efforts. Finally, it can appoint a high-level marketing executive to oversee both marketing and sales. Such a person can help infuse marketing and sales with the common goal of creating value for customers to capture value in return.

Author Comment | Here's another definition of sales force management: "planning, organizing, leading, and controlling personal contact programs designed to achieve profitable customer relationships." Once again, the goal of every marketing activity is to create customer value, engage customers, and build profitable customer relationships.

Managing the Sales Force

OBJECTIVE 16-2 **Identify and explain the six major sales force management steps.**

Sales force management
Analyzing, planning, implementing, and controlling sales force activities.

We define **sales force management** as analyzing, planning, implementing, and controlling sales force activities. It includes designing sales force strategy and structure as well as recruiting, selecting, training, compensating, supervising, and evaluating the firm's salespeople. These major sales force management decisions are shown in **Figure 16.1** and discussed in the following sections.

The goal of this process? You guessed it! The company wants to build a skilled and motivated sales team that will help to create customer value, engage customers, and build strong customer relationships.

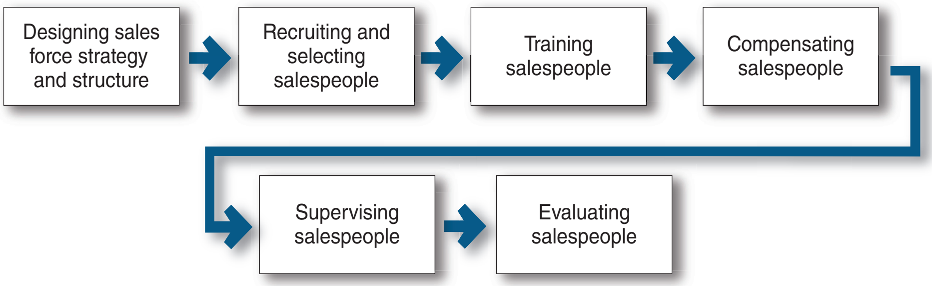


FIGURE 16.1
Major Steps in Sales Force Management

Designing the Sales Force Strategy and Structure

Marketing managers face several sales force strategy and design questions. How should salespeople and their tasks be structured? How big should the sales force be? Should salespeople sell alone or work in teams with other people in the company? Should they sell in the field, by phone, or using online and social media? We address these issues next.

The Sales Force Structure

A company can divide sales responsibilities along any of several lines. The structure decision is simple if the company sells only one product line to one industry with customers in many locations. In that case the company would use a *territorial sales force structure*. However, if the company sells many products to many types of customers, it might need a *product sales force structure*, a *customer sales force structure*, or a combination of the two.

Territorial sales force structure
A sales force organization that assigns each salesperson to an exclusive geographic territory in which that salesperson sells the company's full line.

In the **territorial sales force structure**, each salesperson is assigned to an exclusive geographic area and sells the company's full line of products or services to all customers in that territory. This organization clearly defines each salesperson's job and fixes accountability. It also increases the salesperson's desire to build local customer relationships that, in turn, improve selling effectiveness. Finally, because each salesperson travels within a limited geographic area, travel expenses are relatively small. A territorial sales organization is often supported by many levels of sales management positions. For example, individual territory sales reps may report to area managers, who in turn report to regional managers, who report to a director of sales.

Product sales force structure
A sales force organization in which salespeople specialize in selling only a portion of the company's products or lines.

If a company has numerous and complex products, it can adopt a **product sales force structure**, in which the sales force specializes along product lines. For example, GE employs different sales forces for and within different product and service divisions of its major businesses. The company has separate sales forces for aviation, power, digital, and healthcare products and technologies. Within GE Healthcare, the company employs different sales forces for diagnostic imaging, life sciences, and integrated IT products and services. No single salesperson can become expert in all of these product categories, so product specialization is required. In all, a company as large and complex as GE might have dozens of separate sales forces serving its diverse product and service portfolio.

Customer (or market) sales force structure
A sales force organization in which salespeople specialize in selling only to certain customers or industries.

Using a **customer (or market) sales force structure**, a company organizes its sales force along customer or industry lines. Separate sales forces may be set up for different industries, serving current customers versus finding new ones, and serving major accounts versus regular accounts. Organizing the sales force around customers can help a company build closer relationships with important customers. Many companies even have special sales forces to handle the needs of individual large customers. For example, P&G sales reps are integrated into Customer Business Development (CBD) teams. Each CBD team is assigned to a major P&G customer, such as Walmart, Safeway, or CVS Health. ● For example, Vorwerk, a German international diversified corporate group that markets various products, has organized their sales reps in different hubs with respect to the strategic business units. The Kobold vacuum cleaner customer advisor team, for instance, consists of 2,500 dedicated salespersons. Each of the sales reps is assigned to a fixed area and its respective key accounts to more effectively establish a relationship of trust with the customer, who should have a permanent focal point contact at Vorwerk.[2]

● **Customer sales force structure: Vorwerk's Kobold sales team consists of thousands of people who are assigned to fixed areas to build personal relationships with customers.**
dpa picture alliance archive/Alamy Stock Photo

When a company sells a wide variety of products to many types of customers over a broad geographic area, it often employs a *complex sales force structure,* which combines several types of organization. Salespeople can be specialized by customer and territory; product and territory; product and customer; or territory, product, and customer. For example, P&G specializes its sales force by customer (with different sales teams for Walmart, Safeway, CVS Health, or other large customers) *and* by territory for each key customer group (territory CBD representatives, territory managers, regional managers, and so on). No single structure is best for all companies and situations. Each company should select a sales force structure that best serves the needs of its customers and fits its overall marketing strategy.

Sales Force Size

Once the company has set its structure, it is ready to consider *sales force size*. Sales forces may range in size from only a few salespeople to tens of thousands. Some sales forces are huge—for example, AT&T employs more than 40,000 salespeople around the world; PepsiCo, 17,285; and IBM, 11,500.[3] Salespeople constitute one of the company's most productive—and most expensive—assets. Therefore, increasing their numbers will increase both sales and costs.

A company might use some form of *workload approach* to set sales force size. Using this approach, a company first groups accounts into different classes according to size, account status, or other factors related to the amount of effort required to maintain the account. It then determines the number of salespeople needed to call on each class of accounts the desired number of times.

The company might think as follows: Suppose we have 1,000 A-level accounts and 2,000 B-level accounts. A-level accounts require 36 contacts per year, and B-level accounts require 12 contacts per year. In this case, the sales force's *workload*—the number of calls it must make per year—is 60,000 calls $[(1{,}000 \times 36) + (2{,}000 \times 12) = 36{,}000 + 24{,}000 = 60{,}000]$. Suppose our average salesperson can make 1,000 contacts a year. Thus, we need 60 salespeople $(60{,}000 \div 1{,}000)$.

Other Sales Force Strategy and Structure Issues

Sales management must also determine who will be involved in the selling effort and how various sales and sales-support people will work together.

Outside sales force (or field sales force)
Salespeople who travel to call on customers in the field.

Inside sales force
Salespeople who conduct business from their offices via telephone, online and social media interactions, or visits from prospective buyers.

Outside and Inside Sales Forces. A company may have an **outside sales force** (or **field sales force**), an **inside sales force**, or both. Outside salespeople travel to call on customers in the field. In contrast, inside salespeople conduct business from their offices via phone, online and social media interactions, or visits from buyers. The use of inside sales has grown in recent years as a result of increased outside selling costs and the surge in online, mobile, social media, and videoconferencing technologies.

Some inside salespeople provide support for the outside sales force, freeing them to spend more time selling to major accounts and finding new prospects. For example, *technical sales-support people* provide technical information and answers to customers' questions. Sales assistants provide research and administrative backup for outside salespeople. They track down sales leads, call ahead and confirm appointments, follow up on deliveries, and answer customers' questions when outside salespeople cannot be reached. Using such combinations of inside and outside salespeople can help serve important customers better. The inside rep provides daily access and support, whereas the outside rep provides face-to-face collaboration and relationship building.

Other inside salespeople do more than just provide support. Telemarketers and online sellers use the phone, internet, and social media to find new leads, learn about customers and their business, or sell and service accounts directly. Telemarketing and online selling can be very effective, less costly ways to sell to smaller, harder-to-reach customers. Depending on the complexity of the product and customer, for example, a telemarketer can make from 20 to 33 decision-maker contacts a day compared with the average of four that an outside salesperson can make. In addition, whereas the cost of a business-to-business (B-to-B) field sales call can average close to $600, a routine industrial telemarketing or online contact might average only $25 to $75.[4]

Although the federal government's Do Not Call Registry put a dent in telephone sales to consumers, telemarketing remains a vital tool for most B-to-B marketers. For some smaller companies, telephone and online selling may be the primary sales approaches. However, most of the larger companies also use these tactics extensively, either to sell directly to small and midsize customers or to assist their sales forces in selling to larger ones.

In addition to costs savings, in today's digital, mobile, and social media environments, many buyers are more receptive to—or even prefer—phone, online, and videoconferencing contact versus the high level of face-to-face contact once required. Today's customers are more inclined to gather their own information online—one study showed that a typical buyer reports contacting a sales rep only after independently completing about 60 percent of the buying process. Then buyers routinely use the phone, online meetings, and social media interactions to engage sellers and close deals.

The lines have blurred between outside and inside selling, creating a new breed of "hybrid sales reps" who often work virtually when connecting with customers.

fizkes/Shutterstock

The COVID-19 pandemic, with its social distancing and stay-at-home mandates, also had a substantial impact on how selling is conducted. It placed severe restrictions on face-to-face contact, forcing salespeople and their customers to use remote phone and videoconferencing technologies. Both buyers and sellers learned that, in many cases, such remote meetings can be as effective and yet less costly, less time-consuming, and easier to arrange than face-to-face sales calls. Thus, the pandemic has accelerated an already-surging technology transformation in selling.

As a result of these trends, telephone and virtual selling are growing much faster than in-person selling. Moreover, the lines have blurred between outside and inside selling, creating a new breed of "hybrid sales reps"—a modern cross between a field sales rep and an inside rep—who often work virtually when connecting with customers. The COVID-19 pandemic gave a huge boost to virtual selling, and those changes appear to be permanent. Studies suggest that, in the post-COVID-19 world, anywhere from 19 to 46 percent of corporate travel, including travel for in-person sales calls, could be gone permanently. "COVID-19. Virtual selling. Remote work. Zoom calls. Dwindling frequent flyer miles. There's no argument that the world of sales has changed," says one report. "We're not going to ever go back to the level of in-person selling that we saw before." Says another, "Welcome to the hybrid world."[5]

Team selling
Using teams of people from sales, marketing, engineering, finance, technical support, and even upper management to service large, complex accounts.

Team Selling. As products become more complex and as customers grow larger and more demanding, a single salesperson simply can't handle all of a large customer's needs. Instead, most companies now use **team selling** to service large, complex accounts. Sales teams can unearth problems, solutions, and sales opportunities that no individual salesperson could. Such teams might include experts from any area or level of the selling firm—sales, marketing, technical and support services, research and development, engineering, operations, finance, and others.

In many cases, the move to team selling mirrors similar changes in customer buying organizations. Many large customer companies have implemented team-based purchasing, requiring marketers to employ equivalent team-based selling. When dealing with large, complex accounts, one salesperson can't be an expert in everything the customer needs. Instead, selling is done by strategic account teams, quarterbacked by senior account managers or customer business managers.

For example, the 200-person P&G Walmart Customer Business Development team is a complete, multifunctional customer service unit. The team includes a CBD manager and several CBD account executives (each responsible for a specific P&G product category), supported by specialists in marketing strategy, product development, operations, information systems, logistics, finance, and human resources.

Team selling does have some pitfalls, however. For example, salespeople are by nature competitive and have often been trained and rewarded for outstanding individual performance. Salespeople who are used to having customers all to themselves may have trouble learning to work with and trust others on a team. In addition, selling teams can confuse or overwhelm customers who are used to working with only one salesperson. Finally, difficulties in evaluating individual contributions to the team-selling effort can create some sticky compensation issues.

Recruiting and Selecting Salespeople

At the heart of any successful sales force operation is the recruitment and selection of good salespeople. The performance difference between an average salesperson and a top salesperson can be substantial. In a typical sales force, the top 30 percent of the salespeople might bring in 60 percent of the sales. Thus, careful salesperson selection can greatly increase overall sales force performance.

Beyond the differences in sales performance, poor selection results in costly turnover. When a salesperson quits, the costs of finding and training a new salesperson—plus the costs of lost sales—can be very high. One sales consulting firm calculates the immediate cost of a bad salesperson hired at $95,000. Another puts the total 12-month cost of at a whopping $382,000.[6] Also, a sales force with many new people is less productive, and turnover disrupts important customer relationships and sales team morale.

What sets great salespeople apart from all the rest? In an effort to profile top sales performers, Gallup Consulting, a division of the well-known Gallup polling organization, has interviewed hundreds of thousands of salespeople. Its research suggests that the best salespeople possess four key talents: intrinsic motivation, a disciplined work style, the ability to close a sale, and, perhaps most important, the ability to build relationships with customers.[7]

Super salespeople are motivated from within—they have an unrelenting drive to excel. Some salespeople are driven by money, a desire for recognition, or the satisfaction of competing and winning. Others are driven by the desire to provide service and build relationships. The best salespeople possess some of each of these motivations. However, another analysis found that the best salespeople are driven by a strong sense of purpose: "The salespeople who sold with noble purpose, who truly want to make a difference to customers, consistently outsold the salespeople focused on sales goals and money." Selling with such a sense of customer-related purpose is not only more successful, it's also more profitable and more satisfying to salespeople.[8]

Great salespeople: The best salespeople possess intrinsic motivation, a disciplined work style, the ability to close a sale, and, perhaps most important, the ability to build relationships with customers.

fizkes/Shutterstock

Super salespeople also have a disciplined work style. They lay out detailed, organized plans and then follow through in a timely way. But motivation and discipline mean little unless they result in closing more sales and building better customer relationships. Super salespeople build the skills and knowledge they need to get the job done. Perhaps most important, top salespeople are excellent customer problem solvers and relationship builders. They understand their customers' needs. One recent survey lists the following as the top traits they value in salespeople: active listening, problem solving, confidence, and relationship building.[9] Talk to sales executives and they'll describe top performers in these terms: good listeners, empathetic, patient, caring, and responsive. Top performers can put themselves on the buyer's side of the desk and see the world through their customers' eyes. They don't want just to be liked; they want to add value for their customers.

That said, there is no one right way to sell. Successful salespeople use different approaches, ones that best apply their unique strengths and talents. For example, some salespeople enjoy the thrill of a harder sell in confronting challenges and winning people over. Others might apply "softer" talents to reach the same goal. Some win business by being super analytical, others by being super strategists, and still others by their relationship-building talents. Thus, no two great salespeople are alike. The important thing is that they sell effectively in their own way.

When recruiting, a company should analyze the sales job itself and the characteristics of its most successful salespeople to identify the traits needed by a successful salesperson in its industry. Then it must recruit the right salespeople. The human resources department looks for applicants by getting names from current salespeople, using employment agencies, searching the internet and social media, posting ads and notices on its website and industry media, and working through college placement services. Another source is to attract top salespeople from other companies. Proven salespeople need less training and can be productive immediately.

Recruiting will attract many applicants from which the company must select the best. The selection procedure can vary from a single informal interview to lengthy testing and interviewing. Many companies give formal tests to sales applicants. Tests typically measure sales aptitude, analytical and organizational skills, personality traits, and other characteristics. But test scores provide only one piece of information in a set that includes personal characteristics, references, past employment history, and interviewer reactions.

Training Salespeople

New salespeople may spend anywhere from a few weeks or months to a year or more in training. After the initial training ends, most companies provide continuing sales training via seminars, sales meetings, and virtual learning throughout the salesperson's career. According to one source, U.S. firms spend approximately $15 billion on sales training each year, an average of more than $2,200 per salesperson. Although training can be expensive, it can also yield important returns.[10]

Training programs have several goals. First, salespeople need to know about customers and how to build relationships with them. Therefore, the training program must teach them about different types of customers and their needs, buying motives, and buying habits. It must also teach them how to sell effectively and train them in the basics of the selling process. And salespeople need to know and identify with the company, its products, and its competitors. Therefore, an effective training program teaches them about the company's objectives, organization, products, and the strategies of major competitors.

Today, much training is done through digital components of company sales training programs. Online training may range from simple self-paced text- and video-based product training and internet-based sales exercises that build sales skills to sophisticated simulations that recreate the dynamics of real-life sales calls. Companies are also blending digital training with live classroom events and one-to-one coaching. Although much online training is web-based, companies now offer on-demand training from anywhere via almost any mobile device or other digital platform. Training online instead of on-site can cut travel and other training costs, and it takes up less of a salesperson's selling time. It also makes on-demand training available to salespeople, letting them train as little or as much as needed, whenever and wherever needed.

Compensating Salespeople

To attract good salespeople, a company must have an appealing compensation plan. Compensation consists of four elements: a fixed amount, a variable amount, expenses, and fringe benefits. The fixed amount, usually a salary, gives the salesperson some stable income. The variable amount, which might be commissions or bonuses based on sales performance, rewards the salesperson for greater effort and success.

● A sales force compensation plan can both motivate salespeople and direct their activities. Compensation should direct salespeople toward activities that are consistent with the overall sales force and marketing objectives. For example, if the strategy is to acquire new business, grow rapidly, and gain market share, the compensation plan might include a larger commission component coupled with a new account bonus to encourage high sales performance and new account development. In contrast, if the goal is to maximize current account profitability, the compensation plan might contain a larger base-salary component with additional incentives for current account sales or customer satisfaction.

● **Sales force compensation: A good compensation plan both motivates salespeople and directs their activities.**

ESB Professional/Shutterstock

In fact, more and more, companies are moving away from high-commission plans that may drive salespeople to make short-term grabs for business. They worry that a salesperson who is pushing too hard to close a deal may ruin the customer relationship. Instead, companies are designing compensation plans that reward salespeople for building customer relationships and growing the long-run value of each customer.

When times get tough economically, some companies are tempted to cut costs by reducing sales compensation. However, although some cost-cutting measures make sense when business is sluggish, cutting sales force compensation across the board is usually an action of last resort. Top salespeople are always in demand, and paying them less might mean losing them at a time when they are needed most. Thus, short-changing key salespeople can result in short-changing important customer relationships. If the company must reduce its compensation expenses, rather than making across-the-board cuts, companies should continue to pay top performers well while turning loose low performers.

Supervising and Motivating Salespeople

New salespeople need more than a territory, compensation, and training—they need supervision and motivation. The goal of *supervision* is to help salespeople "work smart" by doing the right things in the right ways. The goal of *motivation* is to encourage salespeople to "work hard" and energetically toward sales force goals. If salespeople work smart and work hard, they will realize their full potential—to their own and the company's benefit.

Supervising Salespeople

Companies vary in how closely they supervise their salespeople. Many help salespeople identify target customers and set call objectives. Some may also specify how much time the sales force should spend prospecting for new accounts and set other time management priorities. One tool is the weekly, monthly, or annual *call plan* that shows which customers and prospects to call on and which activities to carry out. Another tool is *time-and-duty analysis*.

In addition to time spent selling, the salesperson spends time planning, traveling, in meetings, processing orders, and doing administrative chores. Surprisingly, studies show that, on average, salespeople spend only 37 percent of their time on active selling.[11] Companies are always looking for ways to save time—simplifying administrative duties, developing better sales call and routing plans, supplying more and better customer information, and using phone, email, online, or mobile conferencing instead of traveling.

Most firms have adopted *sales force automation systems*: computerized, digitized sales force operations that let salespeople work more effectively anytime, anywhere. Companies now routinely equip their salespeople with laptops or tablets, smartphones, videoconferencing technologies, and customer-contact and relationship management software. Armed with these technologies, salespeople can more effectively and efficiently profile customers and prospects, analyze and forecast sales, engage customers, make presentations, prepare sales and expense reports, and manage account relationships. The result is better time management, improved customer service, lower sales costs, and higher sales performance. In all, sales technology has reshaped the ways in which salespeople carry out their duties and engage customers.

Sales force automation: To help salespeople work more efficiently and effectively anytime, anywhere, companies routinely equip their salespeople with laptops or tablets, smartphones, videoconferencing technologies, and customer relationship management software.

kantver/123RF

Motivating Salespeople

Beyond directing salespeople, sales managers must also motivate them. Some salespeople will do their best without any special urging from management. To them, selling may be the most fascinating job in the world. But selling can also be frustrating. Salespeople often work alone, and they must sometimes travel away from home. They may also face aggressive competing salespeople and difficult customers. Therefore, salespeople often need special encouragement to do their best.

Management can boost sales force morale and performance through its organizational climate, sales quotas, and positive incentives. *Organizational climate* describes the feeling that salespeople have about their opportunities, value, and rewards for a good performance. Some companies treat salespeople as if they are not very important, so performance suffers accordingly. Other companies treat their salespeople as valued contributors and allow virtually unlimited opportunity for income and promotion. Not surprisingly, these companies enjoy higher sales force performance and less turnover.

Sales quota
A standard that states the amount a salesperson should sell and how sales should be divided among the company's products.

Many companies motivate their salespeople by setting **sales quotas**—standards stating the amount they should sell and how sales should be divided among the company's products. Compensation is often related to how well salespeople meet their quotas. Companies also use various *positive incentives* to increase the sales force effort. *Sales meetings* provide social occasions, breaks from the routine, chances to meet and talk with "company brass," and opportunities to air feelings and identify with a larger group. Companies also sponsor *sales contests* to spur the sales force to make a selling effort above and beyond what is normally expected. Other incentives include recognition and honors, merchandise and cash awards, trips, and profit-sharing plans.

Evaluating Salespeople and Sales Force Performance

We have thus far described how management communicates what salespeople should be doing and how it motivates them to do it. This process requires good feedback, which means getting regular information about salespeople to evaluate their performance.

Management gets information about its salespeople in several ways. The most important source is *sales reports*, including weekly or monthly work plans and longer-term territory marketing plans. Salespeople also write up their completed activities on *call reports* and turn in *expense reports* for which they are partly or wholly reimbursed. The company can also monitor the sales and profit performance data in the salesperson's territory. Additional information comes from personal observation, customer surveys, and talks with other salespeople.

Using various sales force reports and other information, sales management evaluates members of the sales force. It evaluates salespeople on their ability to "plan their work and work their plan." Formal evaluation forces management to develop and communicate clear standards for judging performance. It also provides salespeople with constructive feedback and motivates them to perform well.

According to one recent survey, when asked how salesperson performance should be measured, companies identified both long- and short-term metrics. The top two measures were customer satisfaction and customer retention. The next two measures were how well the salesperson met team sales quotas and individual sales quotas. This points to the importance of the role that salespeople play in meeting customer needs and keeping customers.[12]

On a broader level, management should evaluate the performance of the sales force as a whole. Is the sales force accomplishing its customer relationship, sales, and profit objectives? Is it working well with other areas of the marketing and company organization? Are sales force costs in line with outcomes? As with other marketing activities, the company wants to measure its *return on sales investment*.

Author Comment | Like just about everything else these days, selling has been affected in a big way by digital technologies. Today's sales forces are mastering the use of digital platforms and tools to engage business customers, build relationships, and make sales.

Social Selling: Using Digital Sales Platforms and Tools

The fastest-growing sales trend is the explosion in **social selling**—the use of digital platforms and sales tools to engage customers, build stronger customer relationships, and augment sales performance. Digital sales force technologies are creating exciting avenues for connecting with and engaging customers. Some analysts even predict that the internet will mean the death of person-to-person selling, as salespeople are ultimately replaced by websites, social media, mobile apps, video and conferencing technologies, AI-driven sales assistants, and other tools that allow direct customer contact. Such predictions are much overstated. Digital technologies won't likely make salespeople obsolete (see Real Marketing 16.1). However, such technologies are rapidly changing the role of face-to-face selling.

Social selling
Using digital platforms and sales tools to engage customers, build stronger customer relationships, and augment sales performance.

When used properly, digital technologies can make salespeople more productive and effective. They provide powerful tools for identifying and analyzing prospects, engaging customers, creating customer value, closing sales, and nurturing customer relationships. Social selling technologies can produce big organizational benefits for sales forces. They help conserve salespeople's valuable time, save travel dollars, and give salespeople new vehicles for selling and servicing accounts.

Real Marketing 16.1 | Digital Selling Technologies: Changing the Face of Professional Sales

More than ever before, technology is radically transforming the selling profession. In fact, with the explosion of the internet and digital communication technologies that link customers directly with companies, some doubters ask, Who needs face-to-face salespeople anymore? They point out that various B-to-B sales jobs are rapidly being replaced by websites, mobile apps, email, blogs, video sharing, social media, virtual trade shows, artificial intelligence–driven sales assistants, and a host of other digital-age interaction tools.

So is B-to-B selling really dying? Will the digital technologies and AI reps replace the age-old art of selling face-to-face? To most sales analysts, the answer is a resounding "no." Technology can greatly enhance the selling process, but it can't replace many of the functions that salespeople perform. "The internet can take orders and disseminate content, but what it can't do is discover customer needs," says one sales expert. "It can't build relationships and it can't prospect on its own." Adds another, "Someone must define the company's value proposition and unique message and communicate it to the market, and that person is the sales rep."

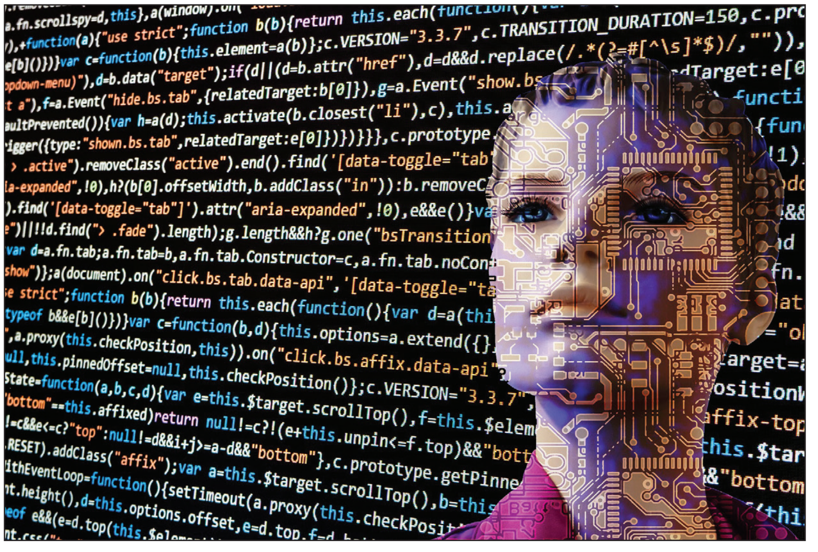
What is dying, however, is the account-maintenance role in sales—the order taker who stops by the customer's office on Friday and says, "Hey, got anything for me?" Likewise, there's not much of a future for explainers, reps who simply convey product and service information that can be obtained more quickly and easily online. Such salespeople are not creating value and can easily be replaced by digital automation. However, salespeople who excel at new customer acquisition, relationship management, problem solving, and account growth with existing customers will always be in high demand. And digital technologies will only make those salespeople better.

There's no doubt about it—digital technology is changing the selling profession. And while this digital transformation began a few decades ago, it was greatly accelerated by the social distancing and remote communication dynamics of the COVID-19 pandemic. According to one survey, 81 percent of sales leaders say that sales technology needs changed dramatically during 2020 and that changes made in response to the crisis have now become the new normal. "Suddenly, there was no other kind of selling: Virtual selling had, irrevocably, become selling," noted one report. "Virtual selling is now the norm."

In today's selling environment, many customers now start the sales process online and do their homework about problems, competing products, and suppliers before the first sales meeting ever takes place. Instead of relying on salespeople for basic information and education, buyers routinely do much of their own prepurchase research via websites, online searches, phone apps, social media contacts, and other digital venues. In fact, business buyers are often well along in the buying process before they ever reach out to a vendor. And when they do reach out, it's often through remote digital connections. One recent study revealed that, when possible, more than 75 percent of buyers "prefer" digital, self-guided service and remote human interactions to in-person engagements.

Thus, today's buyers don't need basic information, product education, or early-stage hand-holding; they need solutions and new insights. Today's salespeople need to excel at solving customer problems and building relationships. In fact, even as lower-order sales jobs disappear in coming years, jobs for such consultant-type sales reps are expected to grow at a healthy clip.

Also, beyond the mechanics of the selling process, buying and selling involve emotional exchanges as well as transactional ones. Even with new artificial intelligence applications that put an almost-human face on sales force automation, digital technologies still can't replace the human touch—the empathy, instinct, and understanding that are essential to good selling. Today's top salespeople aren't really doing anything fundamentally new. They've always done customer research, problem solving, social networking, and relationship building. Today, however, they are doing it on steroids, using a new kit of high-tech digital tools, data, and applications. In a recent survey of sales professionals, "videoconferencing" was at the top of the list of most valuable sales tools, followed by "artificial intelligence," "mobile sales apps," and "customer relationship management systems." Thus, rather than replacing salespeople, technology is augmenting them. IBM provides a good example of how companies are using digital technologies to make an already strong sales force even better. For more than 100 years, IBM has relied on its legendary sales force to build customer relationships and sales. But in recent years, IBM has significantly transformed how its sales force engages with B-to-B customers to meet their needs in the digital age. IBM now employs a wide variety of platforms that inform and engage business customers directly, connect them with IBM salespeople, and promote customer purchasing and relationships.



Digital selling technologies—from websites, social media, and mobile apps to AI-driven sales assistants—have rapidly changed the face of personal selling. But rather than replacing salespeople, such efforts extend their reach and effectiveness.

Gerd Altmann/Pixabay

For example, IBM's various divisions offer dozens of market- and industry-specific websites, containing thousands of individual site areas and tens of thousands of pages. Customers can access the websites to do their own digging into IBM product and service overviews, detailed technical information, and purchasing details with real-time customer support as needed. Customers can connect even more deeply and interactively with the IBM community through the company's comprehensive digital and social media network—mobile apps, Twitter channels, LinkedIn groups, Facebook and Instagram pages, YouTube channels, and more—where they can discover, discuss, evaluate, and even buy IBM solutions and services.

However, although IBM's digital and social media presence draws in new potential customers and takes them through many of the initial stages of product discovery and evaluation, it doesn't replace IBM's salespeople. Instead, it extends their reach and effectiveness. Digital and social media not only give customers more effective access to IBM, they give IBM's salespeople more effective access to customers.

The real value of IBM's social selling is the flood of sales leads it creates and the customer connections it develops. Once prospective customers have discovered and evaluated IBM solutions online, they will likely initiate contact, request a proposal, or start the negotiation process. That's where the person-to-person selling begins. And once sales agreements are inked, digital and social media give IBM's salespeople a rich reservoir of connecting tools with which to maintain and build long-term customer relationships, whether in person or screen to screen. Selling at IBM is now more consultative and interactive than ever before. Says an IBM executive, "It's much more of a 'let me come alongside you and show you rather than sitting on the other side of the table and telling you how to experience what we do.'"

All this suggests that person-to-person selling isn't fading away, it's just changing. The tools and techniques may be different as sales forces leverage and adapt to selling in the digital age. But whatever the tools, B-to-B marketers still need strong sales teams composed of salespeople who can engage customers, discover customer needs, solve customer problems, and build relationships. Especially for big-ticket B-to-B sales, "all the new technology may make it easier to sell by building strong ties to customers even before the first sit-down, but when the signature hits the dotted line, there will be a sales rep there."[13]

Social selling hasn't really changed the fundamentals of selling. Sales forces have always taken the primary responsibility for reaching out to and engaging customers and managing customer relationships. Now, more of that is being done digitally. However, because online, mobile, and social media are dramatically changing the customer buying process, they are also changing the selling process.

In today's digital world, many customers no longer rely as much as they once did on information and assistance provided by salespeople. Instead, they carry out more of the buying process on their own—especially the early stages. Increasingly, they use online and social media resources to analyze their own problems, research solutions, get advice from colleagues, and rank buying options before ever speaking to a salesperson. One study of business buyers found that 68 percent of buyers prefer to research independently online and 62 percent develop selection criteria before they reach out to a sales rep. And increasingly, when they do reach out, it's remotely. Another recent survey of business buyers found that, post-COVID, 70 percent of buyers plan to work remotely more than half the time. As a result, B-to-B marketers often find it hard to reach buyers any way but virtually.[14]

Thus, today's customers have much more control over the sales process than they had in the days when brochures, pricing, and product advice were available only from sales reps and others through in-person sales meetings. Customers can now browse corporate websites and social media sites to identify and qualify sellers and to compare and evaluate their offers. They can hobnob with other buyers on social media such as LinkedIn, Twitter, or Facebook to share experiences, identify solutions, and evaluate products they are considering.

As a result, if and when salespeople do enter the buying process, customers often know almost as much about a company's products as the salespeople do. And when customers do call in salespeople, they are more often doing it digitally, with the expectation of real-time engagement. These days, they want more than product and pricing information from salespeople—they want problem solving and solutions.

In response to this new digital buying environment, sellers are reorienting their selling processes around the new customer buying process. They are "going where customers are"—social media, web forums, online communities, blogs—in order to engage customers earlier. They are engaging customers not just where and when they are buying but also where and when they are learning about and evaluating what they will buy.

Salespeople now routinely use digital tools that monitor customer social media exchanges to spot trends, identify prospects, and learn what customers would like to buy, how they feel about a vendor, and what it would take to make a sale. They generate lists of prospective customers from online databases and social networking sites, such as InsideView, Hoovers, and LinkedIn. They create dialogues when prospective customers visit their web and social media sites through live chats with the sales team. They use videoconferencing tools such as WebEx Meetings, Zoom, GoToMeeting, or Microsoft Teams to talk live with customers about products and services. They provide videos and other information on their YouTube channels and Facebook pages.

Today's sales forces have also ramped up their own use of digital content and social media to engage customers throughout the buying process. A recent survey of business-to-business marketers found that although they have recently cut back on traditional media and event spending, they are investing more in digital content, ranging from proprietary online customer communities to webinars and social media and mobile apps. Consider The Health Bank:

Social selling: In platforms such as The Health Bank, sales and management takes place online through a customer's personal liaison.

Andriy Popov/123RF

In the healthcare industry, direct communication with clients is important to maintain trust of health care providers. In the digital age, websites, mobile apps, emails, and virtual communication are rapidly being adopted by sales forces, but digital technology is helping them make better customer connections—not replacing their critical role. The Health Bank (THB), headquartered in the UAE and operational in four countries, is a global healthcare companion that provides a wide range of services including medical tourism and global care, consultation, remote telemonitoring, and home nursing care. They cater to individual patients as well as businesses. All the selling and managing happens in the virtual world: once a client signs up for membership, they are assigned to dedicated personal health manager (THB's term for a sales rep) who manages all patient appointments, scheduling, and insurance paperwork. The entire communications process between the health manager and the client occurs online through mobile app, phone, e-mail, and on certain occasions, personal contact. This remote digital connectivity allows THB to stay in touch with the client 24/7 via their preferred channel. One might argue that the empathy or care required in such a sensitive service might be compromised in a virtual world, but THB says that clients appreciate the instant connectivity with the health manager they get access to, no matter where in the world they are. Moreover, all their medical info can be found in one location at the touch of a few buttons. Of course, THB takes extra care to select salespeople who are engaging, customer-driven, relationship-builders, and problem solvers.[15]

Ultimately, social selling technologies are helping to make sales forces more efficient, cost-effective, and productive. The technologies help salespeople do what good salespeople have always done—build customer relationships by solving customer problems—but do it better, faster, and cheaper.

However, social selling also has some drawbacks. For starters, it's not cheap. But even more, there are some things you just can't present or teach via the internet—things that require personal engagement, insight, and interaction. For these reasons, some technology experts recommend that sales executives use online and social media technologies to spot prospects and opportunities, provide information, maintain customer contact, and make preliminary client sales presentations but resort to old-fashioned, face-to-face meetings when the time draws near to close a big deal.

Author Comment | So far, we've examined how sales management develops and implements overall sales force strategies and programs. In this section, we'll look at how individual salespeople and sales teams sell to customers and build relationships with them.

The Personal Selling Process

OBJECTIVE 16-3 Discuss the personal selling process, distinguishing between transaction-oriented marketing and relationship marketing.

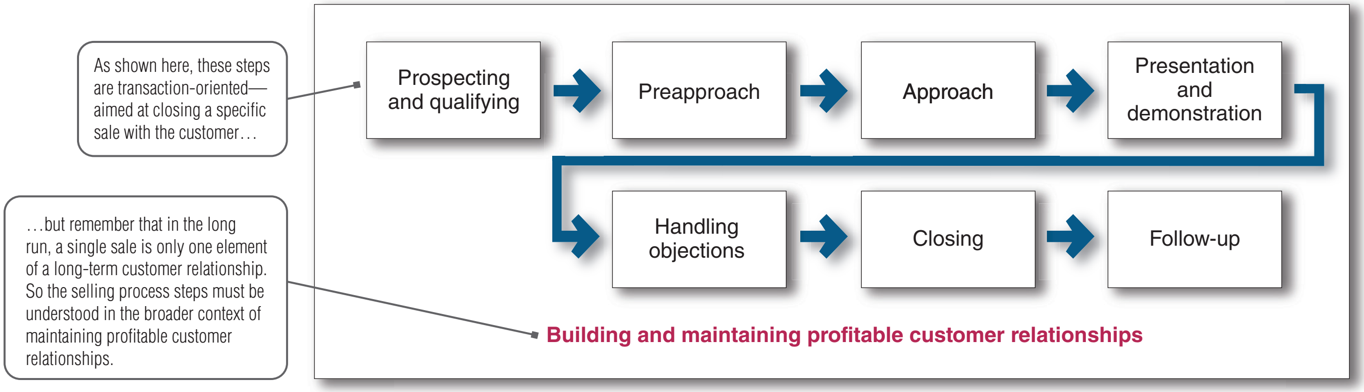
We now turn from designing and managing a sales force to the personal selling process. The **selling process** consists of several steps that salespeople must master. These steps focus on the goal of getting new customers and obtaining orders from them. However, most salespeople spend much of their time maintaining existing accounts and building long-term customer relationships. We will discuss the relationship aspect of the personal selling process in a later section of this chapter.

Selling process
The steps that salespeople follow when selling, which include prospecting and qualifying, preapproach, approach, presentation and demonstration, handling objections, closing, and follow-up.

Steps in the Selling Process

As shown in **Figure 16.2**, the selling process consists of seven steps: prospecting and qualifying, preapproach, approach, presentation and demonstration, handling objections, closing, and follow-up.

FIGURE 16.2
Steps in the Selling Process



Prospecting and Qualifying

Prospecting
The sales step in which a salesperson or company identifies qualified potential customers.

The first step in the selling process is **prospecting**—identifying qualified potential customers. Approaching the right customers is crucial to selling success. Salespeople don't want to call on just any potential customers. They want to call on those who are most likely to appreciate and respond to the company's value proposition—those the company can serve well and profitably.

A salesperson must often approach many prospects to get only a few sales. Although the company supplies some leads, salespeople need skill in finding their own. The best source is referrals. Salespeople can ask current customers for referrals and cultivate other referral sources, such as suppliers, dealers, noncompeting salespeople, and online or social media contacts. They can also search for prospects in directories or on the internet and track down leads using the phone, email, and social media. Or, as a last resort, they can drop in unannounced on various potential buyers via in-person visits, emails, or calls (a practice known as *cold calling*).

Salespeople also need to know how to *qualify* leads—that is, how to identify the good ones and screen out the poor ones. Prospects can be qualified by looking at their financial ability, volume of business, special needs, location, and possibilities for growth.

Companies are increasingly using artificial intelligence and other advanced data analytics to identify and evaluate sales prospects. They are using AI to amass and sift through the mountains of data regarding potential customers' characteristics, behaviors, and purchasing patterns to generate and rank good sales leads. AI can also be used to assess prospective client needs and suggest company solutions that might make salespeople more effective in landing new business. In recent years, says one analyst, AI "has gone from predictive to prescriptive, meaning it can suggest the prospect to call that is most likely to result in a sale, or the best combination of offers to construct a successful [sale]."[16]

Preapproach

Preapproach
The sales step in which a salesperson learns as much as possible about a prospective customer before making a sales call.

Before calling on a prospect, the salesperson should learn as much as possible about the organization (what it needs, who is involved in the buying) and its buyers (their characteristics and buying styles). This step is known as **preapproach**. A successful sale begins long before salespeople make initial contact with a prospect. Preapproach begins with good research and preparation. Salespeople can consult standard industry and online sources, acquaintances, and others to learn about the company. They can scour the prospect's web and social media sites for information about its products, buyers, and buying processes. The company's AI activities can supply data and analyses on prospect characteristics and needs. Then the salesperson must apply the research gathered to develop a customer strategy.

The salesperson should set *call objectives*, which may be to qualify the prospect, gather information, or make an immediate sale. Another task is to determine the best approach, which might be a personal visit, a phone call, a video meeting, an email, or a text. The ideal timing should be considered carefully because many prospects are busiest at certain times of the day or week. Finally, the salesperson should give thought to an overall sales strategy for the account.

Approach

Approach
The sales step in which a salesperson meets the customer for the first time.

During the **approach** step, the salesperson should know how to meet and greet the buyer and get the relationship off to a good start. The approach might take place offline or online, in-person or via digital conferencing or social media. This step involves the salesperson's appearance, opening lines, and follow-up remarks. The opening lines should be positive to build goodwill from the outset. This opening might be followed by some key questions to learn more about the customer's needs or by showing a display or sample to attract the buyer's attention and curiosity. As in all stages of the selling process, listening to the customer is crucial.

Presentation and Demonstration

Presentation
The sales step in which a salesperson tells the "value story" to the buyer, showing how the company's offer solves the customer's problems.

During the **presentation** step of the selling process, the salesperson tells the "value story" to the buyer, showing how the company's offer solves the customer's problems. The *customer-solution approach* fits better with today's relationship marketing focus than does a hard sell or glad-handing approach.

The goal should be to show how the company's products and services fit the customer's needs. Buyers want insights and solutions, not smiles; results, not razzle-dazzle. Moreover, buyers don't want just products; they want to know how those products will add value to their businesses. They want salespeople who listen to their concerns, understand their needs, and respond with the right products and services.

But before salespeople can *present* customer solutions, they must *develop* solutions to present. The solutions approach calls for good listening and problem-solving skills. The qualities that buyers *dislike most* in salespeople include being pushy, late, deceitful, unprepared, disorganized, or overly talkative. The qualities they *value most* include good listening, empathy, honesty, dependability, thoroughness, and follow-through. ● Great salespeople know how to sell, but more important, they know how to listen and build strong customer relationships. A recent large survey found that buyers rank "active listening" as the number one skill they want from salespeople.[17] According to an old sales adage, "You have two ears and one mouth. Use them proportionally." A classic ad from office products maker Boise Cascade makes the listening point. It shows a Boise salesperson with huge ears drawn on. "With Boise, you'll notice a difference right away, especially with our sales force," says the ad. "At Boise . . . our account representatives have the unique ability to listen to your needs."

● **Great salespeople know how to sell, but more important, they know how to listen and build strong customer relationships.**
coffeehuman/Shutterstock

Finally, salespeople must also plan their presentation methods. Good interpersonal communication skills count when it comes to engaging customers and making effective sales presentations. However, the current media-rich and cluttered communications environment presents many new challenges for sales presenters. Today's information-overloaded customers demand richer presentation experiences. For their part, presenters now face multiple distractions during presentations from mobile phones, text messages, and other digital competition. As a result, salespeople must deliver their messages in more engaging and compelling ways.

Thus, today's salespeople are employing advanced presentation technologies that allow for full multimedia presentations to only one or a few people. The venerable old sales presentation flip chart has long been replaced with tablets, sophisticated presentation software, interactive whiteboards, and online interactive presentation and videoconferencing technologies.

Handling Objections

Handling objections
The sales step in which a salesperson seeks out, clarifies, and overcomes any customer objections to buying.

Customers almost always have objections during the presentation or when asked to place an order. The objections can be either logical or psychological, and they are often unspoken. In **handling objections**, the salesperson should use a positive approach, seek out hidden objections, ask the buyer to clarify any objections, take objections as opportunities to provide more information, and turn the objections into reasons for buying. Every salesperson needs training in the skills of handling objections.

Closing

Closing
The sales step in which a salesperson asks the customer for an order.

After handling the prospect's objections, the salesperson next tries to close the sale. However, some salespeople do not get around to **closing** or don't handle it well. They may lack confidence, feel guilty about asking for the order, or fail to recognize the right moment to close the sale. Salespeople should know how to recognize closing signals from the buyer, including physical actions, comments, and questions. For example, the customer might sit forward and nod approvingly or ask about prices and credit terms.

Salespeople can use any of several closing techniques. They can ask for the order, review points of agreement, offer to help write up the order, ask whether the buyer wants this model or that one, or note that the buyer will lose out if the order is not placed now. The salesperson may offer the buyer special reasons to close, such as a lower price, an extra quantity at no charge, or additional services.

Follow-Up

Follow-up
The sales step in which a salesperson follows up after the sale to ensure customer satisfaction and repeat business.

The last step in the selling process—**follow-up**—is necessary if the salesperson wants to ensure customer satisfaction and repeat business. Right after closing, the salesperson should complete any details on delivery time, purchase terms, and other matters. The salesperson then should schedule a follow-up call after the buyer receives the initial order to make sure proper installation, instruction, and servicing occur. This visit would reveal any problems, assure the buyer of the salesperson's interest, and reduce any buyer concerns that might have arisen since the sale.

Personal Selling and Managing Customer Relationships

The steps in the just-described selling process are *transaction oriented*—their aim is to help salespeople close a specific sale with a customer. But in most cases, the company is not simply seeking a sale. Rather, it wants to engage the customer over the long haul in a mutually profitable *relationship*. The sales force usually plays an important role in customer relationship building. Thus, as shown in Figure 16.2, the selling process must be understood in the context of building and maintaining profitable customer relationships. Moreover, as discussed in a previous section, today's buyers are increasingly moving through the early stages of the buying process themselves, before ever engaging sellers. Salespeople must adapt their selling process to match the new buying process. That means discovering and engaging customers on a relationship basis rather than a transaction basis.

Successful sales organizations recognize that winning and keeping accounts requires more than making good products and directing the sales force to close lots of sales. If the company wishes only to close sales and capture short-term business, it can do this by simply slashing its prices to meet or beat those of competitors. Instead, most companies want their salespeople to practice *value selling*—demonstrating and delivering superior customer value and capturing a return on that value that is fair for both the customer and the company.

Value selling: Sales management's challenge is to transform salespeople from customer advocates for price cuts into company advocates for value.

almagami/123RF

Unfortunately, in the heat of closing sales, salespeople too often take the easy way out by cutting prices rather than selling value. Sales management's challenge is to transform salespeople from customer advocates for price cuts into company advocates for value. Here's how Rockwell Automation sells value and relationships rather than price:[18]

> Under pressure from Walmart to lower its prices, a condiment producer asked several competing supplier representatives—including Rockwell Automation sales rep Jeff Policicchio—to help it find ways to reduce its operating costs. After spending a day in the customer's plant, Policicchio quickly put his finger on the major problem: Production was suffering because of downtime due to poorly performing pumps on the customer's 32 large condiment tanks. Quickly gathering cost and usage data, Policicchio used his Rockwell Automation laptop value-assessment tool to develop an effective solution for the customer's pump problem.

The next day, as he and competing reps presented their cost-reduction proposals to plant management, Policicchio offered the following value proposition: "With this Rockwell Automation pump solution, through less downtime, reduced administrative costs in procurement, and lower spending on repair parts, your company will save at least $16,268 per pump—on up to 32 pumps—relative to our best competitor's solution." Compared with competitors' proposals, Policicchio's solution carried a higher initial price. However, no competing rep offered more than fuzzy promises about possible cost savings. Most simply lowered their prices.

Impressed by Policicchio's value proposition—despite its higher initial price—the plant managers opted to buy and try one Rockwell Automation pump. When the pump performed even better than predicted, the customer ordered all of the remaining pumps. By demonstrating tangible value rather than simply selling on price, Policicchio not only landed the initial sale but also earned a loyal future customer.

Thus, value selling requires listening to customers, understanding their needs, and carefully coordinating the whole company's efforts to create lasting relationships based on customer value. In building such customer relationships, leading B-to-B social network LinkedIn advocates a "Buyer First" approach consisting of five principles:[19]

Learn, then define: Listen actively to learn about the buyer's unique challenges and needs.

Share readily: Be transparent and always empower buyers with information, trends, and insights.

Solve, don't sell: Measure success in terms of problems solved as well as products sold. Help cusomters achieve their goals.

Deliver value: See the relationship through. Before the sale and after, stay actively engaged to ensure the buyer is happy with the solution.

Earn trust: Develop long-term trusted relationships by always acting in the buyer's best interest. Become the customer's trusted advisor.

Author Comment | Sales promotion is the most short-term of the promotion mix tools. Whereas advertising or personal selling says "buy," sales promotions say "buy now."

Sales Promotion

OBJECTIVE 16-4 Explain how sales promotion campaigns are developed and implemented.

Sales promotion
Short-term incentives to encourage the purchase or sale of a product or a service.

Personal selling and advertising often work closely with another promotion tool: sales promotion. **Sales promotion** consists of short-term incentives to encourage the purchase or sales of a product or service. Whereas advertising offers reasons to buy a product or service, sales promotion offers reasons to buy *now*.

● Examples of sales promotions are found everywhere. A 20-page Best Buy freestanding insert in the Sunday paper offers hundreds of great Black Friday Doorbuster deals; a Rooms to Go insert offers special prices and 60 months' free interest. Overstock.com offers four-day online flash sales featuring limited-time discounts on select items. At the mall, stores are peppered with signs announcing seasonal sales; one store promises to give you $20 in store cash for every $20 you spend plus an extra 60 percent off markdown prices. Buy a new Samsung tablet and get a free memory upgrade. A hardware store chain receives a 10 percent discount on selected STIHL power lawn and garden tools if it agrees to advertise them in local newspapers. Sales promotion includes a wide variety of promotion tools designed to stimulate earlier or stronger market response.

● **Sales promotions are found everywhere. For example, stores at your local mall are peppered with signs announcing special sales.**

Gary Armstrong

The Rapid Growth of Sales Promotion

Sales promotion tools are used by most organizations, including manufacturers, distributors, retailers, and even not-for-profit institutions. They are targeted toward final buyers (*consumer promotions*), retailers and wholesalers (*trade promotions*), business customers (*business promotions*), and members of the sales force (*sales force promotions*). In all, by one estimate, U.S. sales promotion spending accounts for about 18 percent of all media and marketing services spending in the United States.[20]

Several factors have contributed to these high sales promotion levels, particularly in consumer markets. First, inside the company, product managers face great pressures to increase current sales, and they view promotion as an effective short-run sales tool. Second, externally, the company faces stiff competition, and competing brands are increasingly less differentiated. Sales promotion can help to differentiate their offers. Third, advertising efficiency has declined because of rising costs, media clutter, and legal restraints. Finally, consumers have become very deal oriented. Consumers are demanding lower prices and better deals. Sales promotions can help attract today's more value-oriented consumers.

The heavy use of sales promotion has resulted in *promotion clutter*, which is similar to advertising clutter. With so many products being sold on deal these days, a given promotion runs the risk of being lost in a sea of other promotions, weakening its ability to trigger an immediate purchase. Manufacturers are now searching for ways to rise above the clutter, such as offering larger coupon values, creating more dramatic point-of-purchase displays, or delivering promotions through digital, mobile, and social media. Digital promotions can help drive both in-store and online sales.

In developing a sales promotion program, a company must first set sales promotion objectives and then select the best tools for accomplishing these objectives.

Sales Promotion Objectives

Sales promotion objectives vary widely. Sellers may use *consumer promotions* to urge short-term customer buying or boost customer-brand engagement. Objectives for *trade promotions* include getting retailers to carry new items and more inventory, buy ahead, or promote the company's products and give them more shelf space. *Business promotions* are used to generate business leads, stimulate purchases, reward customers, and motivate salespeople. For the sales force, objectives include getting more sales force support for current or new products and getting salespeople to sign up new accounts.

Sales promotions are usually used together with advertising, personal selling, direct and digital marketing, or other promotion mix tools. Consumer promotions must usually be advertised and can add excitement and pulling power to ads and other marketing content. Trade and business sales promotions support the firm's personal selling process.

When the economy tightens and sales lag, it's tempting to offer deep promotional discounts to spur consumer spending. In general, however, rather than creating only short-term sales or temporary brand switching, sales promotions should help to reinforce the product's position and build long-term customer relationships. If properly designed, every sales promotion tool has the potential to build both short-term excitement and long-term consumer engagement and relationships. Marketers should avoid "quick fix," price-only promotions in favor of promotions that are designed to build brand equity. Examples include the various *frequency marketing programs* and loyalty cards. Most hotels, supermarkets, airlines, and retailers offer frequent-guest/buyer/flier programs that give rewards to regular customers to keep them coming back. Such promotional programs can build loyalty through added value rather than discounted prices.

Frequency marketing programs: Uber Rewards builds loyalty and purchasing through added value rather than discounted prices. The more members use Uber, the more they benefit, with perks such as locked-in pricing, priority airport pickups, access to highly rated drivers, and complimentary upgrades at no extra cost.

Uber

For example, membership in Uber Rewards gives loyal customers points for Uber rides and Uber Eats that can be converted to redeemable Uber Cash—the more you use Uber, the more you benefit. Higher Uber Rewards membership levels—from blue to gold, platinum, or diamond—earn perks such as priority service from Uber support agents, flexible cancellations, locked-in pricing between favorite points, priority airport pickups, access to highly rated drivers, and complimentary upgrades at no extra cost. Similarly, depending on how much they spend per year, members of Nordstrom's Nordy Club earn points plus perks such as early access to sales, personal bonus points days, free basic alterations, free curbside pickup, and members-only access to new brand launches, beauty and style workshops, and exclusive invite-only experiences. A personalized dashboard on the Nordstrom app lets customers interact easily with their Nordy program. "Our loyalty program is our opportunity to not only thank customers for shopping with us but to serve them in a more personalized way," says Nordstrom's vice president of retention and loyalty.[21]

Major Sales Promotion Tools

Many tools can be used to accomplish sales promotion objectives. Descriptions of the main consumer, trade, and business promotion tools follow.

Consumer Promotions

Consumer promotions
Sales promotion tools used to boost short-term customer buying and engagement or enhance long-term customer relationships.

Consumer promotions include a wide range of tools—from samples, coupons, refunds, premiums, and point-of-purchase displays to contests, sweepstakes, and event sponsorships.

Samples are offers of a trial amount of a product. Sampling is the most effective—but most expensive—way to introduce a new product or create new excitement for an existing one. Some samples are free; for others, the company charges a small amount to offset its cost. The sample might be sent by mail, handed out in a store or at a kiosk, attached to another product, or featured in an ad, email, or mobile offer. Samples are sometimes combined into sample packs, which can then be used to promote other products and services.

When the COVID-19 pandemic restricted the use of in-person and in-store sampling, many brands were forced to find innovative new sampling approaches. Many increased their use of sampling by mail. Others developed hybrid sampling programs that allowed users to sample products in their homes while still chatting about them online. Still others found new delivery platforms. For example, Heineken teamed up with meal-kit company Hello Fresh by adding two cans of its non-alcoholic beverage Heineken 0.0 to orders. Nearly 100,000 Hello Fresh customers opted into the program.[22]

Consumer samples can be a powerful tool. Ben & Jerry's Free Cone Day thanks customers for being "so uniquely awesome" and also generates tons of buzz and draws new customers into its scoop shops.

Helen H. Richardson/Denver Post/Getty Images

Sampling can be a powerful promotional tool. For example, Ben & Jerry's sets aside one day each year as Free Cone Day, on which it invites customers to stop by its scoop shops to sample any of a variety of the brand's classic ice cream flavors for free. Around the country, the unique sampling promotion is a huge success, with lines stretching out the doors and around the block at most shops. Officially, Ben & Jerry's uses Free Cone Day to thank its customers for being "so uniquely awesome." But the sampling program also generates tons of buzz and draws new customers into its shops, something that Ben & Jerry's hopes will turn into a habit.

Coupons are certificates that save buyers money when they purchase specified products. Most consumers like coupons. Coupons can promote early trial of a new brand or stimulate sales of a mature brand. Although still a popular promotion, coupon distribution has seen a steady decline in recent years, partly because of the shrinking reach of printed newspapers and their freestanding inserts. Most major consumer goods companies are issuing fewer coupons and targeting them more carefully. U.S. consumer packaged-goods companies distributed 167 billion coupons last year, down from 336 billion only a decade ago.[23]

Digital and mobile coupons represent today's fastest-growing coupon segment. Digital coupons can be individually targeted and personalized in ways that print coupons can't. Whether printed at home, loaded to a loyalty card, or redeemed via smartphone or other mobile device, digital coupons claim much higher redemptions rates than traditional newspaper freestanding insert coupons. Digital load-to-card coupons have now surpassed newspaper freestanding insert coupons in both number issued and redemptions. Load-to-card coupons now account for 85 percent of digital coupons. That fact also helps explain the drop in overall coupons—marketers can obtain the same levels of redemption with far fewer coupons issued.

Rebates (or *cash refunds*) are like coupons except that the price reduction occurs after the purchase rather than at the retail outlet. The customer sends proof of purchase to the manufacturer, which then refunds part of the purchase price by mail. For example, Toro ran a clever preseason promotion on some of its snowblower models, offering a rebate if the snowfall in the buyer's market area turned out to be below average. Competitors were not able to match this offer on such short notice and the promotion was very successful.

Price packs (also called *cents-off deals*) offer consumers savings off the regular price of a product. The producer marks the reduced prices directly on the label or package. Price packs can be single packages sold at a reduced price (such as two for the price of one) or two related products banded together (such as a toothbrush and toothpaste). Price packs are very effective—even more so than coupons—in stimulating short-term sales.

Premiums are goods offered either free or at low cost as an incentive to buy a product, ranging from toys included with kids' products to a free micro memory card with the purchase of a phone. A premium may come inside the package (in-pack), outside the package (on-pack), as a credit at point of purchase, or through the mail. For example, over the years, McDonald's has offered a variety of premiums in its Happy Meals—from Star Wars toys to Disney Princesses and Sonic the Hedgehog characters. Customers can visit www.happymeal.com to play games, read e-books, and watch commercials associated with the current happy Meal sponsor.[24]

Advertising specialties, also called *promotional products*, are useful articles imprinted with an advertiser's name, logo, or message that are given as gifts to consumers. Typical items include T-shirts and other apparel, pens, coffee mugs, calendars, key rings, tote bags, coolers, golf balls, and caps. U.S. marketers spent more than $20 billion on advertising specialties each year. Many of them stick around for months or even longer, subtly imprinting a brand name in the user's mind.

Point-of-purchase (POP) promotions include displays and demonstrations that take place at the point of sale. Think of your last visit to the local Costco, Walmart, or Bed Bath & Beyond. Chances are good that you were tripping over aisle displays, promotional signs, "shelf talkers," or demonstrators offering free tastes of featured food products. Unfortunately, many retailers do not like to handle the hundreds of displays, signs, and posters they receive from manufacturers each year. Manufacturers have therefore responded by offering better POP materials, offering to set them up, and tying them in with television, print, or online messages.

Contests, sweepstakes, and *games* give consumers the chance to win something, such as cash, trips, or goods, by luck or through extra effort. A *contest* calls for consumers to submit an entry—a jingle, guess, suggestion—to be judged by a panel that will select the best entries. A *sweepstakes* calls for consumers to submit their names for a drawing. A *game* presents consumers with something—bingo numbers, missing letters—every time they buy, which may or may not help them win a prize.

All kinds of companies use sweepstakes and contests to create brand attention and boost consumer involvement. For example, ride-hailing service Lyft recently ran a contest inviting drivers to share images of parking ticket citations they'd received and regretted by tagging @Lyft and using the hashtag #ShouldveTakenALyft on Instagram, Tiktok, Twitter, and other social media. Selected posters received prizes that included $100 in Lyft ride credits to help offset the parking fines. With the contest, says Lyft's head of social media, the brand hoped to "drive awareness of our multimodal mission and suite of products that can offset the burdens of car ownership in a fun, lighthearted, relatable way."[25]

The Dubai Shopping Festival is a spectacular series of events held in December and January in the eponymous city. During this period, malls and shopping destinations come to life with daily price deals, immersive competitions, raffles, and many other memorable indoor and outdoor events. The most widely anticipated is the Mega Raffle, where people can win cars, cash prizes, and a grand prize of AED 250,000. Such raffles can quite literally change the lives of winners even as they boost brand attention and consumer involvement, which are key success measures for such festivals.[26]

Event marketing (or event sponsorships)
Creating a brand-marketing event or serving as a sole or participating sponsor of events created by others.

Finally, marketers can promote their brands through **event marketing** (or **event sponsorships**). They can create their own brand-marketing events or serve as sole or participating sponsors of events created by others. The events might include anything from mobile brand tours to festivals, reunions, marathons, concerts, or other sponsored gatherings. Event marketing is huge, and it may be the fastest-growing area of promotion. Effective event marketing links events and sponsorships to a brand's value proposition.

For example, footwear and apparel brand Vans is famous for its annual House of Vans pop-up events in major North American and European cities. The four-day events draw thousands of brand fans who gather to celebrate their common interests in action sports, live music, art, and street culture. The pop-up events feature custom skateboard parks, live music performances, an artisanal goods street market, games and contests, and workshops and clinics. The events also present opportunities to showcase new Vans products to the delight of both the brand and its fans.

Event marketing: House of Vans events draw thousands of Vans brand fans who gather to celebrate their common interests in action sports, live music, art, and street culture while presenting opportunities to showcase new Vans products to the delight of both the brand and its fans.

Richard Milnes/Alamy Stock Photo; Jeff Saunders Travel Stock/Alamy Stock Photo

The COVID-19 pandemic put a temporary halt to brand events and gatherings. As a result, many marketers developed virtual events in place of physical events. For example, although it canceled its 2020 pop-up events, in early 2021, Vans held a well-crafted, large-scale digital House of Vans event. The online experience featured an interactive skate park, a community market, artist workshops, and a streamed musical performance. "Since we can't celebrate together in person this year, we've created an engaging digital platform to unite Vans fans—a place to learn, feel inspired, and have fun," said a Vans marketer. "Despite the physical distance between us, there will always be a cultural meeting place where the Vans family can gather."[27] Going forward, the digital lessons learned during the pandemic have given a big boost to the use of virtual events, either as a part of or replacing physical events.

All kinds of brands now hold events. But one-time events are rarely as effective as well-planned event campaigns that tie into a brand's broader promotions and positioning. Consider energy drink maker Red Bull. Called by one business reporter the "mother of all event marketers," Red Bull holds hundreds of events around the globe each year designed to bring the high-octane world of Red Bull to its community of enthusiasts (see Real Marketing 16.2).

Trade Promotions

Trade promotions
Sales promotion tools used to persuade resellers to carry a brand, give it shelf space, and promote it in advertising.

Consumer packaged goods manufacturers spend nearly three times as much on trade sales promotion as on consumer sales promotion.[28] **Trade promotions** can persuade resellers to carry a brand, give it shelf space, promote it in advertising, and push it to consumers. Shelf space is so scarce these days that manufacturers often have to offer price-offs, allowances, buy-back guarantees, or free goods to retailers and wholesalers to get products on the shelf and, once there, to keep them on it.

Manufacturers use several trade promotion tools. Many of the tools used for consumer promotions—contests, premiums, displays—can also be used as trade promotions. Or the manufacturer may offer a straight *discount* off the list price on each case purchased during a stated period of time (also called a *price-off, off-invoice*, or *off-list*). Manufacturers also may offer an *allowance* (usually so much off per case) in return for the retailer's agreement to feature the manufacturer's products in some way. For example, an advertising allowance compensates retailers for advertising the product, whereas a display allowance compensates them for using special displays.

Manufacturers may offer *free goods*, which are extra cases of merchandise, to resellers who buy a certain quantity or who feature a certain flavor or size. They may also offer *push money*—cash or gifts to dealers or their sales forces to "push" the manufacturer's goods. Manufacturers may give retailers free *specialty advertising items* that carry the company's name, such as pens, calendars, memo pads, flashlights, and tote bags.

Business Promotions

Business promotions
Sales promotion tools used to generate business leads, stimulate purchases, reward business customers, and motivate salespeople.

Companies spend billions of dollars each year on promotion geared toward industrial customers. **Business promotions** are used to generate business leads, stimulate purchases, reward customers, and motivate salespeople. Business promotions include many of the same tools used for consumer or trade promotions. Here, we focus on two additional major business promotion tools: conventions and trade shows and sales contests.

Many companies and trade associations organize *conventions and trade shows* to promote their products. Firms selling to the industry show their products at the trade show. Vendors at these shows receive many benefits, such as opportunities to find new sales leads, contact customers, introduce new products, meet new customers, sell more to present customers, and educate customers with publications and audiovisual materials. Trade shows also help companies reach many prospects that are not reached through their sales forces.

Real Marketing 16.2 | Red Bull: The Mother of All Event Marketers

There's no question: Coca-Cola and PepsiCo dominate the global beverage industry. Each boasts leading brands in almost every category, from carbonated soft drinks to enhanced juice drinks to bottled waters. Both companies spend hundreds of millions of dollars annually on sophisticated marketing and advertising programs. So how does a smaller company compete effectively with such global powerhouses? The best answer: It doesn't—at least not directly. Instead, it uses a unique marketing approach and runs where the big dogs don't.

That's what Red Bull does. When Red Bull first introduced its energy drink more than 35 years ago, few imagined that it would become the $7.6 billion-a-year success that it is today. Red Bull has succeeded by avoiding head-to-head promotional battles with giants like Coca-Cola and Pepsi. Instead, it has energized brand fans with a unique product, brand personality, and event-marketing approach.

Back in 1987, energy drinks simply didn't exist. If you wanted a quick pick-me-up, about the only options were caffeinated soft drinks or a good old cup of coffee. But Red Bull formulated a new beverage containing a hefty dose of caffeine along with little-known ingredients such as taurine and glucuronolactone. It tasted terrible. But it packed the right punch, producing unique physical-energy and mental-clarity benefits. To make the new beverage even more distinctive, the founders gave it a unique name (Red Bull) and packaged it in a slim 8.3-ounce blue-and-silver can with a distinct red-and-yellow logo. Thus was born a whole new beverage category—energy drinks—with Red Bull as its only player.

The unique Red Bull product demanded equally unique brand positioning and personality, a declaration that this was no ordinary beverage. Red Bull's marketing didn't disappoint. The brand's first and still-only slogan—"Red Bull Gives You Wings"—communicated the product's energy-inducing benefits. More important, it tapped into the forces that moved the brand's narrow target segment—customers seeking to live life in the adrenaline-stoked fast lane.

To reinforce the "Gives You Wings" brand promise and in line with the new brand's meager early finances, Red Bull shunned the big-budget, mass-media advertising common in the beverage industry at the time. Instead, it relied on grassroots, high-octane sports and event marketing. It sponsored extreme sports events and athletes who were overlooked by big beverage competitors but were spiking in popularity with Red Bull's target customers, events such as snowboarding and freestyle motocross and athletes like Shaun White and Travis Pastrana.

In the years since, Red Bull has turned event marketing into a science. Today, the brand holds more than 1,250 events each year in dozens of sports around the world. Each event features off-the-grid experiences designed to bring the high-octane world of Red Bull to its impassioned community of enthusiasts. Red Bull owns Formula 1 car racing teams and soccer clubs. Its name is plastered all over events such as the annual Red Bull King of the Air Kiteboarding and Red Bull Rampage freeride mountain bike competitions. Beyond sports, the company also sponsors lifestyle events in music, dance, fashion, and art.

Red Bull is perhaps best known by some for its massive, highly promoted events intended to reach as many viewers as possible. A classic example was the Red Bull Stratos project, in which extreme skydiver Felix Baumgartner jumped from a helium balloon 128,000 feet (more than 24 miles) above the earth, breaking the sound barrier and numerous other records in the process. The jump also set records for consumer brand engagement. Baumgartner diving into space fit perfectly with Red Bull's "Gives You Wings" brand message. And both Baumgartner's capsule and his space-age jumpsuit were emblazoned with the Red Bull name and logo. More than 8 million people watched the event live on 40 TV stations and 130 digital channels. For months before and after the event, you couldn't see or hear anything about Baumgartner without thinking about Red Bull. And by one estimate, 90 million people worldwide followed the campaign on social media, creating 60 million trusted brand impressions. You just can't buy that kind of consumer engagement in traditional media.

Although Red Bull is known for such massive viral hits, the real bread and butter comes from its constant menu of smaller events. And the bigger purpose behind Red Bull's nonstop event machine is to create action-filled fodder for its massive video library. Visitors to the brand's www.redbull.com website will be hard-pressed to find an image of a Red Bull beverage. Instead, they'll find a cleanly designed, carefully curated video showcase with a seemingly unending selection of video clips organized by events, athletes, moods, and seasons. With a little browsing, they can view videos of everything from big wave slab surfing at Red Bull Cape Fear in Shipstern Bluff, Australia, to gravity-defying acrobatics at its Red Bull Art of Motion freerunning event in Matera, Italy, to absolutely breathtaking wing suit flights at Red Bull events staged in exotic locations from Monterrey, Mexico, to Hunan Province, China.

Individually, the smaller events and videos don't pack the wallop of the Red Bull Stratos project. The average Red Bull video gets a modest 500,000 views in its first 30 days. But the torrent of events adds up to massive impact. During a recent one-year period, Red Bull uploaded 4,331 videos to 23 channels. Combined, these videos generated more than 2.5 billion views and over 50 million engagements. That's equivalent to more than 60 space jumps every year. That made Red Bull the nation's most-viewed brand for nine of the year's 12 months. And although the COVID-19 pandemic resulted in fewer live events, viewership of Red Bull content charged right along during the pandemic, even as people around the world stayed home.

Event marketing: Red Bull has turned event marketing into a science. It hosts hundreds of events each year designed to bring the high-octane world of Red Bull to its community of enthusiasts.

Mi Pan/Shutterstock

More than just a beverage company, Red Bull today has become a close-knit brand community. Red Bull's event marketing has produced a steady stream of absorbing brand content that engages and entertains brand fans in relevant ways. Capturing all the action, Red Bull Media House produces clips, movies and TV shows like Red Bull Signature Series, now in its ninth season. All this has made Red Bull Media House one of the biggest producers of original content on YouTube and Facebook, not to mention loading its own web and mobile sites with unique content features. "Whenever we [have done] any event, or signed an athlete or executed a project, everything has been put on film or photographed. Stories have been told," says the head of the Red Bull Media House unit. "It's part of the DNA of the brand."

Thus, Red Bull can't compete directly across the board with big-budget brands like Coca-Cola and PepsiCo—it doesn't even try. "We don't do big television commercials, we've never done that," says the director of Red Bull Media House. "We believe that we can activate through events and great content, and that's where we'd rather spend our money." Then again, given the depth of consumer engagement and loyalty that Red Bull engenders in its own corner of the beverage world, Coke and Pepsi have found it even more difficult to compete with Red Bull in the energy drink segment. Red Bull still owns more than 40 percent of the global energy drink category it created, with Coke and Pepsi also-rans.

In the end, although Red Bull events draw large crowds and plenty of media coverage, it's about more than just the events—it's about customer engagement. Event marketing is about creating tactile engagements where people can feel, touch, taste, and experience the brand face-to-face rather than simply reading about or watching it. Red Bull doesn't just sponsor an event—it is the event. In fact, the brand experience is often as much of the story as the event itself. Through smart event marketing, Red Bull has given its customers—and itself—new wings and a big shot of energy. As one observer puts it, Red Bull is the "mother of all event marketers."[29]

Some trade shows are huge. For example, at the pre-pandemic 2020 International Consumer Electronics Show (CES), more than 4,400 exhibitors attracted some 171,000 professional visitors. The all-digital CES in early 2021 still drew nearly 2,000 exhibitors and 83,000 attendees, and future combined physical and virtual CES events will likely exceed these previous numbers. Even more impressive, at the 2019 Bauma mining and construction equipment trade show in Munich, Germany, more than 3,680 exhibitors from 62 countries presented their latest product innovations to nearly 628,000 attendees from more than 217 countries. Total exhibition space equaled about 6.6 million square feet (more than 112 football fields). As with the CES consumer show, future Bauma shows will offer both in-person and virtual events.[30]

A *sales contest* is a contest for salespeople or dealers to motivate them to increase their sales performance over a given period. Sales contests motivate and recognize good company performers, who may receive trips, cash prizes, or other gifts. Some companies award points for performance, which the receiver can turn in for any of a variety of prizes. Sales contests work best when they are tied to measurable and achievable sales objectives (such as finding new accounts, reviving old accounts, or increasing account profitability).

Developing the Sales Promotion Program

Beyond selecting the types of promotions to use, marketers must make several other decisions in designing the full sales promotion program. First, they must determine the *size of the incentive*. A certain minimum incentive is necessary if the promotion is to succeed; a larger incentive will produce more sales response. The marketer also must set *conditions for participation*. Incentives might be offered to everyone or only to select groups.

Marketers must determine how to promote and distribute the promotion program itself. For example, a $2-off coupon could be given out in a package, in an advertisement, at the store, via a website or social media, or in a mobile download. Each distribution method involves a different level of reach and cost. Increasingly, marketers are blending several media into a total campaign concept. The length of the promotion is also important. If the sales promotion period is too short, many prospects (who may not be buying during that time) will miss it. If the promotion runs too long, the deal will lose some of its "act now" force.

Evaluation is also very important. Marketers should work to measure the returns on their sales promotion investments, just as they should seek to assess the returns on other marketing activities. The most common evaluation method is to compare customer engagement and sales before, during, and after a promotion. Marketers should ask: Did the promotion engage consumers and enhance our brand's positioning? Did the promotion attract new customers or more purchasing from current customers? Can we hold onto these new customers and purchases? Will the long-run customer relationship and sales gains from the promotion justify its costs?

Clearly, sales promotion plays an important role in the total promotion mix. To use it well, the marketer must define the sales promotion objectives, select the best tools, design the sales promotion program, implement the program, and evaluate the results. Moreover, sales promotion must be coordinated carefully with other promotion mix elements within the overall integrated marketing communications program.

Reviewing and Extending the Concepts

Objectives Review

This chapter is the third of three chapters covering the final marketing mix element—promotion. The previous two chapters dealt with overall integrated marketing communications and with advertising and public relations. This chapter investigated personal selling and sales promotion. Personal selling is the interpersonal arm of the communications mix. Sales promotion consists of short-term incentives to encourage the purchase or sale of a product or service.

OBJECTIVE 16-1 Discuss the role of a company's salespeople in engaging customers, creating customer value, and building customer relationships.

Most companies use salespeople, and many companies assign them an important role in the marketing mix. For companies selling business products, the firm's sales force works directly with customers. Often, the sales force is the customer's only direct contact with the company and therefore may be viewed by customers as representing the company itself. In contrast, for consumer product companies that sell through intermediaries, consumers usually do not meet salespeople or even know about them. The sales force works behind the scenes, dealing with wholesalers and retailers to obtain their support and helping them become more effective in selling the firm's products.

As an element of the promotion mix, the sales force is very effective in achieving certain marketing objectives and carrying out such activities as prospecting, communicating, selling and servicing, and information gathering. But with companies becoming more market oriented, a customer-focused sales force also works to produce both customer satisfaction and company profit. The sales force plays a key role in engaging customers and developing and managing profitable customer relationships.

OBJECTIVE 16-2 Identify and explain the six major sales force management steps.

High sales force costs necessitate an effective sales management process consisting of six steps: designing sales force strategy and structure, recruiting and selecting, training, compensating, supervising, and evaluating salespeople and sales force performance.

In designing a sales force, sales management must address various issues, including what type of sales force structure will work best (territorial, product, customer, or complex structure), sales force size, who will be involved in selling, and how various salespeople and sales-support people will work together (inside or outside sales forces and team selling).

Salespeople must be recruited and selected carefully. In recruiting salespeople, a company may look to the job duties and the characteristics of its most successful salespeople to suggest the traits it wants in new salespeople. It must then look for applicants through recommendations of current salespeople, ads, and the internet and social media as well as college recruitment/placement centers. After the selection process is complete, training programs familiarize new salespeople not only with the art of selling but also with the company's history, its products and policies, and the characteristics of its customers and competitors.

The sales force compensation system helps to reward, motivate, and direct salespeople. In addition to compensation, all salespeople need supervision, and many need continuous encouragement because they must make many decisions and face many frustrations. Periodically, the company must evaluate their performance to help them do a better job. In evaluating salespeople, the company relies on information gathered from sales reports, personal observations, customer surveys, and conversations with other salespeople.

The fastest-growing sales trend is the explosion in social and virtual selling—using online, mobile, and social media in selling. Digital technologies are providing salespeople with powerful tools for identifying and learning about prospects, engaging customers, creating customer value, closing sales, and nurturing customer relationships. Many of today's customers no longer rely as much on assistance provided by salespeople. Instead, increasingly, they use online and social media resources to analyze their own problems, research solutions, get advice from colleagues, and rank buying options before ever speaking to a salesperson. In response, sellers are reorienting their selling processes around the new customer buying process. They are using social media, mobile devices, web forums, online communities, blogs, videoconferencing, and other digital tools to engage customers earlier and more fully. Digital sales technologies are not replacing salespeople. Instead, they are helping make sales forces more efficient, cost-effective, and productive.

OBJECTIVE 16-3 Discuss the personal selling process, distinguishing between transaction-oriented marketing and relationship marketing.

Selling involves a seven-step process: prospecting and qualifying, preapproach, approach, presentation and demonstration, handling objections, closing, and follow-up. These steps help marketers close a specific sale and, as such, are transaction oriented. However, a seller's dealings with customers should be guided by the larger concept of relationship marketing. The company's sales force should help to orchestrate a whole-company effort to develop profitable long-term relationships with key customers based on superior customer value and satisfaction.

OBJECTIVE 16-4 Explain how sales promotion campaigns are developed and implemented.

Sales promotion campaigns call for setting sales promotion objectives (in general, sales promotions should be *consumer relationship building*); selecting tools; and developing and implementing the sales promotion program by using *consumer promotion tools* (from coupons, refunds, premiums, and point-of-purchase promotions to contests, sweepstakes, and events), *trade promotion tools* (from discounts and allowances to free goods and push money), and *business promotion tools* (conventions, trade shows, and sales contests) as well as determining such things as the size of the incentive, the conditions for participation, how to promote and distribute the promotion package, and the length of the promotion. After this process is completed, the company must evaluate its sales promotion results.

Key Terms

OBJECTIVE 16-1

Personal selling
Salesperson

OBJECTIVE 16-2

Sales force management
Territorial sales force structure
Product sales force structure
Customer (or market) sales force structure
Outside sales force (or field sales force)
Inside sales force
Team selling
Sales quota
Social selling

OBJECTIVE 16-3

Selling process
Prospecting
Preapproach
Approach
Presentation
Handling objections
Closing
Follow-up

OBJECTIVE 16-4

Sales promotion
Consumer promotions
Event marketing (or event sponsorships)
Trade promotions
Business promotions

Discussion Questions

16-1 Define *salesperson* and briefly describe the differences between order takers and order getters. (AACSB: Written and Oral Communication; Reflective Thinking)

16-2 Identify three actions a company can take to help bring the marketing and sales functions closer together. (AACSB: Written and Oral Communication)

16-3 What are the differences between a territorial sales force structure, a product sales force structure, and a customer sales force structure? When might a firm choose to combine more than one sales force structure? (AACSB: Written and Oral Communication; Reflective Thinking)

16-4 What is *social selling*? How are salespeople using digital technologies to benefit their companies? (AACSB: Written and Oral Communication; Reflective Thinking)

16-5 Why is salesperson motivation important? How do sales managers motivate salespeople? (AACSB: Written and Oral Communication; Reflective Thinking)

16-6 What are some key characteristics to look for when hiring a salesperson? (AACSB: Interpersonal Relations and Teamwork; Reflective Thinking)

Critical Thinking Exercises

16-7 Write a job description for a salesperson at SAS, a leading marketer of analytical software platforms and packages to midsize and large businesses. (See www.sas.com and www.sas.com/en_us/careers.html.) (AACSB: Application of Knowledge; Reflective Thinking)

16-8 A sales manager for a financial services company is trying to calculate the optimal number of salespeople. The company has 600 A-level accounts and 4,200 B-level accounts. A-level accounts require 12 calls per year; B-level accounts require 6 calls per year. The average salesperson can make 750 calls per year. What is the total workload? How many salespeople should the sales manager hire? What other factors should the manager consider? (AACSB: Written and Oral Communication; Reflective Thinking)

16-9 Indonesia has some large regional markets, but the consumer market is scattered over 17,500 islands. The tastes, preferences, and buying habits vary. How would you create effective sales promotion activities for Indonesia? What might work across these multiple markets? (AACSB: Written and Oral Communication; Reflective Thinking)

APPLICATIONS AND CASES

Digital Marketing Driving Sales Digitally at Global Industrial

Global Industrial is a leading industrial supplies seller carrying more than 1.7 million products and serving industries ranging from medical labs and food services to facilities maintenance and power generation. It has traditionally relied primarily on its sales force for customer lead generation and demand fulfillment. But as the company's CEO recently noted, the digital channel is now a major complement to its sales force. Global Industrial's digital marketing focuses on two segments: (a) creating exceptional self-service for customers who wish to manage their purchases on their own and (b) creating high-touch experiences for large industrial customers who value the interaction with the sales force. Global Industrial has had to step back and prioritize investments that support these strategies. For example, its new Knowledge Center is a destination for buyers to virtually source product data, videos, and articles written by subject experts. The company embeds tracking links in emails to allow buyers to track the location of any order in real time. Warehouse automation has reduced the walk time to get orders organized. E-commerce dashboards now empower salespersons to increase customer retention and sales. The company has beefed up its social media presence (see www.globalindustrial.com/knowledge-center/social-media). Global Industrial realizes that while this may seem like a lot, it is only a start given all the potential offered by the digital business environment.

16-10 Is Global Industrial's twofold segmentation of its industrial customers in the digital environment appropriate? Explain. What other approaches could the company use to segment the market? (AACSB: Application of Knowledge; Reflective Thinking)

16-11 *Small group exercise*: Detail how the roles and skill sets of a Global Industrial salesperson need to change in the digital environment. (AACSB: Integration of Real-World Business Experiences; Reflective Thinking)

Marketing Ethics Selling Both Financial Advisory and Auditing Services to the Same Customer?

The ethical dilemma faced by firms that offer both financial advisory and auditing services was highlighted in a recent *New York Times* article titled "Officials Balked at a Drug Company's Tax Shelter. Auditors Approved It Anyway." The story described how financial advisory giant EY devised an arrangement that would help nonprescription drug maker Perrigo avoid more than $100 million in U.S. federal taxes. Instead of buying the drugs directly for sales in the United States and paying U.S. taxes on sales, Perrigo set up an shell subsidiary in Israel (with no employees and no offices) that purchased the drugs and resold them to Perrigo for further sales to U.S. consumers. Therefore, the bulk of Perrigo's profits were generated in Israel, where, due to a quirk in the tax laws, Perrigo paid no taxes on the profits. Perrigo's independent auditing firm, BDO, questioned the arrangement. In fact, even one EY manager thought the tax shelter was too aggressive. But Perrigo soon replaced BDO with EY's own auditing division. And the EY auditors ultimately approved the arrangement. The IRS is now investigating this arrangement as an "aggressive tax dodge." In the wake of multiple such revealed conflicts of interest, the push to separate the financial advisory and auditing services into separate companies has gained momentum.

16-12 Hiring the same company for both financial advisory and auditing services can result in lower prices for those services and better coordination across those functions. But it can also cause conflicts of interest. Given the potential conflicts, is it ethical for EY to continue selling both advisory and auditing services to the same customer? Explain your reasoning. Is there another way to address the problem? (AACSB: Ethical Understanding and Reasoning; Integration of Real-World Experiences)

16-13 *Small group exercise*: In the Perrigo example, there was a conflict of interest when a service provider sold both advisory and auditing services to a customer. Thinking more broadly, what ethical challenges might salespeople potentially face? (AACSB: Ethical Understanding and Reasoning; Integration of Real-World Experiences)

Marketing by the Numbers The Foundry

The Foundry is the product design subsidiary of the UAE-based design studio Tinkah. The Foundry designs and manufactures Khaleeji-inspired coffee sets and briefcases using natural materials and colors. Assume it is considering an advertising campaign in the UAE to promote its range of pottery and ceramics. The brand is considering spending $5,000 on advertising to support a product premium offer. They will offer a stackable bowl set (worth $80) free for every $1,000 customers spend on other products from the range. The focus of the advertising will be social media and leaflets in shopping malls.

16-14 If The Foundry's markup percentage on selling prices is 65 percent, what margin will they realize for each bundle of products purchased during the premium offer? How many additional bundles would they need to sell to break even on this premium offer? Refer to Break-Even and Margin Analysis in Appendix 2: Marketing by the Numbers to learn how to perform this analysis. (AACSB: Written and Oral Communication; Analytical Thinking; Reflective Thinking)

16-15 The Foundry ran the promotion and sold 15 bundles during the promotional period. Assuming the $5,000 spent on advertising is the only marketing cost associated with this promotion, calculate the net marketing contribution of the promotion. Was the promotion successful? Refer to Net Marketing Contribution in Appendix 2: Marketing by the Numbers to learn how to do this analysis. (AACSB: Analytical Thinking)

Company Case Urban Outfitters: Brand-Building Rewards Program Promotions

These days, the clothing retailer landscape looks like a war zone, littered with once-thriving mall and big box retailers now struggling to stay alive. As trends and shopping patterns have changed, few of the veteran specialty clothing retailers have escaped unaffected. But Urban Outfitters has defied the odds. The international lifestyle retailer's revenues have increased year after year, doubling between 2010 and 2020. Although Urban Outfitters has not been without challenges, the company has grown steadily by developing and maintaining deep bonds with customers. It succeeds by remaining flexible and dynamic, continually seeking innovative ways of staying relevant to its young adult customer base. Today, that means using data to personalize rewards and connect with customers through mobile channels.

Modern Startup in an Old Industry

The story of Urban Outfitters's origins reads a lot like a Silicon Valley tech startup. It began as a project for an entrepreneurship class at the University of Pennsylvania, when students Dick Hayne, Scott Belair, and Judy Wicks settled on opening a retail store with a vibe that was counter-culture to the bustling shopping mall standard. They opened their first store across the street from the university with the mission to provide secondhand clothing, furniture, jewelry, and home décor to college-aged customers in a casual fun environment. Originally called Free People, the business grew and evolved. Before long, the fledgling retailer created the Urban Outfitters private label exclusively for the business. Other private labels followed. But the concept was set—keep the mission but without the "secondhand."

Over the decades, the company grew, evolved, and even split into multiple retail concepts. Today, parent company URBN houses retail chains Urban Outfitters, Anthropologie (similar concept with an upscale tilt toward an older audience), Free People (bohemian brand of women's apparel, cosmetics, skin care, and oral supplements), BHLDN (pronounced "beholden," a one-stop wedding retailer), Nuuly (a subscription clothing rental service), Terrain (house and garden), and Menus & Venues (a collection of restaurants and event venues committed to creativity, locality, seasonality, and quality). And whereas other once-popular chains are closing stores or shuttering for good, Urban Inc. continues to add to its empire of more than 650 retail stores in the U.S. and 13 other countries.

Building the Brand through Sales Promotions

From its origin, the founders of Urban Outfitters knew that to make it in the retail apparel business, you had to woo customers with sales, discounts, and deals—promotional tools designed to motivate people to purchase. But they also knew that going down that path had the unwanted side effect of customers who stop buying as soon as the deal is gone. So the folks at Urban worked to figure out a way to motivate a sale and build loyalty at the same time. It all came down to strategically developing sales promotions with specific objectives and tailored to customers based on things that are really important to them.

This concept led to the creation of an Urban Outfitters rewards program, first driven by direct mail, then by a loyalty card, and today through a user-friendly mobile app. In the old days, the company could execute only so much personalization. But today, with all the latest ways to collect individual customer data and interact with individuals, Urban Outfitters Rewards (UO Rewards) is one of the best known and respected loyalty programs in any industry.

UO Rewards has core characteristics considered to be pillars of a model rewards program. For starters, UO Rewards makes it easy for customers to earn points through multiple activities. Customers receive points when then join the program, make a purchase, download the app, enable push notifications, subscribe to emails, write a product review, refer products to friends, and browse the Urban Outfitter site or app. With the simple UO Rewards app dashboard feature, customers can simply and easily track their progress. The multiple methods not only make it easy for customers to earn points, they also have the desirable effect of prompting various non-purchase behaviors that strengthen the customer–brand relationship.

Like many rewards programs, Urban Outfitter customers can use UO Rewards points for discounts on merchandise. But in the same way that UO Rewards points can be accumulated by more than just making purchases, rewards come in the form of more than just discounts. UO Rewards members receive special offers tailored to their interests, get first dibs on unreleased merchandise, and are eligible for members-only giveaways. Members also receive a special discount on their UO Rewards anniversary. Customers love saving money, and UO Rewards gives them that reward. But the additional perks make customers feel special, establishing an emotional connection that does not result from traditional sales promotions.

Adding more incentives to engage with the brand, UO Rewards has multiple tiers (Standard, Silver, and Gold) that are accessed as customers reach specific point levels. And with each tier of membership, UO Rewards gives additional rewards. For example, Silver UO Rewards members have access to giveaways beyond the Standard UO Rewards giveaways, choose-your-own-sale days, and monthly gift card drawings. They also earn points through all the same activities as Standard membership but at a rate that is 20 percent faster. Gold members get all the perks of the first two tiers but also receive surprise rewards, gain access to seasonal shipping offers, and earn rewards at a rate that is 40 percent faster than the Standard membership. The tiered design of UO Rewards has the effect of increasing customer activity as more points are earned.

To the Next Level

The UO Rewards program is effective. But Urban Outfitters has never been one to leave well enough alone. So just a few months ago, in an unusual move for an apparel retailer, Urban Outfitters joined an elite club of retailers that offers a paid membership program. Titled UO UP, the program puts Urban Outfitters in an elite class retailers offering paid memberships including warehouse chains Costco and BJ's Wholesale, mass-merchandise ecommerce retailers Amazon and Walmart, and specialty retailers REI and Best Buy. Like those programs, Urban Outfitters hopes that UO UP's broader range of benefits will drive traffic to its physical and digital stores, increasing purchase frequency and amount spent. The retailer also expects that paid membership will increase commitment to the brand and drive more non-purchase activities that turn members into ambassadors.

UO UP is simply designed. The annual membership fee is a hefty \$98. Benefits for UO UP members include free shipping on purchases and returns and a 15 percent discount on purchases (applied over and above all other promotions, including discounts earned through UO Rewards), a $10 coupon every month, discount on rentals from Nuuly, and a $40 gift card upon registering. Membership also give members access to exclusive promotions and events and are applicable across all URBN brands.

A recent study shows that members of paid membership programs are 60 percent more likely to spend on a brand after subscribing, compared to 30 percent for members of free loyalty programs. For now, Urban Outfitters is testing UO UP in key markets. But if the program has the intended effects of increasing activity frequency, improving retention, capturing a greater share of wallet, and increasing cross-brand activity, Urban Outfitters will offer the program to everyone.

The shutdown of stores caused by the COVID-19 pandemic resulted in the first decline in revenue and profits for URBN since it became a publicly traded company in 1993. But URBN fared better than most retailers. Its revenues declined by only 13 percent. In contrast, Gap Inc.'s revenues declined by 16 percent and Kohl's declined by 20 percent. Perhaps more important, the effects of the pandemic on URBN's revenues were offset by its online and membership programs, with the total number of digital customers increasing by a whopping 50 percent for the year. As pandemic restrictions relaxed, URBN's annual revenues came back in spades, increasing by 33 percent last year. And while retailers in general saw a healthy increase in revenues this past year over the year of pandemic-induced shutdowns, most—including Gap and Kohl's—rebounded only up to their pre-pandemic levels. URBN generated business in excess of 14 percent of its pre-pandemic revenues. Most retailers these days are fortunate to see growth in the low single digits.

While URBN's strong growth isn't all tied to its rewards programs, it is clear that its approach to incentivizing loyal customers is certainly a big part of it. "Our goal is to retain [our], and what we're doing to do that is sending out personalized messages," says chief technology officer Dave Hayne. With the after-effects of the pandemic subsiding and Urban Outfitters's strong rewards programs, the company expects to return to the robust growth it experienced over the past decades. And if UO UP is successful, Urban Outfitters might just grow at an even greater rate.[31]

Questions for Discussion

16-16 Identify the objectives of Urban Outfitters's reward programs. How do the specific promotional tools of Urban Outfitters's reward programs help achieve these objectives?

16-17 Putting yourself in the shoes of a customer, would you be motivated by the incentives offered by UOR and UO UP? Explain your answer with examples.

16-18 How can Urban Outfitters best use the in-store sales force to amplify the positive effects of its promotional and reward programs? Provide specific ideas.

16-19 *Small group discussion*: Promotional programs do not work well when they lead to existing customers buying what they would buy anyway, but at a lower price. Instead, they work best when they get existing customers to buy more profitable products than they otherwise would, and when they attract competitors' customers and convert them into loyal customers. How can Urban Outfitters further improve its promotional programs to ensure they achieve these desired goals?

17 Digital Marketing

OBJECTIVES OUTLINE

OBJECTIVE 17-1 **Define *digital marketing* and discuss its rapid growth and benefits to customers and companies.**

OBJECTIVE 17-2 **Discuss the consumer and market research required to design an effective digital marketing campaign.**

OBJECTIVE 17-3 **Discuss the different digital channels and media and explain how companies employ them to create an omni-channel marketing strategy.**

OBJECTIVE 17-4 **Identify and discuss the public policy issues presented by digital marketing.**

CHAPTER PREVIEW In previous chapters, you explored the basics of marketing. You learned that the aim of marketing is to engage customers and to create value for them in order to capture value from them in return. Good marketing companies win, keep, and grow customers by understanding customer needs, designing customer value–driven marketing strategies, constructing value-delivering marketing programs, engaging customers, and building customer relationships. In this chapter, we dig deeper into the fastest-growing form of marketing: digital marketing (which includes online, social media, and mobile marketing). Over the past decade, marketing has undergone a dramatic transformation spurred by the surge in internet usage and buying as well as rapid advances in digital technologies—from smartphones, tablets, and IoT devices to the spate of online, mobile, and social media. As you read this chapter, remember that although we address special considerations in digital marketing strategy separately here, digital marketing must be carefully integrated with other elements of marketing strategy and the marketing mix.

Let's start by looking at Swatch. When the Swiss watch industry needed saving in the 1980s, Swatch burst onto the scene with bold campaigns that pushed the boundaries of traditional marketing. When Swatch itself needs saving, even bolder digital marketing campaigns show how the company makes use of the hype train.

MOONSWATCH: Countdown to a Hype-Fueled Launch

Swiss watches are widely considered the gold standard of timepieces, involving meticulous craftsmanship and serving as a status symbol to those who want to show that they appreciate the finest things in life. However, not so long ago, the Swiss watch industry was on the brink of collapse. In the late 1970s, low-cost and cheaply manufacturable Japanese quartz-powered watches captured much of the market. During a period dubbed the quartz crisis, it became clear that the institution of Swiss watchmaking was not keeping up with the times. It had failed to see that, when presented the option, most buyers preferred the low-frills yet highly reliable cheaper quartz options over their prestigious, heritage-soaked Swiss counterparts. As a result, the Swiss watch industry suffered, factories were shut down, and watchmakers that had trained for a lifetime to become masters of their craft lost their jobs.

Swatch is credited with the revival of the Swiss watch industry and as one of the reasons it was able to endure the quartz crisis. Thanks to technological advancements that allowed manufacturing of plastic watches at a fraction of the cost of hand-made luxury watches by Swiss subsidiary ETA SA, Swatch was able to manufacture and release the first line of affordable plastic, quartz-powered, but Swiss-made timepieces in 1983.

What really made Swatch stand out was how they marketed their largely identically shaped injection-molded watches.

The MoonSwatch revived a flagging industry with an explosive internet campaign.
dennizn/Alamy Stock Photo

By offering a massive number of visual designs for each piece, Swatch pioneered the concept of "watch wardrobing," encouraging buyers to treat their watches as accessories and buy several to coordinate with their choice of style and outfit. The company's name is itself a portmanteau of the words "secondary watch." This eventually became the unique selling point, and the brand has gone on to feature the talents of prominent artists such as Keith Haring and Kiki Picasso in various collections. Swatch pushed the limits of traditional marketing with bold strategies to spread the message that these watches were about having fun, a distinct shift away from the overly serious approach that had been taken by the Swiss watch industry in general. For example, shortly after launching in Germany in 1984, Swatch constructed a 13-tonne, 162-meter-long watch and hung it from the Commerzbank skyscraper in Frankfurt. Just three pieces of information were printed on this mega-watch: the words "Swatch," "Swiss," and the price "DM 60." In fact, this approach is still at the core of the Swatch Group's marketing identity. Since the 1980s, the brand has portrayed their watches as a lifestyle rather than a time-telling instrument, with slogans such as "Fashion that ticks" and "A swatch for a season, not a watch for all seasons."

Fast forward to the late 2010s, and the Swatch group is experiencing declining sales and brand relevance due to the growing preference for and increasing availability of more affordable luxury watches from competing brands. Moreover, the rise of smartwatches and fitness trackers has begun eating into the Swatch Group's market share. In 2019, Swatch reportedly sold a mere 20.6 million low-cost watches compared to Apple's 30 million smartwatches that cost significantly more. In fact, after the Apple Watch launched in 2015, the low-end segment of the Swiss watch retail market experienced a fall in unit sales of 37 percent. In the early 2020s, these figures were even worse, with annual sales declining to just 3 million units. Relative to the Swiss watch industry as a whole, this was a tiny fraction of the 15.75 million watches exported in 2021.

By 2022, Swatch needed another bold move to revive their own faltering sales and did so by heavily leveraging digital marketing. In March 2022, the Swatch Group launched the MoonSwatch using little more than online marketing via social media and key fashion and timepiece influencers. Billed as a tribute to the space-worn Omega Speedmaster Moonwatch, the quartz-powered MoonSwatch was also plastic—creatively marketed as BioCeramic—and was manufactured and sold at a cost a fraction of the Omega.

The Swatch group adopted techniques similar to those high-end streetwear uses, such as for high-end sneakers or limited-edition clothing. It launched a cryptic online campaign advertising an upcoming "collaboration" with Omega (itself a Swatch Group subsidiary), offering little more than the date of March 26.

Fashion and lifestyle were already established aspects of their branding, but by collaborating with Omega and launching a viral digital campaign, MoonSwatch offered buyers accessible luxury.

By shrouding the actual contents of the product launch in so much mystique while spreading it all over the internet and social media, the MoonSwatch drummed up a tremendous amount of buzz among younger, fashion-minded buyers, creating the perfect conditions for rumors and speculation to fly ahead of the reveal. Searches on eBay for the MoonSwatch jumped 2,410 percent in the three days leading up to the launch and an additional 149 percent on launch day. The frenzy of anticipation was even given a name—"MoonSwatch mania." There was significant coverage and speculation in enthusiast blogs and watch magazine websites such as *Hodinkee* and *WatchPro*. The campaign even reached *Hypebeast*, an online culture and lifestyle magazine that showcases culturally relevant fashion and streetwear trends. Once the hype had reached critical mass, the brand announced through various watch blogs and social media that sales of the product would not occur online, furthering the limited-edition mystique of the product. The results speak for themselves: more than 50,000 MoonSwatches are estimated to have sold over the launch weekend alone and over 150,000 in the months after. In July 2022, the Swatch Group's half-year annual report announced net sales of CHF 3.6 billion, an increase of around 7.4 percent over the previous year, and specifically cited the phenomenal success of the MoonSwatch.

Though the MoonSwatch campaign featured a novel use of digital marketing for the Swatch Group—and indeed a Swiss watch company—the move was not uncharacteristic for the company itself. It was a bold and surprising move that grabbed attention and reinforced Swatch's brand identity. Without waiting for the hype to die down, the Swatch Group augmented their digital strategy with more traditional methods to keep the excitement going. In the summer of 2022, a few months following the March launch, Swatch deployed 11 color-coded cars to drive across 12 European cities, emblazoned with advertising for the MoonSwatch and offering limited quantities for sale at each city.

The Swatch Group succeeded in putting the Swatch brand back in the minds of watch buyers and in increasing awareness of the real thing—the Omega Moonwatch. People without a watch budget of multiple thousands could now purchase an officially sanctioned inexpensive alternative—albeit one in very high demand—and those with the budget were now encouraged to consider the Omega in place of the Rolex. Indeed, Omega reported that sales of the Moonwatch have grown by over 50 percent since the launch of the MoonSwatch. Overall interest in the associate brands had a newfound surge, with online searches for Swatch increasing by 397 percent month-over-month and searches for the Omega Moonwatch rising 171 percent in the same period when the digital campaign was announced in March 2022.

The campaign is now considered to be one of the defining moments of the Swiss watch industry in recent years. What the MoonSwatch campaign did well was doubling down on the mass appeal of affordability. Fashion and lifestyle were already established aspects of their branding, but by collaborating with Omega and launching a viral digital campaign, MoonSwatch offered buyers accessible luxury. The key success was in nurturing urgent demand—dropping the long lag times between reveals and sales and the speed of the digital campaign clearly fostered a very successful "must-have" atmosphere. The increase in sales and interest in the brand speak for themselves, and the next Swatch Group launch is sure to sweep up watch fans in a blur of excitement again.[1]

IN SOME SENSE, today every company is a digital company. The traditional "yellow cab" taxi transportation and hotel industries have been dramatically transformed by digital-based companies such as Uber and Airbnb, respectively. For other companies—such as Amazon and Travelocity—digital technologies comprise the very backbone of their business models. Yet other companies have integrated digital approaches deeply into their basic marketing strategies. Companies that do not recognize and respond well to the challenges and opportunities posed by digital transformation will likely become extinct.

Digital developments are radically transforming marketing. The number of consumers going online has increased exponentially.[2] Entire populations in developing economies are rapidly transitioning from the "no phone" era to the "smartphone era," bypassing the landline phone phase that dominated developed economies for decades. Of the world's nearly 8 billion people, there are an estimated 5.2 billion unique mobile phone users, 4.7 billion internet users, and 4.2 billion social media users.

In the United States, total sales by online merchants exceeded $870 billion last year. A substantially higher volume of sales was "digitally influenced"—by online ads, social media marketing, and other means. Marketing spending on internet, mobile, and social media platforms has grown much faster than print and television advertising spending. Digital advertising spending now stands at $153 billion annually in the United States and is expected to exceed $700 billion by 2025. Digital advertising now accounts for more than 60 percent of all U.S. ad spending. It is critically important that marketing managers understand how digital marketing works and how it can be integrated harmoniously into their marketing strategies.[3]

Figure 17.1 outlines the major steps in the digital marketing process. These steps include understanding digital marketing, preparing for a digital marketing campaign, employing digital channels in an omni-channel strategy, and addressing public policy issues. We address each of these steps in turn.

This important figure presents the steps in the digital marketing process. It also outlines the flow of the major sections of this chapter.

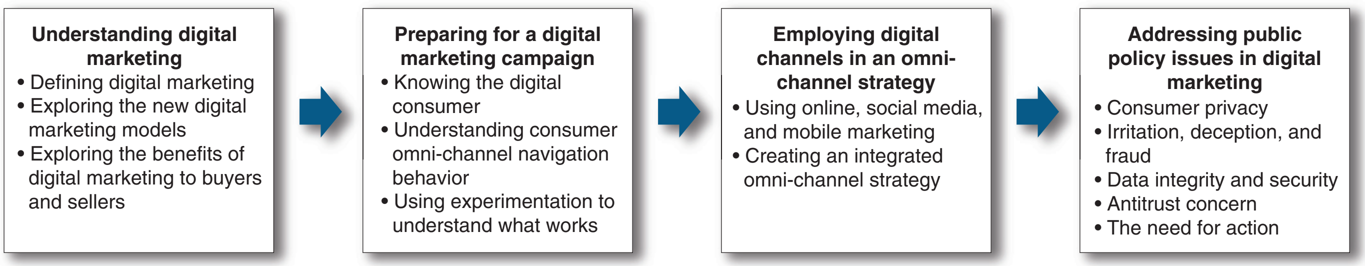


FIGURE 17.1
The Digital Marketing Process

Author Comment | The digital marketing process begins with a fundamental understanding of the nature and importance of digital marketing and how it is used.

Understanding Digital Marketing

OBJECTIVE 17-1 **Define *digital marketing* and discuss its rapid growth and benefits to customers and companies.**

Digital marketing
The use of technology-intensive platforms such as the internet, mobile networks and devices, and social media to engage directly with carefully targeted individual consumers, consumer communities, and businesses.

Marketers must first understand the nature and importance of digital marketing. **Digital marketing** uses technology-intensive platforms such as the internet, mobile networks and devices, and social media to engage directly with individual consumers, consumer communities, and businesses. It uses these platforms to provide information, build engagement, persuade consumers, induce brand purchase, and ultimately drive profitable transactions and long-term relationships.

For example, Amazon.com interacts directly with customers via its website or mobile app to help them discover and buy almost anything and everything online. Similarly, GEICO interacts directly with customers—by phone, through its website, or on its Facebook, Twitter, Instagram, TikTok, and YouTube pages—to build individual brand relationships, provide insurance quotes, sell policies, and service customer accounts.

Digital marketing is the fastest-growing form of marketing, claiming a surging share of marketing spending and sales. Total digital advertising spending now makes up an estimated 58 percent of all U.S. advertising spending. Digital will claim an estimated two-thirds of all ad spending by 2023. And ad spending on mobile media is exploding. By itself, mobile ad spending now accounts for 34 percent of all U.S. ad spending, 2 percent higher than the spending on TV advertising.[4]

The New Digital Marketing Model

The nature of digital information lies at the core of digital marketing. At a basic level, information can be coded in an analog format or in a digital format. The information in a printed catalog or direct mail piece is presented in analog format. The analog format suffers important disadvantages. For example, to issue a printed catalog, a company must buy paper and printing equipment, print the catalog, mail or hand it out to potential customers, and then hope that customers will respond with a phone order or store visit. And the catalog content is fixed—it can't be changed until it's replaced by another catalog.

Digitally formatted information, in contrast, has no significant physical form or mass. Digital information can be transported, shared, changed, analyzed, and used for decision making across electronic networks—flexibly, at lightning speed, and at near-zero cost. It costs little more to make a digital catalog available to a million people than to a thousand, and the content can be continually updated. Finally, consumers can respond quickly with a simple tap of a "buy now" button.

The technologies needed to manage and exchange digital information—such as computers and other connected devices, database hardware and software, and digital networks—have progressed rapidly. These advances have propelled marketing into a digital, big data world that offers both great promise and daunting challenges.

Managers can integrate digital marketing into the company's overall marketing strategy in multiple ways. It can serve as a *supplementary channel* for selling directly to customers, as a *complete model* for doing business, or as a *complementary channel* that integrates with other channels to deliver value. Many companies use digital marketing as a *supplementary channel* for sales. Thus, department stores such as Macy's or Kohl's mainly sell through their physical stores but also sell directly to consumers through websites, digital catalogs, and mobile and social media pages.

For other companies, digital marketing serves as a *complete business model*. These companies, which often sell purely digital products, typically deliver value to consumers entirely via online or mobile platforms. For example, Netflix has built a global entertainment empire based on digital content that is self-produced, developed by independent producers, or licensed from film studios. ● Likewise, Expedia empowers consumers to design complex and immersive vacation experiences entirely online:[5]

> Expedia Group is a huge collection of online-only travel businesses, including such familiar brands as Expedia, Travelocity, Hotels.com, Hotwire, trivago, Orbitz, and HomeAway. It does business through more than 200 travel booking sites and over 150 mobile websites. Its Travelocity unit was one of the first online travel companies that let customers find and book travel arrangements without the help of travel agents or brokers. Now itself one of the world's largest travel brands, Travelocity and its famous Roaming Gnome help customers "Wander Wisely," making their

Digital and direct to consumer marketing as a business model: Online travel company Expedia Group has successfully built its entire approach around digital marketing. Its Travelocity.com unit and the famous Roaming Gnome make it easy for customers to "Wander Wisely."

Travelocity

travel experiences both simple and memorable. The Gnome is indeed an insightful traveler who highlights all the great travel experiences to be had, ranging from blue moon ice cream in Wisconsin and macarons in Los Angeles to beignets in New Orleans and snow cones in Hawaii. But even as the Gnome enjoys enticing travel locations, it saves a place for potential travelers who are at home searching for travel information and planning trips. "I thought you'd be here by now," the Gnome gently taunts as it advises travelers to become members of Travelocity.com and have travel deals sent conveniently and proactively their way.

Many online-only startups—the so-called *direct-to-consumer (DTC) brands* (see Chapter 12)—employed this business model. These brands avoided direct competition with traditional brands by selling only through online and mobile channels and shipping purchased products directly to consumers. Examples include Dollar Shave Club and Harry's (razors and shaving products), Peloton (fitness equipment and programs), and Casper (mattresses and bedding). Using digital platforms, DTC companies cut costs and lowered prices, offered greater convenience, built direct relationships with customers, and delivered more personalized offerings. Interestingly, as many traditional sellers responded by beefing up their own supplementary digital channels, many of the DTC brands added traditional channels. For example, consumers can now buy Harry's razors at most Target, Walmart, and Costco stores. And Casper Sleep Shop locations help build its brand and allow consumers to try its mattresses even if they ultimately purchase them online and have them delivered.

In yet other cases, digital platforms can perform *complementary functions,* taking on marketing tasks at which they excel. For example, Pepsi's Mountain Dew brand advertises heavily through mass media and sells through its retail partners. However, it also complements these activities with a heavy dose of digital marketing. The brand aired blockbuster television ads during a recent Super Bowl. But it also spent heavily on digital media to engage its passionately loyal fan base interactively in the weeks leading up to and following the big game. Mountain Dew also engages fans digitally though a strong presence on its website and on social media.

Benefits of Digital Marketing to Buyers and Sellers

Its rapid growth reflects the fact that digital marketing offers many benefits to both buyers and sellers. Its major benefits are summarized in this section.

Buyer Benefits

For buyers, digital marketing is convenient, easy, and private. It gives buyers anywhere, anytime, and personalized access to an almost unlimited assortment of goods and a wealth of product and buying information. For example, on its website and mobile app, Amazon.com offers more information than most consumers can digest, ranging from continually updated top 10 product lists, extensive product descriptions, and expert and user product reviews to recommendations based on consumers' previous searches and purchases. And buyers can customize products and information they want, order on the spot, and receive delivery within days or even hours.

In the digital marketplace, consumers often benefit from increased price competition. Competitors are only a mouse click away, making price and product comparisons remarkably easy for both consumers and companies. As a result, companies usually try to match or beat competitors' prices. Further, consumers expect comparable prices across a company's websites and in retail stores. So changes made in online prices are often quickly reflected in retail store prices. This increased transparency and price competition ultimately leads to lower prices paid by consumers.[6]

Finally, for consumers who want it, digital marketing through online, mobile, and social media platforms provides a sense of brand engagement and community. For example, toy manufacturer LEGO is renowned for its creative kits with interlocking pieces that can be assembled to create complex designs. Participants of all ages converge on its LEGO Ideas forum (at ideas.lego.com) to check out creations of other members, submit their own creations, and vote on their favorite designs. LEGO turns the most popular ideas from the forum into product kits that can be purchased and assembled.

Seller Benefits

Digital marketing also offers sellers multiple benefits. First, digital marketing can provide an efficient alternative for reaching markets. While large companies are embracing digital marketing, this benefit is especially important for new or small companies that might otherwise be locked out of established channels and stores. For example, artists who handcraft unique goods can market them to the world on Etsy.com. Likewise, small independent companies can sell through and even establish their own storefronts on Amazon.com. With software and support from online store developers like Shopify, small companies can sell through their own websites, establishing a brand and customer base before creating a brick-and-mortar presence.

Digital marketing gives marketers the flexibility to dynamically adjust information, prices, and offerings to create timely and personalized customer engagement and value. And companies can set up online forums to enhance customer engagement and service. For example, a majority of the service problems faced by technology company Dell's customers are resolved not by the company but on the Dell Community forum. With more than 2,400 active members and over 5 million messages covering a vast array of solutions to technical problems, the forum's searchable solution database is often the first problem-solving stop for Dell's customers. The forum greatly reduces Dell's support costs and generates ideas for future hardware and software development.

Finally, digital marketing provides opportunities for *real-time marketing* that links brands to important moments and trending events in consumers' lives. Online and social media can engage consumers in the moment by linking brands to important trending topics, real-world events, causes, personal occasions, or other happenings. ● For example, fast-food brand Wendy's is known for its skillful use of real-time social media to spark an ongoing dialogue with the brand's fans about anything or nothing at all:[7]

● **Digital real-time marketing: Fast-food marketer Wendy's is known for its skillful use of social media to spark an ongoing real-time dialogue with the brand's fans.**

Deutschlandreform/Shutterstock; Gary Armstrong

> With more than 6,500 stores in the United States and 29 other countries, Wendy's is one of the world's largest fast-food restaurant chains. Wendy's aims to become the "world's most thriving and beloved restaurant brand." It claims that its iconic square fresh-beef hamburgers hang over the bun because they "don't cut corners on quality." According to one analyst, Wendy's real-time cutting-edge social media presence hits "the trifecta of humor, brand awareness, and authenticity." Wendy's responses to its fans on Twitter are often irreverent and hilarious. One fan asked: "How much does a Big Mac cost?" Wendy's tongue-in-cheek response: "Your dignity." Another fan asked: "My friend wants to go to McDonald's, what should I tell him?" Wendy's response: "Find new friends." In a rap battle with rival Wingstop, Wendy's launched a five-track music mix, with one track even topping Shopify's global viral chart. In fact, other brands frequently plead to be roasted by Wendy's in order to draw attention. Wendy's has struck an authentic chord with the younger generation through its mix of differentiated products and engaging social media presence. As one Wendy's Twitch headline notes: "We like our streams the same way we like to make our hamburgers: better than anyone expects from a fast food joint."

Author Comment | The first step in preparing for a digital marketing campaign involves getting to know the digital customer—in depth.

Preparing for a Digital Marketing Campaign

OBJECTIVE 17-2 Discuss the consumer and market research required to design an effective digital marketing campaign.

A digital marketing campaign involves the same general steps as in the broader marketing campaign. However, digital campaigns call for some special considerations. As outlined in Figure 17.1, it all starts with developing a deep knowledge of digital consumers and their omni-channel navigation behavior. Digital marketers can then use experimentation to test and understand what approaches work best.

Knowing the Digital Consumer

Digital technology is only a tool. Without a deep understanding of who targeted consumers are, what they want, and how they behave, even the latest and greatest technologies provide only a shot in the dark. Therefore, the first step in preparing for a digital marketing campaign involves getting to know the digital consumer—in detail.

Good marketing research—as discussed in Chapter 4—can provide consumer insights that guide a marketing campaign. That said, we focus here on some research concepts that are particularly relevant to digital marketing.

Digital consumer personas Detailed, nuanced, and tangible representations of prototypical consumers to be targeted by the digital marketing campaign.

Today's digital marketers begin by analyzing the wealth of available consumer data to develop **digital consumer personas**—detailed, nuanced, and tangible representations of prototypical consumers to be targeted by the digital campaign. Consumer personas are not a new concept. However, digital marketing is information-intensive. It can pervade many activities in a consumer's daily life. Digital marketing messages can penetrate time and space barriers that create big hurdles for conventional marketing techniques.

As just one example, location-based digital marketing can fine-tune the targeting of marketing offers and messages to consumers based on their physical locations anytime and anywhere. For example, consumers could receive a 25-percent-off coupon for Starbucks coffee on their phone app by just entering a circle of a 100-yard radius around a Starbucks location. Thus, compared to conventional consumer personas, digital personas must contain deeper details about how consumers seek and consume information, their preferences for information access platforms, their location-related habits, and other such characteristics.

Consider an entrepreneurial startup focused on delivering premium hot and cold coffees, teas, herbal drinks, and healthy snacks to consumers at any location—in an office, at home, at a football game, or about anywhere else. The company plans to operate out of a "ghost kitchen," one with no dining space that will accept only online orders. Customers can order food and beverages using an app and then have them delivered.

To pinpoint targeted customers and understand their needs, the coffee kitchen's founders may conduct in-depth interviews and focus groups with prospective customers and research secondary data sources. Using the revealed insights, the founders might develop one or more digital consumer personas, such as the one shown in **Figure 17.2** for hypothetical consumer Shawna Warrington. Shawna's persona captures her coffee and food ordering and consumption preferences. But more, it highlights the role that coffee and

FIGURE 17.2
A Digital Consumer Persona

javi_indy/Shutterstock

Shawna Warrington: "*I need a regular shot of coffee to re-energize without leaving my office desk*."

A DAY IN SHAWNA'S LIFE
- Overworked clothing designer—coffee keeps her going.
- Takes online MBA classes in the late evenings.
- Her pet spaniel, Cookie, is an important anchor in her life.
- Dines out with friends only on occasional weekends.
- Small apartment with an unopened cappuccino machine.

WHAT SHE SEEKS
- A quick burst of energy as and when she wants it.
- The ability to truly customize her coffee.
- To experience a variety of coffees over time.
- No personal interaction or waiting on the phone.
- Professional, coordinated workplace delivery.
- To support the local community and businesses.

BACKGROUND
- 25 years old, single, lives in San Diego, CA.
- Holds a degree in design from UC-San Francisco.

ONLINE BEHAVIORS
- Browses Facebook, Instagram, Snapchat, and news sites.
- Uses apps to automate her life and save time.
- Seeks good value, low prices, and coupons online.
- Follows online food and design influencers.

LIFE GOALS
- Be known as a top-notch designer in global fashion circles.
- Have the money and credibility to open her own design boutique.
- Travel extensively.
- At some stage, have a family and children.

LIFE CONCERNS
- Running out of energy and enthusiasm in her career.
- Being broke.
- Getting a good return on investment on her online MBA.

KEY INFLUENCES
- Close friends.
- Online reviews on Yelp!; select online influencers.
- Architecture and design magazines.

BRANDS SHE LIKES
- Tom's of Maine, Sephora, Tesla, Amazon.

WHAT WOULD MAKE HER LIFE EASIER
- A high-end but affordable coffee and snack delivery service.
- An energizing solution so she can avoid stepping out for lunch.
- A friendly, highly automated app.
- The ability to track delivery to the minute so she can plan her coffee and/or snack times with minimal waste.

energizing foods play in her life, how her day typically unfolds, and other demographic and behavioral details that will help the startup effectively target the consumer segment that Shawna represents.

For example, for the proposed coffee shop, the following insights emerge from prototypical consumer Shawna Warrington's digital persona:

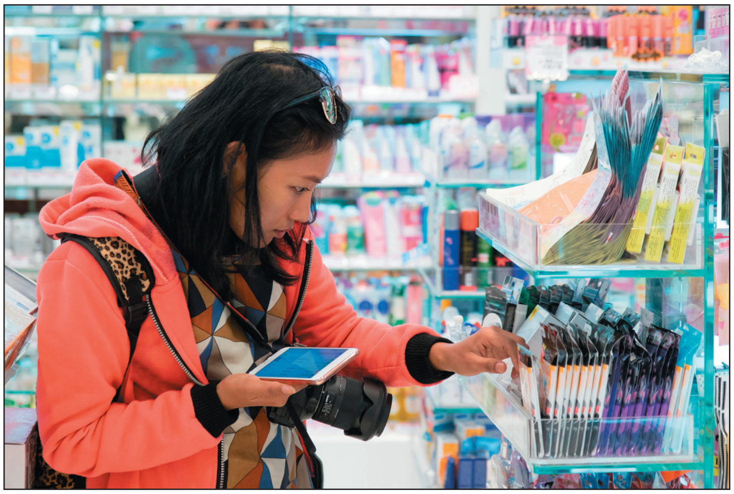
- Shawna wants drink and food delivery at work. Therefore, locate close to a business district.
- Shawna wants an efficient ordering and payment process. So make the kitchen's app the centerpiece of the consumer experience. The app should be easy to use. It should offer food and drink customization choices, rapid payment and tipping options, and delivery tracking.
- For Shawna, coffee breaks are a moment of reward and relaxation. They also offer an opportunity to create some excitement by trying new things. So the kitchen should constantly rotate the variety of food and drinks offered while retaining some classic favorites.
- Shawna is active on social media and often recommends products to her friends. Therefore, launch a "refer your friend" campaign and consider partnering with local online influencers.
- Shawna is passionate about sustainable business practices. So embrace and highlight a sustainable positioning. Focus on minimal and recyclable packaging material, use sustainably sourced inputs, employ low or zero emission delivery vehicles, highlight the startup's local roots, and emphasize partnerships with local nonprofit organizations.
- Shawna is willing to pay a premium price for products and experiences she values. In response, set baseline prices high. At the same time, Shawna seeks value. So offer carefully targeted coupons and other inducements to attract new customers and retain price-conscious consumers.

Each targeted segment should have its own consumer persona. These personas serve as touchstones for designing the digital marketing strategy—for generating new ideas, helping screen ideas for feasibility and relevance, and integrating ideas into a coherent, consumer-focused digital marketing strategy.

Consumer omni-channel navigation behavior
The consumer's use of multiple marketing channels, both digital and nondigital, across stages of the consumer buying decision process.

Understanding Consumer Omni-Channel Navigation Behavior

Marketers often know a lot about how consumers behave in a single marketing channel. However, in this digital age, marketers must understand **consumer omni-channel navigation behavior**. As discussed in Chapter 13 and elsewhere, modern consumers are increasingly adept at engaging multiple channels across the stages of their buying decision process, from initial information search and identifying purchase options to making the final purchase and postpurchase engagement. Consumers' buying processes now routinely span marketing channels ranging from physical stores and printed catalogs to online stores, mobile apps, and social media platforms. ● To appeal to consumers with the right marketing content at the right place and time, marketers must understand which channels consumers are using at each stage of the customer journey.



● **Omni-channel navigation behavior: To effectively market to consumers with the right marketing content at the right place and time, marketers must understand which channels consumers are using at each stage of the customer journey.**

Milkovasa/Shutterstock

For example, a consumer's interest in purchasing a 65-inch OLED HDTV priced at around $2,000 may initially be sparked by seeing an ad for one in a printed Sunday newspaper insert. The consumer next visits her local Best Buy store to compare different TV brands, where a knowledgeable salesperson educates her on the latest OLED technology and the competing models. While in the store, the consumer uses her phone to check consumer reviews of various models and to compare prices from other retailers. Next, she visits a Costco store, hoping for lower prices. Costco doesn't have her preferred brands in stock but does offer them online. Later that night, the consumer browses online websites for more information about the few TVs that remain in her choice set. After again comparing reviews and prices across websites, she ends up ordering a 65-inch Samsung OLED TV from Amazon.com for $1,997. With her Amazon Prime membership, Amazon delivers the TV with zero shipping costs the next day.

This consumer's omni-channel journey highlights several challenges for marketers. First, tracking the consumer through the omni-channel decision process is difficult, given that it plays out across different channels and physical locations. Digital technologies can help track consumers. For example, a company could use tracking cookies to map the consumer's online browsing behavior. It could then place ads on the consumer's Facebook feed and other online sites the consumer visits. Many smartphone apps can track the consumer's geographical locations. For example, the TV buyer's physical presence at a Best Buy or Costco store could be tracked by location tracking apps on her smartphone. However, these technologies are increasingly viewed as invasions of consumer privacy, leading to growing social and regulatory backlash.

A second challenge is that the specific pattern of channel navigation varies across consumers. Therefore, a one-size-fits-all marketing approach will not work well. As one of its strengths, however, digital marketing allows customization and personalization on a customer-by-customer basis. Finally, the consumer decision process varies across buying stages and channels. The company must try to maximize the likelihood of purchase at each decision process stage by offering relevant and persuasive information to consumers at that stage. For example, if a key decision occurs within a physical store setting, this calls for close coordination with retail channel partners.

Companies must address these consumer omni-channel navigation challenges in two ways. First, they must research and understand the key patterns of consumer omni-channel navigation for their brands. This allows companies to predict the next action that a consumer is likely to take and to be prepared to influence consumers at that action stage. Second, they must embrace the concept of *data fusion,* integrating data from different sources—such as cookies, location tracking, website and mobile navigation, credit and loyalty card usage, consumer research, and others—to build a comprehensive picture of consumer omni-channel behavior. The resulting insights can help managers influence consumers with timely and relevant information. A key problem, however, is finding a balance between providing customers with useful and relevant information and protecting their privacy. In the spirit of permission-based marketing, companies should collect data with consumers' informed consent and be fully transparent about what information they collect and how it is used. We will revisit consumer privacy concerns later in this chapter.

Using Experimentation to Understand What Works

Digital marketing is quickly scalable. For example, a company can reach a million consumers with an email blast at the click of a button. However, even as digital marketing has grown, its costs have steadily increased. For example, Facebook may charge more than $1 for each consumer who clicks on an ad whether or not that click leads to a purchase. Such a high "cost per click" can quickly add up across Facebook's nearly 200 million U.S. and more than 2.9 billion global monthly active users.[8]

Thus, companies must make careful decisions about where, how, and how much they spend on digital marketing. To help make these decisions, digital marketers can use *experimentation*. For example, to assess the effects of a reduced price (the "treatment"), a company might drop the product price in an experimental group of 1,000 randomly chosen customers but keep it the same as before in a control group of another 1,000 randomly chosen customers. Assuming that the two groups are otherwise similar, the subsequent difference in average per-customer unit sales across the two groups will capture the impact of the lowered price.

The digital setting is very friendly to experimentation. With online and mobile media, marketers can quickly and easily manipulate treatments across customer groups with readily measurable results. Such experimentation—also called A/B testing—can help identify and refine effective tactics before investing heavily in them. Marketers should aim to reduce experimental "noise," or potential interactions across the experimental and control groups. For example, if customers in the control group get wind of and resent the lower prices offered to the experimental group, they may reduce purchases. This can distort the findings.

Digital marketing is very friendly to experimentation. Netflix constantly uses A/B testing to assess the effectiveness of different online presentation formats across user segments.

sitthiphong/Shutterstock

Experimentation in the digital setting can be used to assess everything from changes in pricing to the effectiveness of different product offerings, brand messages, or presentation formats. For example, leading streaming digital content provider Netflix's research has shown that the image displayed with a specific movie or show title strongly affects how many viewers click on and view it. So Netflix constantly uses A/B testing to assess the effectiveness of different images used with titles across user segments. Based on the findings, Netflix can selectively display different images for a title across different viewer segments.[9]

In summary, marketers must prepare for digital marketing campaigns by gaining a deep knowledge of the digital consumer. They can achieve this by developing detailed and insightful digital personas, deeply understanding consumer omni-channel navigation behavior, and using experimentation to test for what works best before committing significant resources.

As the next step, companies must employ an effective portfolio of online, social media, and mobile platforms in the digital marketing process. We now explore these platforms.

Author Comment | Based on a deep understanding of digital marketing and the digital consumer, it's time to think about which digital platforms the brand will use to reach these consumers and how.

Employing Digital Channels in an Omni-Channel Strategy

OBJECTIVE 17-3 Discuss the different digital channels and media and explain how companies employ them to create an omni-channel marketing strategy.

We first examine three key digital marketing platforms: online marketing, social media marketing, and mobile marketing. We then discuss how these platforms can be used in coordination with other channels, such as catalogs and brick-and-mortar stores, to create a blended omni-channel marketing strategy.

Online Marketing

Online marketing
Marketing via the internet using company websites, online ads and promotions, email, online video, and blogs.

Online marketing refers to marketing via the internet using company websites, online advertising and promotions, email marketing, online video, and blogs. We discuss each in turn.

Marketing Websites and Brand Community Websites

Marketing website
A website that engages consumers to move them closer to a direct purchase or other marketing outcome.

As a first step in online marketing, most companies create a website. Websites vary in purpose and content. Some websites are primarily **marketing websites**, designed to engage customers and move them closer to a direct purchase or other marketing outcome.

For example, SHEIN, a Chinese fast fashion retailer, operates an online fashion store. Once a potential customer clicks in, SHEIN wastes no time offering various discounts and coupons to convince them to buy their products. The site provides all the information needed for a successful transaction: clothes are available in different sizes up to 4XL, delivery is free of charge above a certain amount, and buyers can choose from several different categories. Customer reviews with photos showing how the clothes fit on others and visual presentations of the products in various colors facilitate the purchasing process. The well-designed site also makes it easy for current customers to manage their orders (estimated delivery time and status of returns and refunds), payment options, and style preferences. SHEIN creates an interactive user experience with bonus points for certain actions that can later be converted into vouchers, such as logging in daily, participating in in-app games, or leaving reviews.[10]

Brand community website
A website that presents brand-related content that engages consumers and creates a customer community around a brand.

In contrast, **brand community websites** primarily aim not to sell products but to present brand content that engages consumers and creates customer–brand communities. Such sites offer a rich variety of brand information, videos, blogs, activities, and other features. For example, fitness brand Peloton's websites and apps do much more than just sell spin bikes, treadmills, and other equipment. They create an online community of more than 2 million fitness enthusiasts who share Peloton experiences from the comfort and convenience of their own homes. Peloton connects users through livestreamed classes

Brand community websites: Peloton's websites and apps create an online community of more than 2 million fitness enthusiasts who share their Peloton experiences. "What makes it so incredible is the sense of community and the way members support each other."

Maridav/Shutterstock

with motivational instructors. Click into a class and you may be barraged by virtual high-fives from friends and fellow spinners. Peloton sites also share a wellspring of community knowledge and entertainment—videos, text, and images including educational blog content, community question and answer sessions, user-generated content, and motivational messages. "What makes it so incredible is the sense of community and the way members support each other," says Peloton's former CEO. "People have met their best friends through it."[11]

Creating a website is one thing; getting people to *visit* is another. To attract visitors, companies aggressively promote their websites in offline print and broadcast advertising and through ads and links on other sites. But today's internet users are quick to abandon websites that don't measure up. At a minimum, websites should be easy to use and visually appealing. Ultimately, websites must also be *useful*. Most customers prefer substance over style and function over flash. Thus, effective websites contain deep and useful information, interactive tools that help find and evaluate content, links to related sites, appealing promotional offers, and entertaining features that create excitement.

Online Advertising

Online advertising
Advertising such as display ads and search-related ads that appear while consumers are navigating websites or other digital platforms.

Companies are shifting more of their marketing dollars to **online advertising** that appears while consumers are navigating websites or other digital platforms. Online advertising helps build brand sales or attract visitors to the company's internet, mobile, and social media sites. Online advertising has become a major promotional medium. The main forms of online advertising are online display ads and search-related ads.

Online display ads
Digital ads that appear anywhere on an internet or mobile user's screen and are often related to the information being viewed.

Online Display Advertising. **Online display ads** might appear anywhere on an internet or mobile user's screen and are often related to the information being viewed. For example, while browsing espn.com or the ESPN app on a warm summer day, viewers might see a large banner ad for RTIC coolers on their screens, touting the product's durability and ice-keeping prowess. Clicking on the banner ad takes viewers to RTIC's website.

Modern display ads are increasingly effective at engaging consumers and moving them along the path to purchase. Today's rich media ads incorporate animation, video, sound, and interactivity. For example, Boeing recently ran a display ad featuring a breathtaking, rotating 3D view of the International Space Station. And when Sonic restaurants wanted to create excitement about a summer promotion making its shakes and ice cream slushes half price after 8 p.m., it created an online display ad featuring a real-time daily countdown clock. The ad paired the clock with an interactive quiz to help customers decide in advance their perfect flavor, and a store locator helped them find the nearest Sonic restaurant. "In other words," says a Sonic marketer, "we made it easy to say 'yes!' to half-price summer treats from Sonic."[12]

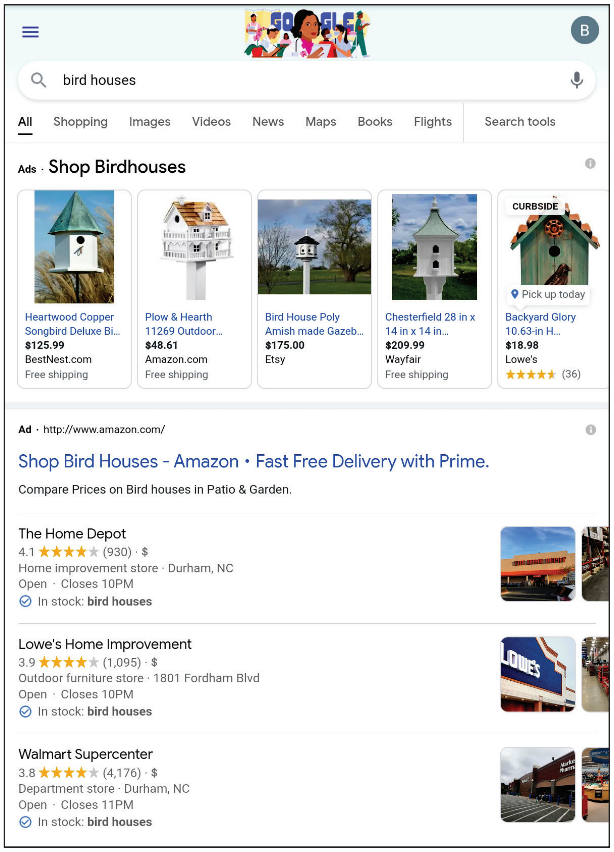
Companies can pay to place their online display ads in almost any digital forum, such as social media, news-based websites, popular blogs, mobile apps, and targeted web communities. However, buying online advertising space is a complex process. The advertiser wants its ads to pop up instantaneously on just the right web or mobile page to be viewed by just the right consumer at just the right time. That's no easy task. The process of buying and selling digital ad space involves sophisticated software using complex algorithms that broker ad space in real time. The automated process—called *programmatic media buying*—is managed by digital ad exchanges. Programmatic digital display ad spending now accounts for more than 90 percent of digital display advertising across all digital platforms.[13]

The digital ad exchanges bring together advertisers who want to buy digital ad space with websites and other media platforms that have space to sell. An example is the Google Display Network, a system that reaches more than 2 million websites and 90 percent of all internet users. The Google Display Network can help online advertisers place display ads in carefully chosen web and mobile sites to reach targeted audiences at key buying times.[14]

The digital display advertising buying and selling process works like this. When a person clicks on a website, the website puts the ad space for that web exposure up for auction. Ads from different companies compete to appear in that spot. Through an exchange, the advertisers bid for the space by matching their preset target audience, exposure characteristics, and cost preferences against the characteristics of the available ad space. The process may also take consumer characteristics into account, including geographic location or other purchased-related tracking information. The highest bidder's ad appears on the webpage. Incredibly, this entire process happens in an instant. So if you've recently shopped for auto insurance, when you click onto the *USA Today* website, up pops a digital ad from your local State Farm Insurance agency, just that fast.

Search-related advertising
Text- and image-based ads and links that appear atop or alongside search engine results on sites such as Google, Yahoo!, and Bing.

Search-Related Advertising. Using **search-related ads** (or *contextual advertising*), text- and image-based ads and links appear atop or alongside search engine results on sites such as Google, Yahoo!, and Bing. For example, Google Ads is a pay-per-click advertising platform that lets advertisers display their ads on Google's search engine results page. A Google search for "birdhouses" yields two sets of ad results. At the top is a section labeled "Ads—Shop Birdhouses," which contains ads, links, and prices for perhaps a dozen different sellers. These are *paid search* ads. Companies pay a search engine to feature their ads when consumers search for key terms related to their stores or brands.



Search-related advertising: Every time a consumer does a Google or other search, it turns up thousands of results, including both "paid search" ads and brand-related "organic search" mentions. Companies must plan carefully for both.

Courtesy of Google LLC

Paid search ad space is sold in much the same way as digital display ad space. Advertisers prepare lists of key words and bid on ad placements to appear as a sponsored link on the results page of relevant searches. They typically pay the search site only if consumers click through to their site (pay-per-click). In auction-like fashion, the search engine chooses which ads it displays for a given search based on the relevance of the ad to the search and the amount the advertiser is willing to pay for each ad click. This all happens instantaneously. The average cost per click-through for Google Search Network keywords is between $1 and $3. The most expensive and competitive keywords can cost $50 or more per click.[15]

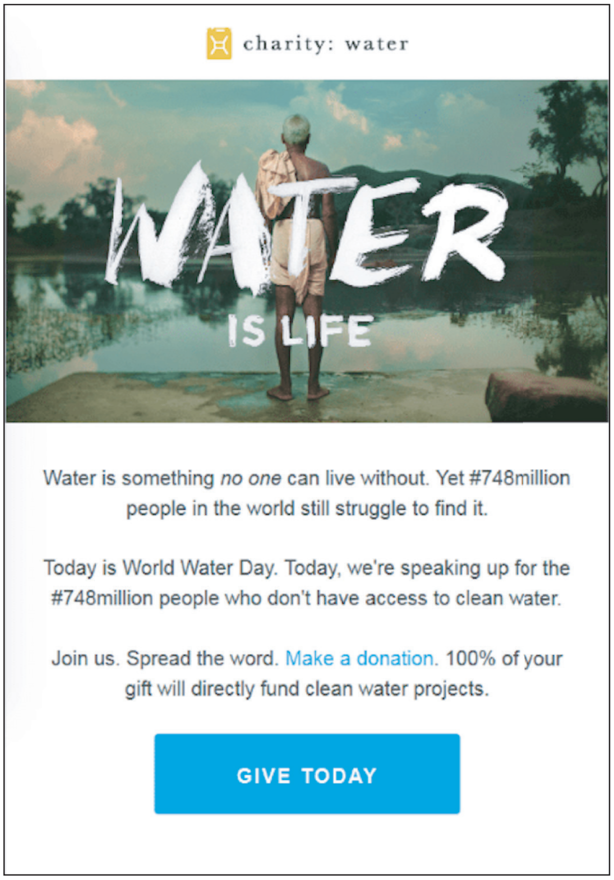
The second section of results—those not designated as ads—are *organic search* results. They include mentions of companies that sell birdhouses and other pet supplies along with other informational links. Companies and brands do not pay for organic search mentions. Instead, organic search results are selected and ranked by Google's algorithms as those most useful and relevant to the search term and searcher, with no commercial inducements taken into consideration. Companies want their stores and brands to appear near the top of the organic search results. To ensure that happens, they employ a sophisticated process called *search engine optimization* (SEO). This involves sourcing, structuring, and presenting all the company's website and mobile information in a way that the search engine will evaluate it as relevant and useful for consumers, placing the company or brand high up in the organic search outcomes list.

These days, it's critical that businesses and brands be easily found online. Thus, search advertising has become a large part of the digital advertising mix of most major brands. Large retailers may easily spend upward of $50 million annually on paid search advertising. In all, search ad spending has surged in recent years and is expected to grow by more than 40 percent in the next three years. It now accounts for 72 percent of all digital advertising spending.[16]

Email Marketing

Email marketing
Sending targeted and personalized relationship-building or sales-promoting marketing messages via email.

Email marketing remains an important digital marketing tool. The world's 4.3 billion email users send more than 333 billion emails a day. About 90 percent of marketers use email to share information with consumers. Many consumers prefer email over direct mail, phone, text, or social media, particularly when brands send emails that are relevant to their shopping preferences, locations, or purchase histories. Email is an important business-to-business tool—81 percent of small and medium-size businesses use it as their primary customer acquisition channel. Welcome emails from businesses are opened at a remarkable 82 percent rate. Email is also the third most influential information source for B-to-B buyers. And email is now an on-the-go medium—81 percent of all emails are now opened on mobile devices. Given its low costs and targetability, by one estimate, each dollar spent on email marketing



Email marketing: In its quest to bring clean and safe drinking water to people in developing countries, not-for-profit charity: water relies heavily on effective email marketing to raise funds and maintain donor relationships.

Courtesy of charity: water

yields $42 in return.[17] Today's best emails are well designed, inviting, interactive, and highly targeted and personalized.

The affordability of email marketing makes it an important marketing tool for small companies and not-for-profit organizations. Consider not-for-profit organization charity: water:[18]

> charity: water points out that 771 million people in developing countries lack basic access to clean and safe water. It's on a mission to change that. But to accomplish its mission, charity: water must raise funds. And to raise those funds, charity: water relies heavily on email marketing. Email marketing offers broad but direct and affordable reach. charity: water's fundraising emails are short and simple but powerfully illustrated with a strong call to action. And beyond initial fundraising, the organization uses email marketing effectively to maintain ongoing relations with donors. Because charity: water does not provide a tangible product, its marketing must do a great job of convincing donors that their money is making an important difference somehow, somewhere. Most charities leave their donors in the dark about the journey their contributions make. Not so with charity: water. Instead, it sends out a steady stream of automated but highly personalized emails updating donors on the ongoing progress of the specific projects for which the donated funds are being used. The updates are simple yet complete, showing donors at a glance the impact of their actions. Thanks in large part to outstanding email and other digital marketing, charity: water has to date funded more than 111,000 water projects serving more than 15 million people in 29 countries.

But email marketing also has a negative side. **Spam**—unsolicited, unwanted commercial email messages that clog up our email boxes—has exploded. Spam now accounts for 85 percent of all emails. American office workers receive an average of 121 emails per day and spend 16 percent of their average workweek on email communications. As a result, fewer than 25 percent of all promotional emails are even opened. Email marketers walk a fine line between adding customer value and being intrusive and annoying.[19]

Spam
Unsolicited, unwanted commercial email messages.

To address these concerns, most legitimate marketers now practice *permission-based email marketing*, sending email pitches only to customers who "opt in." Many companies let customers choose what they want to get. For example, Amazon targets opt-in customers with a limited number of helpful "we thought you'd like to know" messages based on their preferences and previous purchases. Many customers welcome such messages. Amazon benefits by gaining higher consumer retention and purchase rates.

Online Videos

Companies often post digital video content on brand websites and social media. Some videos are TV ads that a company posts online before or after an advertising campaign to extend its reach and impact. Other videos are made specifically for the web and social media. Such videos range from "how-to" instructional videos and public relations pieces to brand promotions and brand-related entertainment.

The best online videos engage consumers by the tens of millions. The COVID-19 pandemic boosted U.S. video watching by 215 percent. Video now accounts for 80 percent of all internet traffic, and Americans now spend an average of 19 hours a week watching videos. Users watch almost a billion videos a day on Pinterest, and YouTube users alone upload more than 30,000 hours of new video content every minute. About 54 percent of consumers want more video from brands they support. As a result, more than 85 percent of all marketers now use video marketing. "Over the past few years," notes one analyst, "the internet has evolved from a text-based medium to the new TV."[20]

Most major brands produce multi-platform video campaigns that bridge traditional TV, online, and mobile media. For example, videos related to UEFA European Football Championship ads attract huge audiences before and after the big game airs. Consider Qatar Airways' Euro spot "True fans have no borders," which shows international soccer fans and airline employees wearing face masks with a sense of responsibility, passing a ball, and celebrating the game before boarding a flight. The 60-second ad was played several times during the tournament in 2020, garnering an impressive 5.23-billion global

Viral marketing: Many marketers work to create videos, ads, and other marketing content that are so infectious that customers will seek them out and pass them along to their friends.

Rido/Shutterstock

live audience. The final match was watched by 328 million viewers, and the average audience for the individual matches was over 100 million viewers. Owing to the lockdown, the Euro2020 achieved the highest ratings of all tournaments and attracted a lot of attention on social media not only before the tournament but also afterwards, which made Qatar Airways' advertisement gain further popularity. On YouTube alone, the video has been viewed over 1.5 million times. The significance and reach of advertising for major events represents an opportunity for companies to position themselves in the focus of potential customers.[21]

Like Amazon, marketers hope that some of their videos will go viral. **Viral marketing** is the digital version of word-of-mouth marketing. It involves creating videos, ads, and other marketing content that are so infectious that customers will seek them out and pass them along to friends. When content comes from a friend, the recipient is much more likely to view it and consider it credible. Few campaigns go viral, but those that do offer tremendous returns on investment.

Viral marketing
The digital version of word-of-mouth marketing: videos, ads, and other marketing content that are so engaging and infectious that consumers will seek them out and pass them along to friends.

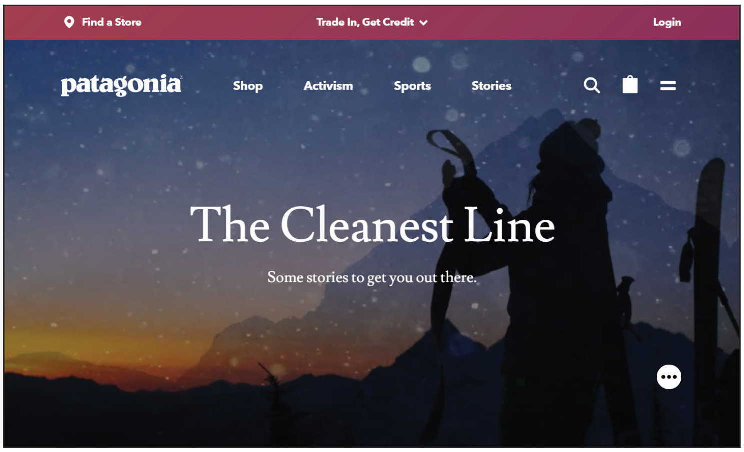
Marketers cannot "make" a marketing message go viral. To help videos go viral, marketers must host them on multiple platforms, allow easy reposting by viewers, and include interactive features that make it easy for viewers to get involved. Marketers can seed content, but the message has to strike a chord. Says one creative director, "You hope that the creative is at a high enough mark where the seeds grow into mighty oaks. If they don't like it, it ain't gonna move. If they like it, it'll move a little bit; and if they love it, it's gonna move like a fast-burning fire through the Hollywood hills."[22]

Blogs and Other Online Forums

Blogs
Online forums where people and companies post their thoughts and other content, usually related to narrowly defined topics.

Blogs are online forums where people and companies post their thoughts and other content, usually related to narrowly defined topics. Blogs can be about anything, from politics or baseball to haiku, car repair, brands, or the latest television series. Many bloggers use popular social networks such as Twitter, Facebook, Tumblr, and Instagram to promote their blogs. Such reach can give blogs—especially those with large and devoted followings—substantial influence.

Today, many companies have brand-related blogs that reach out to their customer communities. For example, the *Oh My Disney* blog gives Disney buffs an "official destination for Disney quizzes, nostalgia, news, and other Disney magic." Outdoor apparel and gear retailer Patagonia's blog, The Cleanest Line, shares stories about the environment, tells where the company stands on key issues, and spreads the brand's "save our home planet" message rather than promoting products and sales. It offers "some stories to get you out there." And language learning software marketer Rosetta Stone's blog offers a fascinating journey into the intrigue of grammar and translation across global languages. A recent entry described the Kwanzaa festival that celebrates Pan-African heritage, highlighting Kwanzaa greetings in the East African language of Swahili. "The more you know, the more interesting things get," says Rosetta Stone.[23]



Company blogs: Rather than promoting products and sales, Patagonia's blog, The Cleanest Line, shares stories about the environment, tells where the company stands on key issues, and spreads the brand's "save our home planet" message.

Courtesy of Patagonia

Many marketers now use influencer blogs. Some fashion influencers have amassed millions of blog followers, with fan bases that dwarf those of major fashion magazines. For example, 27-year-old Danielle Bernstein started the *We Wore What* fashion blog as an undergraduate at New York's Fashion Institute of Technology. Her blog and Instagram account now give daily outfit inspiration to 2.9 million followers. Brands now flock to Bernstein and other fashion blog influencers such as Huda Kattan (48 million followers), Cole Sprouse (35 million), Chiarra Ferragni (23 million), Camila Coelho (9 million), and BryanBoy (600,000 followers). Popular influencers are paid more than $15,000 to post and tag product images on their blog, Facebook, and Instagram sites. Bernstein posts images of sponsored products from small brands such as Schultz Shoes and Revolve Clothing to large brands such as Nike, Lancôme, and Nordstrom.[24]

Social media
Independent and commercial online social networks where people congregate to socialize and share messages, opinions, pictures, videos, and other content.

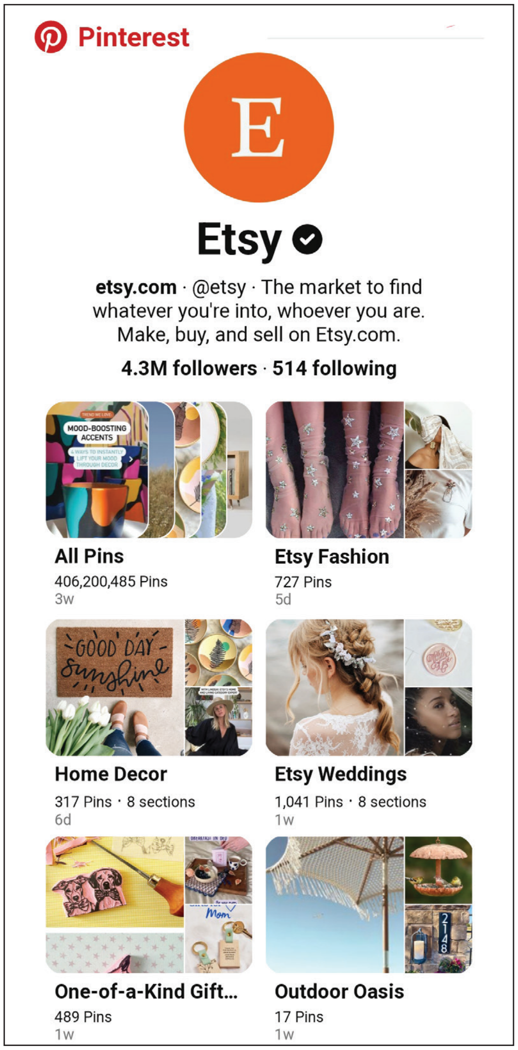
As a marketing tool, blogs offer a fresh, original, personal, and inexpensive way to engage in online and social media conversations with consumers and to build customer relationships. On the other hand, the blogosphere is increasingly cluttered. And companies can struggle to control the message on some consumer-controlled platforms. Whether or not they actively participate in blogs, companies that listen to them can gain valuable insights from consumer online conversations.

Author Comment | Digital and social media have taken the marketing world by storm, offering some amazing marketing possibilities. Large brands usually have a huge social media presence.

Social Media Marketing

The surge in internet usage and digital devices has spawned an array of **social media**. People now congregate to socialize and share messages, opinions, pictures, videos, and other content on numerous independent and commercial social networks. Millions of people worldwide are buddying up on Facebook, checking in with Twitter, tuning to the day's hottest videos on YouTube, pinning images on Pinterest, or sharing photos and videos on Instagram, Snapchat, and TikTok. And, of course, wherever consumers congregate, marketers will follow.

Marketers are now riding the social media wave. Large brands usually have a sprawling social media presence. For example, according to one source, Nike maintains at least 108 Facebook pages, 104 Twitter handles, 16 Instagram accounts, and 41 YouTube channels.[25] Interestingly, even as marketers are mastering the use of social media, social media platforms are adapting to better support marketers. These parallel efforts benefit both social media users and brands.



Using social media: Online craft marketplace Etsy has created an active worldwide online community of 90 million active shoppers and 7.5 million sellers in what it calls "The marketplace we make together."
Courtesy of Etsy

Using Social Media

Brands ranging from Coca-Cola, Nike, and Chick-fil-A to the Chicago Bulls or even the U.S. Forest Service are connected with large brand communities across a range of social media platforms. For example, the Chicago Bulls have more than 17 million Facebook fans; Coca-Cola has an incredible 109 million Facebook fans.

Social media can support deep consumer engagement and a sense of shared community. Consider Etsy—the online craft marketplace that's "Your place to buy and sell all things handmade." Etsy uses its web and mobile sites and a host of social media to create an Etsy lifestyle community, where buyers congregate to learn about, explore, exchange, and share ideas about handmade and vintage products. In addition to its active Facebook, Twitter, and YouTube pages, Etsy engages 2.9 million brand followers on Instagram, where the Etsy community shares photos of creative ideas and projects. It also engages some 4.3 million followers on social scrapbooking site Pinterest, with boards on topics ranging from "DIY Projects," "Entertaining," and "Stuff We Love" to "Etsy Weddings" and even "Yum! Recipes to Share." Through its extensive social media presence, Etsy has created an active worldwide community of 90 million active shoppers and 7.5 million sellers in what it calls "The marketplace we make together."[26]

Some social networks are huge. Facebook has 2.9 billion monthly active users worldwide, more than seven times the U.S. population. Twitter has more than 463 million monthly active users. The list goes on: Instagram has 1.3 billion active users, LinkedIn 500 million, TikTok 1 billion, Pinterest 454 million, and Snapchat 538 million.[27]

In the shadow of these giants, numerous niche social networks have emerged. These networks cater to smaller communities of like-minded people, making them ideal vehicles for targeting these market segments. Moms commiserate and share advice at CafeMom.com. At Doximity, more than 1 million medical professionals—doctors, nurse practitioners, pharmacists, and others—network with colleagues, catch up on medical news, and research employment opportunities. PURRsonals is where "cat lovers meet and greet." FarmersOnly.com provides online dating for down-to-earth "country folks" who enjoy "blue skies, living free and at peace in wide open spaces, raising animals, and appreciating nature—because city folks just don't get it."[28]

Types and Functions of Social Media

Marketers must first understand the functional capabilities of different social media platforms. They can then integrate an effective combination of these platforms into their digital marketing strategies. Here we review just some of a broad array of social media platforms and discuss how marketers can employ them:

Using social media: Starbucks uses creative Instagram Stories to immerse Instagrammers in brand-related videos and photos on everything from menu tips, explaining the basics of espresso, and its stand on social issues to teaching people how to ask for their favorite menu items.

Jaap Arriens/NurPhoto via Getty Images

Image and Video Platforms. Companies can use platforms such as Flickr, Instagram, TikTok, and Snapchat to manage visual storytelling, introduce new products, create brand personalities, and collect customers' ideas. For example, Starbucks uses creative Instagram Stories to immerse Instagrammers in brand-related videos and photos on everything from menu tips, explaining the basics of espresso, and its stand on social issues to teaching people how to ask for their favorite menu items using American Sign Language.[29]

Messaging Platforms. Companies can work with messaging platforms such as WhatsApp, Kik, and China's WeChat to engage directly with consumers. For instance, Mobike has a WeChat mini-program that helps users locate, unlock, and pay for shared bikes. Hellman's hosted a "WhatsCook" campaign on WhatsApp featuring a team of professional chefs who chatted with customers to show them ways to cook with and use mayonnaise products. And adidas uses its WhatsApp group to chat directly with key customers about product-related questions, new product items, and interesting brand-related stories. "It allows us to build direct relationships with a smaller community of influential people in an ongoing way that doesn't feel transactional and allows for a conversation, rather than just a broadcast," says an adidas marketer.[30]

Blogs/Microblogs. With its 280-character limit, Twitter is, at its heart, a hyper-efficient blog. Many companies are moving away from issuing staid press releases and instead embracing Twitter as a favored medium for rapidly disseminating brand and company news and tackling customer complaints. As noted previously, most companies also operate one or more blogs. Small companies can use website-building platforms such as WordPress to build simply designed, highly customized blogs. In the absence of a large marketing budget, these blogs serve as brand-building and advertising platforms.

Location Platforms. Instagram Stories let users apply digital location stickers for commercial locations on photos and videos. When consumers bundle this information with positive reviews, they help build the service provider's brand. Similarly, Foursquare Swarm lets users track their physical locations over time and create shareable stories about places they have visited. Users can also track their friends at nearby locations and message them. Young consumers often use such tracking to coordinate their shopping in real time. Marketers, in turn, can use location-based platforms to understand how consumers navigate the real world and reach them at key locations. For example, businesses can make themselves accessible as Foursquare Swarm check-in points, providing useful information and letting them to send context-sensitive coupons and promotions.

Wikis. Wikis are collaborative knowledge networks that are created and managed by the public. Wikipedia is one of the world's greatest sources of knowledge. Individuals and companies can contribute to knowledge on Wikipedia. Johnson & Johnson's Wikipedia entry, for example, helps build the corporate brand by providing an in-depth exploration of the company's history, values and heritage, products and services, and high and low points across time. Other wikis are more focused. For example, wikiHow focuses on "how to" instructions and courses on topics ranging from vehicle maintenance and health to art and pets. Companies can upload detailed "how to" information on wikiHow. For example, one wikiHow article guides customers through setting up a Philips Hue bridge for setting up the company's smart Hue LED lights.

Reviews and Ratings Platforms. Today, consumers rate their experiences on many platforms. Yelp offers crowdsourced consumer reviews and ratings of everything from local restaurants and auto service providers to plumbers, dentists, and barbers. Consumers rate their experience on a five-star scale and can provide a written review. A Yelp page can double as a substitute webpage for small businesses. For example, a restaurant's Yelp page can link to the restaurant's menu, provide directions on how to get there, and even offer ordering and delivery options.

Livestreaming Platforms. These platforms facilitate the streaming of live events and competitions to millions of participants worldwide. ● For example, with 9 million broadcasters, Amazon-owned Twitch streams live games, music, and entertainment. Viewers can watch a game in real time, with live video and audio from the players and a stream of texted chat from the community. Such platforms offer firms highly targeted marketing opportunities.

Many large brands, from Wendy's and P&G's Bounty to Lexus and beauty brand Elf Cosmetics, manage their own Twitch channels. Others promote their products through Twitch influencers. For example, to promote last year's NBA playoffs, the NBA partnered with eight Twitch creators to launch a campaign called "That's Game," focusing on basketball's cultural impact. In their streams, creators shared their own stories about their history with the NBA and what the game meant to them. The Twitch campaign was a big success. A total of 4.2 million viewers watched more than 17 million minutes, sharing more than 66,000 comments and messages in lively chats during the streams. NBA partners such as American Express and delivery service DoorDash sponsored live broadcasts and raffled prizes among the viewers. "It really did bring the spirit of the NBA to life, and it told our story in a way that resonated with the Twitch community—straight from their favorite streamers," says an NBA marketer. "They absolutely loved it."[31]

● Livestreaming platforms such as Twitch offer marketers highly targeted advertising and sponsorship opportunities. And many large brands manage their own Twitch channels.

Camilo Concha/Shutterstock

Metaverse
An immersive digital environment, often using virtual- or augmented-reality technology, where virtual avatars representing real people work, play, learn, socialize, shop, and generally communicate with one another.

Metaverse Platforms. The **metaverse** is an immersive digital environment, often using virtual- or augmented-reality technology, where virtual avatars representing real people work, play, learn, socialize, shop, and generally communicate with one another. And like the internet itself in the 1990s or social media in the 2000s, the metaverse is expanding with power and force. The size of the metaverse in terms of monthly active users and commercial value depends on how it is defined. The metaverse includes dedicated platforms such as five-year-old startup Decentraland as well as recent launches by tech giants such as Meta's Horizon Worlds or Microsoft's Mesh. But many analysts also include gaming platforms such as Roblox, Fortnite, Twitch, or even Minecraft.

Regardless of how you define it, the metaverse is big and growing exponentially bigger each year. Even now, about a billion people worldwide are monthly active users of metaverse platforms.[32] According to technology research and consulting firm Gartner, by

2026, 25 percent of people will spend at least one hour every day in the metaverse for work, shopping, education, entertainment, or socializing. Some 30 percent of organizations worldwide will have products or services that can be purchased in the metaverse. Given these numbers, marketers are now putting substantial time, attention, and money into pioneering marketing ventures in the metaverse. However, with the full future of the metaverse as yet to be determined, many companies consider the metaverse still to be a big experiment (see Real Marketing 17.1).

Thus, the world of social media is exploding with platforms that offer different functionalities. New platforms appear, and others disappear. Marketers must track this dynamic world. And keeping their targeted segments and positioning in mind, they must decide on which social media platforms they will integrate into their digital marketing strategies and how.

Social Media Marketing Advantages and Challenges

Using social media presents both advantages and challenges. On the plus side, social media allow marketers to share targeted and personalized brand content with consumers and communities. Social media are *interactive,* enabling companies participate in consumer conversations and collect feedback. Social media are also *immediate* and *timely.* They can reach customers anytime, anywhere with timely and relevant marketing content and interactions. Consider JetBlue:[33]

A man once tweeted JetBlue at the airport to ask why he was charged $50 for taking an earlier flight. JetBlue responded within minutes, and the customer seemed satisfied. But the JetBlue social media crew didn't stop there. Instead, they forwarded the exchange to the JetBlue staff at the airport. The airport staff studied the man's Twitter profile picture and then walked around the terminal until they located him so they could follow up in person. In another case, one JetBlue customer jokingly tweeted that she expected a "welcome parade" at the gate on arrival in Boston. Much to the customer's delight, when she arrived at her destination, the JetBlue airport staff welcomed her with fanfare, including marching band music and handmade signs.

Of course, JetBlue can't surprise every customer in this way. However, the airline is legendary for the speed and quality of its social media interactions. It once noted that it received 2,500 to 2,600 Twitter mentions daily, and its social media team responded to every one, with an average response time of 10 minutes. Today, JetBlue actively monitors and responds to Twitter, Facebook, and Instagram interactions. Beyond engaging customers, these interactions also yield valuable customer feedback. "We're all about people," said a JetBlue customer service manager, "and being on social media is just a natural extension of that."

JetBlue is legendary for the speed and quality of its social media responses. Its social media team actively monitors Twitter, Facebook, and Instagram interactions, usually responding within minutes.

JetBlue

Social media can be *cost-effective*. Although creating social media content can be expensive, many social media platforms are free or inexpensive to use. Thus, returns on social media investments are often higher than those on TV and print media. Even small businesses with skimpy marketing budgets can use social media.

Perhaps the biggest advantage of social media is their *engagement* and *social sharing capabilities*. Social media drive customer engagement and community—getting customers involved with the brand and with each other. More than any other channel, social media can involve customers in shaping and sharing brand content, experiences, information, and ideas.

Real Marketing 17.1 | Marketing in the Metaverse: Still in Its Infancy but Growing Explosively

Not far into the future, in a galaxy far, far away… oh wait, it's already here. Put on your VR headset and, via your custom-made avatar, you're immersed in a 3D virtual world where you can work, play, learn, socialize, shop, and commune with others. Your avatar heads off to class, stopping first by a Starbucks kiosk where a virtual barista takes the order and has your favorite coffee drink delivered to your real-world door 10 minutes later, automatically charged to your account. In your virtual class, you engage with the professor and other students, interacting to apply course concepts for the day.

After class, it's time for a work meeting at the company where you intern. Your avatar heads off through a Tesla teleportal to a virtual tropical island. There, you meet with the company team gathered at a beach cabana to share ideas about a current work project. After the meeting, you swing by a virtual mall and into the Nikeland store, where you wander around, browse the store's merchandise, and pick up a pair of the latest virtual Air Jordans for your avatar as well as a pair of real workout shorts to be delivered to your real-world door within a few hours.

Later, to let off some steam, you meet with friends in the Red Bull Arena, a virtual entertainment venue where singer-songwriter The Weeknd is performing a concert for 6 million avatars, each as close to the stage as it wants to be. During the show, The Weeknd singles you out and invites you onstage for a duet. By the end of the show, you're really pumped, especially after the dashboard for your virtual store shows that your team of AI avatars has sold $175 worth of digital ball caps that you designed.

Is this just a fantasy world? Well, yes and no. Welcome to the metaverse, a phenomenon that's still largely experimental but is growing explosively. The metaverse already exists on numerous platforms where users' avatars can connect with friends, attend events, shop, design and sell digital products and services, and even buy real estate. It's already here, but according to most experts, the metaverse is still in its infancy.

Giant tech companies are betting big and investing heavily to build a metaverse infrastructure. For example, Facebook recently restructured itself into parent company Meta, signaling its intention to embrace the metaverse as technology's "next big thing." Shortly thereafter, Meta launched its Horizon Worlds virtual world platform. And Meta isn't alone. Microsoft recently spent $70 billion to purchase gaming platform Activision Blizzard, bolstering its plans to build Mesh, a metaverse platform designed to empower work in a virtual world through mixed-reality applications. Amazon acquired gaming metaverse Twitch for $1 billion. "We're just getting started," says an Amazon executive. And Apple and droves of other companies are investing heavily in metaverse-related technologies such as human interface hardware, 3D software, and digital design tools.

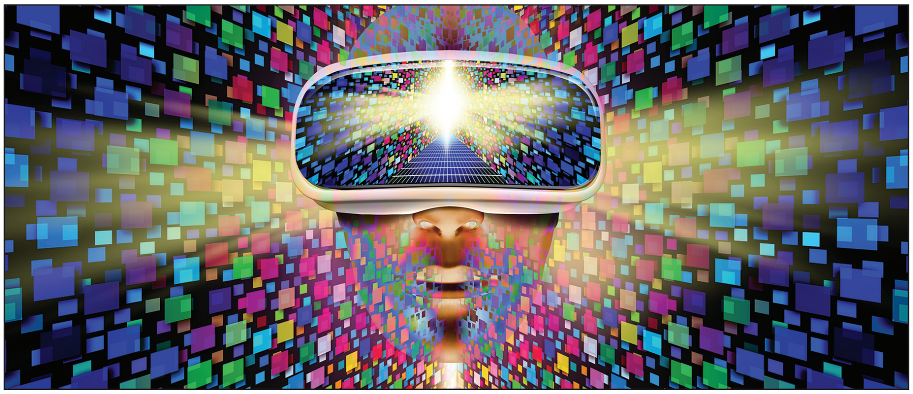
The future of the metaverse may still be uncertain, but its huge potential makes it worth the investment risk. Marketing in the metaverse lets companies create immersive experiences that foster strong engagement and a sense of community among brand fans. And in the metaverse, marketers can experiment with products and experiences that aren't possible in the constrained physical world, such as live and animated demonstrations or interacting directly with individual customers through their avatars.

It seems that almost every big brand is diving in with brand-constructed metaverse spaces and experiences. For example, action sportswear brand Vans launched a virtual skate park where users could try new tricks and earn points that could be redeemed for items such as virtual shoes and skateboard customizations. Visitors to American Eagle's "Member Always Club" in Roblox's Livetopia metaverse can dress their avatars in the brand's spring collection. Under Armour launched a Steph Curry shoe line that can be worn across different metaverse platforms. And Fashion brand Gucci opened the "Gucci Garden" on Roblox, an immersive virtual metaverse experience where people could mingle with others and buy limited Gucci digital collectibles, earning Gucci 286 million Robux—Roblox's online currency—at the time worth more than $100 million.

Disney appears to have big plans for the metaverse. It recently filed a patent for a "virtual-world simulator" that reproduces the company's theme parks in the virtual world. The patent outlines the first steps in Disney's plan to provide "highly immersive individualized 3D virtual experiences without requiring… users to wear an augmented reality viewing device." Says Disney's CEO, "Our efforts to date are merely a prologue to a time when we'll be able to connect the physical and digital worlds even more closely, allowing for storytelling without boundaries in our own Disney metaverse."

The metaverse holds great promise for retailers, who imagine a world where a shopper's avatar can roam from store to store in a virtual mall, view and try out merchandise, attend store events, and make purchases for home delivery. AI-powered virtual salespeople can help shoppers one-on-one with customized advice and deals based on each individual's tastes and habits.

The metaverse is fast becoming the latest battleground for fast-food chains. Several retail chains are now opening virtual locations accessible through VR headsets. Chipotle and Wendy's have already launched virtual restaurants and Panera and McDonald's have them in the works. Chipotle opened its first virtual restaurant on the Roblox platform for Halloween in 2021. Visitors could dress their avatars in Chipotle-themed costumes like a Burrito Mummy, Chip Bag Ghost, and "Guacenstein." The experience was



The metaverse is in its infancy but growing explosively. It seems like almost every big brand is diving in with immersive metaverse spaces and experiences that foster strong engagement and a sense of community among brand fans.

Lightspring/Shutterstock

interactive—users could find hidden items in the store's Boorito Maze and receive codes for free burritos that could be redeemed in physical restaurants. Chipotle launched another Roblox metaverse location the following year, a '90s-themed restaurant where visitors could play the Burrito Builder game and earn Burrito Bucks—the game's currency—by successfully rolling burritos for customer orders within a limited amount of time. Players at the top of the leaderboard at the end of each day could win free burritos for a year.

Wendy's created the "Wendyverse," an even more-extensive branded virtual reality experience located in Meta's Horizon Worlds metaverse. Wendyverse takes place in two pieces of virtual real estate. The Wendyverse Town Square features a virtual version of a familiar Wendy's restaurant, with its traditional counter service, fries, and Frostys. Store visitors can get their virtual food and sit at tables or head behind the counter to experience Wendy's from the other side. At the nearby Wendyverse Partnership Plaza, users can visit the Buck Biscuitdome, a virtual basketball court where they shoot Baconators instead of basketballs and compete to win codes for free $1 sausage or bacon, egg, and cheese biscuits at a real-life Wendy's.

Sandwich chain Jimmy John's launched a trial campaign inviting people to wander through its metaverse store in Decentraland to create the "Metasandwich," made up of ingredients of their choosing plus their own "secret ingredient." The winning sandwich appeared on the chain's real-store menus for a week. Fast casual restaurant Panera seems to have similar plans—it recently filed to trademark "Paneraverse." And McDonald's has filed several trademark applications that suggest it plans to open a virtual restaurant in the metaverse similar to those of Wendy's and Chipotle. It filed trademarks for a "virtual restaurant featuring actual and virtual goods" and "operating a virtual restaurant featuring home delivery."

Most current metaverse marketing ventures represent very early and still-experimental efforts. And building the metaverse presents many hurdles and uncertainties. But the large investments by major brands to create a presence in the metaverse suggests that, in terms of potential, marketers are now chipping away at only the tip of the metaverse iceberg. As Meta's VP of Metaverse suggests, "The full vision of metaverse may be years away but brands should start experimenting now on what their metaverse presence will be." Says another expert, "Now is the time to adopt a test-and-learn mindset."[34]

Social media marketing also presents challenges. Many social media are largely user-controlled. Therefore, marketers need to earn the right to be there. Rather than intruding, marketers must become a valued part of the online experience by developing a steady flow of engaging content.

Also, because consumers have so much control over social media content, even a seemingly harmless social media campaign can backfire. For example, Frito-Lay once launched a Do Us a Flavor contest, in which it asked people to come up with new potato chip flavors, submit them online, and design bag art for their creations. Many consumers took the contest (and the $1 million grand prize) seriously, submitting flavors that people would crave. However, others hijacked the contest by submitting hilarious but bogus flavors, ranging from Crunchy Frog and Blue Cheese, Toothpaste and Orange Juice, 7th Grade Locker Room, and Bandaid in a Public Pool to Anthrax Ripple and "90% Air and Like 4 Chips." Unfortunately, the brand responded unthinkingly to each submission with a colorful rendition of the bag and flavor name along with a message like: "7th Grade Locker Room? That does sound yummy as a chip! Keep those tasty ideas coming for your next chance to win $1 million." Frito-Lay's experience highlights the need to tightly manage social media marketing campaigns.

Finally, social media marketing suffers from *platform proliferation*, the explosion in the number of competing social media platforms. Marketers can find it difficult to reach customers who are now scattered across platforms. Although giants like Facebook, Instagram, Twitter, and YouTube appeal to large marketplaces, brand messages can quickly become lost or diluted there. Crafting and executing an effective social media campaign spanning a large portfolio of platforms can be difficult.

Mobile Marketing

Mobile marketing
Marketing messages, promotions, and other content delivered to on-the-go consumers through their mobile devices.

Mobile marketing features marketing messages, promotions, and other marketing content delivered to on-the-go consumers through their mobile devices. Mobile marketing can engage consumers anywhere, anytime. The widespread surge in mobile devices and traffic has mobile marketing a must for every brand.

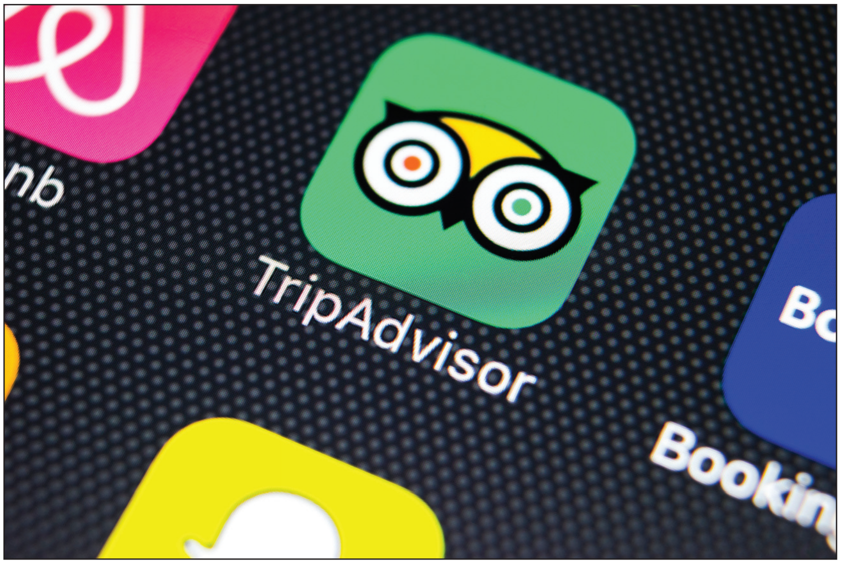
About 81 percent of all Americans now own a smartphone, and more than 70 percent of all web traffic happens on a mobile device. People love their mobile devices. Over 35 percent of U.S. smartphone owners check their phones more than 50 times a day. According to one study, nearly 90 percent of consumers who own smartphones, tablets, computers, and TVs would give up all of those other screens before giving up their phones. On average, Americans spend nearly four hours a day on their mobile devices using apps, talking, texting, and browsing the web. Thus, although TV is still a big part of people's lives, mobile is rapidly becoming their "first screen." Away from home, it's their only screen.[35]

For consumers, a smartphone or tablet can be a handy shopping companion. It can provide on-the-go product information, price comparisons, advice and reviews from other consumers, access to instant deals, and fast and convenient avenues to purchase. Mobile buying is growing rapidly and currently accounts for more than 50 percent of all digital commerce.[36]

Mobile marketing can stimulate immediate buying, make shopping easier, enrich the brand experience, and create engagement and impact (see Real Marketing 17.2). It provides consumers with information, incentives, and choices at the right moment in the purchase process.

The mobile app market has exploded in recent years, and most marketers have created their own mobile online sites. Others have created useful or entertaining mobile apps to engage customers with their brands and help them shop. For example, Starbucks's mobile app lets customers use their phones as a Starbucks card to make fast and easy purchases. Fitbit's mobile app lets users use their smartphones to count steps, log fitness activities, and connect with and compete against friends. REI has a full suite of apps covering a range of mountain sports including hiking, climbing, mountain biking, trail running, and skiing and snowboarding. Each app provides maps, GPS routing, real-time weather and terrain conditions, reviews, tips, and forums. And for times you decide you can't live without a pair of Darn Tough hiking socks or a two-person Hubba Hubba tent, REI has a convenient shopping app as well.

In today's cluttered mobile environment, successful marketing goes well beyond texting a coupon or a link to buy. Consumers have come to expect frictionless mobile buying experiences from marketing giants like Amazon. But with rapid advances in mobile capabilities, more and more companies are becoming the Amazons of their industries. Consider travel company TripAdvisor:[37]



Mobile marketing: TripAdvisor's mobile app—"your ultimate travel companion"—gives users as-they-travel access to crowd-sourced information about hotels, restaurants, places to go, and things to see worldwide. And booking options are always just a tap away.

BigTunaOnline/Shutterstock

What started mostly as a hotel and restaurant review website has now become the "ultimate travel companion." TripAdvisor's mobile apps give users "the wisdom of the crowds" with anytime, anywhere, as-they-travel access to comprehensive crowd-sourced reviews, photos and videos, maps, and descriptive information about hotels, restaurants, air travel options, places to go, and things to see worldwide. The easy-to-use apps include lots of useful features, such as smartphone lock screen notifications that call out nearby points of interest as you travel. And booking options for hotels, restaurants, and flights are always just a tap away. TripAdvisor offers more than 884 million reviews of tourist attractions, hotels, restaurants, and tourism service providers.

One user likens the TripAdvisor app to a best friend who's an endlessly knowledgeable travel expert and helps you make all your vacation travel arrangements. And then she goes along with you on your vacation as your own personal travel guide, sharing just the right information about local points of interest, finding and reviewing good places to eat, and providing digital maps to help you get where you're going. In turn, TripAdvisor is a great place for travel- and hospitality-related brands to link up with hundreds of millions of engaged and connected travelers a month who are actively traveling or planning trips. TripAdvisor's annual revenues derive mainly from mobile advertising and bookings.

As with other forms of marketing, companies must use mobile marketing responsibly or risk angering already ad-weary consumers. Most people don't want to be interrupted regularly by advertising, so marketers must be smart about how they engage people on mobile devices. The key is to provide genuinely useful information and offers that will make consumers want to engage. Thus, many marketers target mobile ads on an opt-in-only basis.

Real Marketing 17.2 | Mobile Marketing: Creating Immediate, Immersive, and Meaningful Customer–Brand Experiences

Mobile devices are constant companions—personal, ever-present, and always-on portals for instant communication, information, and entertainment. That makes them an ideal marketing medium. Mobile marketing lets brands engage individual consumers with personalized messages and offers in moments that matter. At the same time, it provides an ideal platform for creating immediate, immersive, interactive, and meaningful customer–brand experiences.

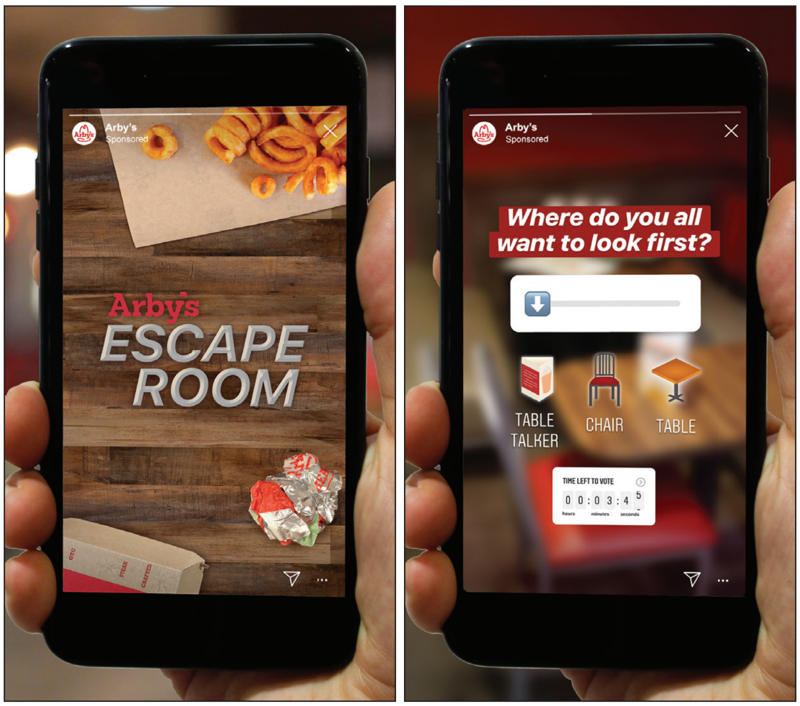
It seems like whatever you want to do these days, "there's an app for that." At the most basic level, marketers create mobile apps and offers that personalize the buying experience, lend immediacy to buying, or help consumers navigate the brand's offerings and community. For example, the Sephora app "Makes Beauty Mobile," providing "instant, on-the-go access to daily inspiration, exclusive offers, and more." The Chick-fil-A One app gives consumers "Endless Awesome"—it makes ordering easier, lets them bypass lines and scan to pay, remembers menu preferences, and rewards them with special treats. The Target app is "Your Shopping and Saving Sidekick," letting you shop online or in store, keep shopping lists, browse Target Circle deals, cash in on RedCard exclusives, get in-store directions to product locations, and use the "To Go" tab for easy, contactless shopping.

However, for most marketers today, mobile marketing goes well beyond simply encouraging buying or easing the shopping experience. Instead, marketers use mobile to create ongoing brand experiences. For example, as you might expect, sports shoe and apparel maker adidas's Runtastic apps (adidas Running and adidas Training) link members with the brand's adiClub rewards program, giving them access to shopping and letting them earn points whenever they train, shop, or review items. But more important, the adidas mobile apps build ongoing, brand-related connections and community with and among adidas's core market of runners worldwide. The feature-rich apps help users create workout plans, monitor their performance, and share experiences and achievements with others in the global adidas community.

The adidas Running mobile app serves as a tracker, using GPS to show users their average pace, speed, calories burned, and duration and distance in real time. And it keeps records of individual workouts and statistics. But more than just a functional tracker, adidas Running connects and motivates runners under the principle that "fitness is more fun together." The more than 172 million active adidas Runtastic app users worldwide share their experiences on the apps and motivate each other. The apps provide instruction, training, and interaction through customized preset challenges, live challenges by experts, blog posts, and a library of videos that serve as daily workout companions. For those who want extra motivation, the adidas app offers Story Runs—a collection of audiobooks with different categories for motivation, inspiration, travel, adventure, and coaching. The adidas apps can be used by anyone, regardless of what brand of shoes they wear, giving adidas a real-time connection with both current and potential customers.

Today's mobile technologies allow marketing to create deep, interactive, and immersive brand experiences. For example, many brands now use gamification—the application of typical elements of online game playing—to add excitement and engagement to their mobile marketing efforts. Take Arby's, the fast-food chain known for its hot roast beef sandwiches. In an effort to increase its Instagram following, lengthen customer engagement times, and stand out from the clutter of social media chatter, Arby's created an innovative mobile marketing campaign by which it played alongside customers rather than just talking to them.

Jumping on the popularity of escape rooms, Arby's created a virtual Arby's Escape Room game accessed through the Instagram mobile app. The setting was an actual Arby's restaurant, recreated inside the Instagram Live feature. In the game, teams of up to four people input decisions via their mobile devices in order to escape the room in real time on Arby's Instagram channel. The game was intricately prepared, composed of 97 unique Instagram videos, photos, animations, and graphics. So whatever path teams chose, they were given appropriately responsive outcomes. Markers, red herrings, and clues took users outside the channel to hunt down answers from influencer partners and other sources. As a bonus, the



Mobile marketing: The Arby's Escape Room mobile campaign engaged customers by turning what is a typically one-sided social interaction into an immersive brand experience. The innovative mobile campaign played alongside customers rather than just talking to them.

Courtesy of Arby's

game treated players to a "secret" unbranded Instagram page with 51 unique posts. Escape Room experiences took place in real time over the course of six hours.

The Arby's Escape Room mobile campaign was a big success. It engaged customers by turning what is typically a one-sided social interaction into an immersive group experience, putting users in control of the channel and the narrative. Escape Room increased the brand's Instagram following by 18.5 percent. In the end, 25 percent of players completed all 95 frames of the game and essentially "escaped" the room. In total, the game produced more than 62,000 responses and 2.5 million impressions.

Most digital and social media platforms have added interactive features that help brands create more immersive mobile engagements. For example, Instagram introduced Quiz Stickers, an Instagram Stories feature that lets brands create multiple-choice question stickers for their followers to answer. Automaker INFINITI used this feature to create Quick Reactions, an involving mobile experience designed to give users the feeling of being behind the wheel of INFINITI's Q60 sport coupe on a racetrack. Using the Quiz Stickers feature, players could choose their own driving adventure and customize the look of their Q60. Employing real video footage from different points of view, the quiz-driven story for INFINITI on Instagram did something totally unexpected—it gamified each story into a personalized interactive experience that let users learn about key Q60 product features in a fun and exciting way, testing the speed of users' reactions in different situations on the track. The award-winning mobile campaign produced results. In the first round alone, INFINITI Quick Reactions more than doubled the brand's reach on Instagram and increased engagement times by 130 percent compared to the brand's other social content.

Thus, mobile marketing lets brands personalize marketing content and weave it into relevant everyday customer experiences. Still, today's consumers are bombarded with marketing messages—texts, email, robocalls, notifications, digital and social media ads, and more. Many are still skeptical or even resentful of intrusive mobile marketing. But they often change their minds if mobile platforms deliver useful experiences, in-the-moment brand and shopping information, entertaining content, or timely offers and deals. Most mobile efforts target only consumers who voluntarily opt in or download apps. But in today's cluttered mobile marketing space, customers just won't do that unless they see real value in it. The challenge for marketers: develop valued mobile offers, ads, and apps that make customers want to come calling.[38]

In all, digital marketing—including online, social media, and mobile marketing—offers both great promise and many challenges. Its most ardent apostles envision a time when digital marketing will replace magazines, newspapers, and even stores as sources for information, engagement, and buying. Most marketers hold a more realistic view. For most companies, online, mobile, and social media marketing will work alongside other approaches in a fully integrated marketing mix. However, such an integrated approach is not easy to conceptualize and manage. We address this challenge next.

Author Comment | Although each separate digital platform has its own functions, companies must integrate them with each other and with other marketing approaches to create an omni-channel marketing strategy that delivers a seamless cross-channel buying experience.

Creating an Integrated Omni-Channel Strategy

The digital age has fundamentally changed customers' notions of convenience, speed, price, product information, service, and brand interactions. As a result, it has given marketers a whole new way to create customer value, engage customers, and build customer relationships. U.S. online retail sales were close to $871 billion last year. Some increases in online sales were driven by the COVID-19 pandemic, but much of those gains persists post-pandemic. In all, more than half of all U.S. retail sales are either transacted directly online or influenced by internet research and social media interactions.[39]

Omni-channel marketing
Creating a seamless cross-channel buying experience that integrates in-store, online, and mobile.

Despite this growth, it's not all about digital sales. Instead, companies are realizing that today's consumers are increasingly adept at omni-channel navigation across online, social media, mobile, brick-and-mortar, and other channels. Therefore, as discussed in Chapter 13, to maximize impact and profitability, companies must embrace the concept of **omni-channel marketing**, creating a seamless and effective cross-channel buying experience that integrates in-store, online, and mobile shopping. For example, home-improvement retailer Home Depot has nearly 2,300 stores in North America. But its hottest growth area has been online sales. In response, Home Depot adopted what it calls a "One Home Depot" strategy designed to create "an interconnected, frictionless shopping experience that enables our customers to seamlessly blend the digital and physical worlds":[40]

> Although it might be hard to imagine selling plywood sheets or vinyl siding online, Home Depot now does that and much more. Its annual online sales exceed $15 billion, an amount nearly twice the total revenues of retailers such as Staples or PetSmart. Home Depot is the nation's fifth-largest online merchant. Its online inventory exceeds 1 million products, compared with only about 35,000 in a typical Home Depot store.

Omni-channel strategies: Home Depot adopted what it calls a "One Home Depot" strategy designed to create "an interconnected, frictionless shopping experience that enables our customers to seamlessly blend the digital and physical worlds."

THE HOME DEPOT name and logo are trademarks of Home Depot Product Authority, LLC, used under license.

The Home Depot now offers its customers multiple contact points and delivery modes. Of course, customers can buy products off the shelf in Home Depot stores. But they can also order online from home, a job site, or anywhere in between on their computers, tablets, or smartphones and then have goods shipped or pick them up at a store. Sixty percent of online orders are now picked up inside a Home Depot store. Finally, in the store, associates armed with tablets can help customers order out-of-stock items for later pickup or delivery. And, of course, Home Depot maintains a full social media presence—from Facebook, Instagram, and Pinterest to Twitter and TikTok—where it informs, entertains, and interacts with customers about the store, its products and projects, and its people. Home Depot's goal is to provide "a seamless and frictionless experience no matter where our customers shop, be it in the digital world, our brick-and-mortar stores, at home, or on the job site. Anywhere the customer is, we need to be there."

Overcoming the Challenges to Omni-Channel Marketing

Crafting and executing an effective omni-channel strategy is critically important but also challenging. To execute an effective omni-channel strategy, companies must clarify the role of omni-channel marketing in their overall business models, align their organizational incentives and structures to support omni-channel marketing, and design their entire marketing strategy, including the marketing mix, around an omni-channel approach.

Aligning Omni-Channel Marketing and the Overall Business Model. Consider a company that operates online marketing channels, a direct mail and catalog channel, and brick-and-mortar stores. In the traditional business model, each channel was managed by a separate manager who was responsible for that channel's profits. However, in an omni-channel world, that causes problems. For example, when channels operate independently, they tend to treat the company's other channels as competitors, with an incentive to take customers from them. Each channel has its own marketing mix, which is often designed to compete against other company channels. Thus, the company cannot create a harmonious and coordinated consumer experience across channels.

To address this challenge, companies must make a clear break from the past. As Home Depot did with its "One Home Depot" initiative, companies must publicly declare that the omni-channel approach will be the centerpiece of their business model. Retailing giant Walmart provides another good example of how this can be done:

> For decades, Walmart flat out dominated store retailing. At first, the retailing behemoth only dabbled in online retailing, even as Amazon was changing the rules of modern retailing. As a result, Walmart steadily lost ground online to Amazon and other purely digital competitors. Some analysts worried that a staid and stodgy Walmart had passed its prime. Finally, at the company's annual shareholder meeting in 2015, Walmart's CEO "laid down the law." "I want us to stop talking about digital and physical retail as if they're two separate things," he said. "The customer doesn't think of it that way and we can't either." In line with this proclamation, Walmart developed a true omni-channel approach, including customer-facing initiatives that interconnected digital and store channels, new internal technologies to support omni-channel processes, and a Walmart+ membership program to rival Amazon Prime. As a result, even as Walmart continues to dominate store retailing, its online sales have grown at an annual rate of more than 37 percent during the past three years, now accounting for an estimated more than 11 percent of total revenues.[41]

Aligning Organizational Incentives and Structures. Traditionally, each channel team's incentives were based on the performance of their channel alone. Thus, there was no incentive for channels to cooperate or coordinate. One solution is to compensate channel managers based on total profits across channels. But this can lead to some channel teams slacking off, expecting the other channel teams to work harder to make up for their deficiencies. Instead, each channel team should be compensated based partly on the total profits across channels and partly on the contribution of their individual channel to overall profits.

It is important to note that a channel that's not highly profitable by itself may still contribute strongly to overall profits. For example, for traditional catalog marketers like L.L.Bean, the sales and profits directly from catalogs have eroded over time. However, catalogs play a critical role in cutting through the clutter of online marketing and creating a direct line of communication with consumers. Browsing through the catalog often inspires a visit to the retail store, where customers can touch, feel, try out, and purchase a product. Or it can trigger an online purchase from the company website. Catalogs also increase the vividness of L.L.Bean's offerings, helping customers appreciate product details. Even though they may not produce direct sales and profits, these contributions from the catalog channel must be measured, appreciated, and rewarded.[42]

Regarding organizational and operational structure, companies must break down the historical silos around individual channels. Instead, structures should be fluid across channels. For example, at UK-based fashion retailer Oasis, in-store shoppers are assisted by sales associates armed with tablets. The associates use the tablets to connect the in-store experience to the retailer's online platforms. They provide shoppers with the latest product and fashion information, check inventory, bill transactions, and even place orders online to be shipped directly to a customer's home. Associates receive incentives regardless of the customer's channel choice. At the same time, Oasis's online, social media, and mobile platforms highlight the hottest items being purchased in-store, creating informational, inspirational, and shoppable non-store touchpoints. By blurring the boundaries between its store and online operations, Oasis has created a seamless omni-channel consumer experience.[43]

Aligning the Marketing Mix. In the traditional business model, each channel team focuses solely on the marketing mix related to its own channel. Therefore, prices, product assortments, brand messages, and other mix variables might differ widely across channels, leading to consumer dissatisfaction and confusion. Under an omni-channel approach, the marketing mix must be carefully coordinated across channels to optimize the customer experience and company profits.

Consider omni-channel pricing decisions. Thanks to the proliferation of mobile devices, consumers can now easily track and compare in-store and online prices. As a result, these prices have converged. One study of products from 56 retailers in 10 countries found that the store and online prices were identical about 72 percent of the time. And price differences that did exist were minor. In addition, price variances across channels can also draw regulatory attention. For example, LEGO offered discounts to brick-and-mortar stores in return for shelf space, but these benefits were not offered to online retailers. However, in France, the French Competition Authority judged that such price differentiation "was likely to handicap" purely online retailers. In response, LEGO altered its price discount policy. Therefore, in omni-channel settings, managers must often decide what common price works best across channels rather than what price is best within each channel.[44]

That does not mean that the marketing mix variables must always be identical across channels. For example, when online and in-store consumer segments differ, companies may both design their offerings and position them differently across channels. In every case, however, marketers must think purposefully about how they set marketing mix variables in a coordinated way across channels.

Author Comment | Although we mostly benefit from digital marketing, like most other things in life, it has a negative side as well. Marketers and customers alike must guard against harmful or irritating digital marketing practices.

Public Policy Issues in Digital Marketing

OBJECTIVE 17-4 Identify and discuss the public policy issues presented by digital marketing.

While digital marketing has opened up a world of potential, it has a distinct negative side. Online marketers face growing privacy concerns and must deal with online security issues. Further, the shady tactics of a few digital marketers can harm consumers, giving the entire industry a black eye. Abuses can include simple excesses that irritate consumers, unfair marketing practices, and even outright deception and fraud.

Consumer Privacy

Invasion of consumer privacy is perhaps the biggest public policy challenge confronting digital marketers. Critics worry that marketers who know too much about consumers' lives may exploit them. Consumers, too, worry about their digital privacy. One recent survey found that 77 percent of U.S. consumers are very concerned about data privacy. About 72 percent believe that all or most of what they do online or on mobile devices is tracked by advertisers, technology firms, or other companies. But 70 percent of them worry that personal data security is deteriorating. And 75 percent of Americans feel that the government should more strongly regulate what companies do with customer information. Giants such as Google and Facebook have been subject to congressional hearings to determine whether legislative action is needed to curb their insatiable thirst for data.[45]

In this "big data" world, it seems that almost every time consumers post something on social media or send a tweet, visit a website, or order products online, their names, profiles, and behaviors are entered into some company's already bulging database. Even experts are sometimes surprised by how much companies know. Consider what Google alone likely knows about its account holders:[46]

Consumer privacy: Critics worry that marketers who know too much about consumers' lives may exploit them. Consider what Google, Facebook, Amazon, and other companies alone likely know about their customers and account holders.

TY Lim/Shutterstock

> Google knows everything you've ever searched, across all your devices. It knows where you've been—it stores your location every time you turn on your phone. It knows what apps you use, when, and how often. And it stores your YouTube history, from which it can likely glean your family status, religion, favorite sports, political leanings, and the fact, say, that you recently sought instructions on fixing your dishwasher. Google creates an advertising profile of you based on things like your location, age, gender, interests, career, income, and a host of other variables.
>
> Google lets you download all the data it stores about you at https://google.com/takeout; one reporter was stunned to learn that his download file was 5.5GB big (roughly 3 million Word documents). "This link includes your bookmarks, emails, contacts, your Google Drive files, your YouTube videos, the photos you've taken on your phone, the businesses you've bought from, [and] the products you've bought through Google," says the reporter. Google also has "data from your calendar, your Google hangout sessions, your location history, the music you listen to, the Google books you've purchased, the Google groups you're in, the websites you've created, the phones you've owned, the pages you've shared, how many steps you walk in a day..." He concludes, "Manage to gain access to someone's Google account? Perfect, you have a diary of everything that person has done."

Step back and think about the data held by Google, Facebook, Amazon, and other companies. Now add the financial data held by credit reporting agencies such as Equifax, which was famously breached. The potential for consumer harm in today's data-intensive world can be frightening.

Irritation, Deception, and Fraud

Digital marketers frequently irritate consumers with unwanted spam, commercial ads that clutter information search results, and pop-up and pop-under ads that flash on their computer, tablet, and phone screens. Beyond that, however, digital media have also opened the door to a wide range of tricksters and fraudsters who take advantage of the low costs of online information transmission.

The FBI's Internet Crime Report reveals some alarming trends in the occurrence of digital fraud. Last year, the Internet Crime Complaint Center (IC3) received close to 850,000 complaints from the American public, with reported losses exceeding $6.9 billion. Notably, the COVID-19 pandemic unleashed a pack of scam artists who targeted the vulnerable—seniors and medical workers looking for personal protective equipment, families seeking stimulus checks, and individuals seeking protection from the virus.[47]

According to the Internet Crime Report, "business e-mail compromise" schemes are the biggest concern, accounting for annual losses of $2.4 billion. One common scheme is *phishing*, a type of identity theft that uses deceptive emails and fraudulent online sites to fool users into divulging personal data. For example, consumers may receive an email, supposedly from their bank or credit card company, saying that their account's security has been compromised. The sender asks them to log on to a website and confirm their account number, password, and perhaps even Social Security number. Users who do so are actually turning over sensitive information to scam artists. Phishing can be extremely costly to those snared in the net. It also damages the brand identities of legitimate online marketers.

Another concern relates to *access by vulnerable or unauthorized groups*. For example, marketers of adult-oriented sites have found it difficult to restrict access by minors. Although Facebook, Twitter, Instagram, and other social networks allow no children under age 13 to have profiles, all have significant numbers of underage users. Young social media users can be especially vulnerable to identity theft schemes, revealing personal information, negative emotional experiences, bullying and manipulation, and other online dangers. Concerned state and national lawmakers are debating bills that would better protect children online. If technology created the problem, then, arguably, technology solutions can resolve it. But companies have pushed back. As Facebook puts it, "That's not so easy."[48]

Data Integrity and Security

Consumers fear that unscrupulous snoopers will eavesdrop on their online transactions and social media postings to pick up personal or financial information and steal their identities. More than 70 percent of consumers remain concerned about identity theft. Further, the growth of networked and IoT devices, including home security cameras and smart speakers, opens new doors for hackers to infiltrate unsecured home networks, access connected computers, and capture sensitive personal information and private moments. Consumers are caught in a bind—they fear intrusions but cannot live without their digital networks and devices.[49]

Many consumers also worry about the *accuracy* of their personal data. A glut of demographic and behavioral data is embedded in consumers' "digital exhaust"—the trails of telltale fumes left behind as they browse, share information, complete forms, make purchases, post on social media, and otherwise engage with the digital world. Sometimes, the data are inaccurate. For example, an erroneous entry about an unpaid debt can wreak havoc with a consumer's online reputation. In turn, the error can influence everything from their credit score to how they appear on an employment verification check. If the consumer discovers the error, getting the record straight can be a nightmare.

Inaccurate data can be an even bigger problem for businesses, whose online reputations can be intentionally smeared by competitors or vengeful customers. In fact, "online reputation management" companies have emerged to help companies manage their reputations. For example, Webimax promises businesses that it will "get negative content removed or buried and simultaneously generate high ranking positive content."[50]

Consumers are also concerned about data *security,* given the massive data breaches of retailers, social media platforms, telecom services, financial organizations, the government, and others. Last year in the United States alone, there were more than 1,000 major data security breaches, affecting over 155 million individuals. Yahoo!'s breach of sensitive information related to 3 billion accounts remains the largest online data security failure ever.[51] But the bad news keeps pouring in. Companies recently hacked include insurer GEICO, parking company ParkMobile, real estate manager Douglas Elliman, Facebook, pizza company Domino's, and Flagstar Bank, to name just a few.

Antitrust Concerns

Online behemoths like Apple, Amazon, and Google have grown at tremendous rates. Each of them currently has a market value more than $1.5 trillion, easily topping "old economy" giants such as ExxonMobil. Policy makers worry that their size and dominance let them act as monopolies.

For example, Apple's app store has been compared to a tightly controlled "walled garden." App developers must be approved by Apple, which takes a significant bite out of their revenues. Arguably, Apple provides app developers the key to access hundreds of millions of consumers, making the trade-off worthwhile. Nevertheless, developers cannot access Apple's customers without working closely through Apple. Further, customers are increasingly embedded in networks of Apple devices and family-level Apple subscriptions related to data, music, news, gaming, and TV streaming. This makes it difficult for them to ditch Apple for a competing network. Similar arguments hold for companies such as Amazon and Google.[52]

Fueled by such network effects, tech-based companies have grown relentlessly. As these companies dominate their markets, they can drive out or buy up competitors, forcing startups and smaller companies to look for less attractive opportunities. This raises concerns about monopoly-dominated markets in which locked-in consumers face limited product variety and high prices in the absence of robust competition.

The Need for Action

The rise of the digital economy has had a positive impact, opening up a world of opportunity for both consumers and companies. Yet, as noted, it also raises some serious concerns that call for actions by marketers and policy makers to enhance the benefits of digital marketing and reduce potential abuses.

In response, authorities have considered legislative actions to regulate how online, social media, and mobile operators obtain, store, and use consumer information. In 2018, the European Union implemented the General Data Protection Regulation (GDPR). The GDPR sets strict requirements for collecting and protecting information about people who live in the European Union and gives European consumers more control over what is collected and how it is used. American lawmakers and consumer privacy advocates have called for similar legislation.[53] In addition, the FTC is ramping up its attention to online privacy.

Even as governments and policy makers have taken action to make data collection more transparent and consent-based, their actions have not decreased the amount or detail of data collected. This is because, even as companies increasingly ask for permission to capture information, consumers rarely think deeply about providing permission. Instead, to save time and effort, they often accept the agreement in its entirety. Learning from this, lawmakers are working to strengthen privacy regulation. One approach would be to design baseline privacy agreements in which consumers are automatically opted *out* of detailed information collection and sharing unless they specifically opt *in*.[54]

The privacy rights of children are of special concern. In 1998, Congress passed the Children's Online Privacy Protection Act (COPPA), which requires online operators targeting children to post privacy policies on their sites. They must also notify parents about any information they're gathering and obtain parental consent before collecting personal information from children under age 13. In 2013 Congress extended COPPA to include "identifiers such as cookies that track a child's activity online, as well as geolocation information, photos, videos, and audio recordings." The main concerns relate both to fuzzy social media privacy policies and to the amount of data mined by third parties from social media.[55]

Consumer privacy: The ad industry has issued a set of online and mobile advertising principles through the Digital Advertising Alliance that call for digital marketers to provide transparency and choice to consumers if online data are collected or used for targeting interest-based advertising.

Sam72/Shutterstock; Eyal Dayan Photography

Given these concerns, many marketers are acting to prevent privacy abuses before legislators do it for them. For example, six major advertiser groups—the American Association of Advertising Agencies, the American Advertising Federation, the Association of National Advertisers, the Data & Marketing Association, the Interactive Advertising Bureau, and the Network Advertising Initiative—issued a set of online advertising principles through the Digital Advertising Alliance. Among other measures, the principles call for online and mobile marketers to provide transparency and choice to consumers if online data are collected or used to target interest-based advertising. The ad industry adds an *advertising option icon*—a little "i" inside a triangle—to behaviorally targeted online ads to tell consumers why they are seeing a particular ad and allowing them to opt out.

Some companies are embracing industry-wide, verifiable privacy and security standards. For example, TrustArc, a nonprofit self-regulatory organization, works with many large sponsors, including Microsoft, Disney, and Apple, to audit privacy and security measures and help consumers navigate the internet safely. The company lends its TRUSTe privacy seal to websites, mobile apps, email marketing, and other online and social media channels that meet its privacy and security standards.[56]

To reduce *irritation, deception, and fraud*, the government and law enforcement agencies have introduced consumer protection measures and stepped up enforcement. To curb digital marketing excesses, government agencies have implemented do-not-mail lists, do-not-track-online lists, and CAN-SPAM legislation. In the United States, the federal and state governments have considered numerous legislative actions to regulate how digital operators obtain and use consumer information.

Stung by the long string of data security breaches, most companies are working to improve *data integrity and security*. How a company stores and accesses data plays an important role in securing it. Companies are learning that securing data rests on clearly noting what data are considered sensitive, encrypting such sensitive data in transit and storage, and developing clear controls regarding data access and usage rights. Data stored in the cloud can be vulnerable and must be protected from external threats with multiple security layers. At the same time, data physically stored within the company can be vulnerable to internal threats, requiring secure encryption and carefully monitored access. Consumer data protection and collection transparency have become top priorities for marketers. They know that consumer trust lies are the very heart of profitable customer relationships.[57]

Finally, legislators and regulators are paying increased attention to *antitrust concerns* in digital markets. For many years, the emergence of the digital giants such as Apple, Amazon, Facebook, and Google was viewed with a sense of wonder and admiration. Today, however, legislators and antitrust authorities are posing some thorny questions: Are these companies growing too big? Are they gaining monopoly powers that lock in consumers and lock out competitors? Are they taking advantage of suppliers and developers who have no option but to rely on them for market access? In a changing world where consumers rely on Facebook, Twitter, and other social media for news and information, should these companies be regulated as media companies rather than as technology companies? The answers to such questions are often complex, unclear, and subjective. What is clear, however, is that the traditional antitrust regulations are not sufficient to manage the new digital economy. Legislators, regulators, and digital marketers themselves are now rethinking the rules for the new digital landscape.

Despite these challenges, the digital revolution is reshaping marketing. Empowered by technology, consumers are engaging with marketers, brands, and other consumers in new and creative ways. Technology has equipped marketers with data and tools to understand and manage the consumer experience and solve consumer problems in new and imaginative ways. Marketers have just begun the journey and an exciting new digital world lies ahead.

Reviewing and Extending the Concepts

Objectives Review

The aim of marketing is to engage customers and to create value for them in order to capture value from them in return. This chapter extends that concept into the burgeoning field of digital marketing, including online, social media, and mobile marketing. We discuss digital marketing throughout the text. In this chapter, however, we focus on the special characteristics of digital marketing, its role in broader marketing and company strategy, and preparing digital marketing campaigns.

OBJECTIVE 17-1 Define *digital marketing* and discuss its rapid growth and benefits to customers and companies.

Digital marketing involves the use of technology-intensive platforms such as the internet, mobile networks and devices, and social media to engage with individual consumers, consumer communities, and businesses to drive profitable transactions and long-term relationships. Spurred by rapid advances in digital technologies, digital marketing is transforming the marketing function dramatically. Digital marketing can factor into a company's overall marketing strategy in multiple ways—as a supplementary channel for selling directly to customers, as a complete model for doing business, or as a complementary function that works with other channels to deliver value to consumers.

For consumers, digital marketing is convenient, easy, and private. It offers anywhere, anytime access to a range of products that no single retail store, however large, can match. Digital marketing is highly targeted and immediate. And digital marketing through online, mobile, and social media can provide a sense of brand engagement and community—a place to share information and experiences with other brand fans.

For sellers, digital marketing is a powerful tool for building customer engagement and close, personalized, interactive customer relationships. It can provide a low-cost, efficient, speedy alternative for reaching markets. Digital marketing offers great flexibility, letting marketers make ongoing adjustments to prices and programs, and immediate, timely, and personal announcements and offers. Digital marketing can shorten the consumer's decision journey by placing highly persuasive information in front of potential customers at the right place and at the right time. Finally, digital marketing provides opportunities for real-time marketing that links brands to important moments and trending events in consumers' lives.

OBJECTIVE 17-2 Discuss the consumer and market research required to design an effective digital marketing campaign.

A digital marketing campaign involves the same general steps as those for the broader marketing campaign. However, there are some special considerations to address. Consumers today are immersed in digital media from dawn to dusk. As a first step, digital marketers must get to know the digital consumer—in detail.

Gaining consumer insights to power a digital marketing campaign calls for some specific marketing research approaches. Digital marketers often construct *digital consumer personas* that capture targeted consumers' information-seeking behaviors and preferences, digital platform usage, location-related habits, and other details. Building on those insights, marketers must understand key patterns of consumer *omni-channel navigation behavior*. Finally, digital marketing allows for easy testing and optimization of online marketing approaches and tactics by using *experimentation*.

OBJECTIVE 17-3 Discuss the different digital channels and media and explain how companies employ them to create an omni-channel marketing strategy.

The digital age has fundamentally changed consumers' notions of convenience, speed, price, product information, service, and brand interactions. As a result, they have given marketers a whole new way to create customer value, engage customers, and build customer relationships. Digital marketing channels can be broadly classified into three platforms: online marketing, social media, and mobile channels.

Online marketing takes several forms, including company websites, online advertising and promotions, email marketing, online video, and blogs. Company websites include marketing websites and brand community websites. *Marketing websites* are designed to engage customers and move them closer to a direct purchase or other marketing outcome, whereas *brand community websites* present brand content that engages consumers and creates customer–brand communities.

As consumers spend more and more time online, companies are shifting more of their marketing dollars to *online advertising* that appears while consumers are navigating websites or other digital platforms. The main forms of online advertising are *online display ads* and *search-related ads*. Online advertising helps advertisers to place ads in carefully chosen websites, mobile sites, and search results to reach targeted audiences at key buying times.

Email marketing at its best involves sending well-designed, inviting, interactive, targeted, and personalized emails that help marketers build customer relationships. Digital marketers use *online videos* to promote products but also to give their brands a voice and create positive brand associations. Finally, marketers use their own or other *blogs* to reach out to special interest groups and brand communities. Blogs can offer a fresh, original, personal, and inexpensive way to enter online and social media conversations.

The surge in internet usage and digital devices has spawned a dazzling array of ***social media***. Large brands usually have a huge social media presence. Social media are interactive, immediate and timely, and cost-effective. And they can support deep consumer engagement and a sense of shared community like few other marketing platforms can. Marketers must understand the varying functional capabilities of different social media platforms and decide which social media they will integrate into their digital marketing strategy and how.

Mobile marketing allows anytime, anywhere access to consumers. Companies use mobile marketing to stimulate immediate buying, make shopping easier, enrich the brand experience, or all of these. Most marketers have created their own mobile online sites. And some have created useful or entertaining mobile apps to engage customers with their brands and help them shop.

To be maximally effective, online, mobile, and social media marketing must work alongside other approaches in a fully integrated marketing mix to maximize the company's total profits. Today's consumers are increasingly adept at omni-channel navigation across online, social media, mobile, brick-and-mortar, and other channels during the shopping process. Thus, today's marketers must embrace the concept of *omni-channel marketing*, creating a seamless and effective cross-channel consumer buying experience.

OBJECTIVE 17-4 Identify and discuss the public policy issues presented by digital marketing.

Digital marketing is positively changing the business landscape, injecting greater efficiency, easier access, richer information, greater consumer choice, increased social connectivity, and—quite simply—more fun into marketplaces. Sometimes, however, digital marketing presents some negative sides. Concerns about digital marketing relate to four areas: consumer privacy; irritation, deception, and fraud; data integrity and security; and antitrust concerns. Such concerns can be addressed through regulatory and public policy actions and by the self-regulatory initiatives of individual companies or industry groups. Healthy and transparent digital marketing benefits all stakeholders—consumers, companies, and society.

Key Terms

OBJECTIVE 17-1

Digital marketing

OBJECTIVE 17-2

Digital consumer personas
Consumer omni-channel navigation behavior

OBJECTIVE 17-3

Online marketing
Marketing website
Brand community website
Online advertising
Online display ads
Search-related ads
Email marketing
Spam
Viral marketing
Blogs
Social media
Metaverse
Mobile marketing
Omni-channel marketing

Discussion Questions

17-1 What is digital marketing, and how does it benefit customers and companies? (AACSB: Written and Oral Communication; Reflective Thinking)

17-2 What are the steps in the digital marketing process? (AACSB: Written and Oral Communication; Reflective Thinking)

17-3 What is mobile marketing, and why is it important to marketers? (AACSB: Application of Knowledge)

17-4 In search-related advertising, what is the difference between *organic search* results and *paid search* ads? Why is each important to advertisers? (AACSB: Written and Oral Communication; Information Technology)

17-5 Describe how businesses have collectively demonstrated leadership in protecting children's privacy rights. (AACSB: Ethical Understanding and Reasoning; Written and Oral Communication)

17-6 How does the General Data Protection Regulation (GDPR) act affect data collection and protection? (AACSB: Written and Oral Communication)

Critical Thinking Exercises

17-7 What is a digital consumer persona? Consider a local startup business that aims to provide online tutoring lessons for students at four-year colleges. It will tailor tutoring lessons to the material students learn in their courses. It will offer lessons across a wide range of subjects, ranging from the sciences and biology to business and mathematics. Drawing from the coffee shop example in the chapter, work in small groups to construct a digital consumer persona of a prototypical student–customer for this startup. What will you name the startup? (AACSB: Information Technology; Written and Oral Communication; Reflective Thinking)

17-8 Taco Bell uses social media to target and engage the millennial and Gen Z segments. For example, it has hosted Airbnb sleepovers in its restaurants. It once erected a billboard that dispensed hot nacho cheese. And Taco Bell created a slide-thru window through which 125 snow tubers and Taco Bell fans who were bused to a resort outside Toronto could reach out and grab a Cheetos Crunchwrap Slider in a to-go bag as they tubed past (see www.delish.com/food-news/a26741022/taco-bell-canada-slide-thru-experience/). The goal was to generate social media engagement that would raise awareness about the return of the Cheetos Crunchwrap Slider. Fans ordered their food at the top of the hill. The food was prepared in a kitchen and taken to the booth below by snowmobile. The snow tubers were then given a Taco Bell–branded tube to slide in and grab their food before heading to the lounge to enjoy the meal. How can Taco Bell's marketers evaluate the success of this promotion event? (AACSB: Integration of Real-World Experiences; Reflective Thinking)

17-9 Cosmetic brands that are trying to reach makeup-wearing Gen Z consumers are connecting with them via one of their favorite activities: online gaming. Brands are offering products to customize avatars, sponsoring eSports teams, running social media campaigns to target gamers, launching channels on Twitch, and incorporating game brands in their offline offerings. One criticism is that brands are overlooking the opportunity to sponsor Black content creators in their efforts to target gamers. More than 80 percent of Black American teenagers play video games. But only 2 percent of game developers are Black, and Black content creators are similarly underrepresented. Identify a Black creator with gaming content. Create a plan for how a brand like e.l.f. cosmetics (www.elfcosmetics.com) might include Black creators in a digital marketing brand campaign. (AACSB: Diverse and Multicultural Work Environments)

APPLICATIONS AND CASES

Digital Marketing Can Social Media Raise Awareness of Uniqlo in the United States?

Uniqlo targets young, urban, professional, and practical American shoppers with fashions that are not unique and bear no labels. It offers low prices (such as jeans for $40), so it is sometimes grouped with other big brands such as Zara and H&M in the fast-fashion category. However, unlike Zara and H&M, Uniqlo does not chase trends. It offers staples, much as the Gap did when it made basics cool in the 1990s before it lost its edge by being in every mall and becoming the uniform of suburban moms and dads. Uniqlo offers basics with clean lines and positions itself as affordable fashion that is not disposable. It offers free tailoring and has built a reputation for durability. It also uses a number of signature technologies in its clothing, including ultra-light down, the HeatTech insulating system, and AIRism moisture wicking. Madewell and Everlane offer similar products at higher prices. Although it is owned by Fast Retailing, one of the five largest clothing retailers in the world, only a small percentage of Uniqlo's 2,000 stores are located in the United States, where it lacks brand awareness. Uniqlo fell short of an expected 200 stores in the United States; it currently operates 50 U.S. stores at a loss.

17-10 Compare Uniqlo's approach on Instagram (www.instagram.com/uniqlousa) to Madewell's approach (www.instagram.com/madewell). Identify similarities and differences between the two brands' approaches to consumer engagement on Instagram. (AACSB: Application of Knowledge; Integration of Real-World Experiences)

17-11 Working in small groups, design social media approaches that could help increase brand awareness and preference and better communicate Uniqlo's value proposition relative to its competitors. (AACSB: Application of Knowledge; Reflective Thinking)

Marketing Ethics Customized Insurance

Progressive Insurance's networked Snapshot device is plugged into a vehicle. It provides Progressive with a steady stream of information about the vehicle's locations, braking patterns and acceleration rates, driving speed, amount of driving, the time of the day the driving takes place, and a host of other parameters. Progressive then personalizes car insurance rates based on some of the collected information. Monitoring consumer driving habits can result in reduced rates for some consumers. However, Snapshot also raises some questions of privacy, equity, and ethics within and across customer groups. See www.forbes.com/advisor/car-insurance/usage-based-insurance/.

17-12 Detail some of the ethical concerns related to Progressive's customized insurance program. (AACSB: Diverse and Multicultural Work Environments; Ethical Understanding and Reasoning)

17-13 Is it ethical for marketers to gather and use data from people's devices to improve the value proposition to consumers? Explain. (AACSB: Written and Oral Communication; Information Technology; Reflective Thinking)

Marketing by the Numbers Uniqlo's Fast-Moving Image Campaign

Uniqlo is a Japanese retail brand that now sells in 15 countries thanks to digital marketing campaigns. Founded with the aim of bringing affordable, fashionable, casual clothing to all people, it began in 1984 under the philosophy "UNIQLO clothes are MADE FOR ALL." The company focuses on its signature innovative clothing lines that have names such as HeatTech, UV Cut, LifeWear, and AIRism. In 2007, its pioneering "Uniqlock" viral marketing campaign won dozens of advertising awards, including the coveted Grand Prix award at Cannes. The company continues to run digital marketing campaigns, and while awards are nice, results are better. Marketers measure all sorts of metrics related to digital campaigns, from impressions and click-throughs to purchases. Consider one of the most recent digital campaigns that Uniqlo ran in Australia to increase brand awareness and sales of its clothing. A fast-moving image contained a series of stills on digital billboards at a rate of 20 to 30 frames per second. A unique product code was embedded in the images. The code could be seen only if a consumer took a photo of the display. If consumers uploaded the code to the campaign website, they received a sample from the Uniqlo clothing line. Consumers also created content about the campaign, including videos that were viewed more than 1.3 million times.

Suppose the campaign measures were as follows:

Measure	Value
Impressions	7,000,000
Click-through to site	300,000
Cost of campaign	$150,000
New customers	35,000
New newsletter subscribers	25,000
Number of orders generated	45,750
Revenue generated	$3,450,000
Abandoned shopping cart	450
Average cost of goods sold (%)	45%
Shipping and handling costs (per order)	$9.50

17-13 Calculate the performance metrics listed in the preceding table. Based on these metrics, evaluate the campaign. (AACSB: Written and Oral Communication; Analytical Thinking; Reflective Thinking)

17-14 Calculate the net marketing contribution (NMC), marketing return on sales (marketing ROS), and marketing return on investment (marketing ROI). Was the campaign successful? Refer to Marketing Profitability Metrics in Appendix 2: Marketing by the Numbers to learn how to do this analysis. (AACSB: Written and Oral Communication; Reflective Thinking; Analytical Thinking)

Performance Metric	Equation
Click-through rate (CTR)	(Click–throughs ÷ Impressions) × 100
Cost-per-click (CPC)	Cost of campaign ÷ Click–throughs
Conversion ratio	(Number of orders ÷ Click throughs) × 100
Cost per conversion	Cost of campaign ÷ Number of orders
Average-order-value (AOV)	Revenue generated ÷ Number of orders
Shopping cart abandonment rate	(Abandoned shopping cart ÷ Total created carts) × 100

Company Case Instagram: A Win-Win-Win for the Company, Advertisers, and Instagrammers

A decade ago, social media giant Facebook acquired a young startup called Instagram for the then-mind-blowing sum of $1 billion—a record price for acquiring an app and far more than Facebook had ever spent on an acquisition. Some critics mocked Facebook's sanity. At the time, Instagram had zero revenue, only 30 million users, and no idea about how it would make money. But Facebook saw big potential in the fledgling company.

The Evolution of Social Media

Social networks have exploded in today's digital world. People everywhere today have their heads down and devices in hand, connecting, posting, messaging, and sharing. More than 1.9 billion of Facebook's 2.9 billion global monthly active users check in every day to view 8 billion videos, upload more than 350 million photos, and generate more than 14 billion engagements.

Even with all this social media growth, the challenge of monetization—converting all this activity into sustainable profits without alienating users—continues to vex platforms. Facebook was the first social medium to solve the profitability issue. Last year, Facebook's parent company Meta Platforms, Inc. netted $39 billion in profits on revenues of more than $117 billion—a 33 percent margin. Over the past eight years, Meta's revenues have grown by an average of 40 percent each year and profits by 59 percent annually. Meanwhile, Meta's key competitors, Snapchat and Twitter, each lost hundreds of millions of dollars. How has Facebook succeeded while so many others have failed? It's all about advertising. Facebook rakes in money by providing effective ways for companies to target and engage its gigantic user community with relevant ads and other brand content.

The Most Engaging Advertising Platform

Perhaps nowhere is Meta's successful monetization more apparent than at Instagram. Launched in 2010, Instagram differentiated itself by being mobile-only and by focusing on a single, simple function—sharing photos. Instagram's simplicity and the growing appeal of communicating through images made it an instant hit. After all, a picture speaks a thousand words. Instagram quickly became the preferred social network for then-young millennials to communicate with their friends, out of the sight of their parents' watchful eyes.

Facebook's acquisition of Instagram came less than two years after its launch. Instagram's then small but youthful audience complemented Facebook's aging one. A year later, Facebook introduced paid advertising on Instagram. The decision was controversial, given that Instagrammers cherished the free (and commercial-free) sharing culture of their digital community. The challenge for Instagram was to inject brand content alongside user content without upsetting the community dynamic.

It has all worked out. Even as millions of advertisers have surged aboard Instagram, its user base has continued to grow. Instagram's more than 2.2 billion users—who contribute more than 1 billion posts daily—are a great fit for the content strategies of many brands. The community is big and youngish but spans a wide demographic range. The 25- to 34-year-old age group accounts for 31.2 percent of Instagram's user base, but 18- to 24-year-olds are close behind at 31 percent. This allows for precision targeting. Instagram's audience is also brand loyal: 25 percent of teenagers in the United States say Instagram is their favorite social medium. On average, users spend 28 minutes daily on the app, and more than 67 percent use it multiple times a day.

Instagram's advertiser base has grown in parallel. Instagram is one of the world's premier digital, social media, and mobile advertising channels. It takes in revenues from more than 2 million advertisers each month, with advertisers ranging from marketing heavyweights like Nike, Disney, and P&G to your local restaurant or fitness center. It hosts over 200 million business profiles—71 percent of all U.S. businesses and more than 96 percent of fashion brands in the United States have an Instagram profile.

About 1 billion Instagram users follow business profiles, and 200 million of them visit at least one business profile daily. Some 70 percent of shopping enthusiasts discover new products on Instagram, and 79 percent of businesses on Instagram use at least one of the more than 500,000 influencers on the platform. That's significant, not only because 37 percent of Instagram users interact with influencers but because the majority of influencers use Instagram Stories for sponsored campaigns. That explains why one-third of the most viewed Instagram stories are posted by businesses.

Instagram's design empowers advertisers to blend brand content with user content. Thus, brand content often enhances rather than disrupts the Instagrammer experience. Beyond Instagram feeds, advertisers can choose from several ad formats. For starters, brands can place content directly into the feed of targeted Instagrammers through various photo and video formats, including Reels—a short video format that competes with TikTok. With Instagram Stories, advertisers can present brand content much like Instagrammers—weaving photos and videos together, enhancing them with text and doodles, and presenting them in full-screen slideshows that last 24 hours. And branded content ads pair brands with Instagram creators to organically insert sponsored material into their posts, "bringing people closer to product and brands they love, through the voices of creators they trust." In addition, Instagram provides tools that make it simple for advertisers to process and monitor visual content quickly and efficiently and to enhance emotional impact. And the new Explore function presents highly targeted content to users who have similar interests and fit specific demographic characteristics.

Compared with other social media, Instagram catalyzes high levels of consumer engagement with advertising. For example, closest competitor Snapchat's disappearing content makes brand–consumer connections fleeting. In contrast, Instagram allows consumers to scroll through, linger over, and share content on their own timelines. Likewise, brands on Instagram get eight times more engagement than on Twitter and 17 times more than on Facebook. For example, when Mercedes posted social media teasers for the world premiere of its new A-Class hatchback, the posts racked up a respectable 10,000 Likes on Facebook but a huge 150,000 Likes on Instagram. Thus, Instagram's efficient and engrossing visual format reaps unmatchable engagement levels.

Beyond engagement, Instagram addresses the next step of the consumer journey—purchase. Using Instagram Shopping, businesses can turn their business Instagram accounts into shoppable storefronts, allowing users to buy products directly from brand shops with a single tap without leaving the platform. Thus, shopping is as flexible and integrated as advertising. Brands can tag products or post captions for their branded content. And with Collections, businesses can curate their products into themes and add some editorial flair.

From $1 Billion to $100 Billion

It didn't take long for Facebook to turn Instagram into a moneymaker. Last year, Instagram generated $47.6 billion in revenue, more than 40 percent of Meta's total. Instagram is expected to surpass Facebook as Meta's main revenue source within three years. Instagram is now worth more than $100 billion as a standalone company—100 times what Facebook paid for it just 10 years ago. No one is mocking Facebook's Instagram purchase anymore. Instagram has figured out how to integrate advertising with consumer content in a way that satisfies everyone. Far from resenting brand content as intrusive, many Instagrammers appear to welcome it, making social media advertising a win-win-win for Instagram, its advertisers, and its user community.

But Instagram faces the pressure to remain nimble and vigilant. For starters, six-year-old TikTok has exploded in popularity. The trendy video social platform that skews even younger than Instagram has amassed over 1 billion monthly active users, with eight new users joining *every second*. And TikTok's advertising revenue has multiplied sevenfold in just four years to $4.6 billion last year. This year, TikTok is expected to generate more advertising revenue than Twitter and Snapchat combined. And beyond all that, experts expect the metaverse to strongly challenge traditional social media platforms within the next decade.[58]

Questions for Discussion

17-15 Discuss how the technological, demographic, and other forces in the marketing environment have driven Instagram's explosive growth.

17-16 How does Instagram provide value to users, advertisers, and Meta Platforms, Inc. in a way that keeps each of them happy?

17-17 Provide some specific ideas for Instagram to further differentiate itself from TikTok and Snapchat.

17-18 *Small group discussion*: Provide three tangible and innovative ideas to propel Instagram's growth over the next five years.

18 Creating Competitive Advantage

OBJECTIVES OUTLINE

OBJECTIVE 18-1 Discuss the need to understand competitors as well as customers through competitor analysis.

OBJECTIVE 18-2 Explain the fundamentals of competitive marketing strategies based on creating value for customers.

OBJECTIVE 18-3 Illustrate the need for balancing customer and competitor orientations in becoming a truly market-centered organization.

CHAPTER PREVIEW

In previous chapters, you explored the basics of marketing. You learned that the aim of marketing is to engage customers and to create value *for* them in order to capture value *from* them in return. Good marketing companies win, keep, and grow customers by understanding customer needs, designing customer value–driven marketing strategies, constructing value-delivering marketing programs, engaging customers, and building customer and marketing partner relationships. In the final three chapters, we'll extend this concept to three special areas: creating competitive advantage, global marketing, and social and environmental marketing sustainability.

To start, let's dig into the competitive strategy of Microsoft, the technology giant that dominated the computer software world throughout the 1990s and much of the 2000s. Its Windows and Office products have long been must-haves in the PC market. But with the decline in standalone personal computers and the surge in digitally connected devices—everything from smartphones and tablets to internet-connected TVs—mighty Microsoft found itself struggling to revamp its competitive marketing strategy in a fast-changing digital environment. The tech giant has now reinvented itself as a relevant brand that customers can't live without in the digitally connected world.

MICROSOFT: A New Competitive Marketing Strategy for the Digitally Connected World

Around the turn of the century, talking high-tech meant talking about the almighty personal computer. Intel provided the PC microprocessors, while manufacturers such as Dell and HP built and marketed the machines. But it was Microsoft that really ruled the PC industry—it made the operating systems that kept most PCs humming. As the dominant software developer, Microsoft put its Windows operating system and Office productivity suite on almost every computer sold.

The huge success of Windows drove Microsoft's revenues, profits, and stock price to dizzying heights. By the start of the 2000s, Microsoft was the most valuable company in corporate history. In those heady days, no company was more relevant than Microsoft. And from a competitive standpoint, no company was more powerful.

But times change. Moving through the first decade of the new millennium, PC sales growth flattened as the world fell in love with a rush of alluring new digital devices and technologies. The computing industry shifted rapidly from stationary standalones like the PC to connected mobile devices that linked users to an ever-on, ever-changing world of information, entertainment, and socializing options. But unlike PCs, those mobile devices didn't need Microsoft Windows.

In the new digitally connected world, Microsoft found itself lagging behind more-glamorous competitors such as Google, Apple, Samsung, and even Amazon and Facebook, which provided a complete slate of all things digital—not just the software but also the smart devices, connecting technologies, and even digital destinations. Although still financially strong and still the world's dominant PC software maker, Microsoft lost some of its luster. In turn, the company's growth stalled and profits languished at early 2000s' levels for a dozen years or more. Microsoft needed to change with the times, and fast.

To align itself better with the new digital world order and new competitors, Microsoft began a dramatic transformation of its competitive strategy. It set out to become a full-line digital competitor, pursuing a new "mobile first, cloud first" strategy toward delivering "delightful, seamless technology experiences" that connect people to communication, entertainment, and one another.

Under this new competitive strategy, over the next decade, Microsoft unleashed a flurry of new, improved, or acquired digital products and services. It developed a mobile version of its Windows operating system—the long-time company cash cow. Freeing itself from the limitations of installed software, it created Office 365—a cloud-based subscription version of its market-dominating suite of productivity apps. It moved beyond the boundaries of operating systems and productivity software by acquiring and upgrading Skype and by launching its OneDrive cloud storage solution.

Microsoft even broke free of software altogether with an innovative new digital hardware line—Microsoft Surface tablets and laptops—that it hoped would lead the way to even more innovative Windows devices. It also dabbled seriously with mobile phones, first buying and then selling phone maker Nokia and then dipping its toe in the market with its own Android-based Surface phone. Microsoft hoped that the Surface line, along with its Xbox console, would give it better access to three important digital screens beyond the PC—tablets, TVs, and phones.

But even with these new strategic initiatives, Microsoft found itself still chasing rather than leading the pack of new digital competitors, showing that even the best-laid competitive strategies can be difficult to implement against strong competitors. Although Microsoft's Windows operating system still dominates the declining PC market, it dropped its mobile versions when it failed to capture a significant market share against Apple iOS and Google Android. Microsoft's Surface tablets and laptops have done well, but they still lag far behind those of Lenovo, HP, Dell, Apple, and Samsung. And even with innovative phone designs like the dual-screen Surface Duo line, Microsoft has yet to make a dent in the smartphone market.

Thus, to continue its strategic makeover, Microsoft has made yet another significant shift. It started with a new mission—"to empower every person and every organization on the planet to achieve more." Unlike the past, this mission focuses not on devices and services but on outcomes. Rather than chasing competitors in mobile devices and operating systems, Microsoft now intends to lead them in productivity tools. And instead of clinging to Windows as the linchpin in its future, Microsoft is taking its productivity apps and services headlong into the cloud. The old Microsoft didn't care what apps you ran as long as you ran them on Windows. In a dramatic strategic

In the fast-changing digital environment, Microsoft has transformed itself into a brand that consumers can't live without in the post-PC, cloud-driven world.

imageBROKER/Alamy Stock Photo

shift, the new Microsoft doesn't care what operating system you run as long as you're using Microsoft apps and services.

At the center of Microsoft's cloud offerings is good old Microsoft Office, with its Word, Excel, PowerPoint, and other productivity apps. Although competitors Google and Apple have word processing, spreadsheet, and presentation apps, Office is still far and away the gold standard for getting things done, whether for large corporations, small businesses, students, or home users. In the old days, Office came bundled with Windows. But the plan now is to make Office accessible to anyone and everyone. Office 365 subscription services can be accessed from the cloud and run on any device or operating system—iOS, Android, or Windows.

Microsoft's goal is to make Office 365 the center for a whole new family of cloud-based online services that work seamlessly together. To that end, in addition to mobile versions of Word, Excel, and PowerPoint, Microsoft has been adding an ever-expanding set of mobile productivity apps to the Office 365 portfolio, such as Outlook Mobile (email), To-Do (task management), and Teams (collaborative business communication and conferencing platform). Moreover, the cloud-based Office 365 increases the likelihood that subscribers will sign up for other Microsoft services, such as Skype, OneDrive cloud services, or Power BI data analytics and insights tools.

The strategy is working. The integration of Microsoft's cloud-based productivity and analytics products earned it a top-10 spot on

Microsoft has undergone a dramatic strategic transformation to better align itself with the new digital world in the post-PC era. Now with its head in the cloud, more than just making the software that makes PCs run, Microsoft wants to empower every person and every organization on the planet to achieve more, regardless of what device or operating system they use.

Fast Company's most recent list of Most Innovative Companies and the top spot in the data science subcategory, with the accolade "for humanizing productivity." Microsoft Teams, now with more than 270 million active users, is a fixture in most large organizations, indicating that these organizations are using multiple other Microsoft cloud products as well. Such integration into the inner workings of organizations has created new digital opportunities, partnerships, and specialties for Microsoft.

So this is not your grandfather's Microsoft anymore. With its sweeping strategic transformation, Microsoft now seems to be making the right moves to stay ahead of the times and competitors. While other tech giants may grab more headlines, Microsoft has quietly climbed back to the top of the tech tree. Its sales are up 75 percent over the past four years; profits are up 140 percent. And the digital giant's stock value has soared to more than $2 trillion, second only to Apple. It took 33 years for Microsoft to reach its first $1 trillion in value. But reaching the second trillion only took two years.

Although the Windows operating system remains a key component of Microsoft's current success, the company's future now lies in the cloud. In fact, Microsoft's Intelligent Cloud business is the company's highest growth segment, last year accounting for more than 35 percent of its total revenues and more than 42 percent of total profits. In the commercial cloud wars, Microsoft battles Amazon for the lead, with both well ahead of IBM, Google, and a host of others. Continued success will depend on Microsoft's ability to effectively adapt to—or even lead—the lightning-quick changes in the competitive environment. "The opportunity ahead for Microsoft is vast," says Microsoft's CEO, "but to seize it, we must focus clearly, move faster, and continue to transform."[1]

Competitive advantage
An advantage over competitors gained by offering consumers greater value.

Competitor analysis
Identifying key competitors; assessing their objectives, strategies, strengths and weaknesses, and reaction patterns; and selecting which competitors to attack or avoid.

Competitive marketing strategies
Strategies that strongly position the company against competitors and give it the greatest possible competitive advantage.

TODAY'S COMPANIES FACE their toughest competition ever. In previous chapters, we argued that to succeed in today's fiercely competitive marketplace, companies must move from a product-and-selling philosophy to a customer-and-marketing philosophy.

This chapter spells out in more detail how companies can outperform competitors to win, keep, and grow customers. To win in today's marketplace, companies must become adept not only in managing products but also in managing customer relationships in the face of determined competition and a difficult marketing environment. Understanding customers is crucial, but it's not enough. Building profitable customer relationships and gaining **competitive advantage** require delivering more value and satisfaction to target customers than competitors do. Customers will see competitive advantages as customer advantages, giving the company an edge over its competitors.

In this chapter, we examine competitive marketing strategies—how companies analyze their competitors and develop successful, customer value–based strategies for engaging customers and building profitable customer relationships. The first step is **competitor analysis**, the process of identifying, assessing, and selecting key competitors. The second step is developing **competitive marketing strategies** that strongly position the company against competitors and give the company the strongest possible strategic advantage.

Author Comment | Creating competitive advantage begins with a thorough understanding of competitors' strategies. But before a company can analyze its competitors, it must first identify them—a task that's not as simple as it seems.

Competitor Analysis

OBJECTIVE 18-1 Discuss the need to understand competitors as well as customers through competitor analysis.

To plan effective marketing strategies, a company needs to find out all it can about its competitors. It must constantly compare its marketing strategies, products, prices, channels, and promotions with those of close competitors. In this way, the company can find areas of potential competitive advantage and disadvantage. As shown in **Figure 18.1**, competitor analysis involves first identifying and assessing competitors and then selecting which competitors to attack or avoid.

Identifying Competitors

Normally, identifying competitors would seem to be a simple task. At the narrowest level, a company can define its competitors as other companies offering similar products and services to the same customers at similar prices. Thus, Facebook (Meta) might see Twitter, TikTok, and other social media as competitors but not Google, Microsoft, or Amazon. Ritz-Carlton might see the Four Seasons hotels as a major competitor, but not Airbnb, Holiday Inn, Hampton Inn, or any of the thousands of bed-and-breakfasts that dot the nation.

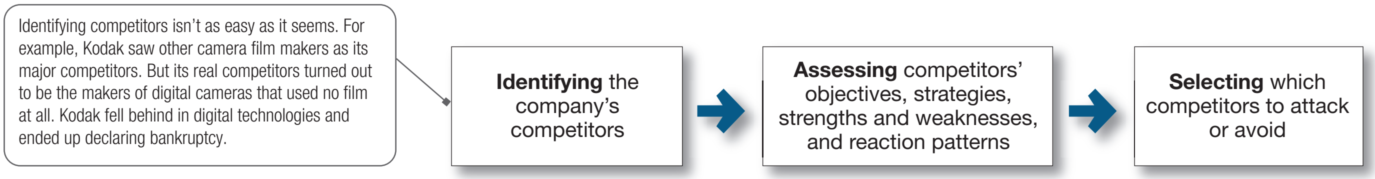


FIGURE 18.1
Steps in Analyzing Competitors

However, companies actually face a much wider range of competitors. The company might define its competitors as all firms with the same product or class of products. Thus, Ritz-Carlton would see itself as competing against all other hotels. Even more broadly, competitors might include all companies making products that supply the same service. Here Ritz-Carlton would see itself competing not only against other hotels but also against businesses large and small that supply rooms for busy travelers, from Airbnb to private bed-and-breakfasts. Finally, and still more broadly, competitors might include all companies that compete for the same consumer dollars. Here Ritz-Carlton would see itself competing with travel and leisure products and services, from cruises and summer homes to vacations abroad.

Companies must avoid "competitor myopia." A company is more likely to be "buried" by its latent competitors than its current ones. For example, Kodak didn't lose out to competing film makers such as Fuji; it fell to the makers of digital cameras and phones that use no film at all. And once-blazing-hot video-rental superstore Blockbuster didn't go bankrupt at the hands of other traditional brick-and-mortar retailers. It fell victim first to unexpected competitors such as direct marketer Netflix and kiosk marketer Redbox and then to a host of digital streaming services and technologies. By the time Blockbuster recognized and reacted to these unforeseen competitors, it was too late.

Companies can identify their competitors from an *industry* point of view. They might see themselves as being in the oil industry, the pharmaceutical industry, or the beverage industry. A company must understand the competitive patterns in its industry if it hopes to be an effective player in that industry. Companies can also identify competitors from a *market* point of view. Here they define competitors as companies that are trying to satisfy the same customer need or build relationships with the same customer group.

From an industry point of view, Google once defined its competitors as other search engine providers such as Yahoo! or Microsoft's Bing. Now, Google takes a broader view of serving market needs for online and mobile access to the digital world. Under this market definition, Google squares off against once-unlikely competitors such as Apple, Samsung, Microsoft, Amazon, and Facebook.

In general, the market concept of competition opens the company's eyes to a broader set of actual and potential competitors. For example, Amazon at first defined itself in product terms—an online bookstore competing against physical bookstores by offering a huge selection of books, conveniently available and at market-beating prices. Before long, however, Amazon adopted a broader market view. It defined itself as "the Earth's most customer-centric company," where customers could find and discover anything they might want to buy online. Under this market view, Amazon saw itself not just as an online bookstore but as a provider of unparalleled shopping experiences. Accordingly, its competitors grew from brick-and-mortar bookstores to the entire gamut of retailers, both digital and physical. And in recent years, Amazon has broadened its market view further to include providing a wide range of digital experiences, from video and music streaming to cloud services, the Internet of Things, and the metaverse. ● In the process, it has taken on digital experience technology competitors ranging from Spotify, Netflix, and Disney to Alphabet (Google), Meta (Facebook), Apple, and Microsoft.

● **Market-based competitive definition: From a market view, Amazon competes with more than just other online retailers. It competes with a broad range of technology companies offering digital experiences, including the likes of Alphabet (Google), Meta (Facebook), Apple, and Microsoft.**

GK Images/Alamy Stock Photo

Real Marketing 18.1 | Competition and Cooperation in Middle East Tourism

Business competitors are usually expected to fight each other for the customer's money, but there are circumstances where competitors can gain mutual advantage by cooperating with each other. This happens sufficiently often that a special term exists for it—coopetition. In the tourism business, hotels, tour organizers, travel firms, and other service providers for a destination location or region often work together to provide a unified positive image to visitors even as they compete with each other for reservations and tourist spending.

Furthermore, a destination country must be sold to potential visitors as an attractive choice that not only matches their needs and expectations but is a more desirable choice than competing nations as well. This is usually the function of national tourism authorities and ministries.

Consider the Middle East, which is a diverse region full of world-class attractions, many of which are under-exploited. Several types of tourists are attracted to the region—some travel for religious reasons, to visit shrines and holy sites; others do so to enjoy cultural experiences and historical sites; some seek adventure in wild places, while others prefer relaxing at a beach resort in reliable sunshine. Tourists may be local, from neighboring countries, or from farther away.

Let's first look at Qatar, a relatively small country with a population of less than three million. It competes for tourists with other countries in the region such as Saudi Arabia, Jordan, Oman, and the United Arab Emirates. Qatar's Tourism Strategy 2030 program is designed to develop its facilities and attractions while communicating its benefits to consumers. It must position itself as more attractive than its competitors, but it must also cooperate with other countries to develop the image and resources of the entire region. In addition to the physical provision of destinations, facilities, and infrastructure, the program includes simplifying tourist visas, training for service staff, and focused investment processes to attract private financial input. Furthermore, Qatar has leveraged the $300 million invested for the FIFA World Cup 2022, hoping that these will benefit general tourism in the years to follow. To expand the number of tourists visiting Qatar, the government tourism bureau partnered with Dubai-based Rehlat, a leading online travel agent that serves the whole MENA region and can offer tourists a package that includes highlights across several countries.

In Oman, the Ministry of Heritage and Tourism wants to offer tourists "luxury, nature, and adventure." The Ministry is using the concept of "clusters" to organize the development and promotion of tourist destinations, such as sites from the Bronze and Iron Ages, mountains, wadis, dunes, and Bedouin locations. Within a cluster, hotels, restaurants, tourist sites, and transport providers work together for their overall benefit. In addition to religious and historical sites, there are plans for adventure experiences and visits to authentic living cultures. The state will help to develop the required infrastructure where necessary but seeks shared investment from the private sector to develop the facilities in each cluster.

To compete with alternative MENA destinations, the Ministry is promoting the country by establishing offices in target markets such as the United Kingdom, Nordic countries, Italy, Germany, and India; it also hosted the Global Travel Week Middle East event in Oman in 2022. These types of PR exercises help to communicate the brand to tourists, which will in turn benefit the individual service providers within their clusters. In addition, the Ministry is working with Qatar Airways, the national airline, to create awareness of the various destinations.

Coopetition: Many countries in the Middle East benefit from the overall increase in tourism when they pool their resources.
Michele Burgess/Alamy Stock Photo

Jordan has a fairly well-established tourism industry, offering stunning archaeological sites; heritage and faith-based destinations; and unique facilities for meetings, incentives, conferences, and exhibitions (MICE). However, there is plenty of scope for further development, and the Kingdom has ambitious plans. These include the Green Growth National Action Plan and Jordan 2025, both of which cover development and promotion of tourist destinations, requiring cooperation among service providers, who in turn will compete for their share of the growing number of tourists.

In 2021, to attract native and expatriate tourists from the Gulf Cooperation Council (GCC) countries, Jordan launched a marketing campaign titled "Breathe," which used advice spread during COVID awareness campaigns in a playful way. For example, the caption of a picture of cyclists riding across a desert landscape recommends maintaining a safe distance between individuals, while a photo of a diver among colorful coral reefs advises the reader to wear a mask. In 2022, to compete with other MENA countries in attracting tourists from Europe, the Jordanian Ministry of Tourism launched a poster and billboard campaign in the United Kingdom, Spain, Italy, France, Germany, Switzerland, Sweden, Denmark, Austria, and the Netherlands titled "Kingdom of Time."

The United Arab Emirates and its largest city, Dubai, have long been among the top tourist destinations in the MENA region, but the Kingdom of Saudi Arabia is now determined to become a major competitor. The Jeddah Tower in Riyadh will, when completed, eclipse Dubai's Burj Khalifa as the tallest building in the world. Saudi Arabia has invested $800 billion to stimulate tourism growth, and as part of their extensive Vision 2030 program, alternative tourist sites are being developed along with new resorts and activity centers. For example, the Red Sea Project includes 50 hotels, up to 1,000 residential properties, and its own international airport, while the Amaala project, also on the Red Sea coast, will have 25 hotels and 200 high-end retailers. In 2022, Saudi Arabia presented its largest-ever pavilion at the World Travel Market London, bringing together more than 40 Saudi tourism businesses and organizations and promoting the overall brand of the country as a destination, again encouraging cooperation among service providers to increase the number of visitors and compete strongly with other destinations.

There is also pressure for countries to cooperate to raise the number of tourists traveling to groups of destinations that straddle borders. For example, Jordan has borders with Oman and Saudi Arabia and has cooperation agreements with both. All three countries contain sites that are of interest to many pilgrims doing their Hajj or Umrah pilgrimages, so it makes sense for visitors to coordinate travel and accommodation options, including reservations, and coopetition among the countries makes the journey that much easier.[2]

Assessing Competitors

Having identified the main competitors, marketing management now asks: What are the competitors' objectives? What does each seek in the marketplace? What is each competitor's strategy? What are various competitors' strengths and weaknesses, and how will each react to actions the company might take?

Determining Competitors' Objectives

Each competitor has a mix of objectives. The company wants to know the relative importance that a competitor places on current profitability, market share growth, cash flow, technological leadership, service leadership, and other goals. Knowing a competitor's mix of objectives reveals whether the competitor is satisfied with its current situation and how it might react to different competitive actions. For example, a company that pursues low-cost leadership will react much more strongly to a competitor's cost-reducing manufacturing breakthrough than to the same competitor's increase in advertising.

A company also must monitor its competitors' objectives for various segments. If the company finds that a competitor has discovered a new segment, this might be an opportunity. If it finds that competitors plan new moves into segments now served by the company, it will be forewarned and, hopefully, forearmed.

Identifying Competitors' Strategies

Strategic group
A group of firms in an industry following the same or a similar strategy.

The more that one firm's strategy resembles another firm's strategy, the more the two firms compete. In most industries, the competitors can be sorted into groups that pursue different strategies. A **strategic group** is a group of firms in an industry following the same or a similar strategy in a given target market. For example, in the major home appliance industry, Whirlpool, Maytag, and LG belong to the same strategic group. Each produces a full line of medium-price appliances supported by good service. In contrast, Sub-Zero and Viking belong to a different strategic group. They produce a narrower line of higher-quality appliances, offer a higher level of service, and charge a premium price. "We're as passionate about building Viking products as chefs are about cooking with them," says Viking. "We innovate. We over-engineer. And then we use high-grade, heavy-duty materials to create the most powerful products available. At Viking, it's more than just steel on the line. It's our pride."[3]

Strategic groups; LG competes across strategic groups. Its LG Signature line of appliances competes in the premium-quality category with Viking and Sub-Zero, letting you "Experience the Art of Essence."

KUPRYNENKO ANDRII/Shutterstock; 360b/Shutterstock

Some important insights emerge from identifying strategic groups. For example, if a company enters a strategic group, the members of that group become its key competitors. Thus, if the company enters a group against Whirlpool, Maytag, and LG, it can succeed only if it develops strategic advantages over these three brands.

Although competition is most intense within a strategic group, there is also rivalry among groups. First, some strategic groups may appeal to overlapping customer segments. For example, no matter what their strategy, all major appliance manufacturers will go after the apartment and homebuilders segment. Second, customers may not see much difference in the offers of different groups; they may see little difference in quality between LG and Whirlpool. Finally, members of one strategic group might expand into new strategy segments. Thus, LG's Signature line of appliances competes in the premium-quality, premium-price category with Viking and Sub-Zero. LG Signature appliances let you "Experience the Art of Essence: Every LG signature piece is a powerhouse of cutting-edge technology, crafted to be functional yet elegant."[4]

The company needs to look at all the dimensions that identify strategic groups within the industry. It must understand how each competitor delivers value to its customers. It needs to know each competitor's product quality, features, and mix; customer services; pricing policy; distribution coverage; sales force strategy; and advertising, digital, mobile, and social media content programs. And it must study the details of each competitor's research and development (R&D), manufacturing, purchasing, financial, and other strategies.

Assessing Competitors' Strengths and Weaknesses

Marketers need to carefully assess each competitor's strengths and weaknesses to answer a critical question: What *can* our competitors do? As a first step, companies can gather data on each competitor's goals, strategies, and performance over the past few years. Admittedly, some of this information will be hard to obtain. For example, business-to-business (B-to-B) marketers find it hard to estimate competitors' market shares because they do not have the same syndicated data services that are available to consumer packaged-goods companies.

Benchmarking
Comparing the company's products and processes to those of competitors or leading firms in other industries to identify best practices and find ways to improve quality and performance.

Companies normally learn about their competitors' strengths and weaknesses through secondary data, personal experience, and word of mouth. They can also conduct primary marketing research with customers, suppliers, and dealers. They can check competitors' online and social media sites. Or they can try **benchmarking** themselves against other firms, comparing the company's products and processes to those of competitors or leading firms in other industries to identify best practices and find ways to improve quality and performance. Benchmarking is a powerful tool for increasing a company's competitiveness.

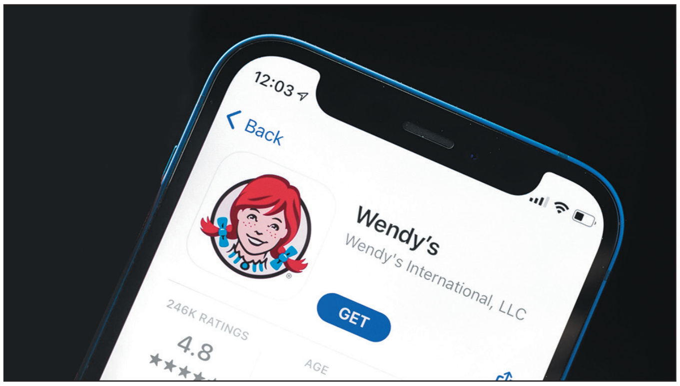
Estimating Competitors' Reactions

Next, the company wants to know: What *will* our competitors do? A competitor's objectives, strategies, and strengths and weaknesses go a long way toward explaining its likely actions. They also suggest its likely reactions to company moves, such as price cuts, promotion increases, or new product introductions. In addition, each competitor has a certain philosophy of doing business, a certain internal culture and guiding beliefs. Marketing managers need a deep understanding of a competitor's mentality if they want to anticipate how that competitor will act or react.

Each competitor reacts differently. Some do not react quickly or strongly to a competitor's move. They may feel their customers are loyal, they may be slow in noticing the move, or they may lack the funds to react. Some competitors react only to certain types of moves and not to others. Other competitors react swiftly and strongly to any action. Thus, P&G does not allow a competitor's new product to come easily into the market. Many firms avoid direct competition with P&G and look for easier prey, knowing that P&G will react fiercely if it is challenged. Knowing how major competitors react gives the company clues on how best to attack competitors or how best to defend its current positions.

In some industries, competitors live in relative harmony; in others, competitors are more openly combative. ● For example, rivals Wendy's and McDonald's have for years aggressively attacked each other with advertising, usually in good fun but sometimes in more aggressive ways:[5]

> Wendy's has long touted that it uses "fresh, never frozen" beef in its burgers. So when in mid-2017 McDonald's tweeted out that it would begin making all of its Quarter Pounders in most of its restaurants with fresh beef, Wendy's responded within only an hour or two: "@McDonalds So you'll still use frozen beef in MOST of your burgers in ALL of your restaurants?" That response turned out to be one of the brand's top tweets ever, logging as many as 600 million impressions in just over a day. Wendy's fresh-not-frozen onslaught escalated with a humorous Super Bowl LII ad supported by social media content. In the ad, Wendy's called out McDonald's boast that it uses flash-frozen beef that is "ground fresh and then quickly frozen to seal in fresh flavor." "The iceberg that sank the Titanic was frozen, too," quipped the Wendy's ad. "We only use fresh never frozen beef, on every hamburger every day. So skip the hamburgers at the Frozen Arches." The ad and those that followed have gained attention and produced results, giving new voice to Wendy's heritage "fresh, never frozen" positioning.
>
> Now the nation's number-two fast-food chain, Wendy's challenges McDonald's directly at every opportunity. For example, when McDonald's recently celebrated National Egg McMuffin Day by handing out free McMuffin sandwiches, it found itself looking over its shoulder at an all-out Wendy's marketing assault touting its entry into the breakfast wars. In Times Square, Wendy's billboards blasted out tweets from people praising Wendy's breakfast



● **Competitor reactions: Now the nation's number-two fast-food chain, Wendy's challenges McDonald's directly at every turn.**
FellowNeko/Shutterstock

fare and zinging competitors. One tweet read, "McDonald's has just announced a partnership with the NHL to provide them their hockey pucks starting 3/2 given an unexpected surge in supply. #WendysBreakfastBattle." And when Wendy's recently introduced its new guaranteed "Hot & Crispy" fries, it couldn't resist taking a direct poke at archrival McDonald's and the "cold and soggy fries" some patrons say they get there. Wendy's new fries are "even preferred almost two-to-one over McDonald's fries," noted one Wendy's ad gleefully, to the sounds of screams in the background.

In some cases, competitive exchanges can provide useful information to consumers and advantages for brands. In other cases, they can reflect unfavorably on the entire industry.

Selecting Competitors to Attack and Avoid

A company has already largely selected its major competitors through prior decisions on customer targets, positioning, and its marketing mix strategy. Management now must decide which competitors to compete against most vigorously.

Strong or Weak Competitors

A company can focus on one of several classes of competitors. Most companies prefer to compete against weak competitors. This requires fewer resources and less time. But in the process, the firm may gain little. You could argue that a firm also should compete with strong competitors to sharpen its abilities. And sometimes, a company can't avoid its largest competitors. But even strong competitors have some weaknesses, and succeeding against them often provides greater returns.

Customer value analysis
An analysis conducted to determine what benefits target customers value and how they rate the relative values of various competitors' offers.

A useful tool for assessing competitor strengths and weaknesses is **customer value analysis**. The aim of customer value analysis is to determine the benefits that target customers value and how customers rate the relative values of various competitors' offers. In conducting a customer value analysis, the company first identifies the major attributes that customers value and the importance customers place on these attributes. Next, it assesses its performance against competitors on those valued attributes.

The key to gaining competitive advantage is to examine how a company's offer compares to that of its major competitors in each customer segment. The company wants to find the place in the market where it meets customers' needs in a way rivals can't. If the company's offer delivers greater value than the competitor's offer on important attributes, it can charge a higher price and earn higher profits, or it can charge the same price and gain more market share. But if the company is seen as performing at a lower level than its major competitors on some important attributes, it must invest in strengthening those attributes or find other important attributes where it can build a lead.

Good or Bad Competitors

A company really needs and benefits from competitors. The existence of competitors results in several strategic benefits. Competitors may share the costs of market and product development and help legitimize new technologies. They may serve less-attractive segments or lead to more product differentiation. Finally, competitors may help increase total demand.

For example, you might think that having the world's major automakers move full-tilt into all-electric cars might spell trouble for electric car pioneer Tesla. Industry leader Volkswagen, for instance, plans to introduce 70 new electric models and sell 28 million electric cars across its Volkswagen, Audi, Porsche, Bentley, Skoda, and other brands by 2028. As the major car brands jump in massively, Tesla will have to keep innovating and improving its cars to compete well. However, Tesla welcomes the increased competition. More competitors will help Tesla move electric cars into the mainstream, increasing demand for its own models. "You need some critical mass to legitimize what you're doing," says one analyst. "It can be lonely at the top," says another. "The more companies that buy into electric cars, the better it is."[6]

Good competition: Rather than spelling trouble for electric car pioneer Tesla, the more that major competitors like Volkswagen buy into electric cars, the better it is for Tesla.

Kyodo/AP Images

However, a company may not view all its competitors as beneficial. An industry often contains *good competitors* and *bad competitors*. Good competitors play by the rules of the industry. Bad competitors, in contrast, break the rules. They try to buy share rather than earn it, take large risks, and play by their own rules. For example, many airlines view ultra-low-cost carrier Spirit Airlines as a bad competitor. Rather than competing on standard industry measures such as comfort, service, amenities, and on-time departures, Spirit competes strictly on rock-bottom prices, even if that means sacrificing service and extras. Its "Bare Fare" prices run as much as 90 percent lower than those of competing airlines. Slashing prices makes sense for Spirit Airlines—thanks to its industry-lowest cost per seat-mile, Spirit still reaps industry-leading profit margins. But Spirits rebellious pricing causes headaches for competitors that can't match its low fares and still make decent margins.

Finding Uncontested Market Spaces

Rather than competing head-to-head with established competitors, many companies seek out unoccupied positions in uncontested market spaces. They try to create products and services for which there are no direct competitors. Called a "blue-ocean strategy," the goal is to make competition irrelevant.[7]

Companies have long engaged in head-to-head competition in search of profitable growth. They have fought for competitive advantage, battled over market share, and struggled for differentiation. Yet in today's overcrowded industries, competing head-on results in nothing but a bloody "red ocean" of rivals fighting over a shrinking profit pool. In their book *Blue Ocean Strategy*, two strategy professors contend that although most companies compete within such red oceans, the strategy isn't likely to create profitable growth in the future. Tomorrow's leading companies will succeed not by battling competitors but by creating "blue oceans" of uncontested market space. Such strategic moves—termed *value innovation*—create powerful leaps in value for both the firm and its buyers, creating all-new demand and rendering rivals obsolete. By creating and capturing blue oceans, companies can largely take rivals out of the picture.

Apple has long practiced this strategy, introducing product firsts such as the iPod, iPhone, App Store, iPad, and iTunes that created whole new categories. Similarly, rather than competing against deeply entrenched, old-line credit card–processing companies, Square reinvented a card reader and the services behind it for the underserved small and medium-sized business (SMB) marketspace (see Real Marketing 18.2). And rather than operating its own fleet of taxis, Uber set up an app-based ride-sharing service. Netflix has forged a continually evolving value innovation strategy. To start, rather than competing with Blockbuster and the glut of other video rental retail stores, Netflix pioneered subscription-based DVD rentals by mail. Then, to find new spaces to grow, Netflix pioneered online content streaming, followed by creating and streaming its own original video content.[8]

Blue-ocean strategy: Netflix has forged a continually evolving value innovation strategy, starting with subscription-based DVD rentals by mail, then moving to online content streaming, followed by developing and streaming its own original video content.

Daniel Avram/Shutterstock

Another example of blue ocean competitors is the recent surge of direct-to-consumer (DTC) brands. Instead of than competing head-to-head with established competitors in retail stores, DTC brands have staked out new competitive space by selling and shipping directly to consumers through online and mobile channels. DTC brands have found success in categories ranging from beauty and personal care, eyewear, apparel, and food to home furnishings and fitness. Just a few examples include Dollar Shave Club and Harry's (razors and shaving products), Peloton (fitness equipment and programs), Warby Parker (eyewear), Casper (mattresses and bedding), Allbirds (environmentally friendly footwear), and BarkBox (dog toys, treats, and goodies). By bypassing intermediaries, DTC companies can cut costs and lower prices, offer greater convenience, build closer direct customer relationships, and deliver hyper-focused offerings.

Real Marketing 18.2 | Square: Smooth Sailing in a Big Blue Payment-Processing Ocean

In little more than a decade, payment-processing innovator Square has set fire to an otherwise staid industry. Its Apple-esque credit card reading devices are now found everywhere, and Square now sets the standard in credit card–processing systems for small and medium-sized businesses (SMBs). How did Square come so far so fast? The innovative company recognized and filled a largely uncontested and underserved SMB blue ocean marketspace.

For years, the payments-processing industry has been characterized by heavy regulation, exorbitant fees, and unfavorable contracts. All that made credit card processing almost impossible for small to medium-sized retailers. And the recent massive consumer shift to paying with credit or debit cards instead of cash put small retailers in a real bind. But the payments-processing industry, designed mostly to serve large retailers, had yet to catch up with the times.

So in 2009, Square stepped up to help SMBs manage their payment transactions. Its founding philosophy: "We believe all businesses should be able to participate and thrive in the economy." Square set itself up as a big-business partner to SMBs by putting up the capital and assuming the risks of processing credit and debit card transactions. It formed direct alliances with credit card companies such as Visa and Mastercard, bypassing the credit card–processing companies altogether and negotiating lower fees. With low fees, a simple structure, and minimal overhead, Square made its services available to anyone—small retailers or even everyday individuals—with no contract and no approval process.

At the same time that it sorted out the back-office part of card-payment processing, Square reshaped and simplified the front-end transaction interface between merchants and their customers. It developed the now-familiar Square dongle—a small yet elegant white plastic magstripe reader that sellers could plug into the headphone port of their smartphones and tablets. Thus, with nothing more than a smartphone, any small merchant or other organization could accept credit and debit card payments, whether selling from a traditional small store, a street cart, a booth at an event, or even the trunk of a car.

Once launched, Square realized that it offered only one narrow solution to a much broader SMB problem. It had made credit card payment processing available to all, and its smartphone-connected reader was a good basic solution for many sellers. But most SMBs needed more—they needed simple but more-advanced solutions and systems that gave customers a greater impression of stability and security. So Square unleashed a succession of hardware, software, and service innovations that soon rivaled the best of Silicon Valley.

Square first introduced the Square Stand, which holds an Apple iPad, sits on a merchant's countertop, and serves as a customizable "register." Once a bill is finalized, Square Stand rotates to face customers, allowing them to swipe or insert a card and sign on the touchscreen. Today, Square Stand has evolved to interface with commonly used peripherals such as printers, cash drawers, bar code scanners, and even Square's own Bluetooth reader for contactless forms of payment such as Apple Pay and Google Pay.

Next up was the Square Register, which employs two tablets, one facing the employee and the other facing the customer. Register saves money and time by not requiring an Apple iPad. More important, Register solves problems that larger businesses had with Square's other products. For example, iPads must be updated frequently. For chains with multiple checkout lanes in multiple stores, updating every iPad would be an overwhelming chore. Square Register solves this and other problems by using tablets that are stripped down in both hardware (no battery) and software (only Square software).

Most recently, Square introduced the Square Terminal, an all-in-one point-of-sale payment terminal. Terminal, a handheld, smartphone-sized device with a touchscreen, lets customers see their bill, swipe or tap a card to pay, and sign in one seamless transaction. Terminal can also print receipts.

Square's innovative hardware overcomes many of the problems with the standard credit card terminals that long dominated the point of sale. The old devices are characterized by a small and clunky keypad resembling the handheld calculators of 40 years ago. The tiny screens do not let customers examine their complete bills. And the older devices are difficult to update with new capabilities, often requiring entirely new and expensive hardware. Before Square, businesses and customers came to accept these devices as unpleasant but necessary realities. Not so with Square.

Square's devices typify its philosophy of continuous value innovation. The company began with the goal of making in-person payment transactions less painful and more elegant for both sellers and buyers. As it grows, Square retains its focus on SMBs and small-volume transactors, but it has now broadened its domain to finding simple but elegant solutions to "all transactions, online and off."

Moving beyond in-person payment processing, Square has now invaded PayPal's online payments territory. It's Venmo-like Cash App lets individuals send money to each other with the ease of an app. And under its "all transactions" goal, Square has ventured beyond the payments business altogether, turning Square devices into gateways to an entire ecosystem of small-business essentials. Today, Square provides a full portfolio of SMB

Payment-processing innovator Square recognized and filled a largely uncontested and underserved SMB blue ocean marketspace, setting fire to an otherwise staid industry.

Tada images/Shutterstock; photo_gonzo/Shutterstock services, including creating and hosting online store platforms, omni-channel integration, payments, loans, appointment scheduling, payroll processing, and much more.

Most recently, Square made a big leap into banking with the launch of Square Banking, a suite of powerful financial tools designed to give SMBs access to banking products that were previously out of their reach. With Square Banking, Square plans to serve as the "primary provider of financing for Square sellers across the U.S." Square's clients can now seamlessly incorporate savings accounts, checking accounts, loans, and a credit card into the ecosystem of Square products, providing a single financial home for their entire business.

Square continues to deeply disrupt the financial transactions establishment and keep the industry guessing. Just recently, parent Square, Inc. became Block, Inc., a holding company housing Square, Cash App, recently acquired Afterpay (a "buy now, pay later" service), Spiral ("dedicated to advancing bitcoin"), and other businesses related to Square's mission of economic empowerment for everyone.

As it moves forward in serving the previously uncontested SMB transactions marketspace, Square is now enjoying fast and smooth sailing in its big blue ocean. The startup is growing rapidly and profitably. In just the past four years, Square's revenues have multiplied ninefold to nearly $18 billion. The company has turned a profit for the past three years, an unusual feat for tech startups in their first decade. Square also handled $154 billion in transaction payments—impressive, but still a drop in the ocean given Square's potential market.

"Our approach has been to not just stop at the device, but [to build a] connection to the broader ecosystem of tools," says Square founder Jack Dorsey. "If we can tell a story that is bigger than one piece of [visible] hardware, then we tend to shift minds."[9]

Designing a Competitive Intelligence System

We have described the main types of information that companies need about their competitors. This information must be collected, interpreted, distributed, and used. Gathering competitive intelligence can cost much money and time, so the company must design a cost-effective competitive intelligence system.

The competitive intelligence system first identifies the vital types of competitive information needed and the best sources of this information. Then the system continuously collects information from the field (sales force, channels, suppliers, market research firms, internet and social media sites, online monitoring, and trade associations) and published data (government publications, speeches, and online databases). Next the system checks the information for validity and reliability, interprets it, and organizes it in an appropriate way. Finally, it makes relevant information and insights available to decision makers and responds to inquiries from managers about competitors.

With this system, company managers receive timely intelligence about competitors in the form of reports and assessments, posted bulletins, newsletters, and email and mobile alerts. Managers can also connect when they need to interpret a competitor's sudden move, know a competitor's weaknesses and strengths, or assess how a competitor will respond to a planned company move.

Author Comment | Now that we've identified competitors and know all about them, it's time to design a strategy for gaining competitive advantage.

Competitive Strategies

OBJECTIVE 18-2 Explain the fundamentals of competitive marketing strategies based on creating value for customers.

Having identified and evaluated its major competitors, a company now must design broad marketing strategies by which it can gain competitive advantage. But what broad competitive marketing strategies might the company use? Which ones are best for a particular company or for the company's different divisions and products?

Approaches to Marketing Strategy

No one strategy is best for all companies. Each company must determine what makes the most sense given its position in the industry and its objectives, opportunities, and resources. Even within a company, different strategies may be required for different businesses or products. Johnson & Johnson uses one marketing strategy for its leading brands in stable consumer markets, such as BAND-AID, Tylenol, Listerine, or J&J's baby products, and a different marketing strategy for its high-tech health-care businesses and products, such as Monocryl surgical sutures or NeuFlex finger joint implants.

Companies also differ in how they approach the strategy-planning process. Many large firms develop formal competitive marketing strategies and implement them religiously. However, other companies develop strategy in a less formal and orderly fashion. Some companies, such as Red Bull and Spanx, have succeeded by breaking many of the rules

Entrepreneurial marketing: Boston Beer Company founder Jim Koch first marketed his Samuel Adams beer by carrying bottles in a suitcase from bar to bar, telling his story, educating consumers, getting people to taste the beer, and persuading bartenders to carry it. The company is now one of America's leading craft breweries.

Kelvin Ma/Bloomberg via Getty Images

of marketing strategy. Such companies didn't start with large marketing departments, conduct expensive marketing research, spell out elaborate competitive strategies, and spend huge sums on advertising. Instead, they sketched out strategies on the fly, stretched their limited resources, lived close to their customers, and created more satisfying solutions to customer needs. They formed buyers' clubs, used buzz marketing, engaged customers up close, and focused on winning customer loyalty. It seems that not all marketing must follow in the footsteps of marketing giants such as P&G, McDonald's, and Microsoft.

In fact, approaches to marketing strategy and practice often pass through three stages—entrepreneurial marketing, formulated marketing, and intrapreneurial marketing:

- *Entrepreneurial marketing.* Most companies are started by individuals who live by their wits. They visualize an opportunity, construct flexible strategies on the backs of envelopes, and knock on every door to gain attention. Jim Koch, founder of Boston Beer Company, whose Samuel Adams Boston Lager beer has become one of the top-selling craft beers in America, started out in 1984 brewing a cherished family beer recipe in his kitchen. For marketing, Koch carried bottles of Samuel Adams in a suitcase from bar to bar, telling his story, educating consumers about brewing quality and ingredients, getting people to taste the beer, and persuading bartenders to carry it. For 10 years, he couldn't afford advertising; he sold his beer through direct selling and grassroots public relations. "It was all guerrilla marketing," says Koch. "The big guys were so big, we had to do innovative things like that." Today, however, his business pulls in more than $2 billion a year, making it a leader among more than 1,000 competitors in the craft brewery market.[10]

- *Formulated marketing.* As small companies achieve success, they inevitably move toward more-formulated marketing. They develop formal marketing strategies and adhere to them closely. Boston Beer Company now employs a large sales force and has a marketing department that carries out market research and plans strategy. Although Boston Beer Company is still much smaller and less formal in its strategy than $54 billion mega-competitor Anheuser-Busch Inbev, it has adopted many of the tools used in professionally run marketing companies.
- *Intrapreneurial marketing.* Many large and mature companies get stuck in formulated marketing. They pore over the latest Nielsen numbers, scan market research reports, and try to fine-tune their competitive strategies and programs. These companies sometimes lose the marketing creativity and passion they had at the start. They now need to build more marketing initiative and "intrapreneurship"—encouraging employees to be more entrepreneurial within the larger corporation—recapturing some of the spirit and action that made them successful in the first place. Some companies build intrapreneurship into their core marketing operations. For example, IBM encourages employees at all levels to interact on their own with customers through blogs, social media, and other platforms. Google's Area 120 in-house innovation program encourages all of its engineers and developers to spend 20 percent of their time developing "cool and wacky" new product ideas—blockbusters such as Google News, Gmail, Google Maps, and AdSense are just a few of the resulting products. And Facebook sponsors regular "hackathons," during which it encourages internal teams to come up with and present intrapreneurial ideas. One of the most important innovations in the company's history—the "Like" button—resulted from such a hackathon.[11]

The bottom line is that there are many approaches to developing effective competitive marketing strategies. There will be a constant tension between the formulated side of marketing and the creative side. It is easier to learn the formulated side of marketing, which has occupied most of our attention in this book. But we have also seen how marketing creativity and passion in the strategies of many of the companies studied—whether small or large, new or mature—have helped to build and maintain success in the marketplace. With this in mind, we now look at the broad competitive marketing strategies companies can use.

Basic Competitive Strategies

More than three decades ago, Michael Porter suggested four basic competitive positioning strategies that companies can follow—three winning strategies and one losing one.[12] The three winning strategies are as follows:

- *Overall cost leadership.* Here the company works hard to achieve the lowest production and distribution costs. Low costs let the company price lower than its competitors and win a large market share. Walmart, Lenovo, and Spirit Airlines are leading practitioners of this strategy.
- *Differentiation.* Here the company concentrates on creating a highly differentiated product line and marketing program so that it comes across as the class leader in the industry. Most customers would prefer to own this brand if its price is not too high. Nike and Caterpillar follow this strategy in apparel and heavy construction equipment, respectively.
- *Focus.* Here the company focuses its effort on serving a few market segments well rather than going after the whole market. For example, Ritz-Carlton focuses on the top 5 percent of corporate and leisure travelers. Bose concentrates on very high-quality electronics products that produce better sound. And search engine DuckDuckGo focuses on a segment of users who are especially concerned about internet tracking and privacy.

Companies that pursue a clear strategy—one of the above—will likely perform well. The firm that carries out that strategy best will make the most profits. But firms that do not pursue a clear strategy—*middle-of-the-roaders*—do the worst. Sears, Levi-Strauss, and Holiday Inn encountered difficult times because they did not stand out as the lowest in cost, highest in perceived value, or best in serving some market segment. Middle-of-the-roaders try to be good on all strategic counts but end up being not very good at anything.

Two marketing consultants, Michael Treacy and Fred Wiersema, offer a more customer-centered classification of competitive marketing strategies.[13] They suggest that companies gain leadership positions by delivering superior value to their customers. Companies can pursue any of three strategies—called *value disciplines*—for delivering superior customer value:

- *Operational excellence.* The company provides superior value by leading its industry in price and convenience. It works to reduce costs and create a lean and efficient value delivery system. It serves customers who want reliable, good-quality products or services but want them cheaply and easily. Examples include Walmart, IKEA, Zara, Southwest Airlines, and no-frills grocery retailer Lidl. ● For example, consider Lidl's operational excellence strategy:[14]

> Two of Lidl's core principles may seem contradictory: "Customer satisfaction is our highest priority." and "Unbelievably low prices determine our position in the market." Yet, with its operational excellence strategy, Lidl pulls it off. Remarkably, more than 80 percent of all brands carried by Lidl are store brands, carefully selected to match the company's high-quality standards. But sourcing private brands directly from manufacturers lets Lidl control costs, and Lidl uses its economies of scale to keep its brands affordable. In its stores, Lidl works obsessively to keep costs low. For example, it offers a limited ("refreshingly simple") selection of 2,000 items (versus 20,000 at a typical grocery store) sold in high volume, increasing its buying power with suppliers. Staffing is minimal. Customers bring their own bags and bag their own groceries. And most products are displayed in custom boxes—when a box is empty, it is simply replaced by a full one, saving hours spent stocking shelves. Lidl further offsets its limited number of employees with efficient backroom technology and automation. Operational excellence is working well for Lidl. The chain now operates 11,200 stores in 32 countries worldwide and is one of the fastest-growing grocery chains in the United States.

● **Operational excellence: Through operational excellence, no-frills grocery retailer Lidl pulls off two seemingly contradictory core principles—"Customer satisfaction is our highest priority." and "Unbelievably low prices determine our position in the market."**

NetPhotos/Alamy Stock Photo

- *Customer intimacy.* The company provides superior value by precisely segmenting its markets and tailoring its products or services to exactly match the needs of targeted customers. It specializes in satisfying unique customer needs through a close relationship with and intimate knowledge of the customer. It empowers its people to respond quickly to customer needs. Customer-intimate companies serve customers who are willing to pay a premium to get precisely what they want. They will do almost anything to build long-term customer loyalty and to capture customer lifetime value. Examples include Amazon, Salesforce, Lexus, Ritz-Carlton hotels, and Nordstrom department stores. For example, superb customer service is deeply rooted in the nearly 120-year-old Nordstrom's DNA, as summarized in its staunchly held mantra: "Take care of customers no matter what it takes." Although many companies pay homage to similar pronouncements hidden away in their mission statements, Nordstrom really means it—and really makes it happen.

- *Product leadership.* The company provides superior value by offering a continuous stream of leading-edge products or services. It aims to make its own and competing products obsolete. Product leaders are open to new ideas, relentlessly pursue new solutions, and work to get new products to market quickly. They serve customers who want state-of-the-art products and services regardless of the costs in terms of price or inconvenience.

  One example of a product leader is Apple. From the very beginning, Apple has churned out one cutting-edge product after another. It all started with the sleek, affordable Apple Macintosh, the first personal computer ever to feature a graphic user interface and mouse. That was followed by an Apple-led revolution in which groundbreaking Apple products such as the iPod, iTunes, the iPhone, and the iPad all created whole new categories where none previously existed. More recently, the latest iPhone models continue to wow users, Apple's wireless AirPods have become fixtures around the globe, and the Apple Watch Series 3 fitness watch is a best-seller. At Apple, innovation is more than skin deep. For example, the company designs its own sophisticated processor chips, specifically optimized for its Apple's operating system, display, camera, and apps.

Some companies successfully pursue more than one value discipline at the same time. For example, FedEx excels at both operational excellence and customer intimacy. However, such companies are rare; few firms can be the best at more than one of these disciplines. By trying to be good at all value disciplines, a company usually ends up being best at none.

Thus, most excellent companies focus on and excel at a single value discipline while meeting industry standards on the other two. Such companies design their entire value delivery network to single-mindedly support the chosen discipline. For example, Walmart knows that customer intimacy and product leadership are important. Compared with other discounters, it offers good customer service and an excellent product assortment. Still, it purposely offers less customer service and less product depth than does Nordstrom or Williams-Sonoma, which pursue customer intimacy. Instead, Walmart focuses obsessively on operational excellence—on reducing costs and streamlining its order-to-delivery process to make it convenient for customers to buy just the right products at the lowest prices.

Classifying competitive strategies as value disciplines is appealing. It defines marketing strategy in terms of the single-minded pursuit of delivering superior value to customers. Each value discipline defines a specific way to build lasting customer relationships.

Competitive Positions

Firms competing in a given target market at any point differ in their objectives and resources. Some firms are large; others are small. Some have many resources; others are strapped for funds. Some are mature and established; others new and fresh. Some strive for rapid market share growth; others for long-term profits. And these firms occupy different competitive positions in the target market.

We now examine competitive strategies based on the roles firms play in the target market—leader, challenger, follower, or nicher. Suppose that an industry contains the firms shown in **Figure 18.2**. As you can see, 40 percent of the market is in the hands of the

FIGURE 18.2
Competitive Market Positions and Roles

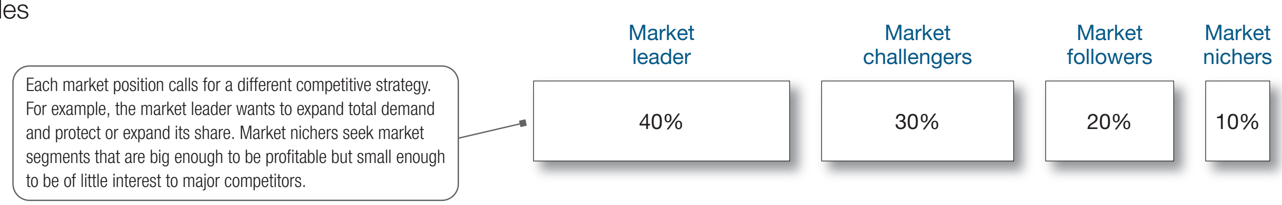


Table 18.1 | Strategies for Market Leaders, Challengers, Followers, and Nichers

Market Leader Strategies	Market Challenger Strategies	Market Follower Strategies	Market Nicher Strategies
Expand total market	Full frontal attack	Follow closely	By customer, market, quality, price, service
Protect market share	Indirect attack	Follow at a distance	Multiple niching
Expand market share			

Market leader
The firm in an industry with the largest market share.

Market challenger
A runner-up firm that is fighting hard to increase its market share in an industry.

Market follower
A runner-up firm that wants to hold its share in an industry without rocking the boat.

Market nicher
A firm that serves small segments that the other firms in an industry overlook or ignore.

market leader, the firm with the largest market share. Another 30 percent is in the hands of **market challengers**, runner-up firms that are fighting hard to increase their market share. Another 20 percent is in the hands of **market followers**, other runner-up firms that want to hold their share without rocking the boat. The remaining 10 percent is in the hands of **market nichers**, firms that serve small segments not being pursued by other firms.

Table 18.1 shows specific marketing strategies that are available to market leaders, challengers, followers, and nichers.[15] Remember, however, that these classifications often do not apply to a whole company but only to its position in a specific industry. Large companies such as Amazon, Microsoft, Google, P&G, or Disney might be leaders in some markets and nichers in others. For example, Amazon leads the online retailing market but challenges Apple and Samsung in smartphones and tablets. P&G leads in many segments, such as laundry detergents and shampoo, but it challenges Unilever in hand soaps and Kimberly-Clark in facial tissues. Such companies often use different strategies for different business units, products, or brands, depending on the competitive situations of each.

Market Leader Strategies

Most industries contain an acknowledged market leader. The leader has the largest market share and usually leads the other firms in price changes, new product introductions, distribution coverage, and promotion spending. The leader may or may not be admired or respected, but other firms concede its dominance. Competitors focus on the leader as a company to challenge, imitate, or avoid. Some of the best-known market leaders are Walmart (retailing), Amazon (online retailing), McDonald's (fast food), Disney (entertainment), AT&T (telecommunications), Coca-Cola (beverages), Boeing (aerospace), Nike (athletic footwear and apparel), Marriott (hotels and resorts), and Google (internet search).

A leader's life is not easy. It must maintain a constant watch. Other firms keep challenging its strengths or trying to take advantage of its weaknesses. The market leader can easily miss a turn in the market and plunge into second or third place. A product innovation may come along and hurt the leader (as when Netflix's direct marketing and video streaming unseated then-market leader Blockbuster or when Apple developed the iPod and iTunes and took the market lead from Sony's Walkman portable audio devices). The leader might grow arrogant or complacent and misjudge the competition (as when Sears lost its lead to Walmart). Or the leader might look old-fashioned against new and peppier rivals (as when Abercrombie & Fitch lost ground to stylish or lower-cost brands such as Zara, H&M, and Forever 21).

To remain number one, leading firms can take any of three actions. First, they can find ways to expand total demand. Second, they can protect their current market share through good defensive and offensive actions. Third, they can try to expand their market share further, even if market size remains constant.

Expanding Total Demand

The leading firm normally gains the most when the total market expands. If Americans eat more fast food, McDonald's stands to gain the most because it holds a much larger fast-food market share than competitors such as Subway, Wendy's, Burger King, or Taco Bell. If McDonald's can convince more Americans that fast food is the best eating-out choice, it will benefit more than its competitors.

Market leaders can expand the market by developing new users, new uses, and more usage of its products. They usually can find *new users* or untapped market segments in many places. For example, the Food Network, a market-leading lifestyle network, continues to grow its fan base by adding new content and channels:[16]

> When Food Network began as a basic 24/7 cable channel in 1993, few experts thought that any channel could survive by trying to fill 24 hours daily with only food and cooking shows. "Nowadays, it's hard to imagine a world without Guy Fieri noshing on greasy spoon burgers or *Chopped* contestants grappling with a bunch of odd ingredients," says one industry observer. "But in the early days of the Food Network, industry executives worried that a network devoted exclusively to food would be a tough sell." However, the Food Channel pulled it off by turning a kitchen full of chefs into star celebrities, one after another—from Emeril Lagasse, Alton Brown, and Sara Moulton to Guy Fieri, Ted Allen, Rachael Ray, Ree Drummond, Giada De Laurentiis, Michael Symon, and Bobby Flay.
>
> Then, even as a lifestyle channel leader, the Food Channel continued to grow its fan base with a constant stream of new content and media. In 2009, it began publishing *The Food Network Magazine*, now the nation's number-two best-selling magazine on newsstands with 13.5 million readers. It developed a full website and social media portfolio, now attracting 33.3 million followers on Facebook, 12.4 million on Instagram, 5.1 million on Twitter, and 2.4 million on TikTok. One of the channel's latest moves to attract new users is the Food Channel Kitchen, a site and app where people take on-demand cooking classes with their favorite Food Network chefs, obtain recipes with step-by-step tutorials, receive exclusive weekly meal plans, and stream Food Network shows ad-free. Thus, through its quest to attract new users, the Food Network remains a leading lifestyle network, website, and magazine that now reaches nearly 100 million U.S. households and draws more than 46 million unique web users monthly.

Marketers can expand markets by discovering and promoting *new uses* for the product. For example, BOUNCE Inc. is a trampoline park that has been a market leader since 2014 thanks to its first-mover advantage in the MENA region. Despite competition from new entrants in the market, BOUNCE maintains a strategy of aggressive growth, with a seventh MENA venue opened in 2019. BOUNCE has strategically evolved its product by adding entertainment elements that allow the users to develop their freestyle skills from a hobby to a skill with the help of expert guides. Their innovations include the incorporation of free run (parkour), cage football, zip lines, and challenge courses. BOUNCE is now also creating new revenue streams as party venues and corporate events facilities. In the latter offering, BOUNCE hosts corporate away days with team-building activities designed to promote leadership, teamwork, communication, and healthy competition. This growth strategy has enabled BOUNCE to capture new users that were previously being catered to by other competitors, and in the case of corporate clients, it has been able to offer a unique experience without significantly altering their regular market offering.[17]

Finally, market leaders can encourage *more usage* by convincing people to use the product more often or use more per occasion. For example, Campbell's urges people to eat soup and other Campbell's products more often by running ads containing new recipes. At the Campbell's Kitchen website (www.campbellskitchen.com), visitors can search for or exchange recipes, create their own personal recipe box, learn ways to eat healthier, and sign up for a daily or weekly Meal Mail program. At the Campbell's Facebook, Pinterest, and Twitter sites, consumers can join in and share on Campbell's Kitchen Community conversations.

Promoting new uses: Campbell fosters communities where people can search for, create, or exchange recipes, thereby increasing the use of its soups.

Postmodern Studio/Alamy Stock Photo

Protecting Market Share

While trying to expand total market size, the leading firm also must protect its current business against competitors' attacks. Walmart must constantly guard against Amazon, Target, and Costco; McDonald's against Wendy's and Burger King; and Nike against adidas.

What can the market leader do to protect its position? First, it must prevent or fix weaknesses that provide opportunities for competitors. It must always fulfill its value promise and work tirelessly to engage valued customers in strong relationships. Its prices must remain consistent with the value that customers see in the brand. The leader should "plug holes" so that competitors do not jump in.

Protecting market share: P&G's researchers push the boundaries of science and style to keep a technological edge over disposable diaper challengers. Thanks to relentless innovation and brand building, P&G maintains a commanding market share lead.

Luke Sharrett/Bloomberg/Getty Images

But the best defense is a good offense, and the best response is continuous innovation. The market leader refuses to be content with the way things are and leads the industry in new products, customer services, distribution effectiveness, promotion, and cost cutting. It keeps increasing its competitive effectiveness and value to customers. And when attacked by challengers, the market leader reacts decisively. For example, in the $73 billion global disposable diaper market, market leader P&G—with its Pampers and Luvs brands—has been relentless in its offense against challengers such as Kimberly-Clark's Huggies:[18]

> Disposable diapers make up a double-digit percent share of P&G's sales. So the company invests huge resources in disposable diaper and baby-care R&D, seeking to build the ultimate diaper that yields "zero leakage, ultimate dryness, ultimate comfort, with an underwear-like fit," says a P&G baby-care research manager. At five baby-care centers around the globe, P&G's researchers push the boundaries of science and style to keep a technological edge over challengers. P&G's baby-care division now has more than 5,000 diaper patents granted or pending. For instance, it introduced Pamper Premium Care Pants, diapers with all-around elastic that can be pulled on like underwear, now the most popular diaper variety in China. It introduced Pampers Pure, now the top-selling natural diaper. Next up in diaper innovation: smart diapers with imbedded sensors that alert parents through smartphone apps when their babies wet a diaper or even notify parents if they detect the wearer catching a disease. Beyond its push for technological superiority, P&G employs its hefty marketing clout to engage consumers and persuade them that its diapers are best for their babies. In all, thanks to its relentless innovation and brand building, in the United States P&G holds a 43-percent-and-growing market share versus challenger Kimberly-Clark's 35 percent.

Expanding Market Share

Market leaders also can grow by increasing their market shares further. In many markets, small market share increases mean very large sales increases. For example, in the U.S. hair care market, a 1 percent increase in market share is worth $123 million in annual sales; in soft drinks, almost $1.2 billion![19]

Studies have shown that, on average, profitability rises with increasing market share. Because of these findings, many companies have sought expanded market shares to improve profitability. In recent years, for example, P&G has shed dozens of smaller, low-share brands in order to focus its resources on fewer but larger-share billion-dollar-plus brands. More than one-third of the company's brands now fall into this mega-brand category.

However, some studies have found that many industries contain one or a few highly profitable large firms, several profitable and more focused firms, and a large number of medium-sized firms with poorer profit performance. It appears that profitability increases as a business gains share relative to competitors in its served market. For example, Lexus holds only a small share of the total car market, but it earns a high profit because it is a leading brand in the luxury-performance car segment. And it has achieved this high share in its served market because it does other things right, such as producing high-quality products, creating outstanding service experiences, and building close customer relationships.

Companies must not think, however, that gaining increased market share will automatically improve profitability. Much depends on their strategy for gaining increased share. There are many high-share companies with low profitability and many low-share companies with high profitability. The cost of buying higher market share may far exceed the returns. Higher shares tend to produce higher profits only when unit costs fall with increased market share or when the company offers a superior-quality product and charges a premium price that more than covers the cost of offering higher quality.

Market Challenger Strategies

Firms that are second, third, or lower in an industry are sometimes quite large, such as PepsiCo, Ford, Lowe's, Hertz, and Target. These runner-up firms can adopt one of two competitive strategies: They can challenge the market leader and other competitors in an aggressive bid for more market share (market challengers), or they can play along with competitors and not rock the boat (market followers).

A market challenger must first define which competitors to challenge and its strategic objective. The challenger can attack the market leader, a high-risk but potentially high-gain strategy. Its goal might be to take over market leadership. Or the challenger's objective may simply be to wrest more market share.

Although it might seem that the market leader has the most going for it, challengers often have what some strategists call a "second-mover advantage." The challenger observes what has made the market leader successful and improves on it. For example, Home Depot invented the home-improvement superstore. However, after observing Home Depot's success, number-two Lowe's, with its brighter stores, wider aisles, and arguably more helpful salespeople, positioned itself as the friendly alternative to Big Bad Orange. That let follower Lowe's substantially close the gap in sales and market share with Home Depot.

In fact, challengers often become market leaders by imitating and improving on the ideas of pioneering processors. For example, McDonald's first imitated and then mastered the fast-food system first pioneered by White Castle. And founder Sam Walton admitted that Walmart borrowed most of its practices from discount pioneer Sol Price's FedMart and Price Club chains and then perfected them to become today's dominant retailer.

Alternatively, the challenger can avoid the leader and instead challenge firms its own size or smaller local and regional firms. These smaller firms may be underfinanced and not serving their customers well. If the challenger goes after a small local company, its objective may be to put that company out of business. The important point remains: The challenger must choose its opponents carefully and have a clearly defined and attainable objective.

Market challenger strategies: When it entered the U.S. market, rather than attacking market leaders Coca-Cola and Pepsi directly, Red Bull used indirect, unconventional marketing approaches.

zef art/Shutterstock

How can the market challenger best attack the chosen competitor and achieve its strategic objectives? It may launch a full *frontal attack*, matching the competitor's product, advertising, price, and distribution efforts. It attacks the competitor's strengths rather than its weaknesses. The outcome depends on who has the greater strength and endurance. PepsiCo challenges Coca-Cola in this way, Ford challenges Toyota frontally, and Sprint goes directly at AT&T.

If the market challenger has fewer resources than the competitor, however, a frontal attack makes little sense. Thus, many new market entrants avoid frontal attacks, knowing that market leaders can head them off with ad blitzes, price wars, and other retaliations. Rather than challenging head-on, the challenger can make an indirect attack on the competitor's weaknesses or on gaps in the competitor's market coverage. It can carve out toeholds using tactics that established leaders have trouble responding to or choose to ignore.

For example, consider how challenger Red Bull first entered the U.S. soft drink market against market leaders Coca-Cola and PepsiCo. Red Bull tackled the leaders indirectly by selling a high-priced niche product in nontraditional distribution points. It began by selling Red Bull via unconventional outlets that were under the radar of the market leaders, such as nightclubs and bars where young revelers gulped down their caffeine fix so they could go all night. Once it had built a core customer base, the brand expanded into more traditional outlets, where it now sits within arm's length of Coke and Pepsi. Finally, Red Bull used a collection of guerrilla marketing tactics rather than the high-cost traditional media used by the market leaders. The indirect approach worked for Red Bull. Despite ever-intensifying competition, Red Bull is now a $8.7 billion brand that captures a 43 percent share of the worldwide energy drink market, with Coca-Cola and PepsiCo holding only minor market shares.[20]

Market Follower Strategies

Not all runner-up companies want to challenge the market leader. The leader never takes challenges lightly. If the challenger's lure is lower prices, improved service, or additional product features, the market leader can quickly match these to defuse the attack. The leader probably has more staying power in an all-out battle for customers. For example, a few years ago, when Sears-owned Kmart renewed its once-successful low-price "blue-light special" campaign, directly challenging Walmart's everyday low prices, it started a price war that it couldn't win. Walmart had little trouble fending off Kmart's challenge, leaving Kmart worse off for the attempt. With no competitive strategy to effectively challenge retailing leaders like Walmart and Amazon, Kmart is now all but extinct. At its peak in the 1990s, Kmart had 2,400 U.S. stores and 350,000 employees but now operates only four stores. Thus, many firms prefer to follow rather than challenge the market leader.[21]

A follower can gain many advantages. The market leader often bears the huge expenses of developing new products and markets, expanding distribution, and educating the market. By contrast, as with challengers, the market follower can learn from the market leader's experience. It can copy or improve on the leader's products and programs, usually with much less investment. Although the follower will probably not overtake the leader, it often can be as profitable.

Following is not the same as being passive or a carbon copy of the market leader. A follower must know how to hold current customers and win a fair share of new ones. It must find the right balance between following closely enough to win customers from the market leader and following at enough of a distance to avoid retaliation. Each follower tries to bring distinctive advantages to its target market—location, services, financing. A follower is often a major target of attack by challengers. Therefore, the market follower must maintain customer value, through either lower costs and prices or higher quality and better services that justify higher prices. It must also enter new markets as they open.

Market Nicher Strategies

Almost every industry includes firms that specialize in serving market niches. Instead of pursuing the whole market or even large segments, these firms target subsegments. Nichers are often smaller firms with limited resources. But smaller divisions of larger firms also may pursue niching strategies. Firms with low shares of the total market can be highly successful and profitable through smart niching.

Why is niching profitable? The main reason is that the market nicher ends up knowing the target customer group so well that it meets their needs better than other firms that casually sell to that niche. As a result, the nicher can charge a substantial markup over costs because of the added value. Whereas the mass marketer achieves high volume, the nicher achieves high margins.

Nichers try to find one or more market niches that are safe and profitable. An ideal market niche is big enough to be profitable and has growth potential. It is one that the firm can serve effectively. Perhaps most important, the niche is of little interest to major competitors. And the firm can build the skills and customer goodwill to defend itself against a major competitor as the niche grows and becomes more attractive.

The key idea in niching is specialization. Nichers thrive by meeting in depth the special needs of well-targeted customer groups. For example, Google dominates U.S. online search with its massive 63 percent market share. Two other giants—Microsoft's Bing and Yahoo!—combine for another 34 percent. That leaves a precious 3 percent sliver for dozens of other search engines trying to get a foothold. So how does a small search engine wannabe compete against global powerhouses? It doesn't, at least not directly. Instead, it finds a unique market niche and runs where the big dogs don't. ● That's the strategy of DuckDuckGo, a plucky search engine nicher that has carved out its own special market space:[22]

> Instead of battling Google and other giants head-on, DuckDuckGo positions itself strongly on a key differentiating feature that the Googles of the world simply can't mimic—real privacy. Then it energizes its unique niche with brand personality and user community, personified by DuckDuckGo's icon—a quirky bow-tied duck. Google's entire model is built around personalization for customers and behaviorally targeted marketing for advertisers. That requires collecting and sharing data about users and their searches. When you search on Google, the company knows and retains in detail who you are, what you've searched for, and when you've searched.

● **Niche marketing: DuckDuckGo thrives in the shadows of giant search engine competitors by providing something the Googles of the world can't mimic—real privacy.**

Ascannio/Shutterstock

By contrast, DuckDuckGo is less invasive and less creepy. It doesn't know who you are. It doesn't log user IP addresses, use cookies to track users, or even save user search histories. Perhaps most important, when users click on DuckDuckGo's search results links, the linked websites don't receive any information generated by the search engine. "No tracking, no ad targeting, just searching," promises DuckDuckGo. Thus, DuckDuckGo has become a preferred search engine for people who prize online privacy, and that's a sizable group.

DuckDuckGo isn't just surviving in its niche, it's thriving. The company is still comparatively tiny—it averages about 98 million searches a day versus Google's 5.6 billion. But DuckDuckGo's daily search volume has grown more than ninefold in just the past five years, whereas Google's volume growth has lagged a bit. In many ways, DuckDuckGo is David to Google's Goliath. But unlike David, DuckDuckGo isn't out to slay the giant. It knows that it can't compete head-on with Google. Then again, given the depth of consumer engagement and loyalty that DuckDuckGo engenders in its own small corner of the online search market, Google and the other giants may find it difficult to compete with DuckDuckGo for privacy-minded users.

A market nicher can specialize along any of several market, customer, product, or marketing mix lines. For example, it can specialize in serving one type of *end user*, as when a law firm specializes in the criminal, civil, or business law markets. The nicher can specialize in serving a given *customer-size* group. Many nichers specialize in serving small and midsize customers who are neglected by the majors.

Some nichers focus on one or a few *specific customers*, selling their entire output to a single company, such as Walmart or General Motors. Still other nichers specialize by *geographic market*, selling only in a certain locality, region, or area of the world. For example, Vegemite is primarily sold and consumed in Australia. *Quality-price* nichers operate at the low or high end of the market. For example, Manolo Blahnik specializes in the high-quality, high-priced women's shoes. Finally, *service nichers* offer services not available from other firms. For example, LendingTree provides online lending and realty services, connecting homebuyers and sellers with national networks of mortgage lenders and realtors who compete for the customers' business. "When lenders compete," it proclaims, "you win."

Niching carries some major risks. For example, the market niche may dry up, or it might grow to the point that it attracts larger competitors. That is why many companies practice *multiple niching*. By developing two or more niches, a company increases its chances for survival. Even some larger firms prefer a multiple niche strategy to serving the total market. For example, footwear maker Wolverine World Wide markets a dozen lifestyle brands ranging from kids, casual, and athletic footwear to work shoes. For example, its age-old Stride Rite brand features durable footwear for kids. The Saucony brand offers athletic footwear for runners. The Keds brand targets women with a casual sneakers and leather shoes, whereas the Hush Puppies brand offers timeless comfort in casual shoes, boots, and sandals. In contrast, Wolverine's Bates and CAT brands target the construction, police, and military markets with durable footwear for work. Altogether, its separate niche brands combine to make Wolverine a $2.4 billion footwear company that "has the world at its feet, both literally and figuratively."[23]

Balancing Customer and Competitor Orientations

OBJECTIVE 18-3 Illustrate the need for balancing customer and competitor orientations in becoming a truly market-centered organization.

Whether a company is the market leader, challenger, follower, or nicher, it must watch its competitors closely and find the competitive marketing strategy that positions it most effectively. And it must continually adapt its strategies to the fast-changing competitive environment. This question now arises: Can the company spend *too* much time and energy tracking competitors, damaging its customer orientation? The answer is yes. A company can become so competitor centered that it loses its even more important focus on maintaining profitable customer relationships.

Competitor-centered company
A company whose moves are mainly based on competitors' actions and reactions.

A **competitor-centered company** is one that spends most of its time tracking competitors' moves and market shares and trying to find strategies to counter them. This approach has some pluses and minuses. On the positive side, the company develops a fighter orientation, watches for weaknesses in its own position, and searches out competitors' weaknesses. On the negative side, the company becomes too reactive. Rather than carrying out its own customer relationship strategy, it bases its own moves on competitors' moves. As a result, it may end up simply matching or extending industry practices rather than seeking innovative new ways to create more value for customers.

A **customer-centered company**, by contrast, focuses more on customer developments in designing its strategies. Clearly, the customer-centered company is in a better position to identify new opportunities and set long-run strategies that make sense. By watching customer needs evolve, it can decide what customer groups and what emerging needs are the most important to serve. Then it can concentrate its resources on delivering superior value to target customers.

Customer-centered company
A company that focuses on customer developments in designing its marketing strategies and delivering superior value to its target customers.

Market-centered company
A company that pays balanced attention to both customers and competitors in designing its marketing strategies.

In practice, today's companies must be **market-centered companies**, watching both their customers and their competitors. But they must not let competitor watching blind them to customer focusing.

Figure 18.3 shows that companies might have any of four orientations. First, they might be product oriented, paying little attention to either customers or competitors. Next, they might be customer oriented, paying attention to customers. In the third orientation, when a company starts to pay attention to competitors, it becomes competitor oriented. Today, however, companies need to be market oriented, paying balanced attention to both customers and competitors. Rather than simply watching competitors and trying to beat them on current ways of doing business, they need to watch customers and find innovative ways to build profitable customer relationships by delivering more customer value than competitors do.

FIGURE 18.3
Evolving Company Orientations

Market-centered companies understand both customers and competitors. They build profitable customer relationships by delivering more customer value than competitors do.

Competitor-centered \ Customer-centered	No	Yes
No	Product orientation	Customer orientation
Yes	Competitor orientation	Market orientation

Reviewing and Extending the Concepts

Objectives Review

Today's companies face their toughest competition ever. Understanding customers is an important first step in developing strong customer relationships, but it's not enough. To gain competitive advantage, companies must use this understanding to design market offerings that deliver more value than the offers of competitors seeking to win over the same customers. This chapter examines how firms analyze their competitors and design effective competitive marketing strategies.

OBJECTIVE 18-1 Discuss the need to understand competitors as well as customers through competitor analysis.

To prepare an effective marketing strategy, a company must consider its competitors as well as its customers. Building profitable customer relationships requires satisfying target consumer needs better than competitors do. A company must continuously analyze competitors and develop competitive marketing strategies that position it effectively against competitors and give it the strongest possible competitive advantage.

Competitor analysis first involves identifying the company's major competitors, using both an industry-based and a market-based analysis. The company then gathers information on competitors' objectives, strategies, strengths and weaknesses, and reaction patterns. With this information in hand, it can select competitors to attack or avoid. Competitive intelligence must be collected, interpreted, and distributed continuously. Company marketing managers should be able to obtain full and reliable information about any competitor affecting their decisions.

OBJECTIVE 18-2 Explain the fundamentals of competitive marketing strategies based on creating value for customers.

Which competitive marketing strategy makes the most sense depends on the company's industry and on whether it is the market leader, challenger, follower, or nicher. The market leader has to mount strategies to expand the total market, protect market share, and expand market share. A market challenger is a firm that tries aggressively to expand its market share by attacking the leader, other runner-up companies, or smaller firms in the industry. The challenger can select from a variety of direct or indirect attack strategies.

A market follower is a runner-up firm that chooses not to rock the boat, usually from fear that it stands to lose more than it might gain. But the follower is not without a strategy and seeks to use its particular skills to gain market growth. Some followers enjoy a higher rate of return than the leaders in their industry. A market nicher is a smaller firm that is unlikely to attract the attention of larger firms. Market nichers often become specialists in some end use, customer size category, specific customer group, geographic area, or service.

OBJECTIVE 18-3 Illustrate the need for balancing customer and competitor orientations in becoming a truly market-centered organization.

A competitive orientation is important in today's markets, but companies should not overdo their focus on competitors. Companies are more likely to be hurt by emerging consumer needs and new competitors than by existing competitors. Market-centered companies that balance customer and competitor considerations are practicing a true market orientation.

Key Terms

Competitive advantage
Competitor analysis
Competitive marketing strategies

OBJECTIVE 18-1

Strategic group
Benchmarking
Customer value analysis

OBJECTIVE 18-2

Market leader
Market challenger
Market follower
Market nicher

OBJECTIVE 18-3

Competitor-centered company
Customer-centered company
Market-centered company

Discussion Questions

18-1 Define *competitive advantage*. How do companies go about finding their competitive advantage? (AASCB: Oral and Written Communication; Reflective Thinking)

18-2 After identifying the firm's main competitors, what questions should marketing managers ask? Why is asking these questions important? (AACSB: Oral and Written Communication; Reflective Thinking)

18-3 Describe the strategies market challengers can adopt, and explain why challengers might sometimes have an advantage over market leaders. (AACSB: Reflective Thinking)

18-4 What is a market nicher? (AACSB: Oral and Written Communication; Reflective Thinking)

18-5 How does a market-centered company compare to a customer-centered company, a competitor-centered company, and a product-oriented company? (AACSB: Reflective Thinking; Application of Knowledge)

18-6 Describe the market follower strategies that can be adopted if runner-up companies opt not to challenge market leaders. (AACSB: Oral and Written Communication; Reflective Thinking)

Critical Thinking Exercises

18-7 Provide one example of a company that uses entrepreneurial marketing, one that uses formulated marketing (that is, marketing set to a template), and one that uses intrapreneurial marketing. Contrast the approaches. (AACSB: Application of Knowledge; Reflective Thinking)

18-8 Walmart, a market leader and the nation's biggest private employer, recently implemented a "Great Workplace" model that increases wages and responsibilities for some employees and emphasizes teamwork, accountability, and skill improvement for all frontline employees. The model aims to improve Walmart's reputation as an employer and its customer services, as it includes an attitude report card system that encourages all employees to "Be bold, be an owner, be open, and be kind." Walmart is also adding robots to clean floors, sort deliveries, and complete other repetitive tasks that were previously done by humans. How does the Great Workplace model relate to Walmart's competitive positioning strategy? How does it relate to Walmart's value discipline? (AACSB: Application of Knowledge; Reflective Thinking)

18-9 Find one market nicher in each of three different industries. Identify the competitive strategy each one uses. (AACSB: Application of Knowledge; Reflective Thinking)

APPLICATIONS AND CASES

Digital Marketing Are the Bells Tolling for the Conventional Automobile?

Henry Ford's iconic Model T, introduced in 1908, in many ways heralded the beginning of the mass-manufactured automobile powered by an internal combustion engine. People shrugged when Ford promised to see the horse and carriage off the highways. But the Model-T was a resounding success that made the automobile a common sight on the roads and a common possession in many households. And now the wheels are turning again. Of course, cars continue to transport people and things. But in this digital age, they are also becoming marvels of technologies, covering areas from safety and networking to electric powertrains and self-driving abilities.

18-10 How should an established automobile company like GM rethink its competencies in this digital age? Provide as many specific examples as possible. (AACSB: Application of Knowledge; Reflective Thinking)

18-11 Can GM build these competencies using its existing workforce and managers? How should it proceed? (AACSB: Application of Knowledge)

Marketing Ethics Is Ugly Produce a True Food Waste Solution?

To address the fact that nearly one-third of food is wasted at the retail and consumer levels, "ugly produce" innovators have received millions of dollars in private funding to address food waste. "Ugly produce" is produce that has minor blemishes or deformities—it's perfectly edible but often rejected for placement in stores. But do for-profit, U.S.-based ugly produce companies such as Hungry Harvest and Imperfect Produce actually help solve the food waste challenge? In fact, nonprofit Phat Beets, which experienced a 30 percent drop in subscriptions, accused venture capital–backed Imperfect Produce of commodifying need, undercutting prices, and undermining community-supported agriculture efforts. An agricultural scientist noted that most waste comes from consumers, restaurants, and grocery stores, which are not impacted by taking ugly produce from farmers. A related argument is that farmers would otherwise use the ugly produce to feed the hungry, feed animals, or fertilize the soil. Thus, it is not clear that selling it to consumers would limit food waste. However, others argue that ugly produce companies can help address food loss, which, like waste, impacts the environment and the economy. Further, marketing ugly produce may start a conversation that raises awareness about food waste.

18-12 Skim through the websites of Phat Beets and Imperfect Produce. The companies are positioned differently but serve similar target markets with similar products. How should Phat Beets differentiate itself from Imperfect Produce, if at all? (AACSB: Ethical Thinking and Reasoning)

18-13 Is it ethical for ugly produce companies to position themselves as social enterprises or as solutions to the food waste challenge? Why or why not? (AACSB: Ethical Thinking and Reasoning)

Marketing by the Numbers Changing Numbers in the Smartphone Market

Greek philosopher Heraclitus certainly understood modern day markets when he said, "The only thing that is constant is change." The smartphone market has changed considerably since its inception just under 30 years ago. According to the Pew Research Center, 77 percent of Americans now own a smartphone. But today's smartphone market is not like it was when IBM introduced the first smart mobile device, called the Simon Personal Communicator, in 1994. Although before its time, it could perform many of today's smartphone functions. However, it was much bulkier, had a battery life of only one hour, had a small monochrome LCD screen, and could be plugged into a regular phone jack to make lower-cost calls over a landline. The next market leader was RIM's BlackBerry mobile device, which enjoyed market leadership for many years. Then along came Apple, which revolutionized the smartphone market in 2007 by introducing the iPhone. Sales of the iPhone jumped from 1.4 million units that year to almost 12 million in 2008 to more than 200 million in 2018. Apple enjoyed market leadership for many years, but new competitors entered the market, eating away at Apple's market share. Following are worldwide unit shipment data for the top smartphone companies in 2020 and 2021:

	Units Shipped (in millions)	
Company	**2020**	**2021**
Samsung	266.7	295.8
Apple	206.1	191.0
Huawei	189.0	240.6
Xiaomi	147.8	125.6
vivo	111.7	110.1
Others	371.0	409.5

18-14 Refer to the Marketing Performance Measures section of Appendix 2: Marketing by the Numbers and calculate market shares for each company for both years. Calculate the percentage change in year-over-year unit sales for each company. What can you conclude from the market shares and year-over-year changes that you calculated? (AACSB: Analytical Reasoning)

18-15 Find market data for previous years and analyze how the smartphone market has changed over time. (AACSB: Analytical Reasoning)

Company Case Nokia: Finding Strength by Abandoning Its Core Business

Today, when they think smartphones, most people think of Apple's iPhone or Samsung's Galaxy. Most would find it hard to believe that little more than a decade ago, Finnish electronics company Nokia was the hands-down market leader in mobile phones. At its peak, one in three of the world's active mobile phones bore the Nokia name and logo, and Nokia was selling a half-billion new phones each year throughout the world. In fact, Nokia sold more phones than its then-three-closest rivals—Samsung, Motorola, and Sony-Ericsson—combined. With more than 50 percent of the mobile phone market, Nokia was the world's fifth-most-valuable brand, valued at $34 billion—double the value of number 21 Samsung and triple that of number 33 Apple.

Not only did Nokia lead the market in sales, but Nokia and Motorola are credited with inventing the technologies that continue to power the most state-of-the-art smartphones. But today, hardly anyone even recognizes Nokia as a phone maker. Given its current absence from the hot mobile phone category, you might think that Nokia has gone the way of other once-mighty brands such as Kodak or Sears. But, in fact, Nokia is thriving—not as a phone manufacturer but as a market-leading supplier of network infrastructure for industrial telecommunications service providers. How did Nokia escape extinction and rise to market leadership in a different industry? The answer lies in a long and difficult transformation and reinvention.

A History of Transformation

Given its current high-tech positioning, most people are surprised to learn of Nokia's beginnings. Established in 1865, Nokia began life as a wood-pulp paper mill. A few mergers and a hundred years or so later, the Nokia Corporation was making not only paper products but also bicycle and car tires, footwear, computers, televisions, and communications cables and equipment. Starting in the 1960s, one Nokia division made commercial and military mobile radios, a business unit that ultimately morphed into a mobile phone giant.

Nokia rose to mobile phone dominance not by continually introducing new cutting-edge gadgets but by focusing on a simple, age-old strategy: selling basic products at low prices. With competitive advantages in logistics and scale, Nokia was well suited to this basic strategy. And the strategy was a perfect fit with the huge global need for cheap phones in second- and third-world markets. Thus, Nokia became best known for its trademarked easy-to-use block handset. By mass-producing basic reliable phones cheaply and shipping them in huge volumes to all parts of the world, Nokia made as much profit on its $72 phones as competitors made on phones selling for much more.

Although Nokia's phone strategy worked well, it was a strategy best suited for twentieth-century markets that were characterized by long product life cycles. Even as Apple stunned the world with the iPhone, Nokia's plan was simply to hold its market share constant in the fast-growing global mobile phone market. Given projections that mobile phone adoption would double from 2.5 billion users worldwide to 5 billion in just a few years, that plan would have raised Nokia's revenues and sales volume by 67 percent. In normal markets, that plan might have seemed reasonable.

But the mobile phone market was anything but normal, and what happened next to Nokia can only be described as a slaughter. After years of stellar performance, the mobile phone industry experienced a "perfect storm" of threats, including market saturation in developed countries combined with the effects of the Great Recession on the supply and cost of raw materials. Making matters worse for Nokia, in the midst of these shifting market conditions, Apple introduced the dramatically new iPhone smartphone.

Nokia's sales and profits plunged as it ignored smartphones and continued to focus on developing better solutions for an old mobile phone market that would soon no longer exist. Only eight years after Apple's innovative smartphone changed the world, Apple rose to become the world's most valuable brand. During that same period, Nokia's revenues met with a jaw-dropping decline, plummeting from a high of $75 billion to a low of $6 billion. And its brand value sunk from $34 billion to less than $4 billion.

By the time Nokia awoke to the grim realities, it was too late. The company doubled down by putting more efforts into the same old tactics, but to no avail. Finally, with a global market share of less than 5 percent of new phone handsets, nearly two-thirds of its workforce laid off, and losses piling up, Nokia sold its mobile phone business to Microsoft for a fraction of what the Nokia business had been worth at its peak. Although this move saved Nokia from near-certain bankruptcy, it created an entirely new problem. If Nokia wasn't in the phone business anymore, what business was it in?

Finding Its Footing through Reinvention

At the same time that Nokia was selling its phone business to Microsoft, it was already answering that question. To reinvent the company, it turned to one of its smaller business units that offered a glimmer of hope. Back when Nokia was still shipping 500,000 mobile phones a year, it had spun its telecommunications equipment business into a joint venture with Siemens. When its phone sales began to founder, it attempted to get out of the network equipment business altogether. But with its handset business gone and after careful reevaluation, Nokia decided that the network equipment business presented the best opportunity to restore growth.

Placing all its bets for the future on the industrial telecommunications infrastructure equipment market, Nokia began by buying out Siemens's share of the Nokia Siemens Networks joint venture. With the world going mobile, providers were increasingly packaging mobile services with broadband internet access and TV services. To bolster its infrastructure services capabilities, Nokia acquired Alcatel-Lucent, a French company with strengths in broadband service equipment. The acquisition not only provided much needed technologies and capabilities, it also put Nokia on better revenue footings with market leaders Ericsson and Chinese tech giant Huawei.

To achieve success in the network equipment market, Nokia set specific strategic priorities. For starters, it set out to lead the industry in high-performance end-to-end solutions, serving as a single-source quality provider for corporate customers. Nokia also set out to expand network sales to new markets, including energy, transportation, and web players such as Google and Amazon. With these new strategic initiatives, Nokia's bet is paying off. Last year, Nokia's sales soared to $26.6 billion, doubling from the previous year. Unlike its earlier phone business, Nokia is building its network equipment business more on reliably providing cutting-edge technology rather than on being the lowest-priced option. This strategy gives Nokia an edge over rivals Huawei and Ericsson. It doesn't hurt that there has been recent growing concern surrounding Huawei amid alleged attempts of data theft. Thus, despite Huawei's low-price advantage, more customers are choosing Nokia.

As the world transitions from 4G to 5G technology, Nokia's timing is good. Nokia has leapfrogged into the lead in the race to provide equipment to commercial network service providers. Despite numerous challenges that are stunting industries worldwide, including supply chain constraints, rising costs of raw materials, and geopolitical conflicts that have forced Nokia and other companies to exit the Russian market, Nokia continues to be a leader in network equipment industry and recently posted earnings that exceeded the expectations of financial markets.[24]

Questions for Discussion

18-16 How would you classify Nokia's competitive position just prior to the introduction of the iPhone? Why was Nokia in that strong position?

18-17 What led to the rapid erosion of Nokia's position in the smartphone market?

18-18 How did Nokia reinvent itself? What are the key challenges to such a drastic reinvention?

18-19 *Small group exercise*: Even as Nokia has found a new footing, its history of rapid decline in the smartphone industry hangs heavy on its top management. As part of Nokia's strategic planning process, its CEO has asked your team to advise the company on what it should do to reduce the likelihood of being sideswiped again by new technologies and industry developments. Present a set of tangible ideas for the CEO's consideration.

19 The Global Marketplace

OBJECTIVES OUTLINE

OBJECTIVE 19-1 Define *global marketing* and the questions companies must ask in deciding whether and how to go global.

OBJECTIVE 19-2 Understand how global political, economic, sociocultural, technological, legal, and environmental factors affect a company's global marketing decisions.

OBJECTIVE 19-3 Discuss how companies decide whether to go global and, if so, which markets to enter.

OBJECTIVE 19-4 Describe three key approaches to entering global markets.

OBJECTIVE 19-5 Explain how companies adapt their marketing strategies and marketing mixes for global markets.

OBJECTIVE 19-6 Identify the three major forms of global marketing organization.

CHAPTER PREVIEW

You've now learned the fundamentals of how companies develop competitive marketing strategies to engage customers, create customer value, and build lasting customer relationships. In this chapter, we extend the marketing fundamentals to global marketing. Although we have discussed global topics in each previous chapter—it is difficult to find an area of marketing that does not contain at least some global elements—here we will focus on special considerations that companies face when they market their brands globally. Advances in communication, transportation, and digital technologies have made the world a much smaller place. Today, almost every company, large or small, faces global marketing issues. In this chapter, we will examine six major decisions marketers make in going global.

To start our exploration of global marketing, let's look at 7-Eleven, the seemingly "all-American" convenience store chain. But look deeper and you'll discover that 7-Eleven is not only the *nation's* largest convenience store chain but also the *world's* largest. Its global success results from skillfully adapting its operations in each global market to match widely differing definitions of what "convenience" means.

7-ELEVEN: Making Life a Little Easier for People around the Globe

Americans love convenience stores. There's one just around the corner, and they're open long hours, seven days a week. Whether it's big chains like 7-Eleven and Circle K or more-local favorites like Illinois-based Moto-Mart, Nebraska's Bucky's, or Minnesota's own Pump 'N Munch, convenience stores have become an American mainstay for buying snacks, gas, or a few fill-in items between major grocery store trips. It's hard to imagine a convenience store being anything else.

But as it turns out, the convenience store concept doesn't translate in a standard way across international borders. Just ask 7-Eleven, a chain that's sweeping the planet. 7-Eleven is America's largest convenience store chain, with more than 12,000 stores across North America. But it's also the *world's* biggest convenience chain, with more than 78,000 stores in 19 countries generating nearly $92 billion in annual worldwide sales. 7-Eleven's global success results from carefully adapting its overall convenience format to unique market-by-market needs.

7-Eleven began in 1927 when "Uncle Johnny" Jefferson Green started selling milk, bread, and eggs from the dock of the Southland Ice Company where he worked, often on Sundays

At first glance, a 7-Eleven in Tokyo looks pretty much like one in Teaneck, New Jersey. However, 7-Eleven skillfully adapts its global operations and offerings market by market to match local needs and wants.

Sakarin Sawasdinaka/Shutterstock

and evenings when regular grocery stores were closed. Within 10 years, Southland Ice Company had opened 60 such outlets selling basic staples—everything from canned goods to cold watermelon. As the chain grew, the convenience store concept took root—small stores in convenient locations, a limited line of high-demand products, speedy transactions, and friendly service.

In 1946, the fast-growing chain boldly established longer store hours—you guessed it, 7 a.m. to 11 p.m.—a practice unheard of at the time. And to cement its convenience positioning, it changed its name to 7-Eleven. To support its breakneck expansion, 7-Eleven also adopted a franchise model by which franchisees shared some of the financial and operational burdens of growth. In return, 7-Eleven granted franchisees lots of flexibility in catering to local tastes in their stores. The company calls this "retailer initiative" and considers it a key competitive advantage. Catering to local tastes would later become the cornerstone of 7-Eleven's international expansion.

In 1969, 7-Eleven became the first convenience chain to go global, first in Canada, then Mexico, and soon Japan and other Asian markets. In each global market, the chain has retained its key strategy elements—the small-store format, convenience positioning, and global brand identity. You'll see the familiar 7-Eleven logo and orange, red, white, and green stripes on every 7-Eleven store anywhere in the world. At first glance, a 7-Eleven in Tokyo looks pretty much like one in Teaneck, New Jersey. But true to its "retailer initiative" philosophy, 7-Eleven skillfully adapts its operations in each global market to match widely differing local definitions of just what "convenience" means.

Consider Japan, one of 7-Eleven's first international ventures. 7-Elevens are everywhere in Japan, more than 20,000 of them—2,800 in Tokyo alone. Japan is now by far the company's largest market. Once you get past the familiar signage on the outside of a Japanese 7-Eleven, you'll find some pretty stark contrasts on the inside. More than just a place to grab a loaf of bread or a Slurpee, Big Gulp, or Big Bite, 7-Eleven in Japan has become the country's most popular eatery.

Around mealtime, the aisles at every Japanese 7-Eleven are packed with long lines of patrons who are treated to some of the finest prepared foods in the world. The larger-than-average refrigerated section is brimming with such freshly prepared delicacies as udon with shredded beef, steamed chicken and broccoli in onion dressing, and boiled eggs sprinkled with tuna and bonito flakes. Fresh sushi abounds, and the onigiri (rice balls with seaweed) is wrapped in a way that keeps the seaweed crispy and the rice moist. Just how fresh are these carefully prepared meals? Some of the glistening clear plastic containers don't have expiration dates—they have expiration hours. Beyond gourmet meals, Japanese 7-Elevens carry a treasure trove of snack foods, including deep-fried rice crackers and an entire aisle filled with varieties of soy-flavored potato chips. They also offer a wide selection of beverages, including soft drinks, beer, sake, Champagne, single-malt scotch, wine, and more than 20 varieties of iced coffee.

These are not your typical American 7-Elevens. Stores receive several food deliveries each day, keeping shelves well stocked with fresh goods and ensuring that everything is locally made. Food is served in open display cases in a manner that's more Trader Joe's than convenience store. Japanese customers can even order food and groceries online and have them delivered at work or home. The chain also meets other customer service needs. At 7-Eleven, customers can pay their utility bills, pick up their mail and parcel deliveries, and even buy event tickets from the copy machine. And in select cities in Japan, customers can even get their favorite 7-Eleven fare delivered to their homes by drone.

For 7-Eleven, Japan now represents far more than just a booming international market. Since the early 1990s, Japan has become 7-Eleven's home market. When Dallas-based 7-Eleven encountered financial difficulties in 1991, its own highly successful Japanese subsidiary bailed it out, buying a majority stake. In 2005, 7-Eleven Japan created Tokyo-based Seven & I Holdings, which acquired the remaining shares of 7-Eleven. Then, in a case of the student becoming the teacher, the new parent corporation applied its well-honed "retailer initiative" skills to strengthen the U.S. division.

Some things are standard in 7-Eleven stores from country to country. Most notably, the 7-Eleven logo and the classic orange, green, red, and white striped signage are instantly recognizable. But

7-Eleven, the seemingly quintessential "all-American" convenience store chain, has become the world's largest convenience store chain through a skillful blend of global standardization and local adaptation across international markets.

wherever it operates, 7-Eleven adapts various elements to become a part of the local culture. In Taiwan, 7-Eleven patrons can get a health screening and purchase high-end electronics. On a Saturday night in Hong Kong, 7-Eleven stores resemble open-air bars—the parking lots overflowing with young locals and "gweilo" (foreigners), drinks in hand. And in Denmark, 7-Eleven stores cater to the health-conscious Scandinavians with healthy snacks and paleo salads.

Thus, 7-Eleven's fine-tuned global marketing strategy has made it the world's largest convenience store chain. In the past year, Seven and I Holdings announced plans to open stores in Cambodia, India, and Israel. And in these countries, as in others, 7-Eleven's overall brand identity and convenience positioning will remain constant: "At 7-Eleven, our purpose and mission is to make life a little easier for our guests," says the company, by "giving customers what they want, when and where they want it." But 7-Eleven knows that those whats, whens, and wheres can shift dramatically from market to market. The real secret is to weave the global 7-Eleven strategy into the fabric of each local culture.[1]

IN THE PAST, U.S. COMPANIES paid little attention to global markets. If they could pick up some extra sales via exports, that was fine. But the big, safer market was at home, and it teemed with opportunities. Managers did not need to learn other languages, deal with fluctuating currencies, face political and legal uncertainties, or adapt their products to different markets. Today, the situation is different. Organizations of all kinds, from Coca-Cola, Apple, and Nike to Google, Airbnb, and even the NBA, have successfully gone global. Going global has not been easy for these companies; it has required a focused strategy and disciplined execution on the global marketing front.

Author Comment The rapidly changing global environment provides both opportunities and threats. It's difficult to find a marketer today that isn't affected in some way by global developments.

Global Marketing Today

OBJECTIVE 19-1 Define *global marketing* and the questions companies must ask in deciding whether and how to go global.

The world is shrinking rapidly with the advent of faster and more efficient communication, transportation, and financial flows across national borders. Products and services developed in one country—BMWs from Germany, McDonald's hamburgers from the United States, Samsung electronics from South Korea, and Huawei smartphones from China—have all found enthusiastic acceptance in other countries.

One reason for the rapid expansion of global marketing is the explosion of global trade, the sales of products and resources produced in one country and sold in another. The total volume of global trade, including merchandise and service exports, has grown sharply over the past three decades, from about $3.5 trillion in 1990 to about $28 trillion in 2021. In fact, if companies were counted as economies, about half of the world's largest 150 economies would be multinational corporations. Retail chain Walmart alone has annual revenues greater than the gross domestic product (GDP) of all but the world's 21 largest economies. The global trade of products and services last year was valued at almost 30 percent of GDP worldwide.[2]

Global marketing
The full process of marketing products and services within and across multiple countries.

Global marketing is broader than global trade. In a narrow sense, global marketing might involve simply making or sourcing products in one country and selling them in other countries (global trade). But more broadly, **global marketing** is the process of marketing products and services within and across multiple countries. It involves obtaining a deep understanding of global markets, consumers, and competitors; developing integrated segmentation, targeting, and positioning strategies across countries; and implementing a global marketing mix that strikes an effective balance of global standardization and individual market customization.

Many U.S. companies are successful global marketers: Coca-Cola, McDonald's, Starbucks, Nike, Netflix, Amazon, Google, Caterpillar, Boeing, and dozens of other American companies have made the world their market. J&J, the maker of American-origin products such as BAND-AIDs and Johnson's Baby Shampoo, does 40 percent of its business abroad. Caterpillar, based in Peoria, Illinois, makes 58 percent of its sales outside North America. McDonald's captures nearly two-thirds of its revenues in non-U.S. markets. ● KFC's Colonel Sanders is almost as familiar in Shanghai, China, or Tokyo, Japan, as he is in Boise, Idaho. And with more than 200 brands worldwide, American favorite Coca-Cola now lets consumers "taste the feeling" more than 1.9 billion times a day in over 200 countries.[3]

Likewise, numerous companies based in other countries have succeeded in the United States, where brands such as Toyota, Samsung, Nestlé, IKEA, adidas, and TikTok have

Many American companies have now made the world their market. KFC's Colonel Sanders is almost as familiar in Shanghai, China (above), or Tokyo, Japan, as he is in Boise, Idaho.

Gary Armstrong

become household words. Other products and services that appear to be American are, in fact, produced or owned by non-U.S. companies, including Ben & Jerry's ice cream, Budweiser beer, Purina pet foods, 7-Eleven, and Motel 6. Michelin, the French tire manufacturer, now does 37 percent of its business in North America.

As barriers to trade and market entry fall, global competition is intensifying. Companies are expanding into new global markets and saturated home markets are no longer as rich in opportunity. Few industries are safe from nondomestic competition. Companies that stay at home to play it safe might not only lose their chances to enter growing markets in Western and Eastern Europe, China and Southeast Asia, Russia, India, Brazil, and elsewhere but also risk losing their home markets.

Ironically, even as the need for companies to go abroad has increased, so have the risks. Companies that go global often face highly unstable governments and currencies, restrictive government policies and regulations, and high trade barriers. In addition, corruption is a significant problem; officials in many countries often award business not to the highest bidder but to the highest briber.

Despite these challenges, the call of the world is strong. In response, many companies are evolving to embrace a truly global mindset, unhampered by their origins and seeing the world as a potential market. This has led to the rise of the global company. A **global company** is one that, by operating in more than one country, often in numerous countries, gains marketing, production, research and development (R&D), financial, and other advantages that are not available to purely domestic competitors.

Global company
A company that, by operating in more than one country, gains marketing, production, research and development (R&D), and financial advantages that are not available to purely domestic competitors.

The global company sees the world as a potential market. It raises capital, sources materials and components, and manufactures and markets its goods wherever it can do those jobs best. For example, U.S.-based Otis Elevator—the global leader in the manufacture, installation, and servicing of elevators and escalators—is headquartered in Farmington, Connecticut. Otis sells and maintains elevators and escalators in more than 200 countries and derives 73 percent of its sales from outside the United States. It gets elevator door systems from France, small-geared parts from Spain, electronics from Germany, and special motor drives from Japan. It operates manufacturing facilities in the Americas, Europe, and Asia and engineering and test centers in the United States, Austria, Brazil, China, Czech Republic, France, Germany, India, Italy, Japan, Korea, and Spain.[4] Many of today's global corporations—both large and small—have become truly borderless.

Companies need not operate in dozens of countries to succeed. Instead, companies can practice global niching, whereby they operate in a small set of carefully chosen countries. However, in a rapidly shrinking world, every company must carefully consider whether and how to go global. Companies must answer some basic questions: What market position should we try to establish in our country, in our economic region, and globally? Who will our global competitors be and what are their strategies and resources? Where should we produce or source our products? What strategic alliances should we form with other companies around the world?

As shown in **Figure 19.1**, the global marketing process involves five steps. We discuss each decision in detail in this chapter.

FIGURE 19.1
The Five-Step Global Marketing Process

Author Comment | Compared to focusing just domestically, going global adds many layers of complexities. For example, to market its products in 200 countries around the globe, Coca-Cola must understand the varying political, economic, sociocultural, technological, legal, and environmental contexts of each global market.

Understanding the Global Marketing Context

OBJECTIVE 19-2 Understand how global political, economic, sociocultural, technological, legal, and environmental factors affect a company's global marketing decisions.

As the first step in the global marketing process, a company must understand the macroenvironmental contexts of the countries or regions in which it might operate. The PESTLE framework provides a useful tool for analyzing the forces that might impact marketing decisions in various global environments. PESTLE stands for the **P**olitical, **E**conomic, **S**ociocultural, **T**echnological, **L**egal/Institutional, and **E**nvironmental/Ecological factors that set the marketing context in any country or region.

Political Context

The political systems in some nations are receptive to companies from other nations; others are less so. For example, Russia's recent geopolitical conflicts with Europe, the United States, and other countries have made doing business in Russia difficult and risky. China tightly restricts foreign entry and operations in the financial services and technology sectors, and it imposes strict requirements related to partnerships with local companies in other sectors. India has historically tended to disadvantage non-Indian companies with import quotas, currency restrictions, foreign investment limits, onerous labor laws, and local manufacturing requirements. Although some restrictions have been relaxed, China and India continue to be difficult markets for many outside companies. In contrast, Asian countries such as Singapore, Vietnam, and Thailand court foreign investors and create favorable operating conditions for them.

Understanding the global political context: British telecom company Vodafone's fortunes in India seem to rise and fall with the sometimes-unpredictable policies of the Indian government.

Peter Horree/Alamy Stock Photo

Companies can choose to work through or around political obstacles if they know about them. However, because of the complexities of global political environments, obstacles may move in unpredictable ways over time. Consider British telecom company Vodafone, which entered India in 2005.[5]

> In 2007, Netherlands-based Vodafone International Holdings paid $11 billion to acquire a 67 percent interest in Hutchison Essar Limited, a competing telecom company in India. The Indian government claimed that the transaction yielded capital gains taxable in India and demanded $2.2 billion in capital gains taxes. Vodafone appealed, and the Supreme Court of India ruled in 2012 that Vodafone was not liable to pay the tax under the Income Tax Act 1962. Soon thereafter, however, the Indian government amended that act and retroactively applied the amendment to all prior transactions, effectively overruling the Supreme Court's order. Vodafone then pursued international arbitration in the tax dispute. In September 2020, the Permanent Court of Arbitration at The Hague ruled in favor of Vodafone, directing India to refund fees already collected as well as legal costs. In December 2020, however, the Indian government again challenged the arbitration award in a court in Singapore. Then, in 2021, in measures that appeared to support Vodafone in the country, the Indian government announced reforms that cleared the dues owed by Vodafone and other telecoms to the government. Thus, it's been a turbulent decade for Vodafone in India. The company's fortunes there appear to rise and fall with changing government policies.

Such uncertainties are not uncommon in international marketing efforts. Surprisingly, democratic political systems can sometimes pose more uncertainty than autocratic ones do for outside companies. Democratically elected governments are often compelled to change laws and policies to fulfill their promised but shifting electoral agendas. By contrast, an autocratic government may face little such pressure and can hold policy steady over time.

A company must evaluate both the nature and the certainty of the political climate before committing to enter a country. If the market is attractive but there are serious political concerns, the company may decide to enter in a way that its commitment can be reversed quickly and efficiently if need be.

Economic Context

In evaluating countries to enter, companies should focus on two key economic dimensions: the level of industrial development and the pattern of income distribution.

The country's level of industrial development shapes its income and employment levels and its product and service needs. For example, in subsistence economies, a large portion of the population engages in agriculture, consumes a large fraction of their agricultural output, and sells or barters the rest for access to simple goods and services. These economies offer few market opportunities. By contrast, developed economies such as the United States, Japan, and South Korea and the countries of Western Europe are major importers and exporters of goods and services. Their varied manufacturing activities and large middle classes make them attractive markets for both business and consumer goods and services.

Although developed economies offer large markets, they may be characterized by low growth rates and intensely competitive markets, so companies seeking global expansion must seriously consider entering developing economies, which are experiencing rapid economic growth and industrialization. Examples include the BRICS countries (Brazil, Russia, India, China, and South Africa) and MENA countries (the Middle East and North Africa region). Industrialization increases consumer income, which enhances the demand for new types of goods and services.

The second economic factor is the country's income distribution. In general, fractions of low-, medium-, and high-income households will vary across developed, developing, and subsistence economies. In recent years, as developed markets have become more stagnant and competitive, many companies have shifted their sights to the more than 3 billion people worldwide who live on less than $2.50 a day. These potential consumers, who comprise a significant portion of the worldwide population of more than 7 billion people, have been characterized by strategist C. K. Prahalad as the "Bottom of the Pyramid."[6]

Sociocultural Context

Each country has its own practices, norms, and taboos. Companies must understand how culture affects consumer reactions in each of their global markets. In turn, they must also understand how their strategies affect local cultures.

The Impact of Culture on Marketing Strategy

Marketing managers should never assume that consumers in other countries will perceive, accept, and use their offerings in the same way that consumers in their base country do. Interesting and sometimes surprising differences abound across cultures. For example, the per-capita consumption of packaged, branded spaghetti is higher in Germany and France than in Italy. A clock makes a nice gift in Western countries but is associated with death and funerals in China. Women in America usually let down their hair and remove makeup at bedtime; some women in China style their hair and apply makeup at bedtime. And whereas between 65 percent and 85 percent of consumers in well-off economies such as the United States, Canada, the United Kingdom, and Japan have credit cards, that percentage falls to a low 16 percent in very wealthy Saudi Arabia, where Islam forbids the receipt or payment of interest.[7]

Companies that violate sociocultural norms can make expensive and embarrassing mistakes. ● For example, to promote an upcoming Shanghai runway fashion extravaganza, Italian luxury fashion brand Dolce & Gabbana ran three short videos on the Chinese social media network Weibo (China's version of Twitter) titled "Eating with Chopsticks." The videos featured an Asian woman in a lavish Dolce & Gabbana dress struggling to eat spaghetti, pizza, and cannoli with chopsticks. In one video, with Chinese folk music playing in the background, a

● **Culture and marketing strategy: Italian luxury fashion brand Dolce & Gabbana's insensitive "Eating with Chopsticks" videos in China proved to be a costly and expensive mistake.**

Sorbis/Shutterstock

Real Marketing 19.1 | Tata Steel: Entering High-Potential International Markets

Tata Steel, part of the Tata Group, is one of the largest steel manufacturers in the world. The company was founded in 1907 in India, and today its key operations have spread to the Netherlands and the United Kingdom. As one of the top steel companies in the world, the Tata Steel Group has an annual crude steel capacity of 34 million tons per annum. With an employee base of over 65,000, it is one of the world's most geographically diversified steel producers, with operations and commercial presence across the world, including Europe, Australia, South Africa, Asia, and the Middle East. The group recorded a consolidated turnover of $19.7 billion in the financial year ending March 31, 2020. Like most industries, the steel industry worldwide has suffered production losses due to the coronavirus pandemic in 2020, but there has been a gradual recovery and steel demand is rebounding. However, even before the pandemic, there was a general slowdown in the steel industry due to the weakened global economy. Responding to the slowdown in domestic and emerging markets, Tata Steel approaches the "bottom of the pyramid" (BoP) markets: India, Nigeria, China, Indonesia, and South Africa. These countries offer diverse spending patterns and market potential and are lucrative destinations for a steel-making business.

When approaching new targets and entering new markets, Tata Steel must navigate various legal, political, and economic challenges. For instance, the international trading system comprises thousands of unilateral, bilateral, regional, and multilateral rules and agreements among more than 200 nations. By operating in more than 175 countries with more than 50 production sites on three different continents, the company must consider import and export restrictions, tariffs, quotas, and non-tariff barriers. Furthermore, some BoP countries are far less receptive to advertisements and personal selling than Europe. As a multinational company, Tata Steel needs to consider all of this when making decisions about BoP markets.

In 2013, as part of an agreement with the UK India Business Council (UKIBC), Tata Steel committed to an initiative to educate 500 million skilled people by the year 2022 and to support growth, investment, jobs creation, and an improved demand supply. This was an attractive investment for the company as it could now determine what features help in the sustainability of its products in the long run and how such products could help in reverse innovation. As part of the UKIBC agreement, Tata Steel has developed products with a low price and adapted its marketing approach to BoP consumers, which includes finding ingenious ways to use local commodities and local production techniques to compete with the more technologically advanced producers in the West. Tata Steel invested over $3.4 billion in a greenfield steel project in Kalinganagar, Odisha, with plans for further expansion. However, the project was met with some hostility from local villagers, and the company was forced to acknowledge the importance of building relationships with locals, even those in its home country.

Tata Steel currently operates in four markets: packaging, automobiles, construction, and engineering. Ownership of mineral reserves and raw materials puts Tata Steel in a very strong position within the markets it operates in; it can produce steel at lower costs than nearly any other steelmaker in the world. The possibilities of entering a whole new international market are huge. However, a much-sought-after merger with Thyssenkrupp was blocked by the EU's antitrust enforcer in 2019 on the grounds that it would disrupt perfect competition within the EU and reduce competition in the supply of special steel for carmakers and packaging; additionally, the two companies had failed to propose sufficient remedies to address the EU's concerns. Political and economic conditions like this have put a dent in the company's ambitions to become the biggest steel business in the world.

Despite such difficulties in responding adequately to complex new environments, Tata Steel offers several good examples of how acquiring another multinational opens new markets. For example, the acquisition of the Anglo-Dutch steel firm Corus in 2007 made Tata Steel the fifth largest global steel producer, with an annual production capacity of 25 million tons of steel a year. In addition, the company gained access to European markets and was able to profit from newly acquired technologies. In fact, the favorable strategic and financial outcomes were so impressive that Tata raised the price it had offered when it had originally bid for Corus.

Another positive outcome from the merger is that the combination of low-cost upstream production in India and Corus's high-end downstream processing facilities in Europe offered synergies in manufacturing, procurement, R&D, logistics, and back-office operations that would improve the competitiveness of European operations. Thanks to the acquisition, Tata Steel has gained access to raw materials at low cost and exposure to

Tata Steel has encountered various legal, political, and economic challenges while entering international markets.

Volodymyr Plysiuk/Shutterstock

high-growth emerging markets while confirming price stability in developed markets. Tata Steel decided to retain Corus's top management and to consider a restructuring at a later date, after any integration issues had been resolved.

Tata Steel's continued acquisitions, such as Bhushan Steel in May 2018 and Usha Martin in April 2019, show that it has found a proven way to strengthen its market position and global presence. These are not the only reasons that Tata Steel acquires companies; for one thing, it is easier to buy a company that has debt but is a big name in the market that Tata Steel wants to enter. Purchasing a company in a new market lowers the risk and cost of failure and bypasses barriers to entry. However, the company must already be fully functioning for Tata Steel to truly benefit from it. Mergers and acquisitions in other countries may bring huge opportunities, but there are often cultural challenges to contend with as well—in fact, by some estimates, they have contributed to the failure of nearly 70 percent of all mergers and acquisitions. For example, in 2007, the credit rating agency Standard & Poor declared a "negative implications" watch in India due the fact that Indian companies often lack experience in international acquisitions, especially with regard to corporate culture and employment rules (the rating meant that the agency was looking to lower the company's credit score based on its performance or international market trends). Indeed, in 2000, the acquisition of Tetley, a UK beverage company, ran into cultural obstacles between the British employees and the Indian managers. This issue also arose during the 2007 merger with Corus. In addition, while analyzing the possibility of moving production from the United Kingdom to the lower-cost India markets, Tata Steel's management had to respond to the uncertainty of their European employees with regard to the newly created entity. Left unchecked, such situations have the potential of creating low morale, resulting in decreased productivity.

To help mitigate such difficulties in a broader sense, Tata Steel has declared that in global operating locations, it is an equal-opportunity employer and does not tolerate discrimination based on race, caste, religion, color, ancestry, gender, marital status, sexual orientation, age, nationality, ethnic origin, or disability. Moreover, Tata Steel ensures that employee policies and practices are administered in a manner which ensures that all decisions relating to promotion, compensation, and any other form of reward and recognition are based entirely on merit.[8]

Mandarin-speaking male voiceover explained how to "properly" eat the dishes. "Let's use these small stick-like things to eat our great pizza margherita," he says. Dolce & Gabbana thought the ads were in good fun, but Chinese consumers vigorously disagreed. The ads went viral as millions of Chinese consumers declaimed them as highly offensive and an insult to Chinese culture. D&G removed the viral videos within 24 hours and apologized, but the damage was done. The brand was forced to cancel the fashion show in Shanghai, and its products were dropped by several Chinese stores and online retailers. D&G sales in China declined more than 10 percent over the following two years.[9]

In another example, Marriott International stumbled in China when its website listed Tibet, Hong Kong, Macau, and Taiwan as "countries." Officially, the first three locations are "autonomous regions" of China; Hong Kong and Macau are "special administrative regions." And China considers Taiwan to be a "breakaway province" controlled by an illegitimate government. What seemed like an innocent mistake led to harsh penalties. Although Marriott apologized and corrected the error, the Chinese government shut down Marriott's Chinese website and app for more than a week, preventing online sales and bookings in China.[10]

Business norms and behaviors also vary across countries. For example, Japanese executives can find the tendency of their American executives to get right down to business and engage in fast and tough face-to-face bargaining offensive. And whereas firm handshakes are a standard greeting in Western countries, handshakes might be refused in some Middle Eastern countries. Microsoft founder Bill Gates once set off a flurry of controversy when he shook the hand of South Korea's president with his right hand while keeping his left hand in his pocket, something that Koreans consider highly disrespectful. In some countries, not finishing all the food at a hosted meal implies that it was somehow substandard. In other countries, eating down to the last morsel might be taken as a mild insult, suggesting that the host did not supply enough quantity. In most places, smiling during a business meeting sets a congenial tone; in Russia, it suggests insecurity. Business executives need to understand these cultural nuances before conducting business in another country.[11]

By the same token, companies that understand and work in alignment with these cultural nuances can use them to their advantage. For example, when British clothing retailer Marks & Spencer opened its first standalone lingerie and beauty store, it surprisingly bypassed Paris, London, and New York and instead chose Saudi Arabia. Operating in the conservative Saudi Arabia society requires some significant cultural adjustments. Saudi women wear full-length cloaks called *abayas* and must typically be chaperoned by a male relative in public. Lingerie stores must employ only female staff. Music is forbidden within stores. Mannequins are typically headless or faceless. Despite these restrictions, the demand for Western-style clothes is strong because the Saudi economy is rapidly growing, Saudi society is slowly liberalizing, and Western attire is often worn at home and during travel outside the country. Marks & Spencer has done well and now has six lingerie and beauty stores and 16 full department stores in Saudi Arabia.[12]

Thus, understanding cultural traditions, preferences, and behaviors can help companies not only avoid embarrassing mistakes but also take advantage of cross-cultural opportunities.

Dimensions of National Cultures

Understanding cultural differences across countries can help global marketers determine which countries offer the best prospects for their brands. It also helps marketers differentially position and market their brands across countries for maximum success. One useful tool for systematically assessing cultural differences across countries is Geert Hofstede's Six Dimensions of National Culture framework.[13] The framework recognizes that a given country's national culture is not uniform at the individual level. Instead, it reflects the sum of individuals with a range of values, personality traits, and habits. Yet, at an aggregate level, countries can be distinguished in terms of how they lie along each of the following six dimensions:

Power Distance Index—High versus Low. This dimension deals with the extent to which less powerful members of society are comfortable with an unequal distribution of power across its members. Societies showing a high degree of comfort with power being concentrated in the hands of a select few are high on this dimension. Societies that see themselves as more democratic or equal across members score low.

Individualism versus Collectivism. In highly individualistic societies, people are more focused on the needs and well-being of themselves and their immediate family members. By contrast, in highly collectivistic societies, people are embedded in strong social networks and expect that the large social group will take care of their needs in exchange for their own loyalty and contributions.

Toughness versus Tenderness. Tougher societies tend to prefer achievement, heroism, assertiveness, and material rewards. More tender societies seek cooperation, exhibit modesty, feel a sense of caring for less fortunate or weak society members, and emphasize quality of life.[14]

Uncertainty Avoidance Index—High versus Low. Societies that are high on this dimension dislike uncertainty, work in line with a well-established belief and value system, and try to control the future to reduce uncertainty. By contrast, societies that are low on this dimension are comfortable with uncertainty, adopt a flexible attitude to the future, and accept things as they come.

Long-Term Orientation versus Short-Term Orientation. Societies value their pasts differently. Societies that are long-term oriented tend to be ready for future change, even when it requires them to break sharply from the past. They are ready to embrace new ways of doing things if they believe that will help them succeed in the future. By contrast, societies that are short-term oriented tend to maintain time-honored social norms, traditions, and behaviors and must be pushed to adapt to the new future.

Indulgence versus Restraint. Societies scoring high on indulgence are open to individuals seeking goods, services, and experiences that go well beyond their basic needs and to individuals enjoying these offerings publicly and in groups. By contrast, societies high on restraint operate in line with rigid norms that govern behavior, emphasize the fulfillment of basic needs, and frown on showy consumption.

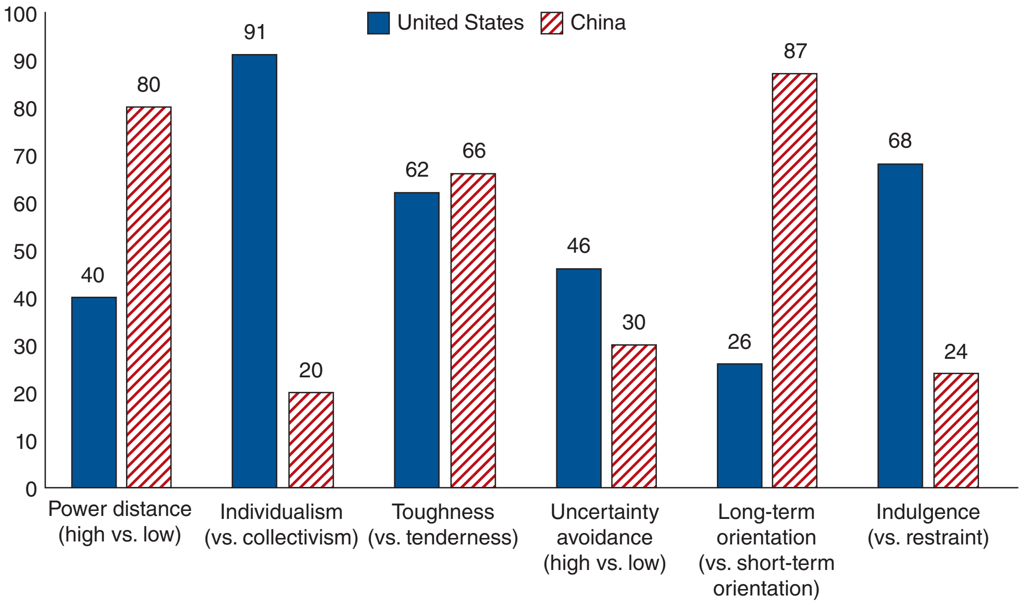
Using Hofstede's framework, marketers can score and compare different countries on the six cultural dimensions.[15] **Figure 19.2** provides a comparison for China and the United States. The comparison shows that China scores significantly higher on power distance and long-term orientation but significantly lower on individualism, uncertainty avoidance, and indulgence. The countries are about the same on toughness versus tenderness. Marketers must adjust their global strategies to take such differences into account.

These cultural differences can affect many marketing decisions, including the types of products and services a company introduces in a country and how a company positions and presents them. For example, New Zealand scores low on Hofstede's power distance dimension, suggesting that New Zealanders value equality, democracy, and

FIGURE 19.2

A Comparison of the United States and China on Hofstede's Six Cultural Dimensions

SOURCE: Country scores obtained from Hofstede Insights, Country Comparison tool, www.hofstede-insights.com/country-compasion, accessed February 2022.



inclusion. Those values are reflected in a striking Tourism New Zealand ad campaign titled "100% Pure Welcome—100% Pure New Zealand," which features 300 New Zealanders of all ages, genders, and ethnicities welcoming visitors to their beautiful country. As another example, the United States scores high on individualism, whereas Guatemala scores high on collectivism. Thus, in the United States, McDonald's might promote a buy-one-get-one-free offer as a reward for downloading its app, appealing to consumers' needs for individual benefits and rewards. In Guatemala, however, McDonald's promotes meal plans for four people, appealing to Guatemalans' collectivist notions of family and community.[16]

As yet another example, Saudi National Bank (SNB), Saudi Arabia's largest bank, markets differently in Saudi Arabia than it does in Western markets such as the United Kingdom:[17]

> Saudi Arabia rates high on collectivism—it is highly influenced by Islamic teachings that demand that members of society act as a unit. Thus, in Saudi Arabia, SNB markets uniformly across all consumer segments. Conversely, the United Kingdom rates higher on individualism. So SNB practices segmented marketing there, with differentiated marketing approaches aimed at the varied needs of different consumer segments. Saudi Arabia is also high in power distance—the Saudi government has almost total control over a business's activities and can quickly punish bank activities that deviate from the expected norms. Thus, SNB has established a high-level committee designated to help the bank in upholding Islamic principles. SNB has no such committees in its overseas markets, such as the United Kingdom, which rates low on power distance.

Adapting to cultural differences across countries: Saudi National Bank (SNB) markets very differently in Saudi Arabia than it does in Western markets such as the United Kingdom.

Wirestock Creators/Shutterstock

Thus, before entering an international market, managers must evaluate how it compares to their base market along the six Hofstede dimensions. The resulting insights can help managers tailor their strategies to the market, avoiding mistakes and enhancing the likelihood of success.

The Impact of Marketing Strategy on Cultures

We have discussed how national cultures affect marketing strategy. The flip side is also important: How does marketing strategy affect local cultures in other countries? For example, social critics contend that, well beyond globalizing their brands, large American multinationals such as McDonald's, Coca-Cola, Starbucks, Nike, Google, Disney, and Facebook are Americanizing the world's cultures.

Other elements of American culture have become pervasive worldwide. For instance, more people now study English in China than speak it in the United States. If you assemble businesspeople from Brazil, Germany, and China, they will likely transact in English. And the thing that binds the world's teens together in a kind of global community, notes one observer, "is American culture—the music, the Hollywood fare, the electronic games, Google, Facebook, American consumer brands. The . . . rest of the world is becoming [evermore] like us—in ways good and bad."[18]

Critics worry that, under such "McDomination," countries are losing their individual cultural identities. Grandmothers in small European villages no longer spend each morning visiting local meat, bread, and produce markets to gather the ingredients for dinner. Instead, they now shop at Walmart. In China, most people never drank coffee before Starbucks entered the market. Now Chinese consumers rush to Starbucks stores because they symbolize a new kind of lifestyle. Similarly, in China, where McDonald's has nearly 3,800 locations, nearly half of all children identify the chain as a domestic brand.[19]

Such concerns sometimes lead to a backlash against American globalization. As symbols of American capitalism, companies such as Coca-Cola, McDonald's, Nike, and KFC have been singled out by protestors and governments when anti-American sentiment emerges. For example, following Russia's annexation of Crimea and the resulting sanctions by the West, Russian authorities initiated a crackdown on McDonald's franchises (even though most were Russian-owned). McDonald's flagship store in Moscow was shut down for several weeks by the Russian Food Safety Authority. The three McDonald's in Crimea were permanently shuttered, with at least one becoming a nationalist chain outlet called Rusburger, serving "Czar Cheeseburgers" where McDonald's Quarter Pounders once thrived. Such difficulties worsened when Russia mounted a full-scale invasion of Ukraine eight years later. Three months after the invasion began, McDonald's announced that it would pull out of Russia altogether, selling its 850 Russian restaurants to a local buyer and "de-arching" them—meaning they would no longer use the McDonald's name, logo, or branding. Said the CEO of McDonald's: "It is impossible to ignore the humanitarian crisis caused by the war in Ukraine. And it is impossible to imagine the Golden Arches representing the same hope and promise that led us to enter the Russian market 32 years ago."[20]

Despite such problems, defenders of globalization argue that concerns of Americanization are overblown. U.S. brands are doing well globally. For example, most global markets covet American fast food. Consider KFC in Japan. On the day that KFC introduced its outrageous Double Down sandwich—bacon, melted cheese, and a "secret sauce" between two deep-fried chicken patties—in one of its restaurants in Japan, fans formed long lines and slept on the sidewalks outside to get a taste. "It was like the iPhone," said the CMO of KFC International. The U.S. limited-time item has since become a runaway success worldwide, from Canada to Australia, the Philippines, and Malaysia. More broadly, KFC has become a cultural institution in Japan. For example, the brand has long been one of Japan's leading Christmas dining traditions, with the iconic Colonel Sanders standing in as a kind of Japanese Father Christmas:[21]

> Japan's KFC Christmas tradition began more than 45 years ago when the company unleashed a "Kentucky for Christmas" advertising campaign in Japan to help the brand get off the ground. Now, eating Kentucky Fried Chicken has become one of the country's most popular holiday traditions. Each KFC store displays a life-size Colonel Sanders statue, adorned in a traditional fur-trimmed red suit and Santa hat. A month in advance, Japanese customers order their special Christmas meal—a special bucket of fried chicken with wine and cake for about $40. Some 3.6 million Japanese households have a KFC Christmas feast each year. Those who do not preorder risk standing in lines that snake around the block or having to go without KFC's coveted blend of 11 herbs and spices altogether. Christmas Eve is KFC's most successful sales day of the year in Japan, and December monthly sales run as much as 10 times greater than sales in other months.

American brands in other cultures: KFC has become one of Japan's leading Christmas dining traditions, with the iconic Colonel Sanders standing in as a kind of Japanese Father Christmas, wishing Japanese customers a merry "Kentucky Christmas."

image_vulture/Shutterstock

Overall, American brands are soaring globally. In the most recent Millward Brown BrandZ brand value report on global consumer brands, 26 of the top 30 global brands in terms of value were American owned, led by Amazon, Apple, Google, and Microsoft.[22]

The United States is also influenced by other global cultures. While Hollywood dominates the global movie market, British TV originated the programming that was translated into hits as *American Idol, Dancing with the Stars,* and *Hell's Kitchen*. Although Chinese and Russian youth are donning NBA superstar jerseys, the increasing popularity of soccer in America has deep global roots. Children in the United States are increasingly influenced by European and Asian cultural imports such as Hello Kitty, Pokémon, or any of a host of Nintendo or Sega game characters. K-pop music groups often top American charts, and India's Bollywood film industry has become one of the world's largest film production centers. And while the internet and mobile technologies have spread the reach of English worldwide, those same platforms allow immigrants in the United States to remain in close touch with their native cultures and to access programming in their native languages. Today, globalization is truly a two-way street.

Technological Context

Global marketing has been energized by three technological advances. The first is the rapid rise of *electronic networks* that carry huge amounts of information that can be accessed in every part of the globe. The information generation and transmission infrastructure has advanced at every stage, from super-high-speed fiber-optic data cables and satellite-based data transfer to "last-mile" data conduits that connect homes and offices to the internet.

The second advance is the global adoption of *smart devices*—including computers, smartphones, and tablets—that interface with the internet and other data networks. The mobile phone is no longer considered a luxury good; it's an essential good, even in Bottom of the Pyramid markets. Consumers in BoP markets increasingly use mobile phones to access chats, social forums, data, and the internet. In 2015, only 18.5 percent of all mobile phone users regularly accessed the internet on their devices; by 2020, this figure rose to 34 percent. Sub-Saharan Africa is expected to have 475 million mobile internet users by 2025.[23]

The third technological advance energizing global marketing is the rise of *digital commerce platforms* that bring together buyers and sellers. ● Amazon.com, the world's largest online retailer, has a fast-growing global presence. China-based platforms Alibaba, JD.com, and Pinduoduo dominate the huge online market in China. These e-commerce platforms, along with advances in information infrastructure and smart devices, have provided opportunities for companies large and small to directly sell to customers worldwide. On the consumer side, these technological advances provide many benefits. They offer access to globally produced offerings, lower prices through increased competition, and greater convenience with products delivered to the doorstep or even digitally.

At the same time, technological advances create challenges for marketers. Low-income consumers may have only limited access to electronic devices and networks. Therefore, the rise of technology-driven marketing and commerce can increase the so-called "digital divide" between high- and low-income groups globally. Next, concerns are rising about the power wielded by large e-commerce platforms. For example, Amazon has been accused of copying the most successful concepts and products from other sellers on its online platform in creating its own Amazon Basics brand and then using the wealth of consumer data it collects to unfairly support its own brand. Finally, communities and local governments around the world worry about the "Amazon effect"—small, local sellers shutting shop because they can't compete against powerful Amazon's global scale and reach.[24]

● **Technological context: Global marketing has been energized by the rapid rise in electronic networks, smart devices, and global digital commerce networks, such as Amazon, China's Alibaba, and others. When entering new global markets, companies must evaluate the technological context in those markets.**

BigTunaOnline/Shutterstock

When looking to enter international markets, a company must carefully evaluate the level of technological evolution of those markets. The technology context will influence, among other things, the company's entry strategy, product and service design, and sales and distribution approaches.

The Legal and Institutional Context

Each country has its own unique legal and institutional context. A large multinational company that sells in 100 countries may need to navigate 100 distinct legal and institutional environments. This can be an operational nightmare. It is useful to evaluate the legal and institutional environment from two perspectives: the global trade perspective and the country-specific, internal legal perspective.

The Global Trade Perspective

Global trade occurs when an offering produced in one country is sold in another country. Companies engaging in global trade often face restrictions on trade between nations. Countries may impose tariffs, duties, or quotas on imported products in order to raise revenue, protect domestic companies, manage currency reserves and fluctuations, or manage the trade deficits between countries.

For example, to negotiate more favorable trade terms that would rein in its large and growing annual trade deficit with China, the United States recently began charging tariffs on a range of Chinese imports including pork, soybeans, wine, metals and alloys, and multiple industrial, technology, transport, medical, textile, and fashion products. China retaliated with its own tariffs, setting off several rounds of heated trade negotiations. Such ongoing trade disputes are often part of wider global dynamics. However, they can cause major difficulties for companies trying to market their goods across global borders.[25]

At the same time, countries can work together to facilitate trade by clarifying and leveling the playing field of global trade through global trade agreements, organizations, and communities.

Economic community
A group of nations organized to work toward shared global trade and other goals.

Global Trade Agreements and Organizations. One important global trade agreements is the General Agreement on Tariffs and Trade (GATT), established in 1947 to promote world trade by reducing tariffs and other trade barriers. The GATT evolved into the *World Trade Organization (WTO)* in 1995. WTO and GATT member nations—currently 164 member countries and 25 observer governments, representing 98 percent of world trade—have met in eight rounds of negotiations to assess trade barriers and establish rules for global trade. The eighth round (or Doha Round) began in 2001 and is ongoing. The WTO also imposes international trade sanctions and mediates global trade disputes. The WTO has been productive, reducing the average worldwide tariffs on manufactured goods from 45 percent to just 5 percent over the first seven rounds of negotiations and settling a large proportion of the more than 500 disputes filed by members within the WTO framework.[26]

Economic communities: The European Union represents one of the world's largest single markets. Its 27 member countries are home to more than 440 million consumers.

KarczmarskiDesign/Shutterstock

Regional Free Trade Zones. Certain countries have formed *free trade zones* or **economic communities**, organized to work toward shared global trade and other goals. One such community is the *European Union (EU)*, formed in 1957. The EU was formed to create a single European market by reducing barriers to the free flow of products, services, finances, and labor among member countries and develop policies on trade with nonmember nations. Today, the EU represents one of the world's largest single markets. Currently, the EU has 27 member countries containing more than 440 million consumers, making it the world's largest trading bloc and the top trading partner to 80 countries.[27]

A key feature of the EU is a shared currency—the euro—used by 19 EU member nations. The widespread adoption of the euro decreased much of the currency risk associated with doing business in Europe, making member countries with previously weak currencies more attractive markets. However, the adoption of a common currency has also caused problems, with European economic powers such as Germany and France stepping in to prop up weaker economies such as those of Greece, Portugal, and Cyprus. This recurrent "euro crisis" has from time to time led some analysts to predict the possible breakup of the eurozone as it is now set up. However, the euro has been resilient so far.[28]

The EU suffered a major blow in 2016 when the people of the United Kingdom voted in a national referendum to exit the community—the so-called "Brexit." After a lengthy and contentious transition period, the UK left the EU in January 2021. Still, with a post-Brexit combined annual GDP of more than $17 trillion, the EU remains a potent economic force.[29]

Another important free trade zone is the *United States-Mexico-Canada Agreement (USMCA)*. Taking effect in July 2020, the USMCA replaced the North American Free Trade Agreement (NAFTA), which first established a free trade zone among the United States, Mexico, and Canada in 1994. NAFTA created a single market of 450 million people who produce and consume $24 trillion worth of goods and services annually. Over its first 25 years, NAFTA eliminated trade barriers and investment restrictions among the three countries. Total trade among the NAFTA countries nearly tripled from $288 billion in 1993 to more than $1.3 trillion a year.[30] Driven by the United States, the USMCA modified NAFTA in many areas. For example, it removed limits on the ability of member countries to impose import restrictions, changed the product content levels related to defining rules of origin, and expanded the protection period for branded pharmaceutical products from generics.[31]

Still another key world trade agreement is the *Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)* among 11 Pacific Rim countries: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. The 11 CPTPP members have a collective population of 500 million people and account for 14 percent of the world's GDP.[32]

When evaluating other countries for trade or market entry, a company must consider its membership in global or regional trade zones and organizations. If relevant, such membership can regulate the country's behavior toward the company and its brands, making the business outcomes more predictable and reducing the business risk.

The Internal Legal Perspective

Global trade agreements and organizations affect a company's global marketing across country borders. However, global marketers may also face rules and restraints within another country's borders. For example, some countries impose *currency restrictions*. Sellers ideally want to take their profits in a currency of value to them. However, to maintain its own inventory of a popular world currency, a country may insist that sellers take payment in its own or a less widely accepted world currency.

Also, most global trade involves cash transactions. Yet some countries have too little hard currency to pay for purchases from other countries. Or trader restrictions may restrict the flow of currency between nations. Instead, countries may *barter* with suppliers, providing goods in exchange for the imported goods. For example, Indonesia recently bartered coffee, tea, rubber, and palm oil for military aircraft from Russia. India exchanged rice and medicines for Venezuelan oil. And South Korea bartered apples for coffee from Vietnam to help balance an apple surplus against a burgeoning coffee demand.[33]

Countries may also impose *labor restrictions*. The balance of power between employers and labor can vary sharply across countries.[34] In countries like the United States, companies generally have significant flexibility in expanding or downsizing their labor forces. However, labor laws in many other countries can make it difficult to lay off existing employees, even if the market shrinks. Such restrictions can help a country's labor force in the short run but may discourage global companies from making and selling products in that country.

Nontariff trade barriers: New restrictions on non-Indian-owned online sellers has caused major obstacles for Amazon in India's huge e-commerce market.

Rebecca Conway/The New York Times/Redux

Finally, companies may face *nontariff trade barriers*, such as biases against certain kinds of bids for business contracts, restrictive product standards, and excessive or selective host-country regulations or enforcement. For example, India is known for throwing up nontariff obstacles to protect the nation's small, informal retailers, who control 88 percent of India's $1.1 trillion in retail sales.[35] The country recently laid down new e-commerce restrictions that prohibit non-Indian-owned online companies such as Amazon or Walmart's Flipkart unit from selling their own products directly to consumers on their sites. For Amazon, that includes products such as Amazon's Echo, Kindle, and Fire TV devices and a growing list of private-branded products ranging from batteries and fashions to home goods. Under the new rules, Amazon and Flipkart can serve only as marketplaces that connect independent buyers with sellers. The new rules also ban forming exclusive deals with major sellers, offering deep discounts, and holding flash sales. Designed to protect local Indian stores and online retailers from the inventory and pricing power of large non-Indian-owned businesses, such regulations have caused major obstacles for Amazon and Walmart, which have both invested heavily in recent years to develop a presence in India's e-retail market, which will reach an estimated $200 billion by 2026.[36]

The Environmental and Ecological Context

Countries and societies are increasingly concerned about the social and environmental conditions their citizens face daily. Companies feel increasing pressure from customers, employees, policy makers, and citizens at large to do the right thing by society and the environment. As a result, governments and companies across the globe have rapidly increased regulations and voluntary initiatives that promote socially and environmentally sustainable business practices.

Global marketers must understand the impact of widely varying sustainability regulations on their products and operations in individual global markets. For example, the governor of California, a state whose standalone GDP would make it the fifth-largest economy in the world, recently signed an executive order that will ban all in-state sales of gasoline-fueled vehicles as of 2035. Carmakers worldwide will have to plan ahead if they wish to sell cars in California. As another example, India was the first country to make corporate social responsibility (CSR) mandatory. As of 2015, companies with $70 million or more of net worth, $140 million or more in sales, or $699,125 or more in net profits must annually spend 2 percent of their average net profits of the previous three years on government-approved CSR initiatives. Responsible global marketers must understand and support this requirement.[37]

Many companies adopt their own sustainable initiatives and practices. For example, most global carmakers have set their own ambitious goals for making and marketing less-polluting, all-electric vehicles. And global logistics and delivery companies such as UPS, FedEx, and DHL have already upgraded their delivery vehicle fleets well beyond the requirements of most of the countries in which they operate. That said, when evaluating a country for entry, companies should also carefully examine the regulations related to sustainable business practices. They must assess the economic, operational, and marketing impact of such regulations on the prospects for success in each country or region.

In summary, as the first step in the global marketing process, marketers must understand the macroenvironmental contexts of the countries or regions in which it might operate. The PESTLE framework addresses the six factors that set the marketing context in any country or region—political, economic, sociocultural, technological, legal/institutional, and environmental/ecological. By assessing these factors, marketers will gain a deep understanding of the global context within another country or across groups of countries.

Author Comment | In deciding whether to go global and where, companies must ask many important questions. For example, which global markets offer the best opportunities for Netflix?

Deciding Whether to Go Global and Which Markets to Enter

OBJECTIVE 19-3 Discuss how companies decide whether to go global and, if so, which markets to enter.

The second step in the global marketing process involves deciding whether to go global and where. Not all companies need to venture into global markets. But if they do go global, they must assess which markets offer the best opportunities for their products and services.

Deciding Whether to Go Global

Going global offers both benefits and risks. Operating domestically is easier and safer. Domestic companies can avoid the complexities related to unstable currencies, political and legal uncertainties, communication and cultural barriers, and varying customer needs that come with global marketing. Focusing on just one market also creates a sense of focus and discipline; the company can concentrate its resources and capabilities on serving its familiar local market excellently.

However, a company may choose to go global for multiple reasons. First, global competitors might attack the company's home market by offering better products or lower prices. The company might want to tie up these competitors' resources by counterattacking them in their home markets. Second, the company's customers might be expanding abroad and require global servicing. Third, global markets might provide better opportunities for growth. For example, Coca-Cola's global growth in recent years has offset stagnant U.S. soft drink sales. Today, non–North American markets account for 80 percent of Coca-Cola's unit case volume, and the company is making major pushes into dozens of emerging markets, including China, India, and the entire African continent.[38]

Fourth, while there are some risks associated with entering each country, for large companies a diversified presence across numerous countries can dilute the risks that come with being overly concentrated in one country. Finally, some industries are inherently global. The strategic positions of companies in those industries will be strongly affected by their overall global footprint in terms of lower unit costs of production, lower marketing costs, global brand leverage, more efficient sourcing of raw material, and other effects. These potential outcomes force the companies to compete on a regional or worldwide basis.

In summary, when evaluating the global expansion, managers much weigh the advantages and disadvantages. Going global is neither an obvious nor a trivial decision. Even if the balance tilts strongly toward going global, the company must evaluate its available assets and capabilities for strong global performance. Does it have an open and global managerial mindset? Does it have the resources available to fund global expansion? Can it quickly gain global customer and market insights and find a pathway to build the global brand? Can it find good global sourcing and distribution partners? In short, planning for global market *entry* should go hand in hand with planning for global strategy *execution*.

Deciding Which Markets to Enter

Before going abroad, a company should try to define its global *marketing objectives and policies*. It should decide what *volume* of international sales it wants. Most companies start small when they go abroad. Some plan to stay small, seeing global sales as a small part of their business. Others may project global business as being even more important than their domestic business.

The company also needs to choose in *how many* countries it wants to market. Companies must be careful not to expand beyond their capabilities by operating in too many countries too soon. Next, the company needs to decide on the *types* of countries to enter. As discussed previously, a country's attractiveness depends on the product, geographical factors, income and population, political climate, and many other considerations. In recent years, many major new markets have emerged, offering both substantial opportunities and daunting challenges.

Entering new global markets: Netflix's decision to enter India seems like an obvious one. But it is also a large and complex undertaking.

CeltStudio/Shutterstock; akedesign/Shutterstock

After listing possible global markets, the company must carefully evaluate each one. To learn how this might work, consider Netflix's evaluation of India as a potential market. Netflix's initial decision to expand into India seemed like an obvious one. The video streaming giant was already doing well in Europe, South America, and other global markets, which accounted for more than half of its total streaming revenues. And as the U.S. market became saturated, Netflix was looking to global markets for growth. India offered huge potential, with a population of 1.4 billion people, more than four times the U.S. population and almost 2 times Europe's. Representing the world's second-largest internet market, India's online video market was expected to triple in just the next four years.[39]

However, as Netflix considered expanding into India, it faced some important questions. Could it compete effectively with local competitors? Could it manage the varied cultural differences across Indian states, including more than 20 major languages? Would it be able to overcome the significant regulatory, political, and infrastructure challenges in the country? Netflix was optimistic. CEO Reed Hastings boldly predicted that a big fraction of the company's next 100 million customers would come from India. Five years later, however, things haven't worked out that way. Netflix is still struggling to gain traction in India.

When entering India, Netflix faced many challenges. For example, India was crowded with formidable competitors, including Amazon Prime Video and Indian digital and mobile entertainment giant Hotstar (owned by Disney India and now called Disney+ Hotstar). And some 35 local online streaming services had sprung up in India during the past few years. At the time, Hotstar claimed about 70 percent of India's on-demand local streaming services market.

Content was another major consideration. Netflix has a huge inventory of global content. But a large majority of titles on Netflix's service in India were in English, whereas the market prefers films in Hindi, Tamil, or other major regional languages. So Netflix has poured money into developing original content by local producers for the Indian market. This year alone, Netflix India originals will include 13 new movies, 12 new series, and potentially a dozen or more returning series.

Netflix has also faced pricing challenges. As a premium provider, its cheapest monthly plan was originally priced at about \$8, roughly twice as much as Disney+ Hotstar. And by contrast, on average, a 100-channel linear cable TV or pay TV subscription plan in India costs only \$1.73 per month. Netflix recently slashed its prices in India: Its basic plan now costs \$2.65 a month, and its mobile-only viewing plan runs \$2 a month.

Despite its large investment in original content and creative pricing adjustments, Netflix still lags badly in India. Its total paid subscriber base in India stands at only 6 million, compared with Disney+ Hotstar's 51 million subscribers and Amazon Prime Video's 22.3 million. Still, Netflix's decision to enter India was and still is an obvious one. With its huge population, high economic growth rates, increasing internet access, and booming Bollywood TV and movie entertainment industry, India is arguably the world's biggest untapped digital streaming market. If Netflix can get things right there, India offers incredible opportunity. And getting things wrong in India would be a substantial blow to the company's future. For example, Disney+ Hotstar is predicting that it will have 230 to 250 million users in India by 2025. That's more than Netflix's total current worldwide subscriber base of 222 million. "I think we're quite bullish that India isn't fundamentally different in some way that we can't figure out how to tailor our service offering to be attractive to Indian consumers who love entertainment," says Netflix's chief operating officer.

Drawing from our previous discussion of understanding the global marketing context using the PESTLE framework, managers must evaluate each potential global market in terms of its potential and risks, as summarized in **Table 19.1**. Then the marketer must decide which markets offer the most attractive long-run returns versus risks.

Table 19.1 | Indicators of Market Potential (PESTLE Factors)

Political Context	Technological Context
National priorities Political stability and compatibility Government attitudes toward global trade Monetary and trade regulations	Presence of robust electronic networks Adoption of smart devices Presence of digital commerce platforms
Economic Context	**Legal Context**
Country size GDP and growth rate Income distribution Market accessibility Natural, financial, and human resources	Membership in global trade organizations Currency controls Labor restrictions Non-trade tariff barriers
Sociocultural Context	**Environmental Context**
Cultural and social norms Consumer lifestyles, beliefs, and values Business norms and approaches Languages	Corporate social responsibility regulations Environmental regulations Expected voluntary sustainability initiatives

Author Comment | A company has many options for entering global markets, from simply exporting its products to working jointly with global partners to setting up its own international operations.

Deciding How to Enter Global Markets

OBJECTIVE 19-4 **Describe three key approaches to entering global markets.**

As a third step in the global marketing process, companies must decide how they will enter chosen global markets. A company can choose to enter another country through *exporting*, *joint venturing*, and *direct investment*. Figure 19.3 shows the three market entry strategies along with the options each one offers. Each succeeding strategy involves more commitment and risk but also more control and potential profits.

Exporting

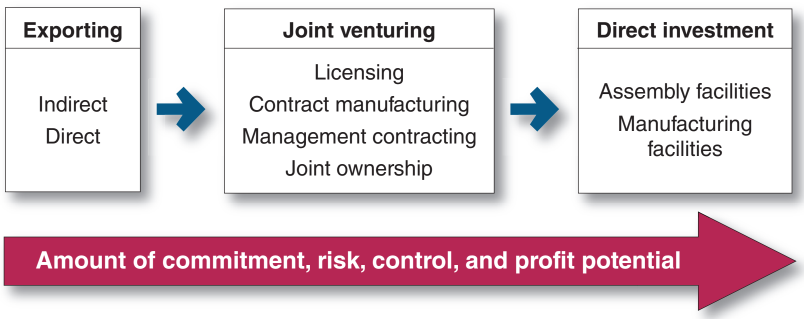
Exporting
Entering international markets by selling goods produced in the company's home country, often with little or no modification.

The simplest way to enter a new international market is through **exporting**. The company may passively export its surpluses from time to time or may actively commit to expanding exports to a particular market. In either case, the company produces all its goods in its home country. It may or may not modify them for export. Exporting involves the least change in the company's product lines, organization, investments, or mission.

Companies typically start with *indirect exporting*, working through independent global marketing intermediaries. Indirect exporting involves low investment and risk because the company does not require an overseas marketing organization or network. Global marketing intermediaries bring know-how and services to the relationship, so the seller normally makes fewer mistakes. Sellers may eventually move into *direct exporting*, whereby they handle their own exports. This involves higher investment and risk but also potentially higher returns.

FIGURE 19.3
Market Entry Strategies

Exporting is the simplest way to enter a new international market, but it usually offers less control and profit potential.



Direct investment—owning your own international-based operation—affords greater control and profit potential, but it's often riskier.

Joint Venturing

Joint venturing
Entering international markets by joining with companies within a global market to produce or market a product or service.

Licensing
Entering a global market by developing an agreement with an entity within that market to use the company's brand, trademark, patent, trade secret, manufacturing process, or some other item of value in return for some payment.

Unlike simple exporting, **joint venturing** involves joining with a company within a global market to produce or market products or services abroad. It also differs from direct investment in that the company forms an association with an entity in the other country. There are four types of joint ventures: *licensing, contract manufacturing, management contracting*, and *joint ownership*.

Licensing

Licensing is a simple way to enter a global market. The company enters into an agreement with a licensee in the that market. For a fee or royalty payments, the licensee buys the right to use the company's manufacturing process, trademark, patent, trade secret, and/or other item of value. The company thus gains entry into the market at little risk; at the same time, the licensee gains production expertise or a well-known product or name without having to start from scratch.

Global licensing: The Tokyo Disney Resort is owned and operated by Oriental Land Company (a Japanese development company) under license from The Walt Disney Company.

Kyodo via AP Images

In Japan, Budweiser beer flows from Kirin breweries, and Mizkan produces Sunkist lemon juice, drinks, and dessert items. Coca-Cola markets licenses to bottlers around the world and supplies them with the syrup needed to produce the product. Its global bottling partners include the Coca-Cola Bottling Company of Saudi Arabia and Europe-based Coca-Cola Hellenic, which bottles and markets 197 Coca-Cola brands to 715 million people in 29 countries, from Italy and Greece to Nigeria and Russia.[40] And Tokyo Disney Resort is owned and operated by Oriental Land Company under license from The Walt Disney Company. The 45-year license gives Disney licensing fees plus a percentage of admissions and food and merchandise sales.

Licensing has potential disadvantages: The company has less control over the licensee than it would over its own operations. Furthermore, if the licensee is highly successful, the company has given up these profits. Finally, if and when the contract ends, the company may find that it has created a competitor.

Contract Manufacturing

Contract manufacturing
A joint venture in which a company contracts with manufacturers in a global market to produce its product or provide its service.

Under **contract manufacturing**, the company makes agreements with manufacturers in the global market to produce its product or provide its service. For example, P&G serves 650 million consumers across India with the help of nine contract manufacturing sites there. Volkswagen contracts with Russia's largest auto manufacturer, GAZ Group, to make Volkswagen Jettas for the Russian market as well as its Škoda (VW's Czech Republic subsidiary) Octavia and Yeti models sold there. And Apple's three main contract manufacturers—which make a majority of the brand's iPhones, iPads, Apple Watches, and other products—have facilities in India that supply "Made in India" products for that market.[41] Contract manufacturing may decrease the company's control over manufacturing and potentially decrease its profit margins. However, it also lets the company begin operations faster, reduces market-entry risks, and offers the later opportunity to form a partnership with or buy out the contract manufacturer. Contract manufacturing can also reduce plant investment, transportation, and tariff costs. And it can help the company meet the host country's local manufacturing requirements. For example, Apple's initiative to locally assemble iPhones in India helps it avoid paying a 20 percent import duty.[42]

Management Contracting

Management contracting
A joint venture in which the domestic company supplies the management know-how to a company in another country that supplies the capital; the domestic company exports management services rather than products.

Under **management contracting**, the domestic company provides the management know-how to a company in another country that supplies the capital. In other words, the domestic company exports management services rather than products. Hilton uses this arrangement in managing hotels around the world. For example, the Hilton hotel chain operates DoubleTree by Hilton hotels in countries across the world, including the United Kingdom, France, Italy, Peru, Costa Rica, China, Russia, and Tanzania. The properties are locally owned, but Hilton manages the hotels with its world-renowned hospitality expertise. More broadly, Hilton Management Services offers management contracting services to independently, locally owned hotels under any of its 18 brands worldwide. "We operate your hotel as if we owned it," says the company. "Your hotel. Our brand and management team."[43]

Management contracting is a low-risk method of getting into a global market, and it yields income from the beginning. This approach is particularly applicable if the company has a strong brand and operations blueprint, as Hilton does, that can be leveraged by other companies in the other country. The arrangement is even more attractive if the contracting company has an option to buy some share in the managed operations later. The arrangement is not sensible, however, if the company can make greater profits by undertaking the whole venture. Management contracting also prevents the company from setting up its own operations for some time. Finally, the parent company must ensure that its brand positioning and reputation are not put at risk by the operating company.

Joint Ownership

Joint ownership
A cooperative venture in which a company creates a local business with investors in a global market who share ownership and control.

Joint ownership ventures consist of one company joining forces with foreign investors to create a local business in which they share possession and control. A company may buy an interest in a local company, or the two parties may form a new business venture. Joint ownership may be needed for economic or political reasons. For example, the company may lack the financial, physical, or managerial resources to undertake the venture alone. Alternatively, a foreign government may require joint ownership as a condition for entry. Disney's Hong Kong Disneyland is run by a joint venture, Hong Kong International Theme Parks Ltd, of which the local government owns 53 percent and Disney owns 47 percent. Similarly, Shanghai Disneyland is a joint ownership venture with the Chinese government-owned Shanghai Shendi Group. Disney owns 43 percent of the Shanghai resort; the Shanghai Shendi Group owns 57 percent.[44]

Joint ownership: Walmart's joint ownership stake in Flipkart, India's leading online marketplace, helps the retailer to navigate India's strict foreign investment restrictions.
grzegorz knec/Alamy Stock Photo (Walmart); Farbentek/123RF (Flipkart)

Often, companies form joint ownership ventures to merge their complementary strengths to develop a global marketing opportunity. For example, Walmart's 81 percent ownership stake in Flipkart, India's leading online marketplace, has helped the U.S.-based retailer navigate India's strict foreign investment restrictions. And it gave Walmart a head start over Amazon in market share and online retailing expertise in India. In turn, Flipkart benefits from Walmart's deep pockets and distribution experience. Similarly, joint ownership ventures have helped Kellogg move quickly and strongly into emerging markets in West Africa. Kellogg purchased 50-percent stakes in Tolaram Africa Foods, a leading manufacturer of packaged foods in Nigeria and Ghana, and Multipro, the largest foods distributor in those countries. The joint ownership investments have helped Kellogg better understand West African consumers and master the region's complex distribution environment.[45]

Joint ownership has certain drawbacks, however. The partners may disagree over investment, marketing, or other policies. Many U.S. companies like to reinvest earnings for growth, but local companies often prefer to take out these earnings. Similarly, U.S. companies emphasize the role of marketing, but local investors may rely on selling.

Direct Investment

Direct investment
Entering a global market by developing assembly or manufacturing facilities within that market.

The most intense involvement in a global market comes through **direct investment**—the development of assembly or manufacturing facilities within other country markets. For example, U.S. chipmaker Intel made substantial investments, totaling more than $20 billion, in corporate acquisitions and building its own manufacturing and research facilities in Israel. A significant share of Intel Israel's chip exports goes to China. Thus, in the face of sometimes strained trade relations between the United States and China in recent years, increased direct investment in Israel lets Intel indirectly serve the large and growing Chinese chip market.[46]

Production facilities within global markets can help the company access lower-cost labor, cheaper raw materials, local government incentives, and freight savings. The company can also adapt its products to the local market, improve its image in the host country by creating jobs, and develop deeper relationships with the government, customers, local suppliers, and distributors. Finally, the company keeps full control over the investment and therefore can develop manufacturing and marketing policies that serve its long-term global objectives.

Direct investment exposes the company to many risks, however, including restricted or devalued currencies, falling markets, or government changes. In some cases, a company has no choice but to accept these risks if it wants to operate in the another country.

Author Comment | The major global marketing decision usually boils down to this: How much, if at all, should a company adapt its marketing strategy and programs to local markets? How might the answer differ for Boeing versus McDonald's?

Deciding on the Global Marketing Program

OBJECTIVE 19-5 Explain how companies adapt their marketing strategies and marketing mixes for global markets.

The fourth step in the global marketing process involves developing global marketing strategies and tactics. Companies that operate globally must decide whether and how to adapt their marketing strategies and programs to local conditions. At one extreme are global companies that use **standardized global marketing**, essentially applying the same marketing strategy approaches and marketing mix worldwide. At the other extreme is **adapted global marketing**. In this case, the company adjusts the marketing strategy and mix elements to each target market, resulting in higher costs in the quest for higher market shares and profits.

Standardized global marketing
A global marketing strategy that basically uses the same marketing strategy and mix in all of the company's global markets.

Adapted global marketing
A global marketing approach that adjusts the marketing strategy and mix elements to each global target market, which increases costs but hopefully yields larger market shares and financial returns.

The question of whether to adapt or standardize marketing across countries has long been debated. On the one hand, some global marketers believe that technology is making the world a smaller place, and consumer needs around the world are converging. This paves the way for global brands and standardized global marketing. In turn, the company achieves greater brand power and reduced costs from economies of scale.

On the other hand, the marketing concept holds that marketing initiatives will be more engaging if tailored to the unique needs of each targeted customer group. If this concept applies within a country, it should apply even more across countries. Despite global convergence, cultures vary greatly across countries. Global consumers still differ significantly in their needs and wants, spending power, product preferences, and shopping patterns. Because these differences are persistent, most marketers today adapt their products, prices, channels, and promotions across global markets.

However, global adaptation is not an all-or-nothing proposition. It's a matter of degree. Most global marketers suggest that companies should "think globally but act locally." They should seek a balance between standardization and adaptation, standardizing some aspects of their marketing, brands, products, and operations globally but adapting other aspects to specific market.

Starbucks operates this way. The company's overall brand strategy provides global strategic direction. Then regional or local units focus on adapting the strategy and brand to specific local markets. For example, when Starbucks entered China 25 years ago, given the strong Chinese tea-drinking culture, few observers expected success. But Starbucks quickly proved the doubters wrong:[47]

> Starbucks's success in China results from building on its global "Starbucks Experience" brand identity while at the same time adapting its marketing strategy to the unique characteristics of Chinese consumers. At first glance, a Starbucks in Beijing looks and feels a lot like one in Chicago. But dig deeper and you'll find significant differences. Rather than forcing U.S. products on Chinese locals, Starbucks developed new flavors, including an extensive menu of tea-based drinks that appeal to local tastes—think Black Tea Latte or Red Bean Tea Frappuccino. Rather than just charging U.S.-style premium prices, Starbucks boosted prices 20 percent higher in China compared to other markets, positioning the brand as a status symbol for the rapidly growing Chinese middle and upper classes.
>
> Research showed that, unlike Americans, Chinese consumers don't like to "grab and go" with their coffee—they'd rather sit back and chat with friends, family, and business associates. So rather than pushing take-out orders, which account for most of its U.S. revenues, Starbucks made its Chinese stores bigger and promoted dine-in services, making Starbucks the perfect meet-up place. And whereas U.S. locations do about 70 percent of their business before 10 a.m., China stores do more than 70 percent of their business in the afternoon and evening. And Starbucks recently launched an initiative called "1971 salons" by which customers can book parts of Starbucks stores for private events, ranging from birthday parties to business meetings.

Think globally, act locally: Starbucks's success in China results from building on its global "Starbucks Experience" brand identity while at the same time adapting its marketing strategy to the unique characteristics of Chinese consumers.

Chris Willson/Alamy Stock Photo

Under this adapted strategy, Starbucks China is thriving. China quickly became Starbucks's second-largest market outside of the United States, now with more than 5,300 stores in 210 Chinese cities. Starbucks claims a more than 36 percent market share, nearly twice that of the second-place competitor. "We're trying to build a different kind of company in China… while maintaining the heart and soul of what Starbucks stands for," says the president of Starbucks China.

Collectively, local brands still account for the overwhelming majority of consumer purchases. Most consumers, wherever they live, lead very local lives. So a global brand must engage consumers at a local level, respecting the culture and aligning with it. Perhaps no company does this better than French cosmetics and beauty care giant L'Oréal. L'Oréal's and its brands are truly global in scope and appeal. But the company's outstanding global success comes from achieving a global–local balance, one that adapts and differentiates L'Oréal's well-known brands to meet local needs while also integrating them across world markets to optimize their global impact. This global–local balance lies at the roots of the organization whose mission is to offer "beauty for all" by providing "beauty for each individual" (see Real Marketing 19.2).

Product

Five strategies are used for adapting product and marketing communication strategies to a global market (see **Figure 19.4**).[48] We first discuss the three product strategies and then turn to the two communication strategies.

Straight product extension
Marketing a product in a global market without making any changes to the product or its positioning and communication.

Straight product extension means marketing a product in a global market without significantly changing either the product or its positioning and communication. The first step, however, should be to find out whether consumers in other country markets use that product and what form they prefer.

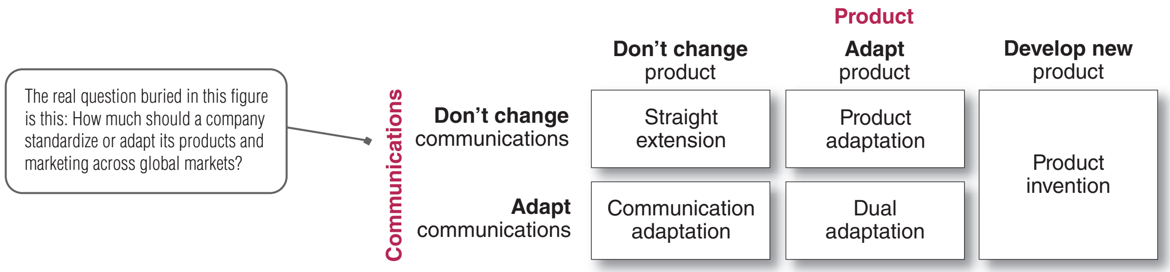
Straight extension has been successful in some cases and disastrous in others. Apple iPads, Gillette razors, and Black & Decker tools are all sold globally and successfully in about the same form and with similar messaging. But when General Foods introduced its standard powdered JELL-O in Britain, it discovered that British consumers prefer a solid wafer or cake form. Likewise, Panasonic's refrigerator sales in China surged tenfold in a single year after it slimmed down its appliances by 15 percent to fit smaller Chinese kitchens. Straight extension saves significant costs but can be costly in the long run if products fail to satisfy consumers in specific global markets.

Product adaptation
Adapting a product to meet local conditions or wants in global markets but without significantly changing the positioning and communication associated with it.

Product adaptation involves changing the product to meet local preferences and conditions but leaving the positioning and communication largely unchanged. For example, in the United States, Amazon's Echo-based virtual voice assistant Alexa speaks a soft but precise version of American English. Alexa knows that Independence Day falls on July 4 and that Americans love turkey with all the fixings for Thanksgiving. But what happens when Alexa goes global? Alexa must be carefully adapted to each new global culture. Consider Alexa in India:[49]

Before introducing Alexa in India, teams of linguists, speech scientists, and developers gave her a decidedly local makeover. In India, Alexa speaks Hinglish—a blend of Hindi and English—with an unmistakable Indian accent. "She knows Independence Day is August 15, not July 4, and wishes listeners 'Happy Diwali and a prosperous New Year!'" says one business reporter. "She also refers to the living room as 'drawing room' and can add jeera (cumin), haldi (turmeric) and atta (flour) to your shopping list." Alexa's many "skills" cover

FIGURE 19.4
Five Global Product and Communications Strategies



Real Marketing 19.2 | L'Oréal: "Beauty for All. Beauty for Each Individual."

How does a French company successfully market an American version of a Korean skin beautifier under a French brand name in Australia? Ask L'Oréal, which sells more than $37 billion worth of cosmetics, hair care products, skin care concoctions, and fragrances each year in 150 countries, making it the world's biggest cosmetics marketer. L'Oréal sells its brands globally by understanding how they appeal to varied cultural nuances of beauty in specific local markets. Then it finds the best balance between adapting its brands to meet local needs and desires and standardizing them for global impact.

L'Oréal is as global as a company gets, with offices across the world and more than half of its sales sourced outside Europe and North America. L'Oréal's 36 well-known brands originated in different cultures, including French (L'Oréal Paris, Garnier, Lancôme), American (Maybelline, Kiehl's, SoftSheen-Carson, Ralph Lauren, Urban Decay, Clarisonic, Redken), Italian (Giorgio Armani), and Japanese (Shu Uemura). The master global marketer is the uncontested world leader in makeup, skin care, and hair coloring and second only to P&G in hair care.

L'Oréal's global prowess starts with a corps of highly multicultural managers. The company is known for building global brand teams around managers with deep multicultural backgrounds who bring diverse cultural perspectives to their brands. As explained by one Indian-American-French manager of a team that launched a men's skin care line in Southeast Asia: "I cannot think about things one way. I have a stock of references in different languages: English, Hindi, and French. I read books in three languages, meet people from different countries, eat food from different [cultures], and so on."

For example, a French-Irish-Cambodian skin care manager noticed that, in Europe, face creams tended to be either "tinted" (and considered makeup) or "lifting" (considered skin care). In East Asia, however, many face creams combine both traits. Recognizing the growing popularity of East Asian beauty trends in Europe, the manager and his team developed a tinted lifting cream for the French market, a product that proved successful.

L'Oréal's vision is to universalize beauty—to offer "beauty for all" around the world. But universalization does not mean uniformity. To the contrary, says the company: "At L'Oréal, we are convinced that no single and unique model of beauty exists, but an infinite diversity, changing with the times, through cultures, histories, individuals." Thus, to achieve "beauty for all," L'Oréal seeks to provide "beauty for each individual."

To that end, L'Oréal digs deep to understand what beauty means to consumers in different parts of the world. It outspends all major competitors on R&D, painstakingly researching beauty and personal care behaviors unique to specific locales. L'Oréal has set up R&D centers all over the world, perfecting a local observation approach it calls "geocosmetics." By employing research techniques ranging from in-home visits to observations made in "bathroom laboratories" equipped with high-tech gadgetry, L'Oréal generates deep insights about regional beauty and hygiene rituals and about local conditions that affect the use of its products, such as humidity and temperature.

L'Oréal employs these detailed insights to create and position its brands in local markets. "Beauty is less and less one size fits all," says a L'Oréal executive in China. "You have to have an answer for very different needs." More than 260 scientists now work in L'Oréal's Shanghai research center, tailoring products such as lipsticks, herbal cleaners, and cucumber toners for Chinese tastes.

Even as it responds to local market needs, L'Oréal seeks to achieve global scale by integrating brands across world cultures. Consider Elséve Total Reparação, a hair care line developed at L'Oréal's labs in Rio de Janeiro to address specific hair problems described by Brazilian women. In Brazil, more than half of all women have long, dry, and curly hair, resulting from the humid Brazilian climate, exposure to the sun, frequent washing, and smoothing and straightening treatments. Elséve Total Reparação was an immediate hit in Brazil, and L'Oréal quickly rolled it out to other South American and Latin American markets. The company then tracked down other global locales with climate characteristics and hair care rituals like those faced by Brazilian women. Subsequently, L'Oréal launched the brand as Elséve Total Repair in numerous European, Indian, and other Southeast Asian markets, where consumers greeted it with similar enthusiasm.

In addition to product formulations, L'Oréal also adapts brand positioning and marketing to global needs and expectations. For example, more than 25 years ago, the company bought stodgy American makeup producer Maybelline. To reinvigorate and globalize the brand, it moved the unit's headquarters from Tennessee to New York City and added "New York" to the label. The resulting urban, street-smart, Big Apple image played well with the mid-price positioning of the workday makeup brand globally. The makeover quickly earned Maybelline a 20 percent market share in its category in Western Europe. The young urban positioning also hit the mark in Asia, where few women realized that the trendy "New York" Maybelline brand belonged to French cosmetics giant L'Oréal.

To further its quest to bring beauty to each individual, L'Oréal launched Color&Co, a direct-to-consumer brand that aims to give dye-at-home users their own personal hair color. The experience begins at the brand's website, where a customer takes a quiz and has a real-time video consultation with a professional hair colorist. The colorist applies an algorithm that comes up with a personalized formula to achieve the perfect hair shade based on each customer's hair type, ethnicity, natural undertones, preferences, and

Global–local balance: Cosmetics and beauty care giant L'Oréal balances local brand responsiveness and global brand impact, offering "beauty for all" by providing "beauty for each individual."

TY Lim/Shutterstock

other factors. Within days, the customer receives a Color&Co Colorbox with a custom-blended formula, personalized instructions, and a how-to video. And to make applications better and easier, L'Oréal recently introduced its latest hair coloration tech innovation. Called Colorsonic, it's a lightweight, handheld device that uses a mess-free process to mix hair color and apply it evenly, delivering consistent hair color results for consumers at home. Going forward, services and technologies such as Color&Co and Colorsonic give L'Oréal a global technology platform for delivering individualized beauty solutions across its wide range of brands.

L'Oréal's huge global success comes from achieving a well-designed global–local balance that adapts and differentiates brands in local markets while optimizing their impact across global markets. "We respect the differences among our consumers around the world," says L'Oréal's CEO. "We have global brands, but we need to adapt them to local [and even individual] needs."[50]

a wide range of Indian interests, notes another reporter—"chants for cricket enthusiasts, recitations of the Gayatri Mantra, . . . daily horoscopes, Bollywood quizzes, Indian flute music, and even cooking instructions based on late celebrity chef Tarla Dalal's recipes."

Conversing in Hinglish is critical. Although many Indians understand both English and Hindi, they feel more comfortable with an Alexa who sounds like them. Having Alexa understand the nuances of Hinglish and local subcultures is especially important as Amazon expands beyond India's big cities. A greater proportion of rural Indians speaks only Hindi or another local language, and lower literacy rates mean more people prefer voice controls to typing. "Alexa is not going to be a visiting American who is going to come to India for a few days and go back," says Amazon's India country manager for Alexa Skills. "She is as Indian as it gets." Such adaptations have paid off for Amazon in India. Its Echo is India's leading smart speaker brand with a 80 percent market share, with Google a distant second at 11 percent.

Product adaptation: Amazon carefully adapts its Echo-based virtual voice assistant Alexa to each new global culture. In India, Alexa speaks Hinglish—a blend of Hindi and English—with an unmistakable Indian accent.

Chesh/Alamy Stock Photo

Product invention consists of creating something new to meet the needs of consumers in other countries. In particular, companies based in developed economies have designed new offerings ranging from appliances to candy to meet the special purchasing needs of low-income consumers in developing economies.

For example, Chinese appliance producer Haier developed sturdier washing machines for rural users in Africa, India, and other emerging markets, where it found that lighter-duty machines were often clogged with mud when farmers used them to clean vegetables as well as clothes. P&G developed a waterless line of shampoos and other hair care products that required no water for South African consumers facing severe water shortages. And solar lighting manufacturer d.light Solar has developed affordable solar-powered home lighting systems for the hundreds of millions of people in developing economies who don't have access to reliable power. d.light's hanging lamps and portable lanterns require no energy source other than the sun and can last up to 15 hours on one charge. The company has already sold close to 25 million solar light and power products in 70 countries, impacting more than 125 million people.[51]

Product invention
Creating new products or services for global markets.

Promotion

Companies can adopt the same communication strategy they use in the home market or change it for each global market. Consider advertising messages. Some companies use a standardized advertising theme around the world. For example, Coca-Cola unifies its global advertising around a "Taste the Feeling" theme. Of course, even in highly standardized communications campaigns, some local adjustments might be required. Ads for Coca-Cola's "Taste the Feeling" campaign have a similar look worldwide but are adapted to feature local consumers, cultural nuances, languages, celebrities, and events.

Global companies often have difficulty crossing the language barrier. Seemingly innocuous brand names and advertising phrases can take on unintended or hidden meanings when translated into other languages. For example, Interbrand of London, the company that created household names such as Prozac and Acura, recently developed a brand name "hall of shame" list, which contained these and other foreign brand names you are never likely to see in the United States: Krapp toilet paper (Denmark), Plopp chocolate

(Scandinavia), Crapsy Fruit cereal (France), Poo curry powder (Argentina), and Pschitt lemonade (France). Similarly, advertising themes often lose—or gain—something in the translation. In Chinese, the KFC slogan "finger-lickin' good" came out as "eat your fingers off." And Motorola's Hello Moto ringtone sounds like "Hello, Fatty" in India.

Marketers must be watchful to avoid such mistakes, taking great care when localizing their brand names and messages to specific global markets. In important but culturally different markets such as China, finding just the right name can make or break a brand:[52]

> After a long day's work, an average upscale Beijinger is eager to dash home, lace on a comfortable pair of Enduring and Persevering, pop the top on a refreshing can of Tasty Fun, and then hop into his Dashing Speed to head to the local tavern for a frosty glass of Happiness Power with friends. Translation? In China, those are the brand name meanings for Nike, Coca-Cola, Mercedes, and Heineken, respectively. To Westerners, such names may sound silly, but to brands doing business in China, they are no laughing matter. Brand names in China take on deep significance, and the name can make or break a brand.
>
> Ideally, to maintain global consistency, the Chinese name should sound like the original while also conveying the brand's benefits in meaningful symbolic terms. Nike's Chinese brand name, Nai ke, sounds the same when pronounced in Chinese, and its "Enduring and Persevering" meaning powerfully encapsulates the Nike's global "Just Do It" brand essence. Coca-Cola's Chinese name—Ke kou ke le—sounds much like the English name, and the Chinese symbols convey happiness in the mouth, a close reflection of Coca-Cola's long-running global "Taste the Feeling" positioning.
>
> With diligence and hard work, companies can come up with names that will engage and inspire Chinese buyers. In China, it's not Subway, it's Sai bai wei—"better than 100 tastes." It's not Revlon but Lu hua nong, a phrase borrowed from a famous Tang Dynasty romantic poem meaning "blossoming flowers nourished by the morning dew." Still, many global brand names require careful re-crafting for China. For example, Microsoft had to rethink the introduction of its Bing search engine in China, where the most common translations of the character pronounced "bing" are words like *defect* or *virus*, not good associations for a digital product. Microsoft changed the name in China to Bi ying, which means "very certain to respond." Even so, the brand is having difficulty shaking the resemblance to the original name.

Brand names in China take on deep significance. Coca-Cola's Chinese name sounds much like the English name, and the Chinese symbols convey "happiness in the mouth," a close fit to Coca-Cola's long-running "Taste the Feeling" positioning.

Imaginechina Limited/Alamy Stock Photo

Communication adaptation
A global communication strategy of fully adapting advertising messages to local markets.

Rather than standardizing their advertising globally, other companies follow a strategy of **communication adaptation**, adapting their advertising messages to local markets. For example, in the United States and most Western countries, parents view play as beneficial to child development and creativity. However, given the fiercely competitive academic environment, many Chinese parents view play as a distraction from schoolwork that does not contribute to learning and development. As a result, although China has almost five times the population of the United States, Chinese parents spend less than half of what U.S. parents spend on toys.

To meet this challenge, U.S. toymakers adapt their Chinese communications campaigns to emphasize how play helps children to succeed by boosting their knowledge, skills, and creativity. For example, an Asian video for Mattel's Barbie, based on the brand's "You can be anything" theme, countered Chinese stereotypes about play being a waste of time by showing how playing with Barbie made girls more self-confident, creative, and emotionally intelligent. The video drew 7.5 million views. Similarly, a Crayola campaign featured a virtual children's art gallery showing how children will grow up "creating not just art, but also ideas, products, and scientific progress." And LEGO shared a WeChat post showing a father who is a Silicon Valley engineer using LEGO bricks to teach his son math skills. LEGO even offers robotics classes for kids. Says one Chinese mother who pays monthly to enroll her daughter, "She's learning to think more logically and improving her motor skills. The classes are so worth the cost." The family has dozens of LEGO model kits.[53]

Media also need to be adapted internationally because media availability and regulations vary from country to country. While TV advertising has few regulations in the United States, TV advertising time is limited in Europe. For instance, France has banned retailers from advertising on TV and Sweden forbids TV advertising directed to children under 12 years of age. However, mobile phone ads are much more widely accepted in Europe and Asia than in the United States. Newspapers are national in the United Kingdom, only local in Spain, and a leading advertising medium in Germany. India has nearly 300 newspapers; therefore, choosing the language and geographical focus of advertising is important.[54]

Price

Companies also face many considerations in setting their global prices. For example, how might Makita price its power tools globally? It could set a uniform price globally, but this amount would be too high a price in developing economies and not high enough in developed ones. It could charge what consumers in each country would bear, but this could lead to wide variances in prices across countries. Finally, the company could use a standard markup of its costs everywhere, but this approach might sacrifice profitability in some markets while pricing Makita out of the market in others.

Regardless of how companies go about pricing their products, prices in other countries are often higher than domestic prices for comparable products. This is often driven by tariffs and other levies on imported products. For example, a 256GB Apple iPhone 13 was recently priced at $929 in the United States, $1,052 in China (where the product is primarily manufactured and assembled), $1,212 in the United Kingdom, $1,221 in India, and $1,522 in Turkey.[55] The very high price in Turkey is largely because of the country's volatile currency and high import tariffs and other taxes.

Global pricing: To compete with low-end competitors in emerging economies, Samsung developed its low-priced Galaxy A line, which carries the Galaxy name and style but with few high-end features.

rawpixel/123RF

In other cases, a company that produces its product domestically but sells it in another country can face a *price escalation* problem. Apart from potential tariffs, the company must add the costs of transportation, importer margins, wholesaler margins, and retailer margins to its factory price. Depending on these added costs and the nature of the product, the company may need to price its product two to five times higher to generate the same profit as in its home country.

To overcome this problem and sell to less-affluent consumers in emerging markets, companies may market smaller or simpler versions of their products at lower prices. For example, to compete with low-end competitors in Indonesia, India, Pakistan, and other emerging economies, Samsung developed its Galaxy A line. The A models, routinely priced at under $200, carry the Galaxy name and style but have few high-end features. Or companies can reduce prices by manufacturing their products locally. For example, Motorola and Xiaomi avoid high import tariffs by producing phones in India; the lower costs are passed along to consumers in the form of lower prices, helping the companies build market share. At the premium end, Apple has tried to build market share by locating some manufacturing in India and by pushing the next-to-latest version of products.

Recent economic and technological forces have affected global pricing. Thanks to widespread internet access, consumers can compare product prices across countries. In many cases, they can order a product directly from a retailer in another country offering a low delivered price. This is forcing companies toward more standardized global pricing.

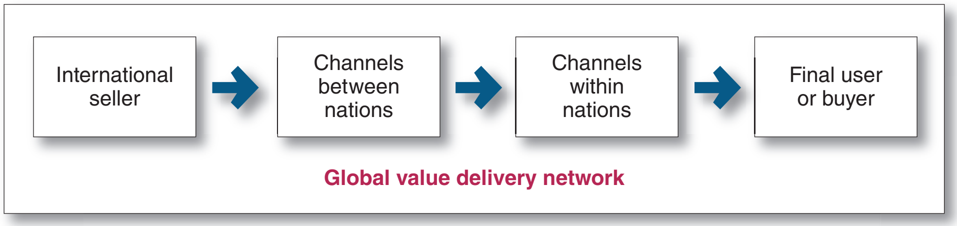
Distribution Channels

Whole-channel view
Designing global channels that consider the entire global supply chain and marketing channel, forging an effective global value delivery network.

A global company must take a **whole-channel view** of the problem of distributing products to final consumers. **Figure 19.5** shows the two major links between the seller and the final buyer. The first link, *channels between nations*, moves company products from points of production to the borders of countries within which they are sold. The second link, *channels within nations*, moves products from their market entry points to the final consumers. The whole-channel view recognizes that to compete well globally, the company must effectively design and manage an entire *global value delivery network*.

FIGURE 19.5
Whole-Channel Concept for Global Marketing

Distribution channels can vary dramatically around the world. For example, in the U.S., Coca-Cola distributes products through sophisticated retail channels. In less-developed countries, it delivers Coca-Cola products using everything from push carts to delivery donkeys.



In some markets, the distribution system is complex, competitive, and hard to penetrate. For example, many Western companies find India's distribution system difficult to navigate. Large discount, department store, and supermarket retailers still account for a small fraction of the huge Indian market. Shopping is primarily done in small neighborhood stores called *kirana* shops, run by their owners and popular because they typically offer rapid at-home delivery service and credit. In addition, large Western retailers have difficulty dealing with India's complex government regulations and patchy infrastructure.

Distribution systems in developing countries may be scattered, inefficient, or altogether lacking. For example, China's rural markets are highly decentralized and comprise many distinct submarkets, each with its own subculture. Given the inadequate distribution systems, most companies can profitably access only the fraction of China's massive population located in affluent cities. Although improving in recent years, China's distribution system is so fragmented that logistics-related costs to wrap, bundle, load, unload, sort, reload, and transport goods amount to nearly 15 percent of the nation's GDP, far higher than in most other countries. (By comparison, U.S. logistics costs account for about 7.4 percent of the nation's GDP.)[56]

McDelivery: In big cities in Asia and Africa, where crowded streets and high real estate costs make drive-thru arrangements impractical, legions of McDonald's motorbike delivery drivers dispense Big Macs and fries to customers who call in or order through its app.

Sorbis/Shutterstock

Sometimes local conditions can greatly influence how a company distributes products in global markets. For example, in low-income neighborhoods in Brazil where consumers have limited access to supermarkets, Nestlé supplements its distribution with an army of self-employed salespeople who sell Nestlé products from refrigerated carts door to door. In big cities in Asia and Africa, where crowded streets and high real estate costs make drive-thru arrangements impractical, fast-food restaurants such as McDonald's and KFC offer delivery. Legions of motorbike delivery drivers in colorful uniforms dispense Big Macs and buckets of chicken to customers who call in or order through their apps. Such sales expanded rapidly worldwide during the recent COVID-19 pandemic, as consumers were forced to eat in rather than eating out. Over the past five years, McDonald's has expanded its delivery capacity tenfold from 3,000 of its restaurants to more than 32,000 worldwide.[57]

Thus, global marketers face a wide range of channel alternatives. Designing efficient and effective channel systems between and within various country markets poses a difficult challenge.

Author Comment | Many large companies, regardless of their "home country," now think of themselves as truly global organizations. They view the entire world as a single borderless market. For example, although headquartered in Chicago, Boeing is as comfortable selling planes to Lufthansa or Air China as to American Airlines.

Deciding on the Global Marketing Organization

OBJECTIVE 19-6 Identify the three major forms of global marketing organization.

As a fifth and final step in the global marketing process, a company must set up a global marketing organization. Often companies ramp up their global marketing organizations through three stages: They first organize an export department, then create a global division, and finally become global organizations.

A company normally gets into global marketing by simply shipping out its goods. If global sales expand, the company will establish an *export department* with a sales manager and a few assistants. As sales increase, the export department can expand to include various marketing services so that it can actively go after business. If the company moves into joint ventures or direct investment, the export department will no longer be adequate.

Many companies get involved in several global markets and ventures. A company may export to one country, license to another, have a joint ownership venture in a third, and own a subsidiary in a fourth. At some point, it may create *global divisions* or subsidiaries to handle all its global activity.

Global divisions are organized in a variety of ways. A global division's corporate staff consists of marketing, manufacturing, research, finance, planning, and personnel specialists. It plans for and provides services to various operating units, which can be organized in one of three ways: They can be *geographical organizations* with country managers who are responsible for salespeople, sales branches, distributors, and licensees in their respective countries; *world product groups*, each responsible for worldwide sales of different product groups; or *global subsidiaries*, where each operating unit is responsible for its own global sales and profits.

Many companies have passed beyond the global division stage and are truly global organizations. For example, as discussed previously, despite its French origins, L'Oréal no longer has a clearly defined home market. Nor does it have a home-office staff. Instead, the company is famous for building global brand teams around managers who have deep backgrounds in several cultures. L'Oréal managers around the world bring diverse cultural perspectives to their brands.

Global organizations go beyond thinking of themselves as national marketers that sell abroad; they consider themselves as global marketers. The top corporate management and staff plan worldwide manufacturing facilities, marketing policies, financial flows, and logistical systems. The global operating units report directly to the chief executive or the executive committee, not to the head of an global division. Executives are trained in worldwide operations, not just domestic *or* global operations. Global companies recruit management from many countries, buy components and supplies where they cost the least, and invest where the expected returns are greatest.

Today, many major companies must become global if they hope to compete effectively. As non-domestic competitors invade their home markets, companies must move more aggressively into global markets. They must shift from treating their global operations as afterthoughts to viewing the entire world as a single borderless market.

Reviewing and Extending the Concepts

Objectives Review

Companies today can no longer afford to pay attention only to their domestic market, regardless of its size. Many industries are global industries, and companies that operate globally achieve lower costs and higher brand awareness. At the same time, global marketing is risky because of variable exchange rates, unstable governments, tariffs and trade barriers, and several other factors. Given the potential gains and risks of global marketing, companies need a systematic way to make their global marketing decisions.

OBJECTIVE 19-1 Define *global marketing* and the questions companies must ask in deciding whether and how to go global.

Global marketing is the process of marketing products and services within and across multiple countries. In our more connected and rapidly shrinking world, companies must carefully consider whether and how to go global. They must answer some basic questions: What market position should we try to establish in our country, in our economic region, and globally? Who will our global competitors be, and what are their strategies and resources? Where should we produce or source our products? What strategic alliances should we form with other companies around the world? The global marketing process involves five steps: understanding the global marketing context, deciding whether to go global and which markets to enter, deciding how to enter global markets, deciding on the global marketing program, and deciding on the global marketing organization.

OBJECTIVE 19-2 Understand how global political, economic, sociocultural, technological, legal, and environmental factors affect a company's global marketing decisions.

A company must first understand the macroenvironmental contexts of the countries or regions in which it might operate. The PESTLE framework provides a useful tool for analyzing the forces that might impact its marketing in various global markets. PESTLE stands for the **P**olitical, **E**conomic, **S**ociocultural, **T**echnological, **L**egal/Institutional, and **E**nvironmental/Ecological factors that set the marketing context in any country or region. In deciding whether and how to go global, companies must carefully assess each of these contexts.

OBJECTIVE 19-3 Discuss how companies decide whether to go global and, if so, which markets to enter.

The second step in the global marketing process involves deciding whether to go global and where. Not all companies need to venture into global markets. But if they do go global, they must assess which markets offer the best opportunities for their products and services. Going global offers both benefits and risks. Operating domestically is easier and safer, more certain, and more focused. However, a company can choose to go global for multiple reasons: to find growth in global markets, to fend off competitive attacks by global competitors in their home markets, to better service customers who are expanding abroad, or to reduce the risks of being overly concentrated in one country.

If the company decides to go global, it must carefully evaluate each country it might enter. In recent years, many major new markets have emerged, offering both substantial opportunities and daunting challenges. The marketer must decide which markets offer the most attractive long-run risk versus return profiles. As discussed previously, a country's attractiveness depends on the product, geographical factors, income and population, political climate, and many other considerations.

OBJECTIVE 19-4 Describe three key approaches to entering global markets.

The company must decide how to enter each chosen market—whether through *exporting, joint venturing*, or *direct investment*. Many companies start as exporters, move to joint ventures, and finally make a direct investment in other country markets. In *exporting*, the company enters a global market by sending and selling products through global marketing intermediaries (indirect exporting) or the company's own department, branch, or sales representatives or agents (direct exporting). When establishing a *joint venture*, a company enters global markets by joining with companies within those markets to produce or market a product or service. In *licensing*, the company enters a global market by contracting with a licensee within that market and offering the right to use a manufacturing process, trademark, patent, trade secret, or other item of value for a fee or royalty.

OBJECTIVE 19-5 Explain how companies adapt their marketing strategies and marketing mixes for global markets.

Companies must also decide how much their marketing strategies and their products, promotion, price, and channels should be adapted for each global market. At one extreme, some global companies use standardized global marketing worldwide. Others use adapted global marketing, in which they adjust the marketing strategy and mix to each target market, bearing more costs but hoping for a larger market share and return. However, global standardization is not an all-or-nothing proposition. It's a matter of degree. Most international marketers suggest that companies should "think globally but act locally"—that they should seek a balance between globally standardized strategies and locally adapted marketing mix tactics.

OBJECTIVE 19-6 Identify the three major forms of global marketing organization.

The company must develop an effective organization for global marketing. Most companies start with an *export department* and graduate to a *global division*. Large companies eventually become *global organizations*, with worldwide marketing planned and managed by the top officers of the company. Global organizations view the entire world as a single, borderless market.

Key Terms

OBJECTIVE 19-1

Global marketing
Global company
Economic community

OBJECTIVE 19-4

Exporting
Joint venturing
Licensing
Contract manufacturing
Management contracting
Joint ownership
Direct investment

OBJECTIVE 19-5

Standardized global marketing
Adapted global marketing
Straight product extension
Product adaptation
Product invention
Communication adaptation
Whole-channel view

Discussion Questions

19-1 What is global marketing, and why is it growing? (AACSB: Application of Knowledge; Diverse and Multicultural Work Environments)

19-2 Explain what is meant by licensing as a means of entering a market. (AACSB: Communication)

19-3 How might the global marketing environment affect a company's decision to sell products in a different market? (AACSB: Diverse and Multicultural Work Environments)

19-4 How can managers understand the culture of a country that they are evaluating for market entry? (AACSB: Diverse and Multicultural Work Environments)

19-5 When should a business use a standardized or an adapted marketing strategy in an overseas market? (AASCB: Communication)

19-6 Danone is the world's largest bottled water company, marketing a range of brands including Evian, Aqua, Volvic, and Font Vella. Given that the product is water, should Danone advertise the brands similarly across the countries where the brands are sold? (AACSB: Diverse and Multicultural Work Environments; Reflective Thinking)

Critical Thinking Exercises

19-7 In 2020, the U.S. government demanded that China's ByteDance divest ownership of popular social media platform TikTok to another company. TikTok had grown by leaps and bounds over the years, with more than 50 million U.S. users by then. The platform mainly appealed to younger users who were drawn to its short-form media postings, including videos, photos, and music clips on topics ranging from comedies and cooking to dancing and sports. The government labeled TikTok a national security threat. In response, ByteDance filed a lawsuit alleging that the government's demand was motivated by protectionist policies to support reelection efforts and essentially constituted an "unconstitutional taking" of the company and its assets. The case has continued to simmer, with allegations that sensitive TikTok data could be accessed by officials in China. Following a renewed outcry, many countries are now demanding that data about their citizens must be stored only within their national borders. Which part of the marketing environment is having the greatest negative impact on TikTok: economic, political-legal, or cultural? How can companies proactively guard against such problems? (AACSB: Application of Knowledge; Integration of Real-Life Business Experiences)

19-8 Lush is a quintessentially British brand. Formed in 1994, it has a revolutionary approach to the creation and ethical sourcing of fresh beauty products, all made by hand. Lush could not be more different than the mass-produced cosmetics most consumers buy today. Lush is enjoying rapid global expansion. Research how this is being achieved and how they go about adapting their key messages to each new market while retaining their core message. (AACSB: Communication; Use of IT; Reflective Thinking)

19-9 Should Unilever utilize standardized international pricing for its Sunsilk hair care products? Why or why not? (AACSB: Application of Knowledge; Reflective Thinking)

APPLICATIONS AND CASES

Digital Marketing Customized Shoes from Nike by You

One of global sports apparel giant Nike's challenges is to accommodate preferred colors, materials, and styles that vary sharply across individual customers and across global regions and cultures. People in the Caribbean may prefer bright tropical colors, whereas people in Nordic countries may prefer more muted, neutral shades. But even within these broad groupings, individual customer preferences may vary substantially. One strategy that Nike has embraced to address these variations in preferences is Nike by You (see www.nike.com/how-to-nike-by-you). Customers can use the website to digitally customize their chosen shoe type by choosing from a range of materials, textures, and colors. The delivered shoe is a unique expression of the owner's preferences and personality.

19-10 Identify some of the strengths and weaknesses of Nike's digital customization approach in the global marketing context. (AACSB: Written and Oral Communication; Reflective Thinking)

19-11 Compare the United States and China along Hofstede's six national cultural dimensions (see www.hofstede-insights.com/fi/product/compare-countries/). Based on the comparison, where would expect Nike by You to perform better? (AACSB: Diverse and Multicultural Work Environments; Reflective Thinking)

Marketing Ethics Unlicensed and Counterfeit Products

Fake products make up 5 to 7 percent of world trade and include everything from counterfeit electronics, medications, pirated DVDs, and computer software to toys, cosmetics, and household products. Counterfeit name-brand apparel and sportswear, shoes, and accessories are exceptionally common. According to the *Global Brand Counterfeiting Report, 2018*, the total amount of global counterfeiting has reached $1.2 trillion U.S. dollars annually. Luxury brands such as Louis Vuitton, Chanel, Manolo Blahnik, and Christian Louboutin have seen an upsurge in trademark violations and fraudulent products hitting the market.

Counterfeit products are big business globally. So big, in fact, that Chinese industry regulators are hesitant to shut the practice down; the counterfeit goods market accounts for millions of desperately needed jobs within China's economy. But companies lose an estimated $20 billion in revenue annually because of fake goods. Moreover, many worldwide consumers are not getting what they pay for—consumers may get the brand name or label they want, but the product itself is inferior.

19-12 Discuss worldwide organizations that assist companies in developing and abiding by global standards for marketing, consumer protection, and regulatory compliance. (AACSB: Written and Oral Communication; Reflective Thinking)

19-13 Is there any justification for companies to profit by creating counterfeit products that create local jobs and provide consumers with access to products they typically would not be able to buy? Support your answer. (AACSB: Written and Oral Communication, Ethical Understanding and Reasoning)

Marketing by the Numbers Peloton Pedals to Australia

The word *peloton* means "the main group of cyclists in a race." But Peloton means something different to the million or so fanatics in the United States who have paid up to $2,500 for an internet-connected indoor exercise bike and who pay $39 a month to stream live and on-demand classes from Peloton's New York City studio to the tablet connected to the bike. Riders can select their favorite instructor, class length, class type, and even music genre, and they can follow and compete with others. They can also access tons of recorded content. Peloton's success comes from being more than an exercise bike, studio, or cycling class—it is an experience that has created a cultlike following among its subscribers. Peloton's closed Facebook group boasts more than 429,000 members. Peloton offers its bikes and associated services in Canada, the United Kingdom, and Germany. Peloton is continuing its global expansion in Australia, with plans to expand into one or two markets a year. Its plans for Australia include physical showrooms in cities such as Sydney and Melbourne. Peloton bikes will be priced at its cost, $2,895 Australian dollars (AUD), including tax, and the all-access membership to content, where users can create accounts for the entire household, will be $59 AUD per month.

19-14 How many bikes must Peloton sell to break even on the Australian expansion if total fixed costs are $45 AUD million per year, variable costs are $2,895 AUD per bike (again, Peloton sells them at cost), and monthly service variable costs are $10 AUD? Assume that a consumer purchasing a bike at the price of $2,895 AUD will also subscribe to 12 months of the streaming service at $59 AUD per month. Refer to Break-Even and Margin Analysis in Appendix 3: Marketing by the Numbers to learn how to perform this analysis. (AACSB: Analytical Thinking)

19-15 What U.S. dollar sales does your answer in the previous question represent? Use a currency exchange calculator, such as the one at www.xe.com/currencyconverter/, to convert from Australian dollars to U.S. dollars. (AACSB: Analytical Thinking)

Company Case Huawei: Running the Global Telecommunications Race

Huawei has to be the poster child for Chinese tech firms that have become internationally successful. In a remarkably short time, Huawei has expanded phenomenally from a small electronics manufacturer to a global tech leader that is instantly associated with innovative high-tech products. Although Huawei as a brand is more popular because of its mobile phones, it has a major presence in cloud services and AI. Today, Huawei's products and solutions are installed in more than 170 countries around the world, and it serves more than a third of the world's population. Employing more than 180,000 people around the world, Huawei is the third-biggest global manufacturer of routers, switches, and other telecommunications equipment based on market share. In the super-competitive smartphone race where it is more popularly known, it has become a dominant player, taking on the big global giants like Apple and Samsung.

From a Rural Component Provider to a Tech Giant

Huawei Technologies was established in 1987 in Shenzhen, China, as a suburban/rural marketing agent for a Hong Kong–based phone company. Between 1996 and 1998, Huawei expanded into the metropolitan areas of China as the urban city population grew. The country's increasing global dominance and its emergence as the world's second-largest economy provided Huawei with a solid platform to launch into international markets. As Huawei started off primarily as a business-to-business (B2B) company, many of its achievements were not visible to the public; many of its business customers were telephone and internet operators that used Huawei's technology under their own brands. Some estimates say that by 2030 China's urban population alone will be around one billion and its cities will have over one million inhabitants each by 2025. Large cities require hi-tech communication networks, and Huawei has grown tremendously by serving this need in China. This allowed the company to harness the lessons it has learned and scale economies in preparation for a successful global entry.

Huawei has three core distinct business groups:

1. The Carrier Network Business Group, which provides wireless networks, fixed networks, global services, and carrier software
2. The Enterprise Business Group, which provides services related to data centers and storage products (a perfect complement of the first group)
3. The Consumer Business Group, which looks after the company's mobile phone and smartphone segments

Building a Brand with a Global Mindset

Huawei's personal handset business has steadily built its expertise and brand image to become one of the top global mobile phone manufacturers. In 2008, it was already reported to be the third highest manufacturer of phone sets, yet its brand was still not well known. However, since then, Huawei has started to move up the value chain. By 2012, Huawei was manufacturing and shipping more than 90 percent of its consumer mobile phone devices under its own brand. This created conflicts with some business partners—telephone and internet operators—and they stopped doing business with Huawei, but this did not deter the company from branding its own phones. The decision to promote its own brand proved good for Huawei, for consumer popularity of other brands like Sony, Nokia, BlackBerry, and HTC was declining, which opened up new opportunities in the consumer retail market. Huawei's more affordable smartphones quickly became popular in markets like India, Indonesia, Taiwan, and many countries in Africa. Huawei is looking to strengthen its position in the European markets by introducing a smartphone with new camera features and a lower price than those from Samsung and Apple.

Huawei's Consumer Business Group became the third-largest smartphone manufacturer by market share in 2017, commanding 10 percent of the total global market. Soon after, Huawei displaced Apple to become the world's second-largest smartphone manufacturer and further cemented its place in the first quarter of 2019. According to the International Data Corporation's Worldwide Quarterly Mobile Phone Tracker report, Huawei's shipment increased from 39.3 million phones in Q1 of 2018 to 59.1 million shipments in Q1 of 2019.

Huawei has taken a people-led approach to its international marketing organization and global expansion efforts, encouraging a culture of global outlook. A key belief of the company's founder, Ren Zhengfei, is that if a company has global ambitions, it needs to ensure that its people can think with a global mindset. The company is known for creating an integrative work culture by bringing different parts and cultures of the world together, giving its employees increased global awareness and enhancing cross-cultural sensitivity. The tech giant believes that, for a truly global orientation, it must employ global procedures and strategies that focus on achieving the highest international levels, not just those suitable for a Chinese market. Huawei thus trains its employees in the highest international standards in terms of customs, procedures, laws, health and safety, language, local norms, and etiquette.

Challenges in Key Markets

Despite being hugely popular worldwide, Huawei's presence in the United States is limited. Although the reasons for this are largely political, there were pre-existing market conditions that made the U.S. smartphone market a tough one to break into compared to other global markets. The main reason is that a large majority of Americans buy smartphones from network carriers, so a smartphone manufacturer must make a deal with one of the big carriers to feature their phones. Consumers in other parts of the world are more open to buying their phones directly from a store and the company itself, which exposes them to a greater number of brands.

The rise to global dominance has brought challenges for Huawei, especially with regard to its relations with the governments of some of the biggest markets. In 2018, the company faced political controversies rising out of concerns by some governments that Huawei telecom devices pose a potential security risk, which even led to banning of Huawei's business deals in some countries. For Huawei, the major impact comes from restrictions on the sales of its telecom network equipment; many countries, including the United States, New Zealand, Australia, and Japan have banned Huawei's network communication equipment.

Beyond Political Challenges

These political issues have not hindered Huawei's smartphone growth, thanks to a strong domestic market and demands from other international markets. But the path of expansion may not be as easy and smooth for Huawei as it used to be, given the tense political situation with some influential countries.

Huawei's global expansion is not dependent only on the political attitudes of these countries; the competitiveness of its products is of vital importance too, and its sustained growth will also depend on how well its products compare with that of its competitors. In the past, Huawei—along with other Chinese companies—has been under fire for copying competitors' technology and selling at lower prices. Huawei is thus investing a lot in developing innovative technologies and currently has one of the largest R&D budgets in the industry to develop a sustainable competitive advantage. It should also be noted that the security concerns that are raised by countries like the United States and Australia may not be shared by others, like Thailand and Indonesia, who regard the need for affordable and reliable telecommunications and technology equipment as more important.

Global Competition and Technological Power Balance

The telecommunications sector, and the smartphone market space particularly, is dynamic and extremely competitive. In the span of a decade, we have seen the fortunes of the leading companies change with the pace of innovation. Apple emerged as the leader by displacing established players like Nokia, Blackberry, and Sony Ericsson, but it in turn was toppled by Samsung, moving it to the second spot, and then Huawei took over the second spot and shifted Apple down to third position. The new shift in the global telecommunications race is 5G technology, the next generation of wireless networks. This technology will allow faster data speeds and will be used by self-driving cars and smart cities, which use the internet as the basic mode of functioning. Huawei, along with Ericsson and Nokia, is aiming to be among the principle suppliers of this technology. Upgrading to 5G will require telecommunication firms around the world to spend a significant amount of money on updating their equipment, but telecommunication vendors are trying to make an early start. According to Huawei, its 5G equipment is already being used by two-thirds of the commercially launched 5G networks outside China; the company has booked 50 commercial 5G contracts outside China in markets like the United Kingdom, Switzerland, Finland, and South Korea. According to CEO Ren Zhengfei, no other provider of 5G technology will match Huawei for the next two to three years. In June 2019, the company announced that it has increased its investment in 5G technology and that cybersecurity and privacy are its top priorities.

Huawei's growth and international expansion have been impressive and bold. Major factors that have contributed to its success are a strong commitment to R&D, a global philosophy and outlook, focus on building a corporate brand, effective pricing strategies, and market-targeting strategies. However, Huawei still has a relatively weak presence in the South Asian and North American markets, which puts its current position in the smartphone market into question. As consumer needs and product technology evolve, Huawei will have to work continuously to satisfy and create future consumer needs rather than merely meet their current ones. And with regard to the commercialization of 5G technology, Huawei will have to continue spearheading innovation and spreading the adoption of the technology in different world markets.[58]

Questions for Discussion

19-16 Discuss Huawei's transformation into a global brand.

19-17 Comment on the global marketing environment for Huawei.

19-18 For technology-based firms like Huawei, what global product and communication strategies work best? Do you think Huawei has adopted the right strategy?

19-19 Do you think Huawei can lead the global smartphone race? Why or why not?

19-20 How important are political factors with regard to Huawei's ambition to be the leading provider of 5G technology globally?

20 Sustainable Marketing
Social Responsibility and Ethics

OBJECTIVES OUTLINE

OBJECTIVE 20-1 Define *sustainable marketing* and discuss its importance.

OBJECTIVE 20-2 Identify the major social criticisms of marketing and some counterarguments.

OBJECTIVE 20-3 Understand how consumer, societal, and corporate forces drive sustainable marketing strategy.

OBJECTIVE 20-4 Understand how to build a sustainable marketing organization.

CHAPTER PREVIEW In this final chapter, we examine the concept of sustainable marketing, meeting the needs of consumers, businesses, and society—now and in the future—through socially and environmentally responsible marketing actions. We start by defining sustainable marketing and then look at some common criticisms of the effects of marketing on individual consumers and society as a whole. Next, we look at consumer and public policy actions to promote sustainable marketing. Then we see how companies themselves can benefit from proactively pursuing sustainable marketing practices that bring value to not only individual customers but also society as a whole. Finally, we examine principles by which companies build sustainable marketing organizations. Sustainable marketing actions are more than just the right thing to do; they are also good for business.

First, let's look at an example of sustainable marketing in action at Patagonia, a company founded on a mission of inspiring business solutions to environmental problems. The company donates 1 percent of its revenue annually to environmental causes and adheres fiercely to a "Five Rs" mantra: "reduce, repair, reuse, recycle, and reimagine." But Patagonia recently took sustainability to a whole new level, telling its customers, "Don't buy our products."

Patagonia's "Conscious Consumption": Telling Consumers to Buy Less

More than 45 years ago, mountain-climber entrepreneur Yvon Chouinard founded the high-end outdoor clothing and gear company Patagonia with an enduring mission. Beyond creating and marketing great products, he wanted Patagonia to do as little harm as possible to the environment and to use business to inspire proactive solutions to the environmental crisis. In short, says Chouinard and the company, "Patagonia is in business to save our home planet."

Patagonia has now taken that mission to new heights by telling customers, "Don't buy our products." It started several years ago with a full-page *New York Times* ad on Black Friday, the busiest shopping day of the year in the United States, showing Patagonia's best-selling R2 jacket and pronouncing "Don't Buy This Jacket." Patagonia backed the ad with messaging in its retail stores, on its website, and on social media. Patagonia customers also received a follow-up email prior to Cyber Monday—the season's major online shopping day—reasserting the brand's buy less message. Here is an excerpt:

> Because Patagonia wants to be in business for a good long time—and leave a world inhabitable for our kids—we want to do the opposite of every other business today. We ask you to buy less and to reflect before you spend a dime on this jacket or anything else.
>
> The environmental cost of everything we make is astonishing. Consider the R2 Jacket shown, one of our best sellers. To make it required 135 liters of water, enough to meet the daily needs (three glasses a day) of 45 people. Its journey from its origin as 60% recycled polyester to our Reno warehouse generated nearly 20 pounds of carbon dioxide, 24 times the weight of the finished product. This jacket left behind, on its way to Reno, two-thirds its weight in waste. And this is a 60% recycled polyester

jacket, knit and sewn to a high standard. But, as is true of all the things we can make and you can buy, this jacket comes with an environmental cost higher than its price.

There is much to be done and plenty for us all to do. Don't buy what you don't need. Think twice before you buy anything. [Work with us] to reimagine a world where we take only what nature can replace.

Patagonia's Worn Wear ReCrafted initiative creates "upcycled" products made from stockpiled fabric and beyond-repair clothing that would otherwise end up in a landfill. "The scars tell a story."

Courtesy of Patagonia

A for-profit firm telling customers to buy *less* may sound shortsighted, but that message perfectly aligns with Patagonia's reason for being. Founder Chouinard contends that capitalism is on an unsustainable path. Today's companies and customers are wasting the world's resources by making and buying low-quality goods that are bought and discarded quickly and mindlessly. Instead, Patagonia calls for *conscious consumption*, asking customers to think before they buy and to stop consuming for consumption's sake.

Coming from Patagonia, a company that spends almost nothing on traditional advertising, the paradoxical "Don't Buy This Jacket" ad had tremendous impact. The internet was soon ablaze with comments from online journalists, bloggers, and customers regarding the meaning and motivation behind the message. Analysts speculated about whether the ad would help or harm sales—whether it would engage customers and build loyalty or be perceived as just a cheap marketing gimmick.

But to Patagonia, the campaign expressed the brand's deeply held philosophy of sustainability. The purpose was to increase awareness of and participation in the Patagonia Common Threads Initiative, which urges customers to take a pledge to work together with the company to consume more responsibly. Common Threads rests on the following five Rs:

Reduce: **WE** make useful gear that lasts a long time. **YOU** don't buy what you don't need.

Repair: **WE** help you repair your Patagonia gear. **YOU** pledge to fix what's broken.

Reuse: **WE** help find a home for Patagonia gear you no longer need. **YOU** sell or pass it on.

Recycle: **WE** take back your Patagonia gear that is worn out. **YOU** pledge to keep your stuff out of the landfill and incinerator.

Reimagine: **TOGETHER** we reimagine a world where we take only what nature can replace.

Patagonia's conscious consumption solution seems simple. Making, buying, repairing, and reusing higher-quality goods results in less consumption, which in turn uses fewer resources and lowers costs for everyone. Patagonia has always been committed to the idea of quality as a cure for overconsumption. It makes durable products with timeless designs; products that customers can keep and use for a long time. Then Patagonia uses social media to let customers share stories about their long-lasting gear and to inspire people to keep their clothing in circulation for as long as possible.

So on that Black Friday weekend, while other companies were inundating customers with promotions that encouraged them to "buy, buy, buy," Patagonia stood on its founding principles. It said, "Hey, look: Only purchase what you need," explained Rob BonDurant, vice president of marketing and communications at Patagonia. "The message, 'Don't buy this jacket,' is obviously super counterintuitive to what a for-profit company would say, especially on a day like Black Friday, but honestly [it] is what we really were after, [communicating] this idea of evolving capitalism and conscious consumption that we wanted to effect."

Such a message can only work if it is real. Patagonia did not just suddenly stick an ad in the *New York Times* on Black Friday. It had been sending—and living—this message for decades. Can other companies follow Patagonia's lead? "If it is [just] a marketing campaign, no," said BonDurant. "If it is a way they live their lives and do their business, absolutely. You can't just apply it to your messaging or to a particular window of time. It has to be done 24 hours a day, 365 days a year."

Pushing conscious consumption does not mean that Patagonia

Under Patagonia's conscious consumption approach focused on the 5 Rs, Patagonia and consumers work together to reduce, repair, reuse, recycle, and reimagine in a world where we take only what nature can replace.

wants customers to stop buying its products. Patagonia does care about doing well on Black Friday and the rest of the holiday season. As a company that sells products mostly for cold-weather activities, Patagonia reaps a whopping 40 percent of its revenues during the final two months of the year. But to Patagonia, business is about more than making money. And according to BonDurant, the "Don't Buy This Jacket" campaign more than paid for itself with the interest and involvement it created for the Common Threads Initiative. As a bonus, Patagonia's sales surged by almost a third during the first year of the campaign.

Patagonia continues to push the possibilities on the environmental front. For example, its Worn Wear ReCrafted initiative creates "upcycled" products made from stockpiled fabric and beyond-repair clothing that would otherwise end up in a landfill. Some of these upcycled items are priced at over $200. To make ReCrafted work, Patagonia designed a dozen products, including tote bags, jackets, vests, and T-shirts. Each product has a standardized design but can be constructed of multiple materials and fabrics assembled in a patchwork fashion. Each product is one of a kind. As Patagonia's head of used gear business notes, with upcycled clothing, "the scars tell a story."

"It is not enough just to make good products anymore," said BonDurant. "There also has to be a message that people can buy into, that people feel they are a part of, that they can be solutions-based. That is what [Patagonia's "buy only what you need"] communication efforts are really all about." But what's good for customers and the planet is also good for Patagonia. Says founder Chouinard, "I know it sounds crazy, but every time I have made a decision that is best for the planet, I have made money. Our customers know that—and they want to be part of that environmental commitment."[1]

RESPONSIBLE MARKETERS DISCOVER what consumers want and respond to market offerings that create value for buyers and capture value in return. The *marketing concept* is a philosophy of managing customer value for mutual gain to the customer and to the company. The ethical application of the marketing concept leads the economy by an invisible hand in engaging companies to profitably satisfy the many and changing needs of consumers.

Not all marketers follow the marketing concept, however. In fact, some companies use questionable marketing practices that serve their own rather than consumers' interests. Moreover, even well-intentioned marketing actions that meet the current needs of some consumers may cause immediate or future harm to other consumers or to society. Responsible marketers must consider whether their actions are sustainable in the long run.

This chapter examines the social and environmental effects of marketing practices and the concept of sustainable marketing. First, we address the question: What is sustainable marketing, and why is it important?

Author Comment | Marketers must think beyond immediate customer satisfaction and business performance and focus on sustainable strategies that preserve the world for future generations.

Sustainable Marketing

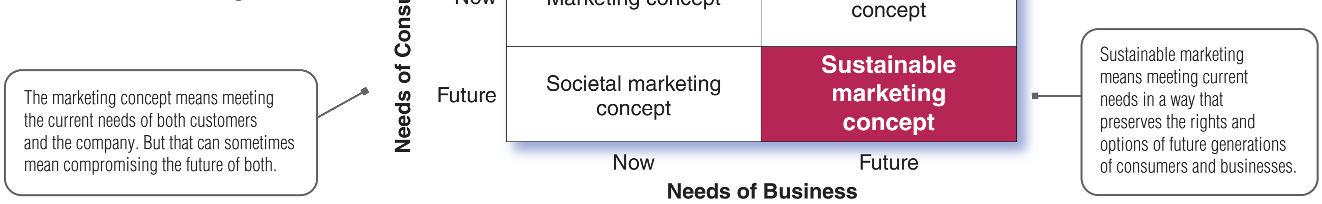
OBJECTIVE 20-1 Define *sustainable marketing* and discuss its importance.

Sustainable marketing
Socially and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs.

Sustainable marketing calls for socially and environmentally responsible actions that meet the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs. **Figure 20.1** compares the sustainable marketing concept with marketing concepts we studied in earlier chapters.

The *marketing concept* recognizes that organizations thrive by determining the current needs and wants of target customers and fulfilling them more effectively and efficiently than competitors do. It focuses on meeting the company's sales, growth, and profit needs by engaging customers and giving them what they want now. However, solely focusing on satisfying consumers' immediate needs and desires doesn't always serve the future best interests of consumers, the business, or society.

FIGURE 20.1
Sustainable Marketing



For example, McDonald's early decisions to market tasty but fat- and salt-laden fast foods led to highly satisfied customers as well as immediate sales and profit increases. However, critics assert that McDonald's and other fast-food chains contributed to a longer-term national obesity epidemic, damaging consumer health and burdening the health system. They worried that McDonald's Happy Meals created poor eating habits in children that carried forward into their later years. In turn, many consumers sought healthier foods, causing a slump in the sales and profits of the fast-food industry.

Beyond unhealthy eating, McDonald's was also criticized for the large environmental footprint of its vast global operations, covering everything from wasteful packaging and solid waste creation to inefficient energy use in its stores. Thus, McDonald's strategy was not sustainable in the long run from a consumer or company perspective.

The *societal marketing concept* identified in Figure 20.1 considers the future welfare of consumers and society. The *strategic planning concept* considers future company needs. The broader *sustainable marketing concept* integrates the two by calling for socially and environmentally responsible actions that meet the immediate *and* future needs of consumers, society, *and* the company.

For example, for more than a decade, McDonald's has responded to these challenges with a more sustainable strategy of diversifying into salads, fruits, grilled chicken, low-fat milk, and other healthy fare. The company has also sponsored major education campaigns to help consumers better understand the keys to living balanced, active lifestyles. It announced a list of "Commitments to Offer Improved Nutrition Choices." About 80 percent of the items on its national menu now contain under 400 calories—from a basic cheeseburger to products such as the Fruit & Maple Oatmeal, Egg White Delight McMuffin, and Iced Caramel Macchiato. ● And McDonald's has partnered with the Alliance for a Healthier Generation to improve the Happy Meal, offering more balanced meals with simpler, healthier ingredients. The beverages in more than half of all Happy Meals now sold are water, milk, or juice. And over 2.5 billion Happy Meal items sold since 2018 contained fruit, vegetables, low-fat dairy, water, lean protein, or whole grains.[2]

● **Sustainability: McDonald's has responded to sustainability challenges by diversifying into salads, fruits, grilled chicken, low-fat milk, and other healthy fare, including Happy Meals offering more balanced food components with simpler ingredients.**

Michael Neelon(misc)/Alamy Stock Photo

McDonald's sustainability initiatives also address environmental issues. It calls for food-supply sustainability, reduced and environmentally sustainable packaging, reuse and recycling, and more responsible store designs. For example, McDonald's has committed to designing all packaging from renewable or certified resources and making recycling an option at all locations by 2025.[3] Thus, McDonald's is now better positioned for a profitable and sustainable future.

Truly sustainable marketing requires a smooth-functioning marketing system in which consumers, companies, public policy makers, and others work together to ensure socially and environmentally responsible marketing actions. Unfortunately, the marketing system doesn't always work smoothly. The following sections examine several sustainability questions: What are the most frequent social criticisms of marketing? What sustainable marketing initiatives have companies undertaken to benefit consumers, society, and the company in the long run? What steps have private citizens taken to curb marketing ills? What steps have legislators and government agencies taken to promote sustainable marketing?

Author Comment | We benefit greatly from marketing activities in many ways. However, like most other human endeavors, marketing has its flaws. Here we present and debate some of the most common criticisms of marketing.

Social Criticisms of Marketing

OBJECTIVE 20-2 Identify the major social criticisms of marketing and some counterarguments.

Some criticisms of marketing are justified; many are not. Social critics claim that certain marketing practices hurt individual consumers, society as a whole, and other business firms.

Marketing's Impact on Individual Consumers

Consumers surveys usually reveal mixed or even slightly unfavorable attitudes toward marketing. Critics have accused marketing of harming consumers through high prices, deceptive practices, high-pressure selling, shoddy or unsafe products, planned obsolescence, and poor service to disadvantaged consumers. Questionable marketing practices hurt both consumers and businesses in the long run.

High Prices

Many critics charge that the American marketing system causes prices to be higher than they would be under alternative market systems. High prices are hard to swallow, especially under difficult economic conditions. Critics point to three factors—high distribution costs, high advertising and promotion costs, and excessive markups.

Greedy marketing channel members have been accused of marking up prices well beyond the value of their services. Consumers ultimately pay for this practice through higher prices. Channel members respond that they do work that manufacturers or consumers would otherwise have to do. Their markups reflect services that consumers want—convenience, larger stores and assortments, more service, longer store hours, return privileges, and others. In fact, they argue, retail competition is so intense that margins are actually quite low. Further, resellers such as Walmart, Costco, Amazon, and others pressure their competitors to operate efficiently and lower prices.

A heavily promoted national brand sells for much more than a virtually identical non-branded or store-branded product. Critics charge that promotion adds only psychological value to the product rather than functional value.

Sheila Fitzgerald/Shutterstock

Modern marketing is also accused of pushing up prices to finance unnecessary advertising, sales promotion, and packaging. For example, a heavily promoted national brand often sells for much more than a virtually identical store-branded product. Critics charge that much of this promotion and packaging adds only psychological, not functional, value. Marketers respond that although advertising increases costs, it also adds value by informing potential buyers of the availability and merits of a brand. Branding also assures buyers of consistent quality. Moreover, consumers can always buy functional versions of products at lower prices. But they *want—and* are willing to pay more for—products that also provide psychological benefits and make them feel confident, attractive, or special.

Critics also charge that some companies mark up goods excessively, leading to high prices. They point to the auto repair industry and to the drug industry, where a pill costing five cents to make may be priced at $5. Marketers respond that most businesses try to price fairly because they want to build consumer relationships and repeat business. They also assert that consumers often don't understand the reasons for high markups. For example, pharmaceutical markups help cover the high costs of research and development (R&D), sophisticated manufacturing facilities, and distribution and retailing. As pharmaceuticals company GlaxoSmithKline has stated in its ads, "Today's medicines finance tomorrow's miracles."

Deceptive Practices

Marketers are sometimes accused of deceptive practices that lead consumers to believe they will get more value than they actually do. Deceptive practices fall into three areas: promotion, packaging, and pricing. *Deceptive promotion* includes practices such as misrepresenting the product's features or performance or luring customers to the store for a bargain that is out of stock. *Deceptive packaging* focuses on overstating package contents using misleading package design elements, inaccurate labeling, or exaggerated product dimensions.

Deceptive pricing includes falsely advertising "factory" or "wholesale" prices or a large price reduction from a fictional high retail "list price." For example, retailers from

Deceptive pricing: Large retailers from JCPenney and Kohl's to Neiman Marcus, Nordstrom, and Old Navy have been hit with lawsuits alleging that they used inflated original prices.

Jill Morgan/Alamy Stock Photo

JCPenney and Kohl's to Neiman Marcus, Nordstrom, and Old Navy have been hit with lawsuits alleging that they used inflated original prices. Ross Stores paid $4.9 million to settle a class action suit accusing it of duping customers with "false and/or misleading comparative prices which purport to be charged by other merchants for the same products." And Old Navy and its parent company Gap Inc. recently settled a class action suit in which shoppers claimed that they were taken in by bogus discounts off made-up "regular" prices. The suit claimed that shoppers believed they were getting special bargains when in fact Old Navy rarely if ever offered the items at the higher prices. "Old Navy invents inflated and fictitious list prices in order to enable it to advertise perpetual store-wide 'sale' events and product discounts to induce customers to purchase its products," the suit alleges. But "customers do not enjoy the actual discounts Old Navy represents to them, and the products are not in fact worth the inflated amount that Old Navy represents to them."[4]

Deceptive practices have led to legislation and other consumer protection actions. Despite regulations, however, some critics argue that deceptive claims are still common, even for well-known brands. For example, identity theft protection company LifeLock recently paid a record $100 million relating to FTC charges of deceptive advertising. The FTC accused LifeLock—which claims that it is "relentlessly protecting your identity"—of falsely claiming that it protected consumers' sensitive data with the same high-level safeguards as financial institutions and that it protected consumers' identity around the clock by providing alerts "as soon as" it received any indication of a problem. Said one reporter, "It's bad enough that people have to worry about their personal data getting stolen. Now they have to worry about the companies responsible for protecting their data not doing their job."[5]

Defining what is "deceptive" can be challenging. For instance, an advertiser's claim that its chewing gum will "rock your world" is not meant to be taken literally. Instead, the advertiser might claim that it is "puffery"—innocent exaggeration for effect. However, others claim that puffery and alluring imagery can harm consumers in subtle ways. Think about the popular and long-running Mastercard "Priceless" commercials that painted pictures of consumers fulfilling their priceless dreams despite the costs. The ads suggested that your credit card could make it happen. But critics charge that such imagery encourages a spend-now-pay-later attitude that leads to crushing credit card debt.

Marketers argue that most companies avoid deceptive practices because they harm the company's business in the long run. Profitable customer relationships are built on a foundation of value and trust. If consumers do not get what they expect, they will switch to competitors. In addition, most consumers make careful decisions, sometimes even to the point of not believing accurate product claims.

High-Pressure Selling

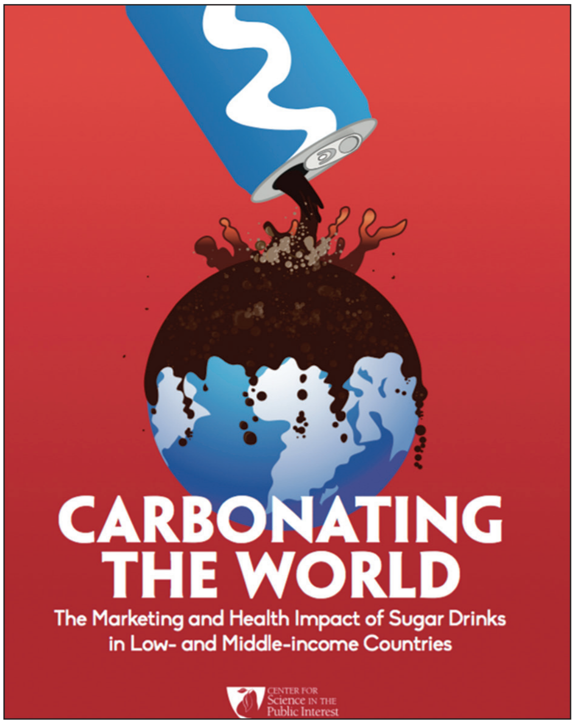
Salespeople sometimes employ high-pressure selling that persuades people to buy goods they had no intention of buying. It is often said that insurance, real estate, and used cars are *sold*, not *bought*. Salespeople are trained to deliver smooth, persuasive talks to entice consumers. They sell hard because their compensation is often tied to their sales. In fact, with progressive commission-based compensation, the percentage commission of the salesperson increases for high sales levels. This increases the pressure to sell incessantly. Similarly, TV infomercial sellers use "yell and sell" presenters to create a sense of urgency that only consumers with strong willpower can resist.

But in most cases, marketers have little to gain from high-pressure selling. High-pressure or deceptive selling can seriously damage long-term, trust-based company–consumer relationships. For example, imagine a P&G account manager trying to pressure a Walmart buyer or an IBM salesperson trying to browbeat an information technology manager at GE. It simply wouldn't work.

Shoddy, Harmful, or Unsafe Products

Another criticism concerns poor product quality or function. Products may not be made well or perform well. A second complaint concerns product safety. Unsafe products can result from corporate indifference, high product complexity, faulty product design, or poor manufacturing or quality control. A third complaint is that many categories of products deliver little benefit or may even be harmful.

For example, think about the soft drink industry. For years, industry critics have blamed the plentiful supply of sugar-laden, high-calorie soft drinks for the obesity epidemic and other health issues in the United States. They are quick to fault what they see as greedy beverage marketers for cashing in on vulnerable consumers, turning us into a nation of soda guzzlers. Although U.S. consumption of soft drinks has dropped recently, beverage companies are now looking to emerging markets for growth. According to a 2008 report by the Center for Science in the Public Interest (CSPI) titled "Carbonating the World," emerging markets such as China, India, and Mexico accounted for just over half of global soft drink consumption. Now, however, nearly 70 percent of soft drinks are sold in such markets. The CSPI accuses beverage companies of behaving much like the tobacco industry, marketing their harmful products to countries already struggling to provide health care to their citizens.[6]



Harmful products: Is the soft drink industry being irresponsible by promoting harmful products, or is it simply serving the wants of consumers while letting them make their own consumption choices?

Center for Science in the Public Interest

Is the soft drink industry being socially irresponsible by aggressively promoting overindulgence to unwary consumers? Or is it simply serving the wants of consumers by offering products that ping their taste buds while letting them make their own consumption choices? Is it the industry's job to police public tastes? As in many matters of social responsibility, what's right and wrong may be a matter of opinion. Whereas some analysts criticize the industry, others suggest that responsibility lies with consumers. Maybe companies shouldn't sell Big Gulps. Then again, nobody is forced to buy and drink one.

Most manufacturers *want* to produce quality goods. Companies selling poor-quality or unsafe products risk being hobbled by bad reputations and damaging conflicts with consumer groups and regulators. Unsafe products can result in product liability suits and large awards for damages. More fundamentally, unhappy consumers may avoid future purchases from the company and spread the criticism like wildfire through social media. Thus, quality lapses are inconsistent with sustainable marketing. Today's marketers know that good quality results in customer value and satisfaction, which in turn create sustainable customer relationships.

Planned Obsolescence

Critics have charged that some companies practice *planned obsolescence*, causing their products to become obsolete before they should usually need replacement. They accuse some producers of using materials and components that break, wear, rust, or rot sooner than they should. And if the products themselves don't wear out fast enough, other companies are charged with *perceived obsolescence*—continually changing consumer concepts of acceptable styles levels to encourage more and earlier buying. Consider the fast-fashion industry with its constantly changing clothing fashions, which some critics claim creates a wasteful disposable clothing culture. "Too many garments end up in landfill sites," bemoans one designer. "They are deemed aesthetically redundant and get discarded at the end of the season when there are often years of wear left." In fact, the European Union is now seeking binding targets to lower overconsumption and waste.[7]

Still others are accused of introducing planned streams of new products that make older models obsolete, turning consumers into "serial replacers." Many consumers have a drawer that resembles an electronics fossils graveyard, full of yesterday's

Planned obsolescence: When it comes to consumer electronics, anything over a year or two old seems hopelessly out-of-date. Is it planned obsolescence, or are companies simply meeting consumer demands for the latest technology?

Maxx-Studio/Shutterstock

hottest technological gadgets—from mobile phones and cameras to iPods and flash drives. It seems that anything more than a year or two old is hopelessly out-of-date. Apple was even accused recently of deliberately slowing down older iPhones through software updates to drive sales of newer models. Apple admitted to slowing down some phones but said it was doing so to "prolong the life" of devices with aging batteries. Other critics claim that Apple is too quick to "kill off" older iPhone models by placing them on its "Vintage" or "Obsolete" lists, making it harder to get parts and repairs.[8]

Marketers respond that consumers *like* style changes; they tire of old goods and want a new look in fashion. For example, IKEA's affordable, self-assembled furniture is not designed to last for decades. Instead, the company believes that, like clothes and shoes, consumers appreciate change in their lives when it comes to furniture. Similarly, consumers may want the latest high-tech innovations even if older models still work. No one has to buy a new product, and if too few people like it, it will simply fail. Finally, most companies do not design their products to break down quickly because they do not want to lose consumers to other brands. Instead, they seek continuous improvement to ensure that products will consistently meet or exceed evolving consumer expectations.

Much of the so-called planned obsolescence reflects the working of the competitive and technological forces in a free society. These forces lead to ever-improving goods and services. For example, if Apple produced a new iPhone or iPad that would last 10 years, few consumers would want it. Instead, buyers want the latest technological innovations. From that viewpoint, obsolescence is not forced on consumers. It's something that consumers are demanding in their quest for the latest, cutting-edge technology.

Poor Service to Disadvantaged Consumers

Finally, the American marketing system has been accused of poorly serving disadvantaged consumers. Urban low-income consumers often have to shop in smaller stores that charge higher prices and carry inferior goods. Placing large national chain stores in low-income communities would help lower prices and increase product selection and quality. However, critics accuse major chain retailers of *redlining*, implicitly drawing a red line around disadvantaged neighborhoods and avoiding placing stores there.

In fact, the nation's low-income areas have 30 percent fewer supermarkets than otherwise comparable affluent areas do. As a result, many low-income consumers find themselves in "food deserts," which are awash with small markets offering frozen pizzas, Cheetos, Moon Pies, and Cokes but where fruits, vegetables, fresh fish, and chicken are hard to find. The U.S. Department of Agriculture (USDA) has identified more than 6,500 food deserts in rural and urban areas. Currently, nearly 53.6 million Americans—17.4 percent of the population—live in low-income, low-access areas where a supermarket is over half a mile away in an urban area and 10 miles away in a rural area. In turn, the lack of healthy, affordable fresh foods negatively impacts the health of underserved consumers. The COVID-19 pandemic intensified the problem of food deserts as many smaller food stores in low-income areas closed down and transportation options withered.[9]

Many national chains, such as Walmart, Walgreens, SuperValu, and even Whole Foods Market have recently agreed to open or expand stores that bring nutritious and fresh foods to underserved communities. Other retailers have challenged existing assumptions and found that they can act responsibly and operate profitably by focusing on low-income areas ignored by other companies.

Serving underserved consumers: The USDA recently launched a pilot program that lets low-income SNAP consumers order online, giving them vastly broader food options at competitive prices.

Food & Nutrition Service; Ronstik/123RF

To help alleviate the food desert problem, the USDA now allows Supplemental Nutrition Assistance Program (SNAP) participants—people who receive government vouchers to buy groceries at supermarkets and farmers' markets—to use their benefits to buy food online in most states. Says the USDA: "As technology advances, it is important for SNAP to advance too, so we can ensure the same shopping options are available for both non-SNAP and SNAP recipients." Participating retailers include, among others, Walmart, ALDI, Amazon, ShopRite, Safeway, and BJ's Wholesale Club. Working with the SNAP online buying program lets retailers contribute to social sustainability by helping alleviate hunger, provide a balanced nutritional intake, and give low-income SNAP participants with little access to supermarkets the opportunity to shop at competitive prices from their living rooms.[10]

Companies can promote sustainable marketing by evaluating how they can better serve disadvantaged consumers. They can undertake initiatives on their own or in partnership with the government—as with retailers partnering with the SNAP online project. In many cases, serving disadvantaged consumers and communities using a thoughtful business approach can yield substantial corporate profits and growth. At a minimum, companies must ensure that their marketing does not further disadvantage consumers. For example, the FTC has acted against sellers who advertise false claims to, wrongfully deny services to, or overcharge disadvantaged consumers.

Marketing's Impact on Society as a Whole

The American marketing system has been accused of establishing or adding to several "evils" in society, such as excessive materialism, too few social goods, and a glut of cultural pollution.

False Wants and Excessive Materialism

Critics have charged that the marketing system creates an obsessive and unsustainable focus on material and worldly possessions. Too often, people are judged by what they *own* rather than by who they *are*. Critics view this outcome not as a natural state of mind but as a result of false wants created by marketing. Marketers, they claim, stimulate people's desires for possessions and create materialistic models of the good life. Thus, marketers have created an endless cycle of mass consumption based on a distorted interpretation of the "American dream."

In this view, marketing's purpose is to promote consumption, and the inevitable outcome of successful marketing is unsustainable *over* consumption. According to the critics, more is not always better. Some groups have taken their concerns straight to the public. For example, nonprofit organization Beacon for Sustainable Living champions the view that "[t]here is an opportunity to shift away from a materialist culture—[from] a focus on 'things'—to what truly matters—trust, belonging, purpose, health, community, and meaning." Rather than promoting consumption, it outlines strategies for "rethinking reduce"—for preventing or avoiding overconsumption and waste.[11]

Marketers respond that such criticisms of marketing's role in creating materialism overstate the power of business to create needs. They claim that people have strong defenses against advertising and other marketing tools. Marketers are more effective when they appeal to existing wants than when they try to create new ones. Furthermore, people seek knowledge when making important purchases and often obtain information from multiple sources. Even minor purchases induced by advertising messages lead to repeat purchases only if the product delivers the promised customer value. Finally, the high failure rate of new products indicates that companies cannot manipulate demand to the extent that critics think they can.

On a deeper level, our wants and values are influenced not only by marketers but also by family, peer groups, religion, cultural background, and education. If Americans are highly materialistic, these values arise more from basic socialization processes than from marketing initiatives. Needs, wants, and consumption are also subject to larger forces beyond the realm of marketing, such as the status of the economy.

Materialism: Some marketers are urging "conscious consumption." REI closes its stores on Black Friday and encourages customers to #OptOutside.

MediaNews Group/Bay Area News via Getty Images

Modern consumers are also more supportive of corporate social and environmental sustainability initiatives. As a result, many marketers are helping today's conscientious consumers derive greater value from less. As described earlier, Patagonia's "conscious consumption" campaigns actually urge its customers to buy less. Similarly, for several years REI has closed its stores on Black Friday while its #OptOutside campaign urges customers to enjoy the outdoors instead of shopping. Likewise, L.L.Bean's "When" campaign encourages customers to buy and hang onto products that last rather than always buying new ones. It asks, "When did disposable become our default?" The answer: "At L.L.Bean, it never did. When you buy something from us, we want you to like it for a long time. #LLasting."[12]

Increased Pressure on Public Goods

Business has been accused of overselling private goods, leading to increased consumption of and costs related to social or public goods. Private goods call for more public services that are often not forthcoming. For example, increased automobile ownership (a private good) requires additional highways, traffic control, parking spaces, and police services (public goods). Aside from investments in public goods, the overselling of private goods can result in additional social costs. The social costs associated with automobiles include traffic congestion, gasoline shortages, and air pollution. For example, traffic congestion cost American commuters an estimated 3.4 billion hours last year and billions of gallons of fuel.[13]

Achieving a balance between private and public goods is important. One option is to make producers bear the full social costs of their operations. For example, the government now mandates cars with more efficient engines and better pollution-control systems. Automakers may raise their prices to cover the extra costs. If buyers find the price of some car models too high, those models will disappear. Demand will then shift to those manufacturers whose automobiles can conform to the mandates at a price that is palatable to consumers.

A second option is to make consumers pay the social costs. For example, many cities now levy highway lane congestion tolls to reduce downtown traffic jams. And New York City is considering "Central Business District tolling," by which it would charge motorists to enter Manhattan's busiest areas. The toll would also raise more than $1 billion a year to improve the city's worn-down public transit systems.[14]

Cultural Pollution

Critics charge the marketing system with creating *cultural pollution* by constantly assaulting our senses with marketing and advertising messages. Commercials interrupt serious programs; pages of ads obscure magazines; billboards mar beautiful scenery; spam fills our email inboxes; flashing display and banner ads clutter our online and mobile screens. What's more, the critics claim, these interruptions continually pollute people's minds with messages of materialism, sex, power, or status. Some critics are calling for sweeping changes.

Cultural pollution: People's senses are sometimes assaulted by a clutter of marketing and advertising that fills our screens and other spaces.

Courtesy of Daniel Oines

Marketers answer the charges with these arguments: First, they hope that their ads primarily reach the target audience. Given the nature of mass-communication channels, some ads are bound to reach people who have no interest in the product and are therefore bored or annoyed. People who buy magazines they like or who opt in to email, social media, or mobile marketing programs rarely complain about the ads because they involve products and services of interest.

Second, because of ads, many television, online, and social media sites are free to users. Ad revenue also helps keep magazines and newspapers affordable. Many people think viewing ads is a small price to pay for these benefits.

In addition, consumers find many television commercials entertaining and seek them out. For example, ad viewership during the Super Bowl usually equals or exceeds game viewership. Finally, today's consumers have alternatives. For example, they can zap TV commercials on recorded programs or avoid them altogether on many paid cable, satellite, and online streaming channels. Thus, to hold consumer attention, advertisers are making their ads less intrusive, more targeted, and more entertaining and informative.

Marketing's Impact on Other Businesses

Critics also charge that a company's marketing practices can harm other companies and reduce competition. They identify three problems: acquisitions of competitors, market entry barriers, and unfair competitive practices.

Critics claim that competition is reduced and consumers are harmed when companies expand by acquiring competitors rather than by developing their own new products. The rapid pace of acquisitions over the past several decades has caused concern that vigorous young competitors will be absorbed. In virtually every major industry—store and online retailing, entertainment, financial services, utilities, transportation, automobiles, telecommunications, health care—the number of major competitors is shrinking.

In some cases, acquisitions can be good for society. The acquiring company may gain economies of scale that lead to lower costs and lower prices. Or a well-managed company may take over and improve the efficiency of a poorly managed one. The intensity of competition can sometimes increase after the acquisition, even if the total number of competitors is reduced. But acquisitions can also harm society by reducing innovation and competition.

Critics also claim that marketing practices can block the entry of new competitors. Large companies can use patents and heavy promotion spending or tie up suppliers or dealers to keep out or even drive out competitors. While some of these barriers occur naturally from the economic advantages of doing business on a large scale, antitrust regulators can implement existing laws and work with lawmakers to introduce new laws to dismantle unfair entry barriers. For example, some critics have proposed a progressive tax on advertising spending to reduce the role of selling costs as a major entry barrier. Under such a tax, companies could enter new markets more easily without having to employ cash-gobbling advertising campaigns to make their presence felt.

Finally, some companies have used unfair competitive marketing and business practices to hurt or destroy competitors. They may set their prices below costs, threaten to cut off business with suppliers, discourage buying a competitor's products, or use their size and market dominance to otherwise unfairly damage rivals. Although various laws aim to prevent such behavior, proving that the intent or action was truly predatory can be challenging. Predatory practices can be difficult to differentiate from effective, if hard-nosed, competitive strategies and tactics.

In recent years, search giant Google has been accused of using predatory practices at the expense of smaller competitors. For example, the European Commission found Google guilty of using its search dominance to manipulate the results of its Google Shopping search comparison services to favor its own shopping services. The commission fined Google a record-breaking $2.8 billion for the violations. "Google has come up with many innovative products and services that have made a difference to our lives. That's a good thing," said the EU's competition commissioner. "But Google's strategy for its comparison shopping service wasn't just about attracting customers by making its product better than those of its rivals. Instead, Google abused its market dominance as a search engine by promoting its own comparison shopping service in its search results and demoting those of competitors. . . . That's illegal under EU antitrust rules." The EU General Court ruled against Google's first appeal, which contended that its web-search and mobile operations constitute fair and effective competition that serves the best interests of consumers. The European Commission has also launched antitrust investigations against Apple, Facebook, and Amazon.[15]

Competitive marketing practices: The European Commission recently fined Google heavily for illegally using its search dominance to manipulate the results of its Google Shopping search comparison services to favor its own shopping services at the expense of rivals.

Alexandros Michailidis/Shutterstock

Pathways to Sustainable Marketing

OBJECTIVE 20-3 Understand how consumer, societal, and corporate forces drive sustainable marketing strategy.

Sustainable marketing calls for more responsible actions by both consumers and businesses and often by government and regulatory bodies. Consumers, businesses, and governments must all work together in forging pathways to sustainable marketing. In this section, we first discuss consumer actions to promote sustainable marketing. We then discuss actions that businesses can take toward sustainable marketing.

Author Comment | Sustainable marketing isn't something that only businesses and governments do. Through consumerism and environmentalism, consumers themselves can play an important role.

Consumer Actions to Promote Sustainable Marketing

Because some people view businesses as the cause of many economic and social ills, grassroots movements have arisen periodically to keep businesses in line. Here, we will discuss two such movements—*consumerism* and *environmentalism*.

The Rise of Consumerism

Consumerism
An organized movement of citizens and government agencies designed to improve the rights and power of buyers in relation to sellers.

We define **consumerism** as an organized movement of citizens and government agencies to improve the rights and power of buyers in relation to sellers. Traditional *sellers' rights* include the following:

- The right to introduce any product in any size and style, provided it is not hazardous to personal health or safety or, if it is, to include proper warnings and controls
- The right to charge any price for the product, provided no discrimination exists among similar kinds of buyers
- The right to spend any amount to promote the product, provided it is not defined as unfair competition
- The right to use any product message, provided it is not misleading or dishonest in content or execution
- The right to use buying incentive programs, provided they are not unfair or misleading

Traditional buyers' rights include the following:

- The right not to buy a product that is offered for sale
- The right to expect the product to be safe
- The right to expect the product to perform as claimed

In evaluating these rights, many believe that the balance of power lies on the seller's side. True, the buyer can refuse to buy. But critics feel that the buyer has too little information, education, and protection to make wise decisions when facing sophisticated sellers. Consumer advocates call for the following additional consumer rights:

- The right to be well informed about important aspects of the product
- The right to be protected against questionable products and marketing practices
- The right to influence products and marketing practices in ways that will improve "quality of life"
- The right to consume now in a way that will preserve the world for future generations of consumers

Each proposed right has led to more specific proposals by consumerists and consumer protection actions by the government. ● The right to be informed includes the right to know the true interest on a loan (truth in lending), the true cost per unit of a brand (unit pricing), the ingredients in a product (ingredient labeling), the nutritional value of foods (nutritional labeling), product freshness (open dating), and the true benefits of a product (truth in advertising).

● **Consumer desire for more information led to package labels with loads of useful facts, from ingredients and nutrition facts to recycling and country of origin information.**

Ekaterina_Minaeva/Shutterstock

Proposals related to consumer protection include strengthening consumer rights in cases of business fraud and financial protection, requiring greater product safety, ensuring information privacy, and giving more power to government agencies. Proposals relating to quality of life include controlling the ingredients that go into certain products and packaging and reducing the level of advertising "noise." Proposals for preserving the world for future consumption include promoting the use of sustainable ingredients, recycling and reducing solid wastes, and managing energy consumption.

Consumerism champions the creation of empowered consumers who have not only the right but also some of the responsibility to protect their own interests. Consumers cannot simply delegate this function entirely to the government or some other organization. Consumers who believe they got a bad deal must pursue one or more of several available remedies, including contacting the company; making their case through the media; contacting federal, state, or local agencies; and going to small-claims courts. Consumers should also make good consumption choices, rewarding companies that act responsibly. Ultimately, sustainable marketing works most effectively when socially conscious, forward-looking, and responsible companies serve socially aware, knowledgeable, and proactive consumers.

The Rise of Environmentalism

Whereas consumerists focus on whether the marketing system is efficiently serving consumer needs and wants, environmentalists are concerned with marketing's effects on the environment. **Environmentalism** is an organized movement of concerned citizens, businesses, and government agencies designed to protect and improve people's current and future living environment.

Environmentalism
An organized movement of concerned citizens, businesses, and government agencies designed to protect and improve people's current and future living environment.

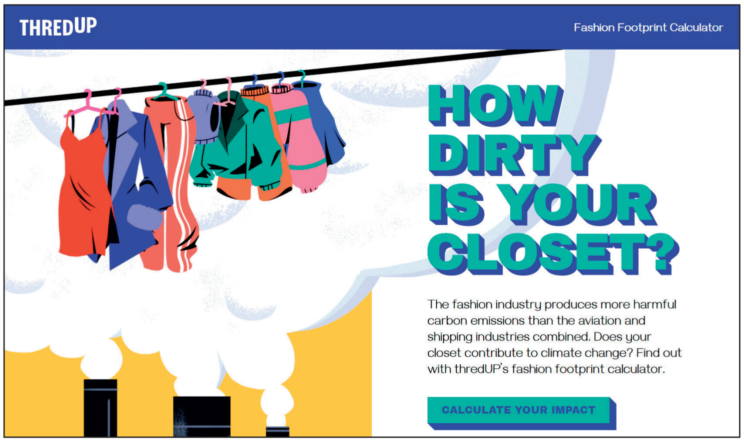
Environmentalists want people and organizations to operate with more care for the environment. They call for doing away with what sustainability advocate and former Unilever CEO Paul Polman calls "mindless consumption." According to Polman, "The road to well-being doesn't go via reduced consumption. It has to be done via more responsible consumption."[16] Environmentalists assert that the marketing system's goal should not be to maximize consumption, consumer choice, or consumer satisfaction but to maximize life quality. Life quality subsumes not only the quantity and quality of consumer goods and services consumed in the short run but also the quality of the living environment, now and for future generations. A great outdoor Italian meal is no fun if the diners are choking on emissions from a thermal power plant a few miles down the road.

Environmentalism is concerned with humanity's damage to the ecosystem caused by global warming, resource depletion, toxic and solid wastes, the contamination of fresh water, and other problems. Other challenges include the loss of recreational, forest, and wildlife areas and the increase in health problems caused by chemically treated food and by polluted air and water. Consumers and the marketers who serve them must be concerned about the impact of consumption choices on the environment.

Carbon footprint
A term that captures the total negative CO_2e impact associated with a product or service.

The atmosphere, in particular, has drawn concern. The term **carbon footprint** captures the total negative atmospheric impact associated with a product or service. The carbon footprint focuses on greenhouse gas emissions that trap and retain atmospheric heat. High carbon emissions contribute to global warming and, ultimately, climate change. The carbon footprint is expressed in terms of CO_2e, or CO_2 equivalent, a standardized measure of all greenhouse gases (carbon dioxide, nitrous oxide, methane, and others) converted into the equivalent amount of carbon dioxide in terms of warming potential. For products, the carbon footprint is calculated by adding together the greenhouse gas emissions resulting from every stage of a product or service's lifetime, from raw material production, sourcing, manufacturing, packaging, transport, and wholesale and retail processes to consumer usage and end-of-life disposal.

We often think of businesses as creating carbon footprints in the process of making and selling products. However, consumers also create carbon footprints through their consumption choices and product usage. For example, consider the carbon footprint of your clothing purchases. The apparel industry, with its focus on the latest fads and fashions, is actually more harmful to the environment than the airline and shipping industries. According to one study, the apparel and footwear industry alone accounts for more than 8 percent of global climate impact. How much do your individual clothing purchases contribute? thredUP, the huge online consignment and thrift store that sells secondhand clothing, provides a fashion footprint calculator that answers that question:[17]



Consumers themselves create carbon footprints through their consumption choices and product usage. thredUP's fashion footprint calculator helps you answer the question "How dirty is your closet?"

Courtesy of thredUP

The thredUP fashion footprint calculator answers the question "How dirty is your closet?" Based on 12 straightforward questions, it identifies your personal fashion footprint and compares it to the national average (1,620 pounds of carbon per year). It then provides tips on how to reduce your fashion footprint. According to thredUP, producing and selling just one new garment creates 17 pounds of CO_2e and consumes 77 gallons of water. Although 95 percent of discarded clothing could be reused or recycled, 73 percent of used apparel is sent to a landfill or incinerated. However, buying secondhand clothing (what thredUP calls "thrifting") extends the life of clothes and fights fashion waste. Buying one used item reduces its carbon, waste, and water footprints by 82 percent. "At thredUP, we believe in a sustainable fashion future," says the company. "Thrifting is about more than just finding amazing deals on your favorite brands. It's about shopping with intention, rejecting throwaway fashion culture, and standing for sustainability. The clothes we wear have the power to create change."

Environmentalists and regulators apply many approaches to reducing the adverse environmental impact of consumer and business activity. They urge or require companies to change how their market offerings are sourced, produced, transported, sold, and used. For example, government regulators set automobile engine emissions standards and limit the use of scarce, nonrenewable resources. Other environmentalist groups work with businesses to assess the impact or their products and processes with the goal of helping them move toward a more sustainable economy. They educate consumers to help them make more responsible buying choices.

Businesses and other organizations can also influence consumption choices through marketing campaigns and sustainability initiatives. For example, the city of Denver's water authority—Denver Water—has sponsored a long-running "Use Only What You Need" campaign urging city residents to use less water. With its signature orange Use Only What You Need icon box, the popular campaign uses cheeky, memorable ads and outdoor exhibits plastered around the city to inspire frugal water usage. The campaign is so popular that residents often put the iconic orange logo on specialty license plates. The campaign has helped customers reduce city water use by more than 20 percent over the past 15 years despite a 15 percent population increase.[18]

Many companies sponsor campaigns designed to help people consume more responsibly. For example, outdoor apparel and gear retailer REI's recent Opt to Act Plan urges employees and members to sign up for a 52-week action plan in which they commit to take small weekly steps throughout the year to incorporate more eco-friendly behavior into their everyday lives. The steps include things like opting out of junk mail, foregoing traditional wrapping paper during the holiday season, carrying reusable bags when shopping, going paperless one day each week, lowering thermometers by one degree, and not washing their jeans all month. REI is also expanding its rentals and used-gear businesses and piloting a used gear buy-back program in which members can receive REI gift cards when they trade in "gently used" clothing and gear for resale. These programs reflect REI's belief that "one of the most impactful ways to lower a product's environmental footprint is to maximize the numbers of times it can be used."[19]

Finally, environmentalists can directly influence corporate decision-making and regulatory policy. For example, ocean dumping of mining waste has been a common but environmentally destructive practice for many decades. For instance, in Southeast Asia, Ramu nickel mine in Papua Guinea and the Batu Hijau copper-gold mine in Indonesia have long dumped huge quantities of environmentally destructive mining waste directly into the ocean. Recently, however, Tesla CEO Elon Musk, an active champion of environmental sustainability causes, famously promised a "giant contract" to companies that could source nickel "efficiently and in an environmentally sensitive way." (Nickel is an important component in making Tesla's electric vehicle batteries.) Musk's promise helped two environmental organizations, AEER and Earthworks, persuade the Indonesian government to commit to safe disposal of wastes in order to earn Tesla's business. The day after Tesla submitted its proposal, the Indonesian government announced that new mining projects would not be permitted to dump any waste into the ocean.[20]

Public Actions toward Sustainability

Citizen concerns about marketing practices will often lead to public attention and legislative proposals. Legislation affecting business around the world has increased steadily over the years. The United States and many other countries have laws covering issues such as competition, fair-trade practices, environmental protection, product safety, truth in advertising, consumer privacy, packaging and labeling, pricing, selling, and other marketing areas.

Understanding the public policy implications of various marketing activities is no easy matter. In the United States, there are many complex laws created at national, state, and local levels, and these regulations often overlap. For example, deceptive practices have led to legislation and other consumer protection actions. In 1938, Congress enacted the Wheeler-Lea Act, which gave the Federal Trade Commission (FTC) power to regulate "unfair or deceptive acts or practices." The FTC has since published several guidelines listing deceptive practices.

Many such laws that affect marketing were identified in Chapter 3. Marketing executives must understand the implications of these laws as they make decisions about marketing strategy, competitive relations, marketing research, products, price, promotion, and distribution channels.

Author Comment | Sustainable initiatives work best when marketers and consumers work together, but marketers themselves must ultimately take responsibility for sustainable marketing.

Business Actions toward Sustainable Marketing

Legal and regulatory guidelines and pressure from consumers and environmental organizations can influence corporate social and environmental initiatives. However, as we discuss next, companies are now moving more proactively to take their own actions on these fronts.

Corporate Social Sustainability Initiatives

Independent of the pressure from environmentalists and regulators, companies are increasingly engaging in socially sustainable marketing practices. Companies that are deeply engaged in improving society can obtain positive financial returns from those initiatives. Studies have shown that a company's perceived social responsibility has both a short-term impact in increasing purchase intentions and a long-term impact in improving the firm's reputation. This helps them increase market share and profitability. Socially sustainable marketing will not work well if added as an afterthought to the company's overall marketing and corporate strategy. Instead, sustainability thinking should be integrated into—and inseparable from—marketing thinking.

Companies that embrace socially sustainable practices can infuse that spirit into the fabric of their brands. This helps draw in customers by strengthening the brand externally. Beyond that, it can also build that spirit into their *internal—or employer—branding*. This increasingly important concept captures a company's corporate culture and employee experience. For example, does the company radiate a sense of "joy at work" that motivates employees to give their best every day? Today's employees focus not just on compensation and rewards; they place a premium on working for companies that seek to improve the world in which we live. Companies that champion and credibly implement socially sustainable business practices can attract the best employee talent, especially from the millennial and post-millennial generations.

Corporate Environmental Sustainability Initiatives

Over the past several decades, concerns related to environmental pollution have resulted in federal and state laws and regulations governing business activities that affect the environment. Some companies have strongly resented and resisted such environmental regulations, claiming that they are too costly and have made their companies less competitive. These companies have responded to environmental concerns by doing only the minimum required to comply with existing regulations and by lobbying to avert new regulations.

FIGURE 20.2
Environmental Sustainability and Sustainable Value

	Today: Greening	Tomorrow: Beyond Greening
Internal	**Pollution prevention** Eliminating or reducing waste before it is created	**New clean technology** Developing new sets of environmental skills and capabilities
External	**Product stewardship** Minimizing environmental impact throughout the entire product life cycle	**Sustainability vision** Developing a strategy framework for creating sustainable value

This framework addresses more than just natural environmental challenges. It also points to opportunities for creating sustainable value for markets and the firm through environmentally sustainable strategies and practices.

Environmental sustainability
A management approach that involves developing strategies that both sustain the environment and produce profits for the company.

In recent years, however, most companies have accepted the responsibility for reducing environmental harm. They have shifted from protest to prevention and from regulation to responsibility. Companies have increasingly embraced **environmental sustainability**—the generation of profits while helping save the planet. Today, enlightened companies are taking action because it's the right thing to do for their customers' well-being, the company's long-term growth and profitability, and the planet's future.

Figure 20.2 shows a grid that companies can use to gauge their progress toward environmental sustainability. It includes both internal and external *greening* activities that will pay off for the firm and environment in the short run and *beyond greening* activities that will pay off in the longer term.

At the most basic level, a company can practice *pollution prevention*. This involves more than pollution control—cleaning up waste after it has been created. Pollution prevention means eliminating or minimizing waste *before* it is created. Companies emphasizing prevention have responded with internal green marketing programs—designing and developing ecologically safer products, recyclable and biodegradable packaging, better pollution controls, and more energy-efficient operations.

For example, before designing and producing new offerings, athletic shoe and apparel maker adidas evaluates their environmental impact. This results in low-waste footwear and apparel, such as Duramo shoes, which yield both performance and sustainability benefits. With their simplified design—the upper is made of only four pieces—the lightweight shoes give athletes a more natural run while cutting down on materials, waste, and energy use in production. More broadly, adidas has developed a restricted substances list for product design and manufacturing: no PVCs, no materials from endangered or threatened species, and fewer materials from non-sustainable sources. More than 60 percent of adidas products are now made with sustainable materials. The company recently collaborated with Parley for the Oceans to introduce its Parley lines of shoes and apparel, made with yarn produced from recycled plastic waste intercepted from the world's beaches and coastal communities before it reaches the ocean. adidas has also set ambitious internal goals for reducing greenhouse emissions and energy, water, and paper consumption in its operations.[21]

Environmental sustainability: adidas sets ambitious goals for sustainable products and operations. Its Parley shoes and apparel are created with yarn made from recycled plastic waste intercepted from the world's beaches and coastal communities before it reaches the ocean.

Courtesy of Chris Johnson Photography

Sometimes reducing a company's carbon footprint at the source can be technologically daunting, too expensive, or both. In such situations, a company can reduce its negative environmental impact with *carbon offsetting*. Under carbon offsetting, a company allows unavoidable emissions into the atmosphere but then undertakes remedial actions to counteract their negative environmental impact. For example, a company can calculate the total carbon footprint generated annually by all of its activities and offerings. It can then plant many thousands of trees to absorb sufficient greenhouse gases to counteract the negative effects of its emissions.

The challenge is that companies often lack the ability to organize large tree planting drives or to develop more specialized forms of countering greenhouse gas emissions. To serve this need, numerous organizations have emerged that specialize in helping companies calculate their carbon footprints and offset their carbon emissions. For example, a company can partner with companies like terrapass to calculate its carbon footprint and then purchase renewable energy credits from terrapass that offset its CO_2e emissions. In turn, terrapass uses the proceeds from member purchases to fund counteracting green energy projects that reduce or destroy greenhouse gases, produce renewable energy, and restore freshwater ecosystems.[22]

At the next level, companies can practice *product stewardship*—minimizing environmental impacts across the entire product life cycle while simultaneously reducing costs. Many companies have adopted *design for environment (DFE)* and *cradle-to-cradle* practices. This involves thinking ahead to design products that are easier to recover, reuse, recycle, or safely return to nature after usage, thus becoming part of the ecological cycle. DFE and cradle-to-cradle practices can be both environmentally friendly and highly profitable.

For example, IBM's Global Asset Recovery Services business is designed to reuse and recycle parts from returned mainframe computers and other equipment. In a recent year, IBM processed more than 37 million pounds of end-of-life products and product waste worldwide, stripping down old equipment to recover chips and valuable metals. Since 1995 it has processed more than 2.4 billion tons of material. IBM Global Asset Recovery Services finds uses for more than 99 percent of what it takes in, sending less than 1 percent to landfills and incineration facilities. What started out as an environmental effort has now grown into a multibillion-dollar IBM business that profitably recycles electronic equipment at 22 sites worldwide.[23]

Today's *greening* activities focus on improving what companies already do to protect the environment. The *beyond greening* activities identified in Figure 20.2 look to the future. First, internally, companies can plan for *new clean technology*. To create fully sustainable strategies, companies will need to develop and employ innovative new technologies. For example, energy technology giant Siemens has committed to becoming fully carbon neutral by 2030. Making that happen requires lots of innovation:[24]

> With more than 379,000 employees in 200 countries, 150-year-old Siemens is reducing its carbon footprint by transferring from "combustification" to "electrification." As just one example, its 50-year-old production facility in Kalwa, India, now uses 6,000 solar panels to supply 25 percent of its electricity use—the equivalent of 62,000 newly planted trees. To cut employee bottled water consumption, the plant installed a high-tech water-treatment facility that further cleans city water to make it drinkable and dispenses it to employees at 50 locations around the plant, saving more than 2 million single-use plastic water bottles per year. The water facility also treats all industrial water used at the plant and recycles it for everything from cleaning streets and flushing toilets to watering green areas. Finally, the plant's state-of-the-art waste segregation depot separates waste into 45 categories and readies it to be processed by recyclers. Siemens's carbon neutrality innovations will not only help protect the environment, but also saves the company money. The technology project is designed to pay for itself in just five years and to generate $20 million in annual savings thereafter.

Finally, companies can develop a *sustainability vision*, which serves as a guide to the future. It shows how the company's offerings, processes, and policies must evolve and what new technologies must be developed to get there. This vision provides a framework for pollution control, product stewardship, and new environmental technology for the company and others to follow. It addresses not just challenges related to protecting the natural environment but also opportunities for using environmental strategies to create sustainable value for the firm and its markets.

Most companies today focus on the upper-left quadrant of the grid in Figure 20.2, investing most heavily in pollution prevention. Some forward-looking companies practice product stewardship and are developing new environmental technologies. However, emphasizing only one or two quadrants in the environmental sustainability grid can be shortsighted. Investing only in the left half of the grid puts a company in a good position today but leaves it vulnerable in the future. In contrast, a heavy emphasis on the right half suggests that a company has good environmental vision but lacks the urgency or the ability to implement changes in the short run. Thus, companies should work on developing all four quadrants of environmental sustainability. Microsoft, for example, is doing just that with its bold initiatives to become "carbon negative" by 2050 (see Real Marketing 20.1)

Real Marketing 20.1 | Microsoft: Eliminating Carbon—The World's Next Moonshot

When it comes to fighting climate change, Microsoft received high praise more than a decade ago when it became "carbon neutral," offsetting all carbon emissions resulting from its business activities. But in January of 2020, Microsoft made an announcement that signaled to the world that the company has a much more far-reaching, future-oriented environmental sustainability vision. The iconic technology giant unveiled its goal to remove more carbon than it emits annually by 2030. More impressive, by 2050 Microsoft aims to remove all the carbon the company has *ever* emitted.

This revelation shocked the world—no other organization at that time had ever committed to such an ambitious environmental goal. Even Microsoft president Brad Smith admits that the plan is "audacious," primarily because the technologies needed to achieve these goals don't even exist yet on a commercial scale. But Microsoft is moving forward undeterred with what it sees as actions necessary to protect the world from a future of climate catastrophes.

Microsoft is quick to admit that the terminology used to describe climate-oriented objectives can be confusing or even misleading. Many corporate efforts to negate the effects of their carbon emissions take the form of "carbon neutrality," a term companies tout if they offset their emissions without having to make changes to their own business practices. For example, companies can purchase "carbon credits" by paying landowners somewhere in the world not to cut down trees on their land. But paying others not to do something environmentally negative is a far cry from doing something that's environmentally positive, such as actually planting more trees that remove carbon from the atmosphere. In fact, through clever environmental accounting, carbon credits have been given for deforestation prevention projects that "saved" forests that were not threatened, providing no climate benefits at all.

Microsoft admits that in the past it has funded plenty of projects that avoid negative climate impact rather than projects that prompt positive impact. That's why Microsoft's current objectives focus on achieving "net zero" carbon status, actually removing as much carbon as it emits. The "net" in net zero recognizes that although reducing carbon emissions to "zero" would be ideal, no organization of any size could actually emit no carbon at all. So Microsoft's vision is to reduce its own carbon emissions to a minimum, then offset the remaining emissions with projects that remove carbon elsewhere.

While becoming "net zero" is a step in the right direction, Microsoft's plan takes an even-further leap toward becoming "carbon negative" by 2030—to remove *more* carbon than it emits each year. By achieving and maintaining that goal, it can begin to eliminate all the carbon it has put into the atmosphere since its founding in 1975, something it plans to accomplish by 2050.

Microsoft has laid out a tactical plan for achieving these ambitious environmental goals. Central to that plan are actions to reduce its own carbon footprint. For example, by 2025, Microsoft has pledged to shift 100 percent of its energy needs for all campuses, buildings, and data centers to renewable energy (such as solar and wind). By 2030, the vehicle fleets at all Microsoft global campuses will consist entirely of electric vehicles (EVs).

Although solutions such as solar power and EVs are practically commonplace these days, Microsoft's plans also include innovative new solutions. For example, the company is investing in hydrogen fuel cell technology to ultimately provide primary and backup energy for its 160 power-hungry data centers worldwide, all currently backed up by diesel generators. In one of its more creative efforts, Microsoft recently cooled an entire data center—864 servers providing 27.6 petabytes of storage—by sinking it to the bottom of the Scottish Sea in a huge, sealed steal cylinder. The natural cooling effects of the deep ocean eliminated the need for power-hungry cooling devices. Moreover, the sealed environment also eliminated most of the corrosion issues that result from the oxygen-rich, humidity-laden conditions of data centers housed in buildings. As a result, the underwater data center had just one-eighth the failure rate of land-based data centers. Thus, less power consumption and fewer failures has meant lower costs as well as lower emissions.

Although such energy reducing efforts can help to eliminate Microsoft's carbon emissions, they only scratch the surface. They lower what are known as Scope 1 emissions (those created directly by a company's activities) and Scope 2 emissions (those generated indirectly by the production of energy needed to run operations). But of the more than 16 million metric tons of carbon Microsoft produced last year, Scope 1 emissions accounted for a mere 100,000 metric tons and Scope 2 emissions accounted for only 4 million metric tons. The other 12 million metric tons are known as Scope 3 emissions: those generated indirectly by the company's entire value chain, from its suppliers and distributors to the full life cycle of its products,

Microsoft's bold environmental vision is to be carbon negative by 2030 and to remove all the carbon the company has *ever* emitted by 2050. "This is a bold bet—a moonshot—for Microsoft."

ZUMA Press, Inc./Alamy Stock Photo

including the electricity consumed when customers use its products.

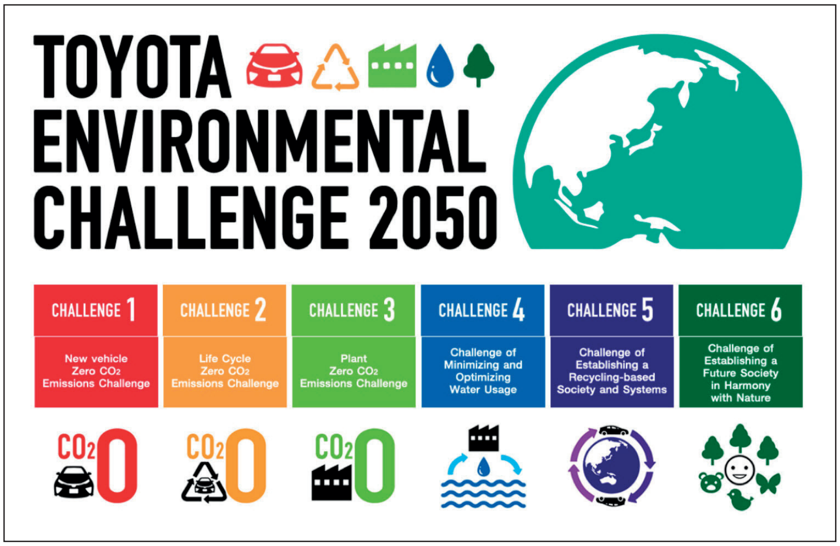
Microsoft can and does explore ways to make its products more energy efficient in use. For example, a recent update to the Xbox reduces power consumed when in standby mode from 15 watts to just 2 watts. But it will never reduce that energy use to zero, and the company has little, if any, control over the renewability of the energy consumed by its products. So as an offset, Microsoft is assessing an internal carbon tax, a fee levied on all company divisions based on product carbon emissions. Funds raised by this self-imposed tax are used to pay for sustainability improvements within the company and invested in initiatives outside the company that move carbon reduction and removal technologies forward.

The most common and practical carbon removal technology is as old as the earth itself—planting trees, nature's carbon scrubbers. Microsoft invests billions of dollars each year in forestation projects. But Microsoft knows that planting trees is not enough. The company also invests heavily in developing technologies that capture carbon as energy is produced or that suck carbon directly out of the air. Captured carbon can then be permanently stored by injecting CO_2 deep underground in rock formations—like extracting natural gas, but in reverse.

Microsoft's comprehensive plan for carbon negativity includes various other pillars. For example, Microsoft empowers and urges customers and suppliers to take their own steps toward reducing carbon production and extracting carbon from the environment. It enlists its 166,000 employees to do their part and uses its influence to support carbon-related public policy issues. Microsoft is also setting new standards for corporate transparency through new measures, dashboards, and reports. And its Microsoft Cloud for Sustainability applications offer other organizations a real-time view into their environmental footprint across all emissions sources by centralizing data in a common format to measure, reduce, and report their emissions.

Accomplishing Microsoft's bold environmental sustainability plan will be a huge challenge. "Today there is no real existing carbon removal ecosystem and the world must build a new market on an unprecedented scale and timeline, from nearly scratch," says Smith. To help get that ecosystem off the ground, last year Microsoft created a $1 billion Climate Innovation Fund, encouraging others to follow suit. But like the development of the very technologies upon which Microsoft's products are based—technologies that didn't exist 45 years ago—the company is making a leap of faith that the needed technologies will become a reality. "Reducing carbon is where the world needs to go, and we recognize that it's what our customers and employees are asking us to pursue," states Smith. "This is a bold bet—a moonshot—for Microsoft. And it will need to become a moonshot for the world."[25]

So is Toyota through its Toyota Environmental Challenge 2050, designed to go beyond eliminating adverse environmental impacts to creating net positive impacts on the planet and society:[26]



Sustainability vision: The Toyota Environmental Challenge 2050 envisions "moving toward a society where people, cars, and nature can coexist in harmony."

> Eight years ago, automaker Toyota announced the Toyota Environmental Challenge 2050, setting six challenges aimed at "moving toward a society where people, cars, and nature can coexist in harmony." The first three goals call for eliminating CO_2e emissions by accelerating the development of low- and no-emission electrified vehicles; achieving zero emissions in its production plants and processes by using innovative manufacturing technologies and renewable energy sources; and working with suppliers and customers to reduce emissions across the entire vehicle life cycle, from manufacturing and distribution to driving and vehicle recycling. Additional goals deal with conserving and protecting water resources during manufacturing, establishing a recycling-based society and systems, and collaborating with business partners and local communities to implement "harmony-with-nature" activities. "The whole idea of creating a net positive impact on the planet and society seems unattainable," says Toyota's director of environmental sustainability. "It will take new ideas and new technology. It will take creativity and thinking outside the box. It will take working with partners who will help us find success along the way.... We'll continue doing the impossible and doing our part to build a better future."

At Toyota, being environmentally sustainable is more than just doing the right thing. It also makes good business sense. More efficient operations and less wasteful products help the environment but also save Toyota money, helping it increase profitability and deliver more value to customers. It's a winning combination. Toyota believes that its success is fundamentally linked to having a healthy planet.

Specific Approaches to Reducing Environmental Harm

Marketing is an integrative function that influences decisions across the company's entire value chain, stretching from choosing and sourcing raw materials to arranging for the disposal of depleted products from consumers. In partnership with other company functions, marketing managers should systematically think about how existing materials, product and service designs, and value-addition processes can be reimagined at every stage, with the goal of shrinking the company's adverse environmental impact and adding to its positive impact. The following sections discuss actions companies can take toward environmental sustainability.

Reimagine Material Choices. Companies can shift to raw materials and packaging materials that provide good functionality but at a fraction of existing environmental impact. Consider kitchen countertops. Traditional countertops made from quartz, granite, ceramic tiles, marble, wood, glass, and other materials have a high carbon footprint because of intensive manufacturing and finishing. Further, the mining operations required to source some of these materials permanently scar the earth and lead to water pollution and drainage problems. A new alternative is PaperStone, a paper composite countertop made from recycled paper, natural pigments, and non-petroleum-based resins. These countertops are environmentally friendly, easy to install, visually appealing with a range of colors and tight seams, dense and durable, nonporous, and usable both indoors and outdoors.[27]

Source Materials from Sustainable Suppliers. Companies can shift to suppliers who are themselves committed to protecting the environment. For example, companies sourcing agricultural products can partner with the Rainforest Alliance, an international nonprofit organization that is building an alliance of businesses and other organizations to protect forests globally, improve the livelihoods of farmers and forest communities, promote their human rights, and help them reduce and adapt to the climate crisis. The Rainforest Alliance evaluates farmers and other agricultural suppliers and certifies those using methods that support its "three pillars of sustainability": social, economic, and environmental. Companies and brands that source solely from certified suppliers earn the right to use the coveted Rainforest Alliance frog-bearing certification seal on their product packaging and promotion. ● The Rainforest Alliance certification seal means that the product (or a specified ingredient) was produced by farmers, foresters, and companies "working together to create a world where people and nature thrive in harmony." In turn, the Rainforest Alliance's "Follow the Frog" campaign promotes its certification to consumers. This helps participating brands build a sustainable brand image.[28]

● **Sustainable sourcing: Brands that source from Rainforest Alliance–certified suppliers earn the right to use the coveted Rainforest Alliance certification seal on their products. In turn, the Rainforest Alliance promotes its certification to consumers, for instance with its "Follow the Frog" campaign.**

Rainforest Alliance

Simplify Product Design and Other Processes. Product designers often try to do more—adding features, functionality, and complexity to develop new products. In contrast, designers can do less—engaging in more frugal innovation and making products reusable. For example, traditional ear swabs are made of cushioned cotton swirls wrapped around the ends of a small plastic or wooden stick. Consumers buy big cardboard boxes with hundreds of swabs, discarding each one after use. LastObject and other companies now offer reusable swabs made from durable yet flexible, nontoxic, and easy-to-clean materials. A LastObject reusable LastSwab comes in a small corn-based carrying case and is meant to replace 1,000 single-use cotton swabs. It comes in two models, one for general swab uses and another for beauty-oriented use. LastObject also makes reusable tissues and cotton pads. Its products—which are end-to-end sustainable across the entire value chain—"benefit the planet while also simplifying and decluttering our lives."[29]

Shift to Sustainable Energy Sources. Manufacturing plants, retail stores, and other facilities consume large amounts of electrical power usually generated by thermal power plants and other nonrenewable energy sources. Electricity generation accounts for about 27 percent of total greenhouse gas emissions in the United States. Many companies are now switching to more sustainable alternatives. For example, General Mills powers its oat milling facility in Fridley, Minnesota, through electricity generated by combusting oat hulls. Each year, the plant, which makes oat flour for use in Cheerios, Lucky Charms, and other General Mills products, produces more than 75,000 tons of oat hulls as a waste by-product during the milling process. Using oat hulls to produce power substantially reduces the facility's carbon footprint, lowers the costs of natural gas by 90 percent, and turns a by-product into profits. Beyond serving its own needs, General Mills even supplies other electricity producers with oat hulls, reducing the energy-related carbon footprint over a wide geographical area.[30]

Rethink Packaging. Consumers are frequently frustrated by overpackaged products that use nonrecyclable packaging and are difficult to open. For example, while sports shoes are built to be hardy and long-lasting, they typically come overpackaged in thick, rigid cardboard boxes that take up space, present recycling challenges, and leave a large carbon footprint. To address this problem, sports shoemaker PUMA found a more eco-friendly packaging solution—no package at all:[31]

Rethinking packaging: PUMA's Clever Little Bag is more than just friendly to the environment, it's also very friendly to consumer likes and the company's bottom line.

Getty Images for Puma/Getty Images

> PUMA and design firm Fuseproject spent 21 months road-testing 40 shoebox prototypes, checking on their potential environmental impact from production and transport through use and future reuse. They came up with what Puma calls the Clever Little Bag with a big impact. The new container—which consists of a light cardboard insert that slides seamlessly into a colorful, reusable red bag—uses 65 percent less paper to make and reduces water, energy, and fuel consumption during manufacturing by more than 60 percent a year. Because it takes up less space and weighs less, the new container also reduces carbon emissions during shipping by 10,000 tons a year. What's more, everything is 100 percent reusable and recyclable. In all, PUMA's Clever Little Bag is more than just friendly to the environment, it's also very friendly to consumer likes and the company's bottom line. Pretty clever.

Construct Closed-Loop Value Chains. With modern value addition and manufacturing techniques, offerings that were once discarded can be given new lives. Few companies illustrate this better than Caterpillar, the world's largest earthmoving equipment manufacturer:[32]

> At the heart of every large Caterpillar machine is the engine, the most complicated and expensive part. Each engine contains numerous exquisitely finished and carefully assembled components. In the past, when a major engine component failed or when multiple components neared end-of-life status, the entire engine or even the machine was typically discarded. To address this problem, Caterpillar set up its Cat Reman (remanufacturing) program. Using state-of-the-art remanufacturing techniques, Cat Reman returns products at the end of their serviceable lives to same-as-new condition. The program collects used parts from customers, reworks them using Caterpillar's Extended Life Surface Technology and other cutting-edge manufacturing processes, and resells them to new users. Caterpillar typically prices remanufactured components at 40 to 70 percent of the price of new components. Thus, Cat Reman creates a "closed-loop" value chain that gives customer savings while also protecting the environment by reducing the large carbon footprint associated with manufacturing entirely new products.

Other company approaches to reducing the carbon footprint include improving product durability and productivity, strategically lowering provided service levels, and using more efficient transportation at various points of the value delivery chain. Even as managers strive to increase efficiency and reduce the carbon footprint, they must keep two priorities in mind. First, the most effective sustainability initiatives are those that also increase profits—managers must seek outcomes where "green is gold." Second, managers must develop a strategic plan to communicate environmental initiatives both within the company and to its external stakeholders, especially to consumers. That will position a company as an environmentally conscious and proactive organization, enhancing both its internal and external brands.

Building a Sustainable Marketing Organization

OBJECTIVE 20-4 Understand how to build a sustainable marketing organization.

At first, many companies resisted or even opposed consumerism, environmentalism, and other elements of sustainable marketing. They thought the criticisms they received were either unfair or unimportant and that the costs outweighed the benefits. However, most companies now embrace sustainability as a way to create both immediate and future customer value and strengthen customer relationships. Still, building a marketing organization that deeply and seamlessly integrates sustainable thinking into its strategies and execution can be difficult. The set of principles outlined in this section will help managers with that task.

Sustainable Marketing Principles

Under the sustainable marketing concept, a company's marketing should support the best long-run performance of the marketing system. It should address the interests of consumers and society while aiming to maximize returns to shareholders. A successful sustainable marketing organization must somehow align and manage these diverse objectives. A company's marketing should be guided by five sustainable marketing principles: *market with ethics, be consumer-centric, build long-term customer value, embrace a sense of mission*, and *do no harm.*

Market with Ethics

Good ethics are a cornerstone of sustainable marketing. In the long run, unethical marketing harms customers and society as a whole. Further, it eventually damages a company's reputation and effectiveness, jeopardizing its very survival. Thus, the sustainable marketing goals of long-term consumer and business welfare can be achieved only through **ethical marketing** conduct.

Ethical marketing
Applying high standards of ethics and morality when making marketing decisions.

When marketers implement sustainable marketing strategies, they will often face many moral dilemmas with no clear answers. Because not all managers have fine moral sensitivity, companies need to develop a set of *corporate marketing ethics*—broad guidelines that all employees must follow. These ethics guidelines should cover distributor relations, advertising and communications, customer service, pricing, product development, and general ethical standards. The guidelines will also promote sustainable marketing decisions when marketers stand at crossroads. They will encourage decision makers to avoid the path that yields short-term profits but imposes long-term damage, instead making decisions that create value for consumers, the company, and society in the long run.

Even the most exhaustive guidelines cannot resolve all the difficult ethical situations marketers face. ● **Table 20.1** lists some difficult ethical issues marketers could face during their careers. If marketers choose immediate-sales-producing actions in all of these cases, their marketing behavior might well be described as immoral. If they refuse to go along with *any* of the actions, they might be ineffective as marketing managers and unhappy because of the constant moral tension. Managers need a set of ethical principles that will help them identify the moral issues of each situation and come to well-reasoned decisions.

But *what* principle should guide companies and marketing managers on issues of ethics and social responsibility? One philosophy is that the free market and the legal system should decide such issues. Under this philosophy, companies and their managers are not responsible for making moral judgments. Companies can in good conscience do whatever the market and legal systems allow. However, history provides numerous examples of company actions that were legal but highly irresponsible.

A second philosophy puts responsibility not on the system but in the hands of individual companies and managers. This more enlightened philosophy suggests that a company should have a social conscience. Companies and managers should apply high standards of ethics and morality when making corporate decisions regardless of "what the system allows" while, of course, conforming to legal and regulatory guidelines.

Table 20.1 | Some Morally Difficult Situations in Marketing

1. Your R&D department has changed one of your company's products slightly. It is not really "new and improved," but you know that putting this statement on the package and in advertising will increase sales. What would you do?
2. You have been asked to add a stripped-down model to your line that could be advertised to pull customers into the store. The product won't be very good, but salespeople will be able to switch buyers who come into the store up to higher-priced units. You are asked to give the green light for the stripped-down version. What would you do?
3. You are thinking of hiring a product manager who has just left a competitor's company. She would be more than happy to tell you all the competitor's plans for the coming year. What would you do?
4. One of your top dealers in an important territory recently has had family troubles, and his sales have slipped. It looks like it will take him a while to straighten out his family problems. Meanwhile, you are losing many sales. Legally, on performance grounds, you can terminate the dealer's franchise and replace him. What would you do?
5. You have a chance to win a big account in another country that will mean a lot to you and your company. The purchasing agent hints that a "gift" would influence the decision. Such gifts are common in that country, and some of your competitors will probably make one. What would you do?
6. You have heard that a competitor has a new product feature that will make a big difference in sales. The competitor will demonstrate the feature in a private dealer meeting at the annual trade show. You can easily send a snooper to this meeting to learn about the new feature. What would you do?
7. You have to choose between three advertising and social media campaigns outlined by your agency. The first (a) is a soft-sell, honest, straight-information campaign. The second (b) uses emotion-loaded appeals that exaggerate the product's benefits. The third (c) involves a noisy, somewhat irritating commercial and pop-ups that are sure to gain audience attention. Pretests show that the campaigns are effective in the following order: c, b, and a. What would you do?
8. Your company has positioned itself as a responsible steward of the environment. Over the past two years, it has highlighted its successful efforts to greatly reduce the carbon footprint from its products and processes. The company has now come up with an exciting new product that has excellent features and will likely be a best seller. However, the new product's carbon footprint over its life cycle is five times that of the product it replaces. You have just been promoted as the manager responsible for marketing and selling the new product. What would you do?

Each company must work out a philosophy of socially responsible and ethical behavior. Under the societal marketing concept, each manager must look beyond what is legal and allowed and develop standards based on corporate conscience, personal integrity, and long-run consumer, company, and societal welfare.

Dealing with issues of ethics and social responsibility in a proactive, open, and forthright way helps to build and maintain strong customer relationships based on integrity and trust. This, in turn, helps support future profitability and sustainability. For example, consider CVS:[33]

In 2014, CVS made the bold decision to stop selling cigarettes and other tobacco products. It was a risky decision. Stubbing out cigarettes resulted in the immediate loss of $2 billion in annual tobacco sales, and it risked driving a significant portion of CVS's smoking customers to competitors such as Walgreens, Walmart, or Kroger, all of which continued to sell cigarettes. But to CVS, dropping tobacco was a straightforward decision. CVS is on an important mission of "helping people on their path to better health." Selling cigarettes *and* helping people on their path to better health simply didn't go together. So CVS pulled tobacco products from its shelves. And stopping tobacco sales was only one step in a more sweeping purpose-driven transformation. At the same time, CVS changed its name to CVS Health. It now offers a full range of products and services that help people lead healthier lives.

So how is mission-driven marketing working for CVS Health? Although front-of-store sales dropped the year after it stopped selling tobacco products, overall CVS revenues increased by nearly 10 percent. It turns out that the loss of tobacco revenues has been more than offset by revenues from new sources, including those resulting from the decision to quit selling cigarettes. New sales came both from new nonsmoking customers impressed by the decision and from smokers themselves. When CVS Health dropped cigarettes, it also launched a "Let's Quit Together" assistance program to help smokers kick the habit. By the end of the first year, CVS prescriptions

Marketing ethics and social responsibility: CVS is on a mission to help people lead healthier lives. It not only quit selling cigarettes but also launched campaigns to urge people, especially youth, to quit smoking. "This is the right thing to do."

for smoking cessation products grew by 63 percent. But more than making money, says CVS, "This is the right thing to do." The company and its foundation are now in the midst of a campaign called "Be the First," aimed at cutting teen smoking and urging teens to be the first tobacco-free generation. The campaign also focuses on reducing e-cigarette use among youth. In all, balancing purpose with profits has been good for both CVS's reputation and its bottom line, creating a more sustainable future for the company. For CVS Health, says the company's chief marketer, success means "delivering what's right for people every day in a way that creates economic value for the business."

As with environmentalism, ethical behavior and standards present special challenges for international marketers. Business standards and practices vary a great deal across countries. For example, bribes and kickbacks are illegal for U.S. firms, and various treaties against bribery and corruption have been signed and ratified by more than 60 countries. Yet these are still standard business practices in many countries. The International Monetary Fund estimates that bribes totaling more than $2 trillion per year are paid out worldwide.[34] Should a company lower its ethical standards to compete effectively in countries with lower standards? If the company is truly committed to ethical behavior, the answer is a clear "No!" Companies should commit to a common set of shared standards worldwide.

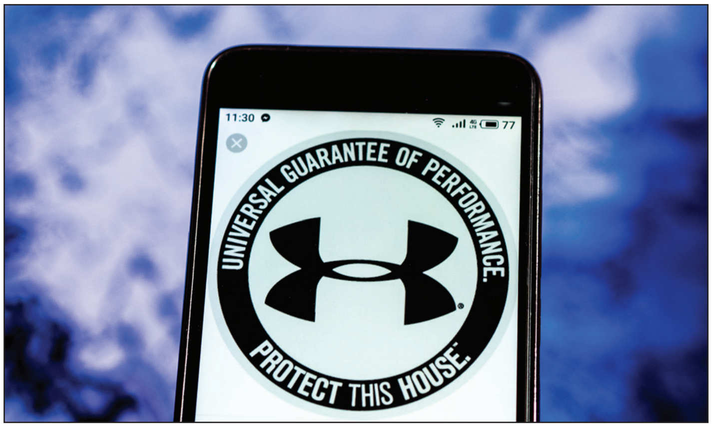
Many industrial and professional associations have suggested codes of ethics, and many companies are now adopting their own codes. For example, the American Marketing Association (AMA), an international association of marketing managers and scholars, developed a code of ethics that calls on marketers to adopt the following ethical norms:[35]

- *Do no harm.* This means consciously avoiding harmful actions or omissions by embodying high ethical standards and adhering to all applicable laws and regulations in the choices we make.
- *Foster trust in the marketing system.* This means striving for good faith and fair dealing so as to contribute toward the efficacy of the exchange process as well as avoiding deception in product design, pricing, communication, and delivery or distribution.
- *Embrace ethical values.* This means building relationships and enhancing consumer confidence in the integrity of marketing by affirming these core values: honesty, responsibility, fairness, respect, transparency, and citizenship.

Companies are now investing more time and effort in teaching managers about important ethics issues so that they can find the proper responses in difficult situations. They hold ethics workshops and seminars and create ethics committees. Furthermore, most major U.S. companies have appointed high-level ethics officers to champion ethics issues and help resolve ethics problems and concerns facing employees. And most companies have established their own codes of ethical conduct.

For example, Under Armour's Code of Conduct urges all employees ("teammates") to "Protect this house—Make the right call." when it comes to issues of ethics and social responsibility. All Under Armour teammates make decisions daily that can affect the brand's well-being. The detailed code's core message: "It's as simple as it sounds," states the code. "Whenever you're faced with a decision—big or small—always do what you know is ethically right, and, of course, always follow the law."

The Under Armour Code of Conduct covers in detail a wide range of topics, from gifts and bribery to honest and fair dealing. But it stresses that it can't cover *every* issue, so teammates "should be sensitive to situations and activities and know that if something looks wrong and feels wrong, it's probably wrong." If employees see or hear about any situation that might violate the ethics code, they are urged to report it to their management,



Marketing ethics: Under Armour's Code of Conduct urges all employees to "Protect this house—Make the right call." regarding issues of ethics and social responsibility. "It's as simple as it sounds."

IgorGolovniov/Shutterstock

to senior human resource executives, or directly to anyone on Under Armour's Global Ethics & Compliance team. Or they can report issues on Under Armour's phone hotline or hotline website, both monitored 24 hours a day, seven days a week, with an option to report anonymously. "We're an aggressive brand, and we're going to stay that way," concludes Under Armour CEO and founder Kevin Plank in the code's introduction. "We all want to win—it's why we're here. [But] we're committed to winning the right way. Period."[36]

Still, written codes and ethics programs do not ensure ethical behavior. Ethics and social responsibility require a total corporate commitment. They must be a component of the overall corporate culture.

Be Consumer-Centric, Always

Consumer-centric marketing
A company should view and organize its marketing activities from the customer's point of view to sense, serve, and satisfy customer needs, now and in the future.

Consumer-centric marketing means that the company should view and organize its marketing activities from the consumer's point of view. It should work hard to sense, serve, and satisfy the needs of defined consumer segments—both now and into the future. The company must be driven by an all-consuming passion for delivering superior value to carefully chosen consumer segments. Only by seeing the world through consumers' eyes can the company build sustainable and profitable consumer relationships. Without being consumer-centric, the company runs the risk of being distracted by other goals that weaken its bonds with consumers, leaving them open for conquest by competitors.

Consumer-focused businesses across industries are realizing that consumers increasingly prefer sustainable brands and practices. For example, one recent consumer survey found that 70 percent of North American consumers think it is important that a brand is sustainable and eco-friendly. Some 69 percent of environmentally conscious buyers are willing to pay a premium for recycled products, and more than half of these buyers will change their shopping habits to reduce negative environmental impact. Further, says the study, 40 percent of respondents globally are "purpose-driven consumers," who select brands based on how well they align with their personal beliefs. And according to another study, more than half of Gen Z consumers aged 18 to 23 years old will always research a company to ensure that it aligns with their position on social responsibility issues before making a purchase. Thus, consumers are increasingly choosing products that both are eco-friendly and align with their social values.[37] Becoming sustainable in line with consumer expectations or even ahead of those expectations can enhance the company's profitability and help build a sustainability-focused brand.

Build Long-Term Customer Value

Consumer value–building marketing
A company should put most of its resources into long-term consumer value–building marketing investments.

The company should put most of its resources into long-term **consumer value–building marketing** investments. Many things marketers do—one-shot sales promotions, cosmetic product changes, direct-response advertising—may raise sales in the short run but add less *value* than would actual improvements in the product's quality, features, or convenience. Enlightened marketing calls for building long-run consumer engagement, loyalty, and relationships by continually improving the value consumers receive from the firm's market offering. By creating value *for* customers, the company can capture value *from* customers in return.

The focus on the long term also provides a natural platform to integrate societal and environmental concerns into marketing strategy. Consider Volkswagen's 2015 emission testing scandal. The U.S. Environmental Protection Agency (EPA) charged the company with fraudulently programming its diesel engines to activate their emission control systems only when they detected that the engine was being tested. This helped the engines pass the test. But during regular use, the engines emitted about 40 times the amount of nitrogen oxides—highly potent greenhouse gases—than during testing. Globally, the scandal has cost Volkswagen over $30 billion in penalties so far and has done untold damage to the brand's reputation. If Volkswagen managers had focused more on long-term customer relationships and less on short-term profits and passing the emissions tests, such unsustainable practices would likely not have occurred.

Sense-of-mission marketing
A company should define its mission in broad social terms rather than narrow product terms.

Embrace a Sense of Mission

Sense-of-mission marketing means that the company should define its mission in broad *social* terms rather than narrow *product* terms. When a company defines a social mission, employees feel better about their work and have a clearer sense of direction. Beyond just the "job" and salary, an effective and engaging mission makes employees come to work energized every day. Brands linked with broader missions can best serve the long-run interests of both the brand and consumers.

Sense-of-mission marketing: Pedigree makes good dog food, but that's not what the brand is really all about. Instead, at its core, the brand is about loving and caring for dogs.
Ssokolov/Shutterstock

For example, Pedigree makes good dog food, but that's not what the brand is really all about. Instead, at its core, the brand is about loving and caring for dogs. Pedigree reasons that dogs bring out the good in people and have a profound impact on the world, so the brand wants to feed dogs well and bring out the best in them. In line with this sweeping brand philosophy, beyond making nutritious dog food, Pedigree backs a substantial effort to support dogs in need. Through its "You buy. We give." program, the brand donates healthy meals to shelter dogs for every customer purchase. And to further fulfill its brand promise, the company created the Pedigree Foundation, which declares, "We see a day when all dogs are safe, secure, cared for, fed well, and loved." The Pedigree Foundation has raised millions of dollars for helping "shelter dogs" find homes. Such mission-driven marketing has made Pedigree the world's number-one dog food brand.[38]

Similarly, Walmart aims "To give ordinary folks the chance to buy the same things as rich people." At 3M, everybody's mission is "To solve unsolved problems innovatively." Nike aims "To experience the emotion of competition, winning, and crushing competitors." Walt Disney wants "To make people happy." Such missions give a company purpose and consumers a reason to engage.

Some companies even define their overall corporate missions in broad societal terms. For example, under its buy-one-give-one model, shoemaker TOMS seeks both profits and to make the world a better place. Thus, at TOMS, "doing good" and "doing well" go hand in hand. To achieve its social-change mission, TOMS has to make money. At the same time, the brand's social mission gives customers a powerful reason to buy.

However, having a *double bottom line* of values and profits can be challenging. Over the years, brands such as Ben & Jerry's, Timberland, The Body Shop, and Burt's Bees—all known and respected for putting "principles before profits"—have at times struggled with less-than-stellar financial returns. In recent years, though, a new generation of social entrepreneurs has emerged, well-trained business managers who know that to *do good*, they must first *do well* in terms of profitable business operations (see Real Marketing 20.2).

Today, socially responsible business is no longer the sole province of small, socially conscious entrepreneurs. Many large, established companies and brands—from Walmart and Nike to Starbucks and Coca-Cola—have adopted substantial social and environmental responsibility missions. Companies have learned that these missions need not be at odds with revenues and profits; instead, within well-designed business models, these missions can enhance financial outcomes.

Do No Harm—Inspire Socially Responsible Outcomes

A company makes marketing decisions by considering consumers' wants, the company's requirements, consumers' long-run interests, and society's long-run interests. Companies should be aware that neglecting consumer and societal long-run interests is a disservice to consumers and society. At the least, companies should minimize the undesirable impacts of their products and processes. Even more, they should work to find and inspire positive solutions. Alert companies view environmental and societal problems as opportunities.

Real Marketing 20.2 | Marketing with a Sense of Mission: Profits Pave the Path to Purpose

Well-known sustainability thinker Paul Hawken noted that "business is the only mechanism on the planet today powerful enough to produce the change necessary to reverse global environmental and social degradation." Consistent with this thinking, more than 40 years ago, classic "do good" companies such as Ben & Jerry's and The Body Shop pioneered the concept of values-led business or caring capitalism. Their mission: Use business to make the world a better place.

Entrepreneur Anita Roddick opened The Body Shop and vowed to "dedicate our business to the pursuit of social and environmental change." The company sold natural ingredient-based cosmetics in simple and appealing recyclable packaging. Similarly, Ben Cohen and Jerry Greenfield founded Ben & Jerry's Homemade as an ice cream company that cared deeply about social and environmental responsibilities. It bought only hormone-free milk and cream, used only organic fruits and nuts, utilized environmentally friendly containers, and purchased from minority and disadvantaged suppliers. From its early Rainforest Crunch to Imagine Whirled Peace to Chocolate Macadamia (made with sustainably sourced macadamias and fair trade–certified cocoa and vanilla), Ben & Jerry's has long championed a host of social and environmental causes. From the start, Ben & Jerry's donated an eyebrow-raising 7.5 percent of pretax profits to support projects aligned with its social and environmental missions.

Both Ben & Jerry's and The Body Shop grew quickly into the 1990s. However, although the founders brimmed with idealism and passion, both companies may have focused too much on social issues at the cost of skillful business management. As competitors not shackled by their "principles before profits" missions invaded their markets, growth and profits flattened. In the early 2000s, after prolonged shaky financial returns, Ben & Jerry's was acquired by Unilever, and The Body Shop was taken over by L'Oréal. Under better business management, the two brands are now both generating profits and achieving their social missions.

Learning from the experiences of Ben & Jerry's and The Body Shop, a new generation of mission-driven entrepreneurs has emerged—not social activists with big hearts but well-trained business managers and company builders with a passion for social and environmental sustainability. These double-bottom-liners recognize that to do good for society, they must also be good at business.

An example is eyewear maker Warby Parker, which pioneered the "buy one, give one" business model. For every pair of glasses it sells, Warby Parker distributes another pair to someone in need. The company was founded by well-trained business managers who knew that profits paved the path to purpose. The company is now thriving. The founder of another brand built around a deep social mission describes the tension this way: "A commitment to socially responsible business cannot be used as an excuse to make poor business decisions. If we were to accept lower margins, then we'd be doing the… socially responsible business movement a disservice, because we wouldn't be as competitive or as attractive to investors."

When it comes to the double bottom line of purpose and profits, many not-for-profit organizations face similar issues. To accomplish their do-good missions and make the world a better place, they must first be financially sound businesses and good marketers. Consider Aravind Eye Care System, headquartered in the hot, dusty city of Madurai in South India. Aravind's soaring mission is to "Eliminate needless blindness" by "providing compassionate and quality eye care affordable to all." Aravind began in 1976 as an 11-bed hospital with three founding principles: We won't turn anyone away, we won't compromise on quality, and we will be self-reliant. In a world with 40 million blind people and 285 million who are visually impaired, Aravind faced an immense challenge.

To accomplish its towering mission, rather than relying on hard-to-sustain government or private donations, Aravind set out to be financially and operationally self-reliant. It adopted a strong business model. At the core is patient-centered care—delivering the mission of eliminating needless blindness and delivering quality eye care to all regardless of their ability to pay. Surrounding that core, the model emphasizes delivering financially sustainable, efficient, high-volume service, which in turn creates customer value by reaching a large number of people with high-quality but affordable eye care.

Mission accomplished. Following this model, over the past five decades, Aravind has grown to become the world's largest eye care system. It has used the surpluses it has generated to fund its growth. The Aravind System now includes 14 hospitals, six examination centers, 84 primary eye care facilities, numerous educational and consulting centers, a research institute, a manufacturing division, and a half-dozen eye banks. Over the years, Aravind has managed more than 65 million outpatient visits and more than 7.8 million eye surgeries. The eye care giant serves over 3 million patients annually and performs over 2,000 surgeries daily. As many as 50 percent of Aravind's patients receive

Marketing that's driven by sense of mission requires more than just having a worthwhile purpose. It requires an underlying business model that makes delivering the purpose possible.

Aravind Eye Care System

free or highly subsidized care. Patients pay what they can, with paying patients subsidizing nonpaying ones.

Financial stability is the cornerstone of Aravind's success. From the start, the organization set out to become the McDonald's of eye surgery. It achieves financial success through high-volume, efficient operations that provide quality service to customers and low prices. Aravind pursues every opportunity to cut costs and gain efficiencies without cutting corners on quality. And all its processes are designed to support high volume. For example, in its operating theaters, each surgeon works on two beds, with a patient prepared for surgery on one bed while the surgeon operates on the other patient. Once one surgery is completed, the surgeon swivels the fixed equipment over and operates on the already prepped second patient with a new set of sterilized instruments. The cycle then repeats. Remarkably, with this technique, whereas surgeons at other hospitals average one patient per hour, Aravind surgeons average eight patients per hour.

To help keep costs down, Aravind has even diversified into product manufacturing. For example, when patients couldn't afford imported interocular lenses priced at $200, Aravind began producing them itself for less than $10. Today, Aravind manufactures more than 10 million intraocular lenses each year, along with 200 other products, which it exports to more than 130 countries—mainly developing economies—around the world.

Aravind's high-volume, efficient operations keep it financially healthy while providing free or low-cost care to needy patients based on fees paid, often happily, by paying patients. Despite its scale of operations, Aravind delivers equitable, high-quality care. Non-paying patients receive exactly the same high level of proficient, compassionate care as paying patients do. And Aravind's eye surgery success rates are some of the highest across hospitals worldwide. Its rate of complications is half that of British eye hospitals.

To top things off, Aravind has set up outreach programs by which it conducts screenings in remote villages, identifies cases needing surgical or other care, buses patients to hospitals, provides food and lodging, performs the required procedures, buses patients back home, and provides follow-up care—all at no cost to those who can't pay. So an elderly woman in a small South Indian village, practically blind for years because of heavy cataracts in both eyes, might be examined one day by the Aravind field team, transported the next day to the eye clinic for surgery, and taken back to her village a day later, seeing everything in bright colors and able to see her baby grandchild clearly for the first time. Aravind performs countless such miracles day in and day out. Thanks to its outstanding business model, Aravind goes beyond just providing consumer value—it transforms lives.

Thus, whether its Ben & Jerry's, Warby Parker, Pedigree, Patagonia, or the Aravind Eye Care System, marketing driven by sense of mission requires more than just having a worthwhile purpose. It requires an underlying business model that makes delivering the purpose possible.[39]

Deficient products
Products that have neither immediate appeal nor long-run benefits.

Pleasing products
Products that give high immediate satisfaction but may hurt consumers in the long run.

Salutary products
Products that have low immediate appeal but may benefit consumers in the long run.

Desirable products
Products that give both high immediate satisfaction and high long-run benefits.

Sustainable marketing calls for products that are not only pleasing but also beneficial. The difference is shown in Figure 20.3. Products can be classified according to their degree of immediate consumer satisfaction and long-run consumer benefit.

Deficient products, such as bad-tasting and ineffective medicine, have neither immediate appeal nor long-run benefits. **Pleasing products** give high immediate satisfaction but may hurt consumers in the long run. Examples include cigarettes and junk food. **Salutary products** have low immediate appeal but may benefit consumers in the long run, for instance, bicycle helmets or some insurance products. **Desirable products** give both high immediate satisfaction and high long-run benefits, such as a tasty *and* nutritious breakfast fast-casual food.

Many pleasing products sell well but may end up hurting the consumer, the environment, or both. The opportunity, therefore, is to add long-run benefits without reducing the product's pleasing qualities. Companies should try to turn all of their offerings into "desirable products" that provide both high immediate satisfaction and high long-run benefits.

Consider Method, the "people against dirty" brand of household and personal cleaning products. Many effective household cleaning products contain chemicals or even toxic ingredients that can harm people and the environment. But Method

FIGURE 20.3
Societal Classification of Products

products are formulated with naturally derived, biodegradable, nontoxic ingredients. "We prefer ingredients that come from plants, not chemical plants," says the brand. Method also uses recycled, recyclable, and refillable packaging, and it works with suppliers to reduce the carbon intensity of producing its products. Method uses renewable energy sources such as wind turbines and solar trees to power its Chicago manufacturing facility. In all, "Method cleaners put the hurt on dirt without doing harm to people, creatures, or the planet," says the company. As Method's cofounder and "chief greenskeeper" puts it: "Beautiful design and environmental responsibility are equally important when creating a product and we shouldn't have to trade functionality for sustainability."[40]

The Sustainable Marketing Organization

At the foundation of marketing is the belief that companies that fulfill the needs and wants of consumers will thrive. Companies that fail to meet customer needs or that intentionally or unintentionally harm consumers, others in society, or future generations will decline. As we have discussed, marketers must focus on satisfying both short-term and long-term consumer needs. To do that, they must keep an unblinking eye on the social and environmental consequences of their marketing decisions. When executed well, a sustainable marketing vision and strategy will not only serve the best interests of consumers, it will also serve the best long-term interests of the company.

Says one observer, "Sustainability is an emerging business megatrend, like electrification and mass production, that will profoundly affect companies' competitiveness and even their survival." Says another, "increasingly, companies and leaders will be assessed not only on immediate results but also on . . . the ultimate effects their actions have on societal well-being. This trend has been coming in small ways for years but now is surging. So pick up your recycled cup of fair-trade coffee and get ready."[41]

Sustainable company
A company that creates value for customers through socially, environmentally, and ethically responsible actions.

We are witnessing the rise of the **sustainable company** across industries and countries. A sustainable company creates value for consumers through socially, environmentally, and ethically responsible actions. Sustainable marketing goes beyond caring for the needs and wants of today's consumers. By also embracing the well-being of tomorrow's customers, it ensures the survival and success of the business, shareholders, employees, and the broader world in which they all live. It means pursuing the mission of shared value and a triple bottom line: people, planet, profits. Sustainable marketing provides the context in which companies can engage customers and build profitable relationships with them by creating value *for* customers in order to capture value *from* customers in return—now and in the future.

Reviewing and Extending the Concepts

Objectives Review

In this chapter, we addressed many of the important *sustainable marketing* concepts related to marketing's sweeping impact on individual consumers, other businesses, and society as a whole. Sustainable marketing requires environmentally, socially, and ethically responsible actions that bring value to not only present-day consumers and businesses but also future generations and society as a whole. Sustainable companies are those that act responsibly to create value for customers in order to capture value from customers in return—now and in the future.

OBJECTIVE 20-1 Define *sustainable marketing* and discuss its importance.

Sustainable marketing calls for meeting the present needs of consumers and businesses while preserving or enhancing the ability of future generations to meet their needs. Whereas the marketing concept recognizes that companies thrive by fulfilling the day-to-day needs of customers, sustainable marketing calls for socially and environmentally responsible actions that meet both the immediate and future needs of customers and the company. Truly sustainable marketing requires a smooth-functioning marketing system in which consumers, companies, public policy makers, and others work together to ensure responsible marketing actions.

OBJECTIVE 20-2 Identify the major social criticisms of marketing and some counterarguments.

Marketing's *impact on individual consumer welfare* has been criticized for its high prices, deceptive practices, high-pressure selling, shoddy or unsafe products, planned obsolescence, and poor service to disadvantaged consumers. Marketing's *impact on society* has been criticized for creating false wants and too much materialism, too few social goods, and cultural pollution. Critics have also denounced marketing's *impact* on *other businesses* for harming competitors and reducing competition through acquisitions, practices that create barriers to entry, and unfair competitive marketing practices. Some of these concerns are justified; some are not.

OBJECTIVE 20-3 Understand how consumer, societal, and corporate forces drive sustainable marketing strategy.

Consumer and societal sustainability forces include consumerism and environmentalism. *Consumerism* is an organized social movement intended to strengthen the rights and power of consumers relative to sellers. Alert marketers view it as an opportunity to serve consumers better by providing more consumer information, education, and protection. *Environmentalism* is an organized social movement seeking to minimize the harm done to the environment and quality of life by marketing practices. Most companies are now accepting responsibility for doing no environmental harm. They are adopting policies of *environmental sustainability*—developing strategies that both sustain the environment and produce profits for the company. Both consumerism and environmentalism are important components of sustainable marketing.

Corporate social and environmental responsibility initiatives also drive sustainable marketing strategy. Many companies originally resisted social responsibility movements and laws, but most marketers now recognize a need for positive consumer information, education, and protection. Studies have shown that a company's perceived social responsibility has both a short-term impact in increasing purchase intentions and a long-term impact in improving the firm's reputation. This helps the company increase market share and profitability. Socially sustainable marketing will not work well if added as an afterthought to the company's overall marketing and corporate strategy. Instead, sustainability thinking should be integrated into—and inseparable from—marketing thinking.

Many companies that also initially resisted environmental regulations are now accepting responsibility for reducing environmental harm. Enlightened companies are taking action because it's the right thing to do for their customers' well-being, the company's long-term growth and profitability, and the planet's future. At the most basic level, companies have responded with green marketing programs—designing and developing ecologically safer products, recyclable and biodegradable packaging, better pollution controls, and more energy-efficient operations. More forward-looking companies go beyond greening to develop a sustainability vision by which they not only eliminate adverse environmental impacts but also create net positive impacts on the planet and society. Specific approaches to reducing environmental harm include reimagining material choices, sourcing materials from sustainable suppliers, simplifying product design and other processes, shifting to sustainable energy sources, rethinking packaging, and constructing closed-loop value chains.

OBJECTIVE 20-4 Understand how to build a sustainable marketing organization.

A company's marketing should be guided by five sustainable marketing principles: market with ethics, be consumer-centric, focus on the long term, embrace a sense of mission, and do no harm. Increasingly, companies are responding to the need to provide company policies and guidelines to help their managers deal with questions of marketing ethics. Under the sustainable marketing concept, managers must look beyond what is legal and allowable and develop standards based on personal integrity, corporate conscience, and long-term consumer welfare. *Consumer-centric* marketing means that the company should view and organize its marketing activities from the consumer's point of view. It should work hard to sense, serve, and satisfy the needs of defined consumer segments—both now and into the future. The company should put most of its resources into *long-term customer value–building marketing investments*. By creating long-term value for customers, the company can capture value from customers in return.

Marketing with a sense of mission means that the company should define its mission in broad social terms rather than narrow product terms. Some companies even define their overall corporate missions in broad societal terms. Finally, marketers should aim to *do no harm*. Instead, they should work to inspire socially responsible outcomes by considering consumers' wants, the company's requirements, consumers' long-run interests, and society's long-run interests. Sustainable marketing means pursuing the mission of shared value and a triple bottom line: people, planet, profits.

Key Terms

OBJECTIVE 20-1

Sustainable marketing

OBJECTIVE 20-3

Consumerism
Environmentalism
Carbon footprint
Environmental sustainability

OBJECTIVE 20-4

Ethical marketing
Consumer-centric marketing
Consumer value–building marketing
Sense-of-mission marketing
Deficient products
Pleasing products
Salutary products
Desirable products
Sustainable company

Discussion Questions

20-1 Explain how marketing can be perceived as having a negative impact on the consumer.

20-2 What are some the positive social effects of marketing? (AACSB: Ethical Understanding and Reasoning; Application of Knowledge)

20-3 How can marketing be criticized in terms of its negative impact on competitors and competition? (AACSB: Communication)

20-4 How would you distinguish between consumerism and environmentalism in terms of scope and influence? (AACSB: Communication)

20-5 What is sense-of-mission marketing, and how does it impact on a business? (AACSB: Communication)

Critical Thinking Exercises

20-6 The Environmental Working Group is a community 30 million strong, working to protect our environmental health by changing industry standards. It advocates for environmental causes related to the products consumers use. Go to its website and look up two products that you use frequently, such as toothpaste, sunscreen, and moisturizer (https://www.ewg.org/skindeep/). What does it report about the products you use? What information, if any, surprises you? Present your findings in class or on a discussion board. (AACSB: Application of Knowledge; Written and Oral Communication)

20-7 In 2015, Volkswagen admitted to cheating emissions testing regimes using devices in its diesel engines that hid their true and illegally-high pollution emission levels during testing. Since then, consumers have tended to view Volkswagen skeptically on the environmental front. But the company has been working on its green credentials and reputation. Visit www.volkswagenag.com/en/sustainability/environment.html and evaluate what the company is doing to reposition itself as an environmental role model. (AACSB: Ethical Understanding and Reasoning; Reflective Thinking)

20-8 "Greenwashing" is the practice of promoting a product by misleading consumers about its environmentally beneficial aspects. Products might be labeled as "natural," "green," "environmentally friendly," or biodegradable" but have little or no environmental benefits. Go to www.truthinadvertising.org/six-companies-accused-greenwashing/ and read through the examples listed there for (potential) green claim violations. What are some of the broad categories under which these greenwashing complaints have been filed? (AACSB: Written and Oral Communication; Ethical Understanding and Reasoning)

APPLICATIONS AND CASES

Digital Marketing Politically Neutral Social Media

TV networks have split along the ideological spectrum with Fox News anchoring the conservative viewpoint and MSNBC anchoring the liberal viewpoint. Arguably this is just another approach to market segmentation, with each network appealing to an audience with a different worldview. But then, should brands take sides on their social media? At a time when Starbucks was vowing to hire 10,000 refugees and Burger King UK social media posts appeared to encourage people to throw milkshakes at liberal opponents, Dunkin' Brands took a stand against politicizing its business. On the other hand, Elon Musk, who did not like Twitter's curbs on what it considered misleading or false material that was capable of doing substantial harm, launched a bid to buy the company.

20-9 Compare recent Twitter posts from Starbucks (@starbucks) and Dunkin' (@dunkindonuts). Based on posts that are not related to the products—and customer responses to those posts—do you agree or disagree with Dunkin's decision to remain politically neutral? Explain. (AACSB: Communication; Ethical Thinking and Reasoning)

20-10 How might Elon Musk's outspoken political views and attempts to take over Twitter affect the Tesla brand, where he serves as CEO? (AACSB: Communication; Ethical Thinking and Reasoning)

Marketing Ethics Dr. Bronner Spews the Soap!

Dr. Bronner's Magic Soaps, headquartered in Vista, California, introduced the world's first organic soap. The company operates on six cosmic principles: Work hard! Grow!; Do right by customers!; Treat employees like family!; Be fair to suppliers!; Treat the earth like home!; and Fund & Fight for what's right! These six principles guide the company in everything it does…"from soapmaking to peacemaking."

But living up to these principles can sometimes lead to scrappy outcomes. For example, CEO David Bronner sued the Drug Enforcement Agency in 2004 for banning the hemp oil he had added to his soaps to make them smooth and won. He sued rivals Kiss My Face and Avalon Organics for false claims of organic advertising. He grew his own crops when he could not find satisfactory fair-trade and certified-organic sources. He refused to let Walmart carry his products because of its low employee wages. He capped his salary at five times the lowest-paid employee's salary—and makes about $200,000 a year as CEO of a $64 million company. In addition, he shows up at music events driving a psychedelically painted soap-spewing fire truck.

20-11 What are some distinctive characteristics of Dr. Bronner's approach to ethical business? (AACSB: Ethical Understanding & Reasoning)

20-12 For a company that is so devoted to ethical business on social, environmental, and other fronts, Dr. Bronner appears to have been involved in multiple lawsuits, including some against competitors. Is this a contradiction? (AACSB: Written and Oral Communication; Ethical Understanding & Reasoning)

Marketing by the Numbers Gouging Their Eyes Out

MyEye 2.0 is a thumb drive–sized device that weighs less than an ounce and attaches magnetically to the stem of almost any pair of glasses. It helps people with impaired vision to "see." It recognizes paper money dominations, faces based on stored images, surroundings, and almost anything else to which the user points a finger. MyEye 2.0 can read a menu or package label and softly tell the wearer what is being served for dinner via a small speaker near the user's ear. To almost 8 million visually impaired Americans and 253 million visually impaired people worldwide, this could be a game-changer. However, for many, the $4,500 price tag makes the product unattainable. By contrast, many smartphones equipped with AI technology have apps that can do many of the same things as MyEye 2.0, although they are not wearable. Some analysts believe this wearability does not add enough value to justify MyEye 2.0's high price, especially considering that some 58 percent of U.S. adults with significant vision impairment are unemployed and that percentage is likely higher worldwide. Apple's iPhone 13 series—with Face ID, Siri, and its other AI sensors and camera, speaker, and app capabilities—can do many of the things MyEye 2.0 can do. It carries a price tag of $1,500 with the estimated cost of goods sold (COGS) of $360. In contrast, MyEye 2.0's COGS is estimated at $200 per device.

20-13 Calculate the gross margin dollars and percentage for the MyEye 2.0 and the iPhone 13. Refer to The Profit-and-Loss Statement and Marketing Budget in Appendix 2: Marketing by the Numbers to learn how to calculate gross margins. (AACSB: Analytic Reasoning)

20-14 Discuss the pros and cons of the company's decision to price the MyEye 2.0 so high. If the company followed the societal marketing concept, how would it price the product? (AACSB: Reflective Thinking)

Company Case H&M: Offering Sustainable Fashion and Quality at the Best Price

Swedish retailer H&M is one of the world's most recognizable fast-fashion brands. Headquartered in Stockholm, the company is the second-largest fashion retailer in the world, just trailing behind Inditex, the owner of Zara. Founded in 1947, the H&M group now has more than 4,700 stores in 69 markets and a strong digital presence.

H&M has accelerated the fast-fashion cycle to its current frenetic pace, driven by lower prices and increasing pressure within the clothing industry to produce more and quicker. In order to meet ever more sophisticated customer expectations, H&M launches a new collection every two weeks. The concept of fast-fashion serves consumerism very well; customers can always find something they have not purchased yet at H&M. However, this causes incredible amounts of waste. The fast-fashion industry has a particularly large impact on the environment due to overconsumption; according to waste statistics in 2018, textile accounted for 20 percent of wasted water worldwide. As much as 20,000 liters of water is used to produce one kilogram of cotton, the equivalent of one T-shirt, and so are several dangerous chemicals—24 percent of all insecticides and 11 percent of all pesticides worldwide used are in cotton-farming alone.

According to the 2017 "Pulse of the Fashion Industry" report, put together by Global Fashion Agenda and the Boston Consulting Group, in 2015, the clothing industry's impact on the environment amounted to 79 billion cubic meters of water, 1.715 million tons of CO_2 emissions, and 92 million tons of waste. Based on the reports' forecast, by 2030 these numbers will increase by at least 50 percent if no action is taken. The challenge for H&M is to embrace sustainability while producing clothing for a world where tastes seem to change every minute. Responding to these challenges, H&M has made several commitments to sustainability that have redefined its marketing strategy.

Meeting Customers' Expectations

In its 2018 Sustainability Report, H&M declared the following "rights" of customers to protect their interests:

1. **The right to be well informed about important aspects of the product.** Customers no longer demand only quality and design from H&M products; they also demand more information about the supply chain. H&M wants to be a leader in sustainability, from the materials used to the transport of products to the store, and to inform customers about its actions toward that goal.
2. **The right to be protected against questionable products and marketing practices.** To reach customers, H&M uses a mix of external media, which includes its stores, both online and physical. Its marketing campaigns need to be simple, keep the customer up to date on its activities, and be part of the shopping experience. All marketing activities must comply with the Advertising and Marketing Communications Code of the International Chamber of Commerce.
3. **The right to influence products and marketing practices in ways that will improve "quality of life."** H&M marketing and advertisement campaigns should convey a positive image that represents a range of styles, attitudes, and ethnic backgrounds.
4. **The right to consume now in a way that will preserve the world for future generations of consumers.** H&M seeks to ensure respect for human rights and the least possible negative impact on the environment in its operations, and that its products are of high quality but also safe and free from harmful chemicals.

In order to serve all the customers' rights H&M integrates physical stores and digital channels to give them an easy, inspiring, and convenient shopping experience no matter where, when, and how they shop, giving unique proximity to customers.

Covering Media Concerns

The major clothing retailers have long been the target of widespread concern about labor working conditions. Among the alarming incidents that have made headlines over the past decade are a series of mass fainting incidents at Cambodian partner factories; criminally abusive working conditions in Myanmar; and most infamously, the collapse of the Rana Plaza complex in Bangladesh in 2013, which killed 1,136 garment workers. Greenpeace also alleges that H&M-affiliated factories have discharged hazardous chemicals into rivers in China and Indonesia.

Acknowledging the individuals involved in the company's global supply chain, H&M has teamed up with worker's organizations, governments, trade unions, factory owners, and NGOs to improve laborers' conditions and tackle various media issues. For example, in 2014, the company joined its peers in advocating for the Cambodian government's Trade Union Law. H&M has refined its Fair Living Wage Strategy, launched in 2013, after discriminatory and exploitative labor conditions, such as short-term contracts or poor government labor inspection and enforcement, were revealed by Human Rights Watch in 2015. This strategy is based on its involvement in various collaborative initiatives, such as training on workplace cooperation, negotiation skills, collective bargaining, and labor law. Systems embracing the Fair Wage Method were being implemented in a total of 336 factories by the end of 2018, superseding H&M's goal of 50 percent of the total product volume by the end of 2019.

Sustainability Strategy

The company introduced its Sustainability Reports in 2002, making its sustainability strategy more comprehensive and ambitious than ever before. Published every year, each report regularly reveals sustainability efforts and key achievements to its customers. According to the 2018 report, by 2040 the company believes it can become 100 percent "climate positive" by using energy more efficiently or by using renewable energy. Fifty-seven percent of the materials H&M uses to make clothing originate from recycled clothing, and by 2030 all products will be 100 percent recycled or sustainable.

The Four Ps of Sustainability

To translate sustainability aims into action, H&M frames and reviews its sustainability goals and performance within the context of four pillars: people, product, planet, and partnership.

People: H&M's sustainability efforts are also oriented toward value for society. The company uses a percentage of the purchase price of its clothing to donate to good causes. H&M's All for Children is an initiative with UNICEF to help youngsters in nations where the company operates. It has raised around $12.5 million every year through deals and extra gifts from H&M. In addition, since 2009, H&M has made attempts to improve conditions in Tamil Nadu, India, one of the world's biggest suppliers of cotton.

Sustainable production within H&M is achieved through a long-term approach that involves creating jobs and driving prosperity in its markets. H&M has made some commendable improvements in their labor policies in recent years. Based on the 2018 Ethical Fashion Report, H&M received the top score of A+ for its Supplier Code of Conduct, though the code only applies to part of its supply chain. It also received an A+ for its transparency and ability to trace most of its suppliers. H&M audits most of the facilities in its supply chain over a two-year period.

However, only 1 to 25 percent of traced facilities across H&M's supply chain pay a living wage to their workers, and the company only implements some of the available worker empowerment initiatives at the final manufacturing stage, and even fewer at the raw materials and inputs stages of production, meaning that not enough of its facilities have collective bargaining or empower workers with the right to make a complaint. Another report by the Clean Clothes Campaign found out that H&M has not fulfilled its promise to pay 850,000 workers a living wage from 2013 through to 2018, so there is still a lot of work to do.

Product: H&M is one of the first companies to stock a "Conscious" sustainable fashion collection in its stores. Introduced in 2011, the collection includes clothing made from organic and recycled textiles. The 2018 Conscious collection focuses on using only eco-friendly and recycled materials, such as bio cotton, silk, Tencel, and recycled polyester. Furthermore, H&M introduced two new materials: reused silver and Econyl, a 100 percent recovered nylon fiber produced using fishnets.

H&M also launched the Fair Living Wage Strategy Update to improve working conditions for the people making its products. The company has introduced a transparency tool to their online shop, enabling customers to trace the products all the way back to the factories where they were produced. H&M is also using AI to make it easier to ensure a good match between production and demand, thus saving energy, transport, and resources.

Planet: H&M is a large company—recently, H&M surpassed Walmart as the world's largest buyer of organic cotton, consuming more than 15,000 tons in 2010, an increase of 77 percent since the previous year. The company is also a founding member of the Better Cotton Initiative, which introduces more sustainable practices at every step of the cotton production supply chain, and it experiments with eco-fibers, including recycled polyester, recycled polyamide, recycled plastic, organic linen, recycled cotton, recycled wool, and Tencel®. For animal welfare, H&M is using wool from non-mulesed sheep and has banned the use of fur, angora, and exotic animal and skins; when it uses leather, it specifies where it is sourced.

Partnership: H&M's drive toward greater sustainability is dependent on partnerships with experts from other fields in technology and innovation, so it seeks out suitable suppliers and distributors, and builds relationships with other organizations that are trying to achieve the same sustainability goals as H&M. Examples of such relationships include working with the WWF on responsible use of water in the value chain; investments in companies that are developing technologies for textile recycling; partnership with the Ellen MacArthur Foundation to drive the development of a circular economy; and collaboration with the UN and textile workers' global trade union to tackle the issue of wages in the textile industry. The company is also an active participant of the Sustainable Apparel Coalition, a trade association that has worked to develop an index for measuring and tracking the comprehensive environmental and social impact of products across the value chain.

H&M is being recognized for the positive steps it has taken toward implementing sustainable concepts and its very tangible results. It was named one of the most ethical companies in the world by the Ethisphere Institute in 2019, and the "Ethical Fashion Report 2018" singled out H&M for its outstanding environmental management and for transparent and consistent reporting on sustainability manners, such as in its H&M Sustainability Report.[42]

Questions for Discussion

20-15 Explain the principles of environmentalism and what H&M does in order to balance it with consumerism.

20-16 Do recent marketing activities need to always be sustainable? Is it becoming a new standard?

20-17 Explain the importance of sustainable marketing for gaining new customers and retaining existing ones based on the H&M activities described in this case.

20-18 How does H&M try to improve labor working conditions?

20-19 Elaborate on what H&M does for society using examples in this case.

APPENDIX 1 Marketing Plan

The Marketing Plan: An Introduction

As a marketer, you will need a good marketing plan to provide direction and focus for your brand, product, or company. With a detailed plan, any business will be better prepared to launch a new product or build sales for existing products. Nonprofit organizations also use marketing plans to guide their fundraising and outreach efforts. Even government agencies put together marketing plans for initiatives such as building public awareness of proper nutrition and stimulating area tourism.

The Purpose and Content of a Marketing Plan

Unlike a business plan, which offers a broad overview of the entire organization's mission, objectives, strategy, and resource allocation, a marketing plan has a more limited scope. It serves to document how the organization's strategic objectives will be achieved through specific marketing strategies and tactics, with the customer as the starting point. It is also linked to the plans of other departments within the organization. Suppose, for example, a marketing plan calls for selling 200,000 units annually. The production department must gear up to make that many units, the finance department must arrange funding to cover the expenses, the human resources department must be ready to hire and train staff, and so on. Without the appropriate level of organizational support and resources, no marketing plan can succeed.

Although the exact length and layout will vary from company to company, a marketing plan usually contains the sections described in Chapter 2. Smaller businesses may create shorter or less formal marketing plans, whereas corporations frequently require highly structured marketing plans. To guide implementation effectively, every part of the plan must be described in considerable detail. Sometimes a company will post its marketing plans on an intranet site, which allows managers and employees in different locations to consult specific sections and collaborate on additions or changes.

The Role of Research

Marketing plans are not created in a vacuum. To develop successful strategies and action programs, marketers need up-to-date information about the environment, the competition, and the market segments to be served. Often, analysis of internal data is the starting point for assessing the current marketing situation, supplemented by marketing intelligence and research investigating the overall market, the competition, key issues, and threats and opportunities. As the plan is put into effect, marketers use a variety of research techniques to measure progress toward objectives and identify areas for improvement if results fall short of projections.

Finally, marketing research helps marketers learn more about their customers' requirements, expectations, perceptions, and satisfaction levels. This deeper understanding provides a foundation for building competitive advantage through well-informed segmenting, targeting, differentiating, and positioning decisions. Thus, the marketing plan should outline what marketing research will be conducted and how the findings will be applied.

The Role of Customer Involvement and Relationships

The marketing plan shows how the company will establish and maintain profitable customer engagement and relationships. In the process, however, it also shapes a number of internal and external relationships. First, it affects how marketing personnel work with each other and with other departments to deliver value and satisfy customers. Second, it affects how the company works with suppliers, distributors, and strategic alliance partners to achieve the objectives listed in the plan. Third, it influences the company's dealings with other stakeholders, including government regulators, the media, and the community at large. All of these relationships are important to the organization's success, so they should be considered when a marketing plan is being developed.

From Marketing Plan to Marketing Action

Companies generally create yearly marketing plans, although some plans cover a longer period. Marketers start planning well in advance of the implementation date to allow time for marketing research, thorough analysis, management review, and coordination between departments. Then, after each action program begins, marketers monitor ongoing results, compare them with projections, analyze any differences, and take corrective steps as needed. Some marketers also prepare contingency plans for implementation if certain conditions emerge. Because of inevitable and sometimes unpredictable environmental changes, marketers must be ready to update and adapt marketing plans at any time.

For effective implementation and control, the marketing plan should define how progress toward objectives will be measured. Managers typically use budgets, schedules, and performance standards for monitoring and evaluating results. With budgets, they can compare planned expenditures with actual expenditures for a given week, month, or other period. Schedules allow management to see when tasks were supposed to be completed—and when they were actually completed. Performance standards track the outcomes of marketing programs to see whether the company is moving toward its objectives. Some examples of performance standards are market share, sales volume, product profitability, and customer satisfaction.

Sample Marketing Plan: Chill Beverage Company

Executive Summary

The Chill Beverage Company is preparing to launch a new line of vitamin-enhanced water called NutriWater. Although the bottled water market is maturing, the functional water category—and more specifically the vitamin-enhanced water category—is still growing. NutriWater will be positioned by the slogan "Expect more"—indicating that the brand offers more in the way of desirable product features and benefits at a competitive price. Chill Beverage is taking advantage of its existing experience and brand equity among its loyal current customer base of millennials who consume its Chill Soda soft drink. NutriWater will target similar millennials who are maturing and looking for an alternative to soft drinks and high-calorie sugared beverages.

The primary marketing objective is to achieve first-year U.S. sales of $70 million, roughly 1 percent of the functional water market. Based on this market share goal, the company expects to sell more than 29 million units the first year and break even in the final quarter of the year.

Current Marketing Situation

The Chill Beverage Company—founded in 2015—markets niche and emerging products in the beverage industry. Rather than directly challenging established beverage giants like the Coca-Cola Company and PepsiCo, the Chill Beverage Company has focused on the fringes of the industry. Its Chill Soda soft drink brand hit the market with six unique flavors in glass bottles. The company now markets dozens of Chill Soda flavors, many unique to the brand. Over the past few years, Chill has successfully introduced new lines including natural juice drinks and iced teas. Chill Beverage has grown its business every year since it was founded. In the most recent year, it achieved $350 million in revenue and net profits of $20.7 million. As part of its future growth strategy, Chill Beverage plans to introduce new lines of beverages to continue to take advantage of emerging trends in the industry. Currently, it is preparing to launch a line of vitamin-enhanced waters.

For years, U.S. consumers imbibed more carbonated soft drinks than any other bottled beverage. But concerns over health and obesity have taken the fizz out of the soda market—sales declined every year for 15 consecutive years until stockpiling during the COVID-19 pandemic temporarily reversed that trend. Over the past two years, carbonated soft drink sales increased by 11 percent and 9 percent, respectively. Nonetheless, per capita carbonated soft drink consumption forecasts project a steady decline in the coming years.

In contrast, bottled water consumption is on an upward growth trajectory that mirrors the decline in carbonated soft drink sales. In fact, people in the United States now consumer more bottled water than any other beverage, including carbonated soft drinks, coffee, beer, and milk. Currently, the average person in the United States consumes more than 47 gallons of bottled water every year, up from 27.8 gallons 12 years ago. In contrast, annual per capita consumption of carbonated soft drinks is down 10 gallons over the same decade to 40.2 gallons, a figure that will continue to decline.

Supporting bottled water's position as the market leader, recent studies find that a high percentage of bottled water's growth comes from people switching to bottled water from other packaged drinks. Additionally, 91 percent of U.S. consumers want bottled water available where drinks are sold. Now an $86 billion market, bottled water revenues in the United States are expected to continue to increase by 7.5 percent each year through 2026.

Competition is more intense now than ever as the industry consolidates and new types of bottled water emerge. The U.S. market is dominated by three global corporations. With a portfolio of brands that includes Poland Spring, Nestlé Pure Life, Arrowhead, Deer Park, and Ice Mountain, BlueTriton Brands leads the market with a 26 percent share of all water sales (sparkling, functional water, flavored water, and so on). Coca-Cola is number two with more than 23 percent, and PepsiCo follows at a distant third with approximately 12 percent. Private labels account for 25.5 percent of the market.

While bottled water as a whole is strong, the market for the subcategory of enhanced waters is even stronger. With total category sales of $6.8 billion for the most recent year, enhanced water sales are projected to grow by an average of 8.3 percent every year through 2027. In the current market environment, functional waters have thrived based on the promise of incremental benefits for health-conscious consumers based on the infusion of ingredients such as vitamins, minerals (including electrolytes), herbs, and other additives. Functional waters, therefore, carry the standard benefits of taste and convenience with an increased appeal to lifestyle and well-being. Most functional waters are sweetened and flavored and are distinguished from sports drinks that have the primary purpose of maximizing hydration by replenishing electrolytes.

To break into this market dominated by huge global corporations and littered with dozens of other small players, Chill Beverage must carefully target specific segments with features and benefits valued by those segments.

Market Description

The bottled water market consists of many different types of water. Varieties of plain water include spring, purified, mineral, and distilled. Although these different types of waters are sold as consumer products, they also serve as the core ingredient for the various types of functional waters. The flexibility of bottled water as a category seems to be endless.

Although some consumers may not perceive much of a difference between brands, others are drawn to specific product features and benefits provided by different brands. For example, some consumers may perceive spring water as healthier than other types of water. Some may look for water that is optimized for hydration. Others seek additional nutritional benefits claimed by bottlers that enhance their brands with vitamins, minerals, herbs, and other additives. Still other consumers make selections based on flavor. A recent study revealed that the most important attribute driving the choice of bottled water is *all natural ingredients* (57 percent) followed by *vitamin or mineral-enhanced* (33 percent), *antioxidants* (31 percent), and *flavors* (31 percent).

The industry as a whole has positioned bottled water of all kinds as a low-calorie, healthy alternative to soft drinks, sports drinks, energy drinks, and other types of beverages. This positioning is working. One of the biggest reasons consumers are making the switch to water is fewer calories and less sugar. In the most recent year alone, U.S. consumers took in 5 trillion fewer calories—15,140 less calories per person. A recent study confirms that 94 percent of Americans believe bottled water is healthier than soda. Bottled water brands also distinguish themselves by size and type of container, multipacks, and refrigeration at point of sale.

Chill Beverage's market for NutriWater consists of consumers of single-serving-sized bottled beverages who are looking for a healthy yet flavorful alternative. *Healthy* in this context means natural ingredients, enhanced nutritional content, and low calories. This market includes traditional soft drink consumers who want to improve their health as well as non–soft drink consumers who want an option other than plain bottled water. Specific segments that Chill Beverage will target during the first year include athletes, the health conscious, the socially responsible, and millennials who favor independent corporations. The Chill Soda brand has established a strong base of loyal customers, primarily among millennials. This generational segment is becoming a prime target as it matures and seeks alternatives to full-calorie soft drinks. ● **Table A1.1** shows how NutriWater addresses the needs of targeted consumer segments.

Product Review

Chill Beverage's new line of NutriWater vitamin-enhanced water offers the following features:

- Six new-age flavors including Peach Mango, Berry Pomegranate, Kiwi Dragonfruit, Mandarin Orange, Blueberry Grape, and Key Lime
- Single-serving size, 20-ounce, PET recyclable bottles
- Formulated for wellness, replenishment, and optimum energy
- Full recommended daily allowance (RDA) of essential vitamins and minerals (including electrolytes)
- Higher vitamin concentration—vitamin levels are two to ten times higher than market-leading products, with more vitamins and minerals than any other brand.
- Additional vitamins—vitamins include A, E, and B2, as well as folic acid—none of which are contained in the market-leading products
- All natural—no artificial flavors, colors, or preservatives
- Sweetened with Stevia, a natural zero-calorie sweetener
- Twenty-five cents from each purchase to be donated to Vitamin Angels, a nonprofit organization with a mission to prevent vitamin deficiency in at-risk children

Competitive Review

More than a decade before Chill launched its first product, bottled water entered a strong growth phase. New types of plain water emerged, followed by new subcategories. These included flavored waters—such as Aquafina's Flavorsplash—as well as functional waters. Functional waters emerged to bridge the gap between soft drinks and waters, appealing to people who knew they should drink more water and fewer soft drinks but still wanted

● **Table A1.1** | Segment Needs and Corresponding Features/Benefits of NutriWater

Targeted Segment	Customer Needs	Corresponding Features/Benefits
Athletes	• Hydration and replenishment of essential minerals • Energy to maximize performance	• Electrolytes and carbohydrates • B vitamins, carbohydrates
Health conscious	• Maintain optimum weight • Optimize nutrition levels • Avoid harmful chemicals and additives • Desire to consume a tastier beverage than water	• Half the calories of fully sugared beverages • Higher levels of vitamins A, B, C, E; zinc; chromium; and folic acid than other products; vitamins unavailable in other products • All natural ingredients • Six new-age flavors
Socially conscious	• Support causes that help solve world's social problems	• 25 cent donation from each purchase to Vitamin Angels
Millennials	• Aversion to mass-media advertising/ technologically savvy • Counter-culture attitude • Diet enhancement due to fast-paced lifestyle	• Less-invasive online and social networking promotional tactics • Small, privately held company • Full RDA levels of essential vitamins and minerals

flavor. Initially, development of brands for this product variation occurred in startup and boutique beverage companies such as SoBe and Glacéau, creator of Vitaminwater. In the 2000s, major beverage corporations acquired the most successful smaller brands, providing the bigger firms with a solid market position in this category and diversification in bottled waters in general. Backed by the marketing expertise and budgets of the leading beverage companies, functional water grew at a rate exceeding that of plain water.

At one point, Coca-Cola's Vitaminwater was the fourth-largest bottled water brand, behind Nestlé Pure Life, Coca-Cola's Dasani, and Pepsi's Aquafina. After taking a hit in the press for the low amount of vitamins and high amount of sugar contained in most brands of vitamin-enhanced waters, sales for Vitaminwater temporarily slipped. But Coca-Cola lost no ground as sales for Smartwater—Vitaminwater's non-flavored sibling—filled the void, increasing in sales to its current position as the second-largest bottled water brand, ahead of Dasani and trailing only Aquafina. Industry insiders expect growth of functional waters to outpace nonfunctional waters in the coming years.

The fragmentation of this category, combined with domination by the market leaders, has created a severely competitive environment. Although there is indirect competition posed by all types of bottled waters and even other types of beverages (soft drinks, energy drinks, juices, teas, and flavor drops), this competitive analysis focuses on direct competition from leading functional water brands. Functional water brands are either sweetened and flavored, just flavored, or neither sweetened nor flavored. Sweetened varieties blend traditional sugars with zero-calorie sweeteners. The types of sweeteners used create a point of differentiation. The result is a range of sugar content, carbohydrates, and calories as high as half that of regular soft drinks and other sweetened beverages and as low as zero.

Pricing for this product is consistent across brands and varies by type of retail outlet, with convenience stores typically charging more than grocery stores. The price for a 20-ounce bottle ranges from $1.00 to $2.79, with some niche brands costing slightly more. Smartwater—a plain still water enhanced with electrolytes—is the leading functional water brand. Chill Beverage's NutriWater will focus on competition posed by flavored and enhanced water brands, include the following:

- ***Vitaminwater:*** Created in 2000 as a new product for Energy Brands' Glacéau, which was also the developer of Smartwater (distilled water with electrolytes). Coca-Cola purchased Energy Brands for $4.1 billion in 2007. Vitaminwater is sold in regular and zero-calorie varieties. With 7 bottled varieties as well as availability in fountain form, Vitaminwater offers more options than any brand on the market. Whereas Vitaminwater varieties are distinguished by flavor, they are named to invoke perceptions of benefits such as Refresh, Power-C, Focus, and Revive. The brand's current slogan is "find your fave flavor." Vitaminwater is vapor distilled, de-ionized, and/or filtered and is sweetened with crystalline fructose (corn syrup) and cane sugar or erythritol and stevia. Estimates for Vitaminwater exceed $700 million annually.
- ***Propel:*** Gatorade created Propel in 2000, just one year prior to PepsiCo's purchase of this leading sports drink marketer. Marketing Propel as "Flavor for Your Workout," PepsiCo tied its fitness water brand to its market-leading sports drink brand with the tagline, "How Gatorade Does Water." The phrase "From the makers of …" followed by the Gatorade logo is also featured on bottles of Propel. Propel was originally available in regular and zero-calorie varieties. However, it is now available only as a zero-calorie beverage. Propel comes in 11 flavored varieties as well as in unflavored form. Each flavored variety of Propel is sweetened with sucralose and contains the same blend of B vitamins, vitamin C, vitamin E, antioxidants, and electrolytes. Propel is available in 16.9 and 24-ounce PET bottles and multipacks. Propel is also marketed in powder form to be added to bottled water. With more than $200 million in revenues and strong growth, Propel is the number three functional water brand behind Smartwater and Vitaminwater.
- ***SoBewater:*** PepsiCo bought SoBe in 2000 and introduced Lifewater in 2008 as an answer to Coca-Cola's Vitaminwater. Now rebranded as SoBewater, the brand includes four zero-calorie varieties. Each variety is infused with a formulation of vitamins, minerals, and herbs designed to provide a claimed benefit. Sweetened with Stevia-based PureVia, SoBewater contains no artificial flavors or colors. SoBewater is sold in 20-ounce PET bottles and multipacks. With more than $150 million in annual revenues, SoBewater is the fourth-largest functional water brand.

- ***Niche brands:*** The market for functional waters includes companies that market their wares on a small scale through independent retailers: Zico, Ayala Herbal Water, Lemon Perfect, Evian+, and Skinny Water. Some brands feature exotic additives and/or artistic glass bottles.

Despite the strong competition, NutriWater believes it can create a relevant brand image and gain recognition among the targeted segments. The brand offers strong points of differentiation with higher and unique vitamin content, all-natural ingredients, and support for a relevant social cause. With other strategic assets, Chill Beverage is confident that it can establish a competitive advantage that will allow NutriWater to grow in the market. **Table A1.2** shows a sample of competing products.

Channels and Logistics Review

With the three main brands now owned by Coca-Cola and PepsiCo, there is a huge hole in the independent distributor system. NutriWater will be distributed through an independent distributor to a network of retailers in the United States. This strategy will avoid some of the head-on competition for shelf space with the Coca-Cola and PepsiCo brands and will also directly target likely NutriWater customers. As with the rollout of the core Chill Soda brand, this strategy will focus on placing coolers in retail locations that will exclusively hold NutriWater. These retailers include:

- *Grocery chains:* Regional grocery chains such as HyVee in the Midwest, Wegman's in the east, and WinCo in the west
- *Health and natural food stores:* Chains such as Whole Foods, as well as local health food co-ops
- *Fitness centers:* National fitness center chains such as 24-Hour Fitness, Gold's Gym, and other regional chains

As the brand gains acceptance, channels will expand into larger grocery chains, convenience stores, and unique locations relevant to the target customer segment.

Strengths, Weaknesses, Opportunities, and Threat Analysis

NutriWater has several powerful strengths on which to build, but its major weakness is lack of brand awareness and image. Major opportunities include a growing market and consumer trends targeted by NutriWater's product traits. Threats include barriers to entry posed by limited retail space as well as image issues for the bottled water industry. **Table A1.3** summarizes NutriWater's main strengths, weaknesses, opportunities, and threats.

Strengths

NutriWater can rely on the following important strengths:

1. *Superior quality:* NutriWater boasts the highest levels of added vitamins of any enhanced water, including full RDA levels of many vitamins. It is all natural with no

Table A1.2 | Sample of Competitive Products

Competitor	Brand	Features
Coca-Cola	Vitaminwater	Regular and zero-calorie versions; 7 varieties; each flavor provides a different function based on blend of vitamins and minerals; vapor distilled, de-ionized, and/or filtered; sweetened with crystalline fructose and cane sugar; 20-ounce single-serve, multi-pack, and fountain
PepsiCo	Propel	Zero-calorie only; 11 flavors; fitness positioning based on "Hydration for Your Workout"; B vitamins, vitamin C, vitamin E, antioxidants, and electrolytes; sweetened with sucralose; 16.9-ounce and 24-ounce PET bottles and multipacks; powdered packets
PepsiCo	SoBewater	Zero calorie only; four flavors, vitamins, minerals, and herbs; Pure—mildly flavored, sweetened with Stevia; 20-ounce single-serve and multi-packs

Table A1.3 NutriWater's Strengths, Weaknesses, Opportunities, and Threats

Strengths	Weaknesses
• Superior quality • Expertise in alternative beverage marketing • Social responsibility • Anti-establishment image	• Lack of brand awareness • Limited budget
Opportunities	**Threats**
• Market growth • Gap in the distribution network • Health trends • Anti-establishment image	• Limited shelf space • Image of enhanced waters • Environmental issues

artificial flavors, colors, or preservatives. It is sweetened with both pure cane sugar and the natural zero-calorie sweetener, Stevia.

2. *Expertise in alternative beverage marketing:* The Chill Soda brand went from nothing to a successful and rapidly growing soft drink brand with fiercely loyal customers in a matter of only one decade. This success was achieved by starting small and focusing on gaps in the marketplace.
3. *Social responsibility:* Every customer will have the added benefit of helping malnourished children throughout the world. Although the price of NutriWater is in line with other competitors, low promotional costs allow for the substantial charitable donation of 25 cents per bottle while maintaining profitability.
4. *Anti-establishment image:* The big brands have decent products and strong distribution relationships. But they also carry the image of the large, corporate establishments. Chill Beverage has achieved success with an underdog image while remaining privately held. Vitaminwater, Propel, and SoBe were built on this same image but are now owned by major multinational corporations.

Weaknesses

1. *Lack of brand awareness:* As an entirely new brand, NutriWater will enter the market with limited or no brand awareness. The affiliation with Chill Soda will be kept at a minimum in order to prevent associations between NutriWater and soft drinks. This issue will be addressed through promotion and distribution strategies.
2. *Limited budget:* As a smaller company, Chill Beverage has much smaller funds available for promotional and research activities.

Opportunities

1. *Market growth:* Functional water as a category is growing at a rate of about 12 percent annually. Of the top six beverage categories, soft drinks, beer, milk, and fruit drinks experienced declines. The growth for coffee was less than 1 percent.
2. *Gap in the distribution network:* The market leaders distribute directly to retailers. This gives them an advantage in large national chains. However, no major enhanced water brands are currently being sold through independent distributors.
3. *Health trends:* Weight and nutrition continue to be issues for consumers in the United States. The country has the highest obesity rate for developed countries at 34 percent, with well over 60 percent of the population officially "overweight." Those numbers continue to rise. Additionally, Americans get 21 percent of their daily calories from beverages, a number that has tripled in the past three decades. Consumers still desire flavored beverages but look for lower-calorie alternatives.
4. *Anti-establishment image.* Millennials (born between 1981 and 1997) maintain a higher aversion to mass marketing messages and global corporations than do Gen Xers and baby boomers.

Threats

1. *Limited shelf space:* Whereas competition is generally a threat for any type of product, competition in retail beverages is particularly high because of limited retail space. Carrying a new beverage product requires retailers to reduce shelf or cooler space already occupied by other brands.
2. *Image of enhanced waters:* The image of enhanced waters took a hit as Coca-Cola recently fought a class-action lawsuit accusing it of violating FDA regulations by promoting the health benefits of Vitaminwater. The lawsuit exposed the number one functional water brand as basically sugar water with minimal nutritional value. Each of the major brands is strengthening its zero-calorie lines. They no longer promote health benefits on the labels. Although this is potentially a threat, it is also an opportunity for Chill to exploit.
3. *Environmental issues:* Environmental groups continue to educate the public on the environmental costs of bottled water, including landfill waste, carbon emissions from production and transportation, and harmful effects of chemicals in plastics.

Objectives and Issues

Chill Beverage has set aggressive but achievable objectives for NutriWater for the first and second years of market entry.

First-Year Objectives

During the first year on the market, Chill Beverage aims for NutriWater to achieve a 1 percent share of the enhanced water market, or approximately $70 million in sales, with break-even achieved in the final quarter of the year. With an average retail price of $2.39, that equates with a sales goal of 29,297,688 bottles.

Second-Year Objectives

During the second year, Chill Beverage will unveil additional NutriWater flavors, including zero-calorie varieties. The second-year objective is increase sales to $150 million, more than double sales from the first year.

Issues

In launching this new brand, the main issue is the ability to establish brand awareness and a meaningful brand image based on positioning that is relevant to target customer segments. Chill Beverage will invest in nontraditional means of promotion to accomplish these goals and to spark word of mouth. Establishing distributor and retailer relationships will also be critical in order to make the product available and provide point-of-purchase communications. Brand awareness and knowledge will be measured in order to adjust marketing efforts as necessary.

Marketing Strategy

NutriWater's marketing strategy will involve developing a "more for the same" positioning based on extra benefits for the price. The brand will also establish channel differentiation, as it will be available in locations where major competing brands are not. The primary target segments are Generation Z and millennials. NutriWater will focus more specifically on the young adult market. Subsets of this generational segment include athletes, the health conscious, and the socially responsible.

Positioning

NutriWater will be positioned on an "Expect more" value proposition. This will allow for differentiating the brand based on product features (expect more vitamin content and all-natural ingredients), desirable benefits (expect greater nutritional benefits), and values (do more for a social cause). Marketing will focus on conveying that NutriWater is more than just a beverage: It gives customers much more for their money in a variety of ways.

Product Strategy

NutriWater will be sold with all the features described in the Product Review section. As awareness takes hold and retail availability increases, more varieties will be made available. A zero-calorie version will be added to the product line, providing a solid fit with the health benefits sought by consumers. Chill Beverage's considerable experience in brand-building will be applied as an integral part of the product strategy for NutriWater. All aspects of the marketing mix will be consistent with the brand.

Pricing

There is little price variation in the enhanced waters category, particularly among leading brands. For this reason, NutriWater will follow a competition-based pricing strategy. Given that NutriWater claims superior quality, it must be careful not to position itself as a lower-cost alternative. Manufacturers do not quote list prices on this type of beverage, and prices vary considerably based on type of retail outlet and whether or not the product is refrigerated. Regular prices for single 20-ounce bottles of competing products are as low as $1.00 in discount-retailer stores and as high as $2.79 in convenience stores and fitness centers. Because NutriWater will not be targeting discount retailers and convenience stores initially, this will allow Chill Beverage to set prices at the average to higher end of the range for similar products in the same outlets. For grocery chains, this should be approximately $1.99 per bottle, with that price rising to $2.79 at convenience stores and fitness centers, where prices tend to be higher.

Distribution Strategy

NutriWater will employ a selective distribution strategy with well-known regional grocers, health and natural food stores, and fitness centers. This distribution strategy will be executed through a network of independent beverage distributors, as there are no other major brands of enhanced water following this strategy. Chill Beverage gained success for its core Chill Soda soft drink line using this method. It also placed coolers with the brand logo in truly unique venues such as skate, surf, and snowboarding shops; tattoo and piercing parlors; fashion stores; and music stores—places that would expose the brand to target customers. Then, the soft drink brand expanded by getting contracts with retailers such as Panera, Barnes & Noble, Target, and Starbucks. This same approach will be taken with NutriWater by starting small, then expanding into larger chains. NutriWater will not target all the same stores used originally by Chill Soda, as many of those outlets were unique to the positioning and target customer for the Chill Soda soft drink brand.

Marketing Communication Strategy

As with the core Chill Soda brand, the marketing communication strategy for NutriWater will not follow a strategy based on traditional mass-communication advertising. Initially, there will be no broadcast or print advertising. Promotional resources for NutriWater will focus on three areas:

- *Online and mobile marketing:* The typical target customer for NutriWater spends more time online than with traditional media channels. A core component for this strategy will be building web and mobile brand sites and driving traffic to those sites by creating a presence on social networks, including Facebook, Instagram, TikTok, and Snapchat. A mobile phone ad campaign will provide additional support to the online efforts.
- *Trade promotions:* Like the core Chill Soda brand, NutriWater's success will rely on relationships with retailers to create product availability. Primary incentives to retailers will include point-of-purchase displays, branded coolers, and volume incentives and contests. This push marketing strategy will combine with the other pull strategies.
- *Event marketing:* NutriWater will deploy teams in brand-labeled RVs to distribute product samples at events such as skiing and snowboarding competitions, golf tournaments, and concerts.

Marketing Research

To remain consistent with the online promotional approach, as well as using research methods that will effectively reach target customers, Chill Beverage will monitor online discussions. In this manner, the company will gauge customer perceptions of the brand, the products, and general satisfaction. For future development of the product and new distribution outlets, crowdsourcing methods will be utilized.

Action Programs

NutriWater will be introduced in February. The following are summaries of action programs that will be used during the first six months of the year to achieve the stated objectives.

January: Chill Beverage representatives will work with both independent distributors and retailers to educate them on the trade promotional campaign, incentives, and advantages for selling NutriWater. Representatives will also ensure that distributors and retailers are educated on product features and benefits as well as instructions for displaying point-of-purchase materials and coolers. The brand website and brand accounts on social media platforms will present teaser information about the product as well as availability dates and locations. Buzz will be enhanced by providing product samples to selected product reviewers, opinion leaders, influential bloggers, and celebrities.

February: On the date of availability, product coolers and point-of-purchase displays will be placed in retail locations. The full brand website and social network campaign will launch with full efforts on Facebook, Instagram, TikTok, and Snapchat. This campaign will drive the "Expect more" slogan, as well as illustrate the ways that NutriWater delivers more than expected on product features, desirable benefits, and values by donating to Vitamin Angels and the social cause of battling vitamin deficiency in children.

March: Point-of-purchase displays and signage will be updated to support these efforts and to continue supporting retailers. The message of this campaign will focus on all aspects of "Expect more."

April: A mobile ad campaign will provide additional support, driving traffic to the brand website and social network sites, as well as driving traffic to retailers.

May: A trade sales contest will offer additional incentives and prizes to the distributors and retailers that sell the most NutriWater during a four-week period.

June: An event marketing campaign will mobilize a team of NutriWater representatives in NutriWater RVs to concerts and sports events. This will provide additional visibility for the brand as well as giving customers and potential customers the opportunity to sample products.

Budgets

Chill Beverage has set a first-year retail sales goal of $70 million with a projected average retail price of 2.39 per unit for a total of 29,297,688 units sold. With an average wholesale price of 1.29 cents per unit, this provides revenues of $37.7 million. Chill Beverage expects to break even during the final quarter of the first year. A break-even analysis assumes per-unit wholesale revenue of 1.29 cents per unit, a variable cost per unit of 29 cents, and estimated first-year fixed costs of $12,500,000. Based on these assumptions, the break-even calculation is:

$$\frac{\$15,000,000}{\$1.29/\text{unit} - \$0.29/\text{unit}} = 15,000,000$$

Controls

Chill Beverage is planning tight control measures to closely monitor product quality, brand awareness, brand image, and customer satisfaction. This will enable the company to react quickly in correcting any problems that may occur. Other early warning signals that will be monitored for signs of deviation from the plan include monthly sales (by segment and channel) and monthly expenses. Given the market's volatility, contingency plans are also in place to address fast-moving environmental changes such as shifting consumer preferences, new products, and new competition.[1]

APPENDIX 2 Marketing by the Numbers

Marketing managers are facing increased accountability for the financial implications of their actions. This appendix provides a basic introduction to measuring marketing financial performance. Such financial analysis guides marketers in making sound marketing decisions and in assessing the outcomes of those decisions.

The appendix is built around a hypothetical manufacturer of home automation products—Wise Domotics ("domotics" refers to information technology in the home). The company is introducing a device that allows users to control all internet-connected smart devices in their homes. Users will be able to control lighting, temperature, multimedia, security systems, appliances, windows and doors, phones, and any other smart devices in their homes that are connected to the internet. In this appendix, we will analyze the various decisions Wise Domotics's marketing managers must make before and after the new product launch.

The appendix is organized into *three sections*. The *first section* introduces pricing, break-even, and margin analysis assessments that will guide the introduction of Wise Domotics's new product. The *second section* discusses demand estimates, the marketing budget, and marketing performance measures. It begins with a discussion of estimating market potential and company sales. It then introduces the marketing budget, as illustrated through a pro forma profit-and-loss statement followed by the actual profit-and-loss statement. Next, we discuss marketing performance measures, with a focus on helping marketing managers to better defend their decisions from a financial perspective. In the *third section,* we analyze the financial implications of various marketing tactics.

Each of the three sections ends with a set of quantitative exercises that provide you with an opportunity to apply the concepts you learned to situations beyond Wise Domotics.

Pricing, Break-Even, and Margin Analysis

Pricing Considerations

Determining price is one of the most important marketing mix decisions. The limiting factors are demand and costs. Demand factors, such as buyer-perceived value, set the price ceiling. The company's costs set the price floor. In between these two factors, marketers must consider competitors' prices and other factors such as reseller requirements, government regulations, and company objectives.

Most current competing home automation products sell at retail prices between $100 and $500. We first consider Wise Domotics's pricing decision from a cost perspective. Then we consider consumer value, the competitive environment, and reseller requirements.

Determining Costs

Fixed costs
Costs that do not vary with production or sales level.

Variable costs
Costs that vary directly with the level of production.

Total costs
The sum of the fixed and variable costs for any given level of production.

Recall from Chapter 9 that there are different types of costs. **Fixed costs** do not vary with production or sales levels and include costs such as rent, interest, depreciation, and clerical and management salaries. Regardless of the level of output, the company must pay these costs. Whereas total fixed costs remain constant as output increases, the fixed cost per unit (or average fixed cost) will decrease as output increases because the total fixed costs are spread across more units of output. **Variable costs** vary directly with the level of production and include costs related to the direct production of the product (such as costs of goods sold—COGS) and many of the marketing costs associated with selling it. Although these costs tend to be uniform for each unit produced, they are called variable because their total varies with the number of units produced. **Total costs** are the sum of the fixed and variable costs for any given level of production.

Wise Domotics has invested $16 million in refurbishing an existing facility to manufacture the new home automation product. Once production begins, the company estimates that it will incur fixed costs of $18 million per year. The variable cost to produce each device is estimated to be $140 and is expected to remain at that level for the output capacity of the facility.

Setting Price Based on Costs

Cost-plus pricing (markup pricing)
Adding a standard markup to the cost of the product.

Wise Domotics starts with the cost-based approach to pricing discussed in Chapter 9. Recall that the simplest method, **cost-plus pricing (markup pricing)**, simply adds a standard markup to the cost of the product. To use this method, however, Wise Domotics must specify expected unit sales so that total unit costs can be determined. Unit variable costs will remain constant regardless of the output, but *average unit fixed costs* will decrease as output increases.

To illustrate this method, suppose Wise Domotics has fixed costs of $18 million, variable costs of $140 per unit, and expected unit sales of 1.5 million devices. Thus, the cost per unit is given by:

$$\text{Unit cost} = \text{variable cost} + \frac{\text{fixed costs}}{\text{unit sales}} = \$140 + \frac{\$18,000,000}{1,500,000} = \$152$$

Relevant costs
Costs that will occur in the future and that will vary across the alternatives being considered.

Note that we do *not* include the initial investment of $16 million in the total fixed cost figure. It is not considered a fixed cost because it is not a *relevant* cost. **Relevant costs** are those that will occur in the future and that will vary across the alternatives being considered. Wise Domotics's investment to refurbish the manufacturing facility was a one-time cost that will not reoccur in the future. Such past costs are *sunk costs* and should not be considered in future analyses.

Break-even price
The price at which total revenue equals total cost and profit is zero.

Also notice that if Wise Domotics sells its product for $152, the price is equal to the total cost per unit. This is the **break-even price**—the price at which total revenue equals total cost and profit is zero.

Suppose Wise Domotics does not want to merely break even but rather wants to earn a 35 percent markup on sales. Wise Domotics's markup price is:[1]

$$\text{Markup price} = \frac{\text{unit cost}}{(1 - \text{desired return on sales})} = \frac{\$152}{1 - 0.35} = \$233.85$$

This is the price at which Wise Domotics would sell the product to resellers such as wholesalers or retailers to earn a 35 percent profit on sales.

Return on investment (ROI) pricing (or target-return pricing)
A cost-based pricing method that determines price based on a specified rate of return on investment.

Another approach Wise Domotics could use is called **return on investment (ROI) pricing (or target-return pricing)**. In this case, the company *would* consider the initial $16 million investment, but only to determine the dollar profit goal. Suppose the company wants a 25 percent return on its investment. The price necessary to satisfy this requirement can be determined by:

$$\text{ROI price} = \text{unit cost} + \frac{\text{ROI} \times \text{investment}}{\text{unit sales}} = \$152 + \frac{0.25 \times \$16,000,000}{1,500,000} = \$154.67$$

That is, if Wise Domotics sells its product for $154.67, it will realize a 25 percent return on its initial investment of $16 million.

In these pricing calculations, unit cost is a function of the expected sales, which were estimated to be 1.5 million units. But what if actual sales were lower? Then the unit cost would be higher because the fixed costs would be spread over fewer units, and the realized percentage markup on sales or ROI would be lower. Alternatively, if sales are higher than the estimated 1.5 million units, unit cost would be lower than $152, so a lower price would produce the desired markup on sales or ROI. It's important to note that these cost-based pricing methods are *internally* focused and do not consider demand, competitors' prices, or reseller requirements. Because Wise Domotics will be selling this product to consumers through wholesalers and retailers offering competing brands, the company must consider markup pricing from this perspective.

Setting Price Based on External Factors

Whereas costs determine the price floor, Wise Domotics also must consider external factors when setting price. Wise Domotics does not have the final say concerning the final price of its product to consumers—retailers do. So it must start with its suggested retail price and work back. In doing so, Wise Domotics must consider the markups required by resellers that sell the product to consumers.

Markup
The difference between a company's selling price for a product and its cost to manufacture or purchase it.

In general, a dollar **markup** is the difference between a company's selling price for a product and its cost to manufacture or purchase it. For a retailer, then, the markup is the difference between the price it charges consumers and the cost the retailer must pay for the product. Thus, for any level of reseller:

$$\text{Dollar markup} = \text{selling price} - \text{cost}$$

Markups are usually expressed as a percentage, and there are two different ways to compute markups—on *cost* or on *selling price*:

$$\text{Markup percentage on cost} = \frac{\text{dollar markup}}{\text{cost}}$$

$$\text{Markup percentage on selling price} = \frac{\text{dollar markup}}{\text{selling price}}$$

To apply reseller margin analysis, Wise Domotics must first set the suggested retail price and then work back to the price at which it must sell the product to a wholesaler. Suppose retailers expect a 35 percent margin and wholesalers want a 25 percent margin based on their respective selling prices. And suppose that Wise Domotics sets a manufacturer's suggested retail price (MSRP) of $350.00 for its product.

Wise Domotics selected the $350.00 MSRP because it is lower than most competitors' prices but is not so low that consumers might perceive it to be of poor quality. And the company's research shows that it is below the threshold at which more consumers are willing to purchase the product. By using buyers' perceptions of value and not the seller's cost to determine the MSRP, Wise Domotics is using **value-based pricing**.

Value-based pricing
Offering just the right combination of quality and good service at a fair price.

To determine the price Wise Domotics will charge wholesalers, we must first subtract the retailer's margin from the retail price to determine the retailer's cost ($350 − ($350 × .35) = $227.50). The retailer's cost is the wholesaler's price, so Wise Domotics next subtracts the wholesaler's margin ($227.50 − ($227.50 × .25) = 30.63). Thus, the **markup chain** representing the sequence of markups used by firms at each level in a channel for Wise Domotics's new product is:

Markup chain
The sequence of markups used by firms at each level in a channel.

Suggested retail price:	$350
minus retail margin (35%):	−$122.50
Retailer's cost/wholesaler's price:	$227.50
minus wholesaler's margin (25%):	−$56.88
Wholesaler's cost/Wise Domotics's price:	$170.63

By deducting the markups for each level in the markup chain, Wise Domotics arrives at a price for the product to wholesalers of $170.63. We will use $171 going forward.

Break-Even and Margin Analysis

The previous analyses derived a value-based price of $171 for Wise Domotics's product. Although this price is higher than the break-even price of $152 and covers costs, that price assumed a demand of 1.5 million units. But how many units and what level of dollar sales must Wise Domotics achieve to break even at the $171 price? And what level of sales must be achieved to realize various profit goals? These questions can be answered through break-even and margin analysis.

Determining Break-Even Unit Volume and Dollar Sales

Break-even analysis
Analysis to determine the unit volume and dollar sales needed to be profitable given a particular price and cost structure.

Based on an understanding of costs, consumer value, the competitive environment, and reseller requirements, Wise Domotics has decided to set its price to wholesalers at $171. At that price, what sales level will be needed for Wise Domotics to break even or make a profit on its product? **Break-even analysis** determines the unit volume and dollar sales needed to be profitable given a particular price and cost structure. At the break-even point, total revenue equals total costs and profit is zero. Above this point, the company will make a profit; below it, the company will lose money. Wise Domotics can calculate break-even volume using the following formula:

$$\text{Break-even volume} = \frac{\text{fixed costs}}{\text{price} - \text{unit variable cost}}$$

Unit contribution
The amount that each unit contributes to covering fixed costs—the difference between price and variable costs.

The denominator (price − unit variable cost) is called **unit contribution** (sometimes called contribution margin). It represents the amount that each unit contributes to covering fixed costs. Break-even volume represents the level of output at which all (variable and fixed) costs are covered. In Wise Domotics's case, break-even unit volume is:

$$\text{Break-even volume} = \frac{\text{fixed cost}}{\text{price} - \text{variable cost}} = \frac{\$18{,}000{,}000}{\$171 - \$140} = 580{,}645.2 \text{ units}$$

Thus, at the given cost and pricing structure, Wise Domotics will break even at 580,646 units.

To determine the break-even dollar sales, simply multiply unit break-even volume by the selling price:

$$\text{BE sales} = \text{BE}_{\text{vol}} \times \text{price} = 580{,}646 \times \$171 = \$99{,}290{,}466$$

Contribution margin
The unit contribution divided by the selling price.

Another way to calculate dollar break-even sales is to use the percentage contribution margin (hereafter referred to as **contribution margin**), which is the unit contribution divided by the selling price:

$$\text{Contribution margin} = \frac{(\text{price} - \text{variable cost})}{\text{price}} = \frac{(\$171 - 140)}{\$171} = 18.1\%$$

Then

$$\text{Break-even sales} = \frac{\text{fixed costs}}{\text{contribution margin}} = \frac{\$18{,}000{,}000}{0.181} = \$99{,}447{,}514$$

Note that the difference between the two break-even sales calculations is due to rounding.

Such break-even analysis helps Wise Domotics by showing the unit volume needed to cover costs. If production capacity cannot attain this level of output, then the company should not launch this product. However, the unit break-even volume is well within Wise Domotics's capacity. Of course, the bigger question concerns whether Wise Domotics can sell this volume at the $171 price. We'll address that issue a little later.

Understanding contribution margin is useful in other types of analyses as well, particularly if unit prices and unit variable costs are unknown or if a company (say, a retailer) sells many products at different prices and knows the percentage of total sales variable costs represent. Whereas unit contribution is the difference between unit price and unit variable costs, total contribution is the difference between total sales and total variable costs. The overall contribution margin can be calculated by:

$$\text{Contribution margin} = \frac{\text{total sales} - \text{total variable costs}}{\text{total sales}}$$

Regardless of the actual level of sales, if the company knows what percentage of sales is represented by variable costs, it can calculate contribution margin. For example, Wise Domotics's unit variable cost is $140, or 82 percent of the selling price ($140/171 = 0.82$). That means for every $1 of sales revenue for Wise Domotics, $0.82 represents variable costs, and the difference ($0.18) represents contribution to fixed costs. But even if the company doesn't know its unit price and unit variable cost, it can calculate the contribution margin from total sales and total variable costs or from knowledge of the total cost structure. It can set total sales equal to 100 percent regardless of the actual absolute amount and determine the contribution margin:

$$\text{Contribution margin} = \frac{100\% - 82\%}{100\%} = \frac{1 - 0.82}{1} = 1 - 0.82 = 0.18 \text{ or } 18\%$$

Note that this matches the percentage calculated from the unit price and unit variable cost information. This alternative calculation will be very useful later when analyzing various marketing decisions.

Determining "Break-Even" for Profit Goals

Although it is useful to know the break-even point, most companies are more interested in making a profit. Assume Wise Domotics would like to realize a $2 million profit in the first year. How many units must it sell at the $171 price to cover fixed costs and produce this profit? To determine this, Wise Domotics can simply add the profit figure to fixed costs and again divide by the unit contribution to determine unit sales:

$$\text{Unit volume} = \frac{\text{fixed cost} + \text{profit goal}}{\text{price} - \text{variable cost}} = \frac{\$18,000,000 + \$2,000,000}{\$171 - \$140} = 645,161.3 \text{ units}$$

Thus, to earn a $2 million profit, Wise Domotics must sell 645,162 units. Multiply by price to determine dollar sales needed to achieve a $2 million profit:

$$\text{Dollar sales} = 645,162 \text{ units} \times \$171 = \$110,322,702$$

Or use the contribution margin:

$$\text{Sales} = \frac{\text{fixed cost} + \text{profit goal}}{\text{contribution margin}} = \frac{\$18,000,000 + \$2,000,000}{0.18} = \$111,111,111.1$$

Again, note that the difference between the two break-even sales calculations is due to rounding.

As we saw previously, a profit goal can also be stated as a return on investment goal. For example, recall that Wise Domotics wants a 25 percent return on its $16 million investment. Thus, its absolute profit goal is $4 million ($\$16,000,000 \times 0.25$). This profit goal is treated the same way as in the previous example[2]:

$$\text{Unit volume} = \frac{\text{fixed cost} + \text{profit goal}}{\text{price} - \text{variable cost}} = \frac{\$18,000,000 + \$4,000,000}{\$171 - \$140}$$
$$= 709,677.4 \text{ units}$$

$$\text{Dollar sales} = 709,678 \text{ units} \times \$171 = \$121,354,938$$

Or

$$\text{Dollar sales} = \frac{\text{fixed cost} + \text{profit goal}}{\text{contribution margin}} = \frac{\$18,000,000 + \$4,000,000}{0.181} = \$121,546,961.33$$

Finally, Wise Domotics can express its profit goal as a percentage of sales, which we also saw in previous pricing analyses. Assume Wise Domotics desires a 15 percent return on sales. To determine the unit and sales volume necessary to achieve this goal, the calculation is a little different from the previous two examples. In this case, we incorporate the profit goal into the unit contribution as an additional variable cost. Look at it this way: If 15 percent of each sale must go toward profits, that leaves only 85 percent of the selling price to cover fixed costs. Thus, the equation becomes:

$$\text{Unit volume} = \frac{\text{fixed cost}}{\text{price} - \text{variable cost} - (0.15 \times \text{price})} \text{ or } \frac{\text{fixed cost}}{(0.85 \times \text{price}) - \text{variable cost}}$$

So

$$\text{Unit volume} = \frac{\$18,000,000}{(0.85 \times \$171) - \$141} = 4,137,931 \text{ units}$$

$$\text{Dollar sales necessary} = 4,137,931 \text{ units} \times \$171 = \$707,586,206.90$$

Thus, Wise Domotics would need more than $707 million in sales to realize a 15 percent return on sales given its current price and cost structure! Could it possibly achieve this level of sales? The major point is this: Although break-even analysis can be useful in determining the level of sales needed to cover costs or to achieve a stated profit goal, it does not tell the company whether it is *possible* to achieve that level of sales at the specified price. To address this issue, Wise Domotics needs to estimate demand for this product.

Before moving on, however, let's stop here and practice applying the concepts covered so far. Now that you have seen pricing and break-even concepts in action as they relate to Wise Domotics's new product, here are several exercises for you to apply what you have learned in other contexts.

Marketing by the Numbers Exercise Set One

Now that you've studied pricing, break-even, and margin analysis as they relate to Wise Domotics's new product launch, use the following exercises to apply these concepts in other contexts.

1.1 Espro, a manufacturer of French press coffee makers, realizes a cost of $15 for every unit it produces. Its total fixed costs equal $2 million. If the company manufactures 19 million units, compute the following:
a. unit cost
b. markup price if the company desires a 40 percent return on sales
c. ROI price if the company desires a 30 percent return on an investment of $6 million

1.2 A buyer at a stained glass retailer purchases items to sell in the store. The buyer purchases stained glass panels for $300 and sells them for $800. Determine the following:
a. dollar markup
b. markup percentage on cost
c. markup percentage on selling price

1.3 Pablo purchases a Onewheel XR from a retailer for $1,800. The retailer's markup is 35 percent, and the wholesaler's markup is 10 percent, both based on selling price. For what price does the manufacturer sell the product to the wholesaler?

1.4 A poster manufacturer has a unit cost of $1 on a poster and wishes to achieve a margin of 70 percent based on selling price. If the poster manufacturer sells directly to a retailer who then adds a set margin of 60 percent based on selling price, determine the retail price charged to consumers.

1.5 Google manufactures Nest Hello smart doorbells and sells them to intermediaries in the channel of distribution for $75. Each doorbell costs Google $20 to manufacture in addition to $750,000 in fixed costs. Calculate the following:
a. contribution per unit and contribution margin percentage
b. break-even volume in units and dollars
c. unit volume and dollar sales necessary if Google's profit goal is $8 million
d. unit volume and dollar sales necessary if Google's profit goal is 20 percent profit on sales

Demand Estimates, the Marketing Budget, and Marketing Performance Measures

Market Potential and Sales Estimates

Wise Domotics has now calculated the sales needed to break even and to attain various profit goals on its new product. However, the company needs more information regarding demand in order to assess the feasibility of attaining the needed sales levels. This information is also needed for production and other decisions. For example, production schedules need to be developed and marketing tactics need to be planned.

Total market demand
The total volume that would be bought by a defined consumer group in a defined geographic area in a defined time period in a defined marketing environment under a defined level and mix of industry marketing effort.

Market potential
The upper limit of market demand.

The **total market demand** for a product or service is the total volume that would be bought by a defined consumer group in a defined geographic area in a defined time period in a defined marketing environment under a defined level and mix of industry marketing effort. Total market demand is not a fixed number but a function of the stated conditions. For example, next year's total market demand for this type of product will depend on how much other producers spend on marketing their brands. It also depends on many environmental factors, such as government regulations, economic conditions, and the level of consumer confidence in a given market. The upper limit of market demand is called **market potential**.

One general but practical method that Wise Domotics might use for estimating total market demand uses three variables: (1) the number of prospective buyers, (2) the quantity purchased by an average buyer per year, and (3) the price of an average unit. Using these numbers, Wise Domotics can estimate total market demand as follows:

$$Q = n \times q \times p$$

where

$Q =$ total market demand
$n =$ number of buyers in the market
$q =$ quantity purchased by an average buyer per year
$p =$ price of an average unit

Chain ratio method
Estimating market demand by multiplying a base number by a chain of adjusting percentages.

A variation of this approach is the **chain ratio method**. This method involves multiplying a base number by a chain of adjusting percentages. For example, Wise Domotics's product is designed to automate operation of multiple internet-connected smart devices in a home. Thus, only consumers who have broadband internet access and Wi-Fi in their homes will be able to use the product. Finally, not all Wi-Fi internet households will be willing and able to purchase this product. Wise Domotics can estimate U.S. demand using a chain of calculations like the following:

Total number of U.S. households

× The percentage of U.S. households with broadband internet
× The percentage of internet households with Wi-Fi
× The percentage of these households willing and able to buy this device

The U.S. Census Bureau estimates that there are approximately 128.45 million households in the United States, and other research indicates that 88 percent of U.S. households have broadband internet and 90 percent of those have Wi-Fi in their homes.[3] Finally, the company's research also reveals that 40 percent of households possess the discretionary income needed and are willing to buy a product such as this. Then the total number of households willing and able to purchase this product is:

$$128.45 \text{ million households} \times 0.88 \times 0.90 \times 0.40 = 40.7 \text{ million households}$$

Households need to purchase only one device to control all other smart devices throughout the household. Assuming the average retail price across all brands is $300 for this type of product, the estimate of total market demand is as follows:

$$40.7 \text{ million households} \times 1 \text{ device per household} \times \$300 = \$12{,}210{,}000$$

This simple chain of calculations gives Wise Domotics only a rough estimate of potential demand. However, more detailed chains involving additional segments and other qualifying factors would yield more accurate and refined estimates. Still, these are only *estimates* of market potential. They rely heavily on assumptions regarding adjusting percentages, average quantity, and average price. Thus, Wise Domotics must make certain that its assumptions are reasonable and defendable. As can be seen, the overall market potential in dollar sales can vary widely given the average price used. For this reason, Wise Domotics will use unit sales potential to determine its sales estimate for next year. Market potential in terms of units is 40.7 million (40.7 million households × 1 device per household).

Assuming that Wise Domotics forecasts it will have a 2.41 percent market share in the first year after launching this product, then it can forecast unit sales at 40.7 million units × 0.0241 = 980,870 units. At a selling price of $171 per unit, this translates into sales of $167,728,770 (980,870 units × $171 per unit). For simplicity, further analyses will use forecasted sales of $168 million.

This unit volume estimate (980,870 units) is well within Wise Domotics's production capacity and exceeds not only the break-even estimate (580,646 units) calculated earlier but also the volume necessary to realize a $2 million profit (645,162 units) or a 25 percent return on investment (709,678 units). However, this forecast falls well short of the volume necessary to realize a 35 percent return on sales (4.14 million units!) and may require that Wise Domotics revise expectations.

To assess expected profits, we must now look at the budgeted expenses for launching this product. To do this, we will construct a pro forma profit-and-loss statement.

The Profit-and-Loss Statement and Marketing Budget

Pro forma (or projected) profit-and-loss statement (or income statement or operating statement)
A statement that shows projected revenues less budgeted expenses and estimates the projected net profit for an organization, product, or brand during a specific planning period, typically a year.

All marketing managers must account for the profit impact of their marketing strategies. A major tool for projecting such profit impact is a **pro forma (or projected) profit-and-loss statement (also called an income statement or operating statement)**. A pro forma statement shows projected revenues less budgeted expenses and estimates the projected net profit for an organization, product, or brand during a specific planning period, typically a year. It includes direct product production costs, marketing expenses budgeted to attain a given sales forecast, and overhead expenses assigned to the organization or product. A profit-and-loss statement typically consists of several major components (see **Table A2.1**):

- ***Net sales***—gross sales revenue minus returns and allowances (for example, trade, cash, quantity, and promotion allowances). Wise Domotics's net sales for 2023 are estimated to be $168 million, as determined in the previous analysis.
- ***Cost of goods sold*** (sometimes called *cost of sales*)—the actual cost of the merchandise sold by a manufacturer or reseller. It includes the cost of inventory, purchases, and other costs associated with making the goods. Wise Domotics's cost of goods sold is estimated to be 50 percent of net sales, or $84 million.
- ***Gross margin (or gross profit)***—the difference between net sales and cost of goods sold. Wise Domotics's gross margin is estimated to be $84 million.
- ***Operating expenses***—the expenses incurred while doing business. These include all other expenses beyond the cost of goods sold that are necessary to conduct business. Operating expenses can be presented in total or broken down in detail. Here, Wise Domotics's estimated operating expenses include *marketing expenses* and *general and administrative expenses*.

Marketing expenses include sales expenses, promotion expenses, and distribution expenses. The new product will be sold through Wise Domotics's sales force, so the company budgets $6 million for sales salaries. However, because sales representatives earn a 10 percent commission on sales, Wise Domotics must also add a variable component

Table A2.1 | Pro Forma Profit-and-Loss Statement for the 12-Month Period Ended December 31, 2023

			Percent of Sales
Net Sales		$168,000,000	100%
Cost of Goods Sold		84,000,000	50%
Gross Margin		$ 84,000,000	50%
Marketing Expenses			
Sales expenses	$ 22,800,000		
Promotion expenses	20,400,000		
Freight	16,800,000	60,000,000	36%
General and Administrative Expenses			
Managerial salaries and expenses	$ 2,000,000		
Indirect overhead	3,000,000	5,000,000	3%
Net Profit before Income Tax		$ 19,000,000	11%

to sales expenses of $16.8 million (10 percent of $168 million net sales), for a total budgeted sales expense of $22.8 million. Wise Domotics sets its advertising and promotion to launch this product at $12 million. However, the company also budgets 5 percent of sales, or $8.4 million, for cooperative advertising allowances to retailers who promote Wise Domotics's new product in their advertising. Thus, the total budgeted advertising and promotion expenses are $20.4 million ($12 million for advertising plus $8.4 million in co-op allowances). Finally, Wise Domotics budgets 10 percent of net sales, or $16.8 million, for freight and delivery charges. In all, total marketing expenses are estimated to be $22.8 million + 20.4 million + 16.8 million = 60 million.

General and administrative expenses are estimated at $5 million, broken down into $2 million for managerial salaries and expenses for the marketing function and $3 million of indirect overhead allocated to this product by the corporate accountants (such as depreciation, interest, maintenance, and insurance). Total expenses for the year, then, are estimated to be $65 million ($60 million in marketing expenses + $5 million in general and administrative expenses).

- ***Net profit before taxes***—profit earned after all costs are deducted. Wise Domotics's estimated net profit before taxes is $19 million.

In all, as Table A2.1 shows, Wise Domotics expects to earn a profit on its new product of $19 million in 2023. Also note that the percentage of sales that each component of the profit-and-loss statement represents is given in the right-hand column. These percentages are determined by dividing the cost figure by net sales (that is, marketing expenses represent 36 percent of net sales determined by $60 million / $168 million). As can be seen, Wise Domotics projects a net profit return on sales of 11.3 percent in the first year after launching this product.

Marketing Performance Measures

Profit-and-loss statement (or income statement or operating statement)
A statement that shows actual revenues less expenses and net profit for an organization, product, or brand during a specific planning period, typically a year.

Now let's fast-forward a year. Wise Domotics's product has been on the market for one year, and management wants to assess its sales and profit performance. One way to assess this performance is to compute performance ratios derived from Wise Domotics's **profit-and-loss statement** (or **income statement** or **operating statement)**.

Whereas the pro forma profit-and-loss statement shows *projected* financial performance, the statement given in **Table A2.2** shows Wise Domotics's *actual* financial performance based on actual sales, cost of goods sold, and expenses during the past year. By

Table A2.2 | Profit-and-Loss Statement for the 12-Month Period Ended December 31, 2023

			Percent of Sales
Net Sales		$150,000,000	100%
Cost of Goods Sold		82,500,000	55%
Gross Margin		$ 67,500,000	45%
Marketing Expenses			
Sales expenses	$21,000,000		
Promotion expenses	19,500,000		
Freight	15,000,000	55,500,000	37%
General and Administrative Expenses			
Managerial salaries and expenses	$ 2,000,000		
Indirect overhead	4,000,000	6,000,000	4%
Net Profit before Income Tax		$ 6,000,000	4%

comparing the profit-and-loss statement from one period to the next, Wise Domotics can gauge performance against goals, spot favorable or unfavorable trends, and take appropriate corrective action.

The profit-and-loss statement shows that Wise Domotics earned $6 million rather than making the $19 million profit projected in the pro forma statement. Why? One obvious reason is that net sales fell $18 million short of estimated sales. Lower sales translated into lower variable costs associated with marketing the product. However, both fixed costs and the cost of goods sold as a percentage of sales exceeded expectations. Hence, the product's contribution margin was 20 percent rather than the estimated 25 percent. That is, variable costs represented 80 percent of sales (55 percent for cost of goods sold, 10 percent for sales commissions, 10 percent for freight, and 5 percent for co-op allowances). Recall that contribution margin can be calculated by subtracting that fraction from one ($1 - 0.80 = 0.20$).

Market share
Company sales divided by market sales.

Although Wise Domotics's sales fell short of the forecasted sales, so did overall industry sales for this product. Overall industry sales were only $2.5 billion. That means that Wise Domotics's **market share** was 6 percent ($150 million/$2.5 billion = 0.06 = 6%), which was higher than forecasted. Thus, Wise Domotics attained a higher-than-expected market share, but the overall market sales were not as high as estimated.

Analytic Ratios

Operating ratios
The ratios of selected operating statement items to net sales.

The profit-and-loss statement provides the figures needed to compute some crucial **operating ratios**—the ratios of selected operating statement items to net sales. These ratios let marketers compare the firm's performance in one year to that in previous years (or with industry standards and competitors' performance in that year). The most commonly used operating ratios are the gross margin percentage, the net profit percentage, and the operating expense percentage. The inventory turnover rate and return on investment (ROI) are often used to measure managerial effectiveness and efficiency.

Gross margin percentage
The percentage of net sales remaining after cost of goods sold—calculated by dividing gross margin by net sales.

The **gross margin percentage** indicates the percentage of net sales remaining after cost of goods sold that can contribute to operating expenses and net profit before taxes. The higher this ratio, the more a firm has left to cover expenses and generate profit. Wise Domotics's gross margin ratio was 45 percent:

$$\text{Gross margin percentage} = \frac{\text{gross margin}}{\text{net sales}} = \frac{\$67{,}500{,}000}{\$150{,}000{,}000} = 0.45 = 45\%$$

Note that this percentage is lower than estimated, and this ratio is seen easily in the percentage of sales column in Table A2.2. Stating items in the profit-and-loss statement as a percent of sales allows managers to quickly spot abnormal changes in costs over time. If there was previous history for this product and this ratio was declining, management should examine it more closely to determine why it has decreased (that is, because of a decrease in sales volume or price, an increase in costs, or a combination of these). In Wise Domotics's case, net sales were $18 million lower than estimated, and cost of goods sold was higher than estimated (55 percent rather than the estimated 50 percent).

Net profit percentage
The percentage of each sales dollar going to profit—calculated by dividing net profits by net sales.

The **net profit percentage** shows the percentage of each sales dollar going to profit. It is calculated by dividing net profits by net sales:

$$\text{Net profit percentage} = \frac{\text{net profit}}{\text{net sales}} = \frac{\$6{,}000{,}000}{\$150{,}000{,}000} = 0.04 = 4.0\%$$

This ratio is easily seen in the percent of sales column. Wise Domotics's new product generated $13 million less profits than expected in the first year, not a good situation given that before the product launch net profits before taxes were estimated at $19 million. Later in this appendix, we will discuss further analyses the marketing manager should conduct to defend the product.

Operating expense percentage
The portion of net sales going to operating expenses—calculated by dividing total expenses by net sales.

The **operating expense percentage** indicates the portion of net sales going to operating expenses. Operating expenses include marketing and other expenses not directly related to marketing the product, such as indirect overhead assigned to this product. It is calculated by:

$$\text{Operating expense percentage} = \frac{\text{total expenses}}{\text{net sales}} = \frac{\$61{,}500{,}000}{\$150{,}000{,}000} = 0.41 = 41\%$$

This ratio can also be quickly determined from the percent of sales column in the profit-and-loss statement by adding the percentages for marketing expenses and general and administrative expenses (37% + 4%). Thus, 41 cents of every sales dollar went for operations. Although Wise Domotics wants this ratio to be as low as possible, and 41 percent is not an alarming amount, it is of concern if it is increasing over time or if a loss is realized.

Inventory turnover rate (or stockturn rate)
The number of times an inventory turns over or is sold during a specified time period (often one year)—calculated based on costs, selling price, or units.

Another useful ratio is the **inventory turnover rate** (also called **stockturn rate** for resellers). The inventory turnover rate is the number of times an inventory turns over or is sold during a specified time period (often one year). This rate tells how quickly a business is moving inventory through the organization. Higher rates indicate that lower investments in inventory are made, thus freeing up funds for other investments. It may be computed on a cost, selling price, or unit basis. The formula based on cost is:

$$\text{Inventory turnover rate} = \frac{\text{cost of goods sold}}{\text{average inventory at cost}}$$

Assuming Wise Domotics's beginning and ending inventories were $30 million and $20 million, respectively, the inventory turnover rate is:

$$\text{Inventory turnover rate} = \frac{\$82{,}500{,}000}{(\$30{,}000{,}000 + \$20{,}000{,}000)/2} = \frac{\$82{,}500{,}000}{\$25{,}000{,}000} = 3.3$$

That is, Wise Domotics's inventory turned over 3.3 times in 2023. Normally, the higher the turnover rate, the higher the management efficiency and company profitability. However, this rate should be compared with industry averages, competitors' rates, and past performance to determine if Wise Domotics is doing well. A competitor with similar sales but a higher inventory turnover rate will have fewer resources tied up in inventory, allowing it to invest in other areas of the business.

Return on investment (ROI)
A measure of managerial effectiveness and efficiency—net profit before taxes divided by total investment.

Companies frequently use **return on investment (ROI)** to measure managerial effectiveness and efficiency. For Wise Domotics, ROI is the ratio of net profits to total investment required to manufacture the new product. This investment includes capital investments in land, buildings, and equipment (here, the initial $16 million to refurbish the manufacturing facility) plus inventory costs (Wise Domotics's average inventory totaled $25 million), for a total of $41 million. Thus, Wise Domotics's ROI for this product is:

$$\text{Return on investment} = \frac{\text{net profit before taxes}}{\text{investment}} = \frac{\$6{,}000{,}000}{\$41{,}000{,}000} = 0.146 = 14.6\%$$

ROI is often used to compare alternatives, and a positive ROI is desired. The alternative with the highest ROI is preferred to other alternatives. Wise Domotics needs to be concerned with the ROI realized. One obvious way Wise Domotics can increase ROI is to increase net profit by reducing expenses. Another way is to reduce its investment, perhaps by investing less in inventory and turning it over more frequently.

Marketing Profitability Metrics

Given the above financial results, you may be thinking that Wise Domotics should drop this new product. But what arguments can marketers make for keeping or dropping this product? An argument for dropping the product is that first-year sales were well below expected levels.

So what would happen if Wise Domotics did drop this product? If the company drops the product, the profits for the total organization will decrease by $10 million! How can that be? Marketing managers need to look closely at the numbers in the profit-and-loss statement to determine the *net marketing contribution* for this product. In Wise Domotics's case, the net marketing contribution for the product is $10 million, and if the company drops this product, that contribution will disappear as well. Let's look more closely at this concept to illustrate how marketing managers can better assess and defend their marketing strategies and programs.

Net Marketing Contribution

Net marketing contribution (NMC)
A measure of marketing profitability that includes only components of profitability controlled by marketing.

Net marketing contribution (NMC), along with other marketing metrics derived from it, measures *marketing* profitability. It includes only components of profitability that are controlled by marketing. Whereas the previous calculation of net profit before taxes from the profit-and-loss statement includes operating expenses not under marketing's control, NMC does not. Referring back to Wise Domotics's profit-and-loss statement given in Table A2.2, we can calculate net marketing contribution for the product as:

$$\begin{aligned} \text{NMC} &= \text{net sales} - \text{cost of goods sold} - \text{marketing expenses} \\ &= \$150 \text{ million} - \$82.5 \text{ million} - \$57.5 \text{ million} = \$10 \text{ million} \end{aligned}$$

The marketing expenses include sales expenses ($21 million), promotion expenses ($19.5 million), freight expenses ($15 million), and the managerial salaries and expenses of the marketing function ($2 million), which total $57.5 million.

Thus, the product contributed $10 million to Wise Domotics's profits. It was the $4 million of indirect overhead allocated to this product that lowered the profit. If Wise Domotics drops the product, the $4 million in fixed overhead expense will not disappear—it will simply have to be allocated elsewhere. However, the $10 million in net marketing contribution *will* disappear.

Marketing Return on Sales and Investment

To get an even deeper understanding of the profit impact of marketing strategy, we'll now examine two measures of marketing efficiency—*marketing return on sales* (marketing ROS) and *marketing return on investment* (marketing ROI).[4]

Marketing return on sales (marketing ROS)
The percent of net sales attributable to the net marketing contribution—calculated by dividing net marketing contribution by net sales.

Marketing return on sales (marketing ROS) shows the percent of net sales attributable to the net marketing contribution. For our product, ROS is:

$$\text{Marketing ROS} = \frac{\text{net marketing contribution}}{\text{net sales}} = \frac{\$10{,}000{,}000}{\$150{,}000{,}000} = 0.067 = 6.7\%$$

Thus, out of every $100 of sales, the product returns $4 to Wise Domotics's bottom line. A high marketing ROS is desirable. But to assess whether this is a good level of performance, Wise Domotics must compare this figure to previous marketing ROS levels for the product, the ROSs of other products in the company's portfolio, and the ROSs of competing products.

Marketing return on investment (marketing ROI)
A measure of the marketing productivity of a marketing investment—calculated by dividing net marketing contribution by marketing expenses.

Marketing return on investment (marketing ROI) measures the marketing productivity of a marketing investment. In Wise Domotics's case, the marketing investment is represented by $41 million of the total expenses. Thus, marketing ROI is:

$$\text{Marketing ROI} = \frac{\text{net marketing contribution}}{\text{marketing expenses}} = \frac{\$10{,}000{,}000}{\$57{,}000{,}000} = 17.5\%$$

As with marketing ROS, a high value is desirable, but this figure should be compared with previous levels for the given product and with the marketing ROIs of competitors' products. Note from this equation that marketing ROI could be greater than 100 percent. This can be achieved by attaining a higher net marketing contribution and/or a lower total marketing expense.

In this section, we estimated market potential and sales, developed profit-and-loss statements, and examined financial measures of performance. In the next section, we discuss methods for analyzing the impact of various marketing tactics. However, before moving on to those analyses, here's another set of quantitative exercises to help you apply what you've learned to other situations.

Marketing by the Numbers Exercise Set Two

2.1 Determine the market potential for a product that has 40 million prospective buyers who purchase an average of ten units per year at an average price of $6.

2.2 Develop a profit-and-loss statement for a company that had $100 million in net sales last year. Cost of goods sold represents 35 percent of net sales. Marketing expenses include selling expenses, promotion expenses, and freight. Selling expenses include sales salaries totaling $6 million per year and sales commissions (8 percent of sales). The company spent $16 million on advertising last year, and freight costs were 5 percent of sales. Other costs include $2,500,000 for managerial salaries and expenses for the marketing function and another $5 million for indirect overhead allocated to the division.

2.3 Using the profit-and-loss statement you developed in question 2.2 and assuming that the company's beginning inventory was $45 million, ending inventory was $4 million, and total investment was $58 million including inventory, determine the following:

a. gross margin percentage
b. net profit percentage
c. operating expense percentage
d. inventory turnover rate
e. return on investment (ROI)
f. net marketing contribution
g. marketing return on sales (marketing ROS)
h. marketing return on investment (marketing ROI)
i. Is the company doing well? Explain your answer.

Financial Analysis of Marketing Tactics

Although the first-year profit performance for Wise Domotics's new product was less than desired, management feels that this attractive market has excellent growth opportunities. The sales of Wise Domotics's product were lower than initially projected but they were not unreasonable given the size of the current market. Thus, Wise Domotics wants to explore new marketing tactics to help grow the market for this product and increase sales for the company.

For example, the company could increase advertising to promote more awareness of the new product and its category. It could add salespeople to secure greater product distribution. Wise Domotics could decrease prices so that more consumers could afford its product. Finally, to expand the market, Wise Domotics could introduce a lower-priced model in addition to the higher-priced original offering. Before pursuing any of these tactics, Wise Domotics must analyze the financial implications of each.

Increase Advertising Expenditures

Wise Domotics is considering boosting its advertising to make more people aware of the benefits of this device in general and of its own brand in particular. What if Wise Domotics's marketers recommend increasing national advertising by 40 percent to $27.3 million (assume no change in the variable cooperative component of promotional expenditures)? This represents an increase in fixed costs of $7.8 million. What increase in sales will be needed to break even on this $7.8 million increase in fixed costs?

A quick way to answer this question is to divide the increase in fixed cost by the contribution margin, which we found in a previous analysis to be 21 percent:

$$\text{Increase in sales} = \frac{\text{increase in fixed cost}}{\text{contribution margin}} = \frac{\$7,800,000}{0.20} = \$39 \text{ million}$$

Thus, a 50 percent increase in advertising expenditures must produce a sales increase of almost $39 million to just break even. That $39 million sales increase translates into an almost 1.6 percentage point increase in market share (1.6 percent of the $2.5 billion overall market equals $40 million). That is, to break even on the increased advertising expenditure, Wise Domotics would have to increase its market share from 6 percent to 7.6 percent. All of this assumes that the total market will not grow, which might or might not be a reasonable assumption.

Increase Distribution Coverage

Wise Domotics also wants to consider hiring more salespeople in order to call on new retailer accounts and increase distribution through more outlets. Even though Wise Domotics sells directly to wholesalers, its sales representatives call on retail accounts to perform other functions in addition to selling, such as training retail salespeople. Currently, Wise Domotics employs 60 sales reps who earn an average of $100,000 in salary plus 10 percent commission on sales. The product is currently sold to consumers through 1,800 retail outlets. Suppose Wise Domotics wants to increase that number of outlets to 2,300, an increase of 500 retail outlets. How many additional salespeople will Wise Domotics need, and what sales will be necessary to break even on the increased cost?

Workload method
An approach to determining sales force size based on the workload required and the time available for selling.

One method for determining what size sales force Wise Domotics will need is the **workload method**. The workload method uses the following formula to determine the salesforce size:

$$NS = \frac{NC \times FC \times LC}{TA}$$

where

$$\begin{aligned} NS &= \text{number of salespeople} \\ NC &= \text{number of customers} \\ FC &= \text{average frequency of customer calls per customer} \\ LC &= \text{average length of customer call} \\ TA &= \text{time an average salesperson has available for selling per year} \end{aligned}$$

Wise Domotics's sales reps typically call on accounts an average of 20 times per year for about two hours per call. Although sales reps work 2,000 hours per year (50 weeks per year × 40 hours per week), they spent about 15 hours per week on non-selling activities such as administrative duties and travel. Thus, the average annual available selling time per sales rep per year is 1,250 hours (50 weeks × 25 hours per week). We can now calculate how many sales reps Wise Domotics will need to cover the anticipated 2,300 retail outlets:

$$NS = \frac{2{,}300 \times 20 \times 2}{1{,}250} = 74 \text{ salespeople}$$

Therefore, Wise Domotics will need to hire 14 more salespeople. The cost to hire these reps will be $1,400,000 (14 salespeople × $100,000 salary per salesperson).

What increase in sales will be required to break even on this increase in fixed costs? The 10 percent commission is already accounted for in the contribution margin, so the contribution margin remains unchanged at 20 percent. Thus, the increase in sales needed to cover this increase in fixed costs can be calculated by:

$$\text{Increase in sales} = \frac{\text{increase in fixed cost}}{\text{contribution margin}} = \frac{\$1{,}400{,}000}{0.20} = \$7 \text{ million}$$

That is, Wise Domotics's sales must increase by almost $7 million to break even on this tactic. So how many new retail outlets will the company need to secure to achieve this sales increase? The average revenue generated per current outlet is $8,333 ($150 million in sales divided by 1,800 outlets). Wise Domotics would need about 840 new outlets to break even on this tactic ($7 \text{ million}/8{,}333 = 840$), or about 60 outlets per new rep. Given that current reps cover about 30 outlets apiece (1800 outlets: 60 reps), it does not seem very reasonable that Wise Domotics can break even on this tactic.

Decrease Price

Wise Domotics is also considering lowering its price to increase sales revenue through increased volume. The company's research has shown that demand for most types of consumer electronics products is elastic—that is, the percentage increase in the quantity demanded is greater than the percentage decrease in price.

What increase in sales would be necessary to break even on a 10 percent decrease in price? That is, what increase in sales will be needed to maintain the total contribution that Wise Domotics realized at the higher price? The current total contribution can be determined by multiplying the contribution margin by total sales:

$$\begin{aligned} \text{Current total contribution} &= \text{contribution margin} \times \text{sales} = 0.20 \times \$150 \text{ million} \\ &= \$30 \text{ million} \end{aligned}$$

Price changes result in changes in unit contribution and contribution margin. Recall that the contribution margin of 20 percent was based on variable costs representing 80 percent of sales. Therefore, unit variable costs can be determined by multiplying the original price by this percentage: $\$171 \times 0.80 = 136.80$ per unit. If price is decreased by 10 percent, the new price is \$153.90. However, variable costs do not change just because price decreased, so the contribution and contribution margin decrease as follows:

	Old	New (Reduced 10%)
Price	\$171	\$153.90
− Unit variable cost	\$136.80	\$136.80
= Unit contribution	\$34.20	\$17.10
Contribution margin	\$34.28/\$171 = 0.20	\$17.10/\$153.90 = 0.11

So a 10 percent reduction in price results in a decrease in the contribution margin from 20 percent to 11 percent. To determine the sales level needed to break even on this price reduction, we calculate the level of sales that must be attained at the new contribution margin to achieve the original total contribution of \$30 million:

$$\text{New contribution margin} \times \text{new sales level} = \text{original total contribution}$$

So

$$\text{New sales level} = \frac{\text{original contribution}}{\text{new contribution margin}} = \frac{\$30 \text{ million}}{0.11}$$
$$= \$272.73 \text{ million}$$

Thus, sales must increase by almost \$123 million (\$273 million − \$150 million) just to break even on a 10 percent price reduction. This means that Wise Domotics must increase market share to 10 percent (\$273 million/\$2.5 billion) to achieve the current level of profits (assuming no increase in the total market sales). The marketing manager must assess whether or not this is a reasonable goal.

Extend the Product Line

Cannibalization
The situation in which one product sold by a company takes a portion of its sales from other company products.

As a final option, Wise Domotics is considering extending its product line by offering a lower-priced model. Of course, the new, lower-priced product would steal some sales from the higher-priced model. This is called **cannibalization**—the situation in which one product sold by a company takes a portion of its sales from other company products. If the new product has a lower contribution than the original product, the company's total contribution will decrease on the cannibalized sales. However, if the new product can generate enough new volume, it is worth considering.

To assess cannibalization, Wise Domotics must look at the incremental contribution gained by having both products available. Recall that in the previous analysis we determined that unit variable costs were \$136.80 and unit contribution was just over \$34. Assuming costs remain the same next year, Wise Domotics can expect to realize a contribution per unit of approximately \$34 for every unit of the original product sold.

Assume that the first model offered by Wise Domotics is called Wise Domotics1 and the new, lower-priced model is called Wise Domotics2. Wise Domotics2 will retail for \$300, and resellers will take the same markup percentages on price as they do with the higher-priced model. Therefore, Wise Domotics2's price to wholesalers will be \$146.25 as follows:

Retail price:	\$300.00
minus retail margin (35%):	−\$105.00
Retailer's cost/wholesaler's price:	\$195.00
minus wholesaler's margin (25%):	−\$ 48.75
Wholesaler's cost/Wise Domotics's price	\$146.25

If Wise Domotics2's variable costs are estimated to be \$110.25, then its contribution per unit will equal \$36 (\$146.25 − \$110.25 = \$36). That means for every unit that Wise Domotics2 cannibalizes from Wise Domotics1, Wise Domotics will *gain* \$2 in contribution toward fixed costs and profit (that is, $\text{contribution}_{\text{Wise Domestic2}} - \text{contribution}_{\text{Wise Domestic1}} = \$36 - \$34 = \$2$). Wise Domotics2 may also capture *additional* sales, which suggests Wise Domotics will be better off even though some of Wise Domotics1 sales are cannibalized. The company must examine what will happen to *total* contribution, which requires estimates of unit volume for both products.

Originally, Wise Domotics estimated that next year's sales of Wise Domotics1 would be 900,000 units. However, with the introduction of Wise Domotics2, it now estimates that 200,000 of those sales will be cannibalized by the new model. If Wise Domotics sells only 200,000 units of the new Wise Domotics2 model (all cannibalized from Wise Domotics1), the company would gain \$400,000 in total contribution (200,000 units × \$2 per cannibalized unit = \$400,000)—which is a good outcome. In addition, Wise Domotics estimates that Wise Domotics2 will generate the 200,000 of cannibalized sales plus an *additional* 500,000 unit sales. Thus, the contribution on these additional Wise Domotics2 units will be \$10 million (i.e., 500,000 units × \$36 per unit = \$18 million). The net effect is that Wise Domotics will gain \$18.4 million in total contribution by introducing Wise Domotics2.

The following table compares Wise Domotics's total contribution with and without the introduction of Wise Domotics2:

	Wise Domotics1 only	**Wise Domotics1 and Wise Domotics2**
Wise Domotics1 contribution	900,000 units × \$34 = 30,600,000	700,000 units × \$34 = \$23,800,000
Wise Domotics2 contribution	0	700,000 units × \$36 = \$25,200,000
Total contribution	\$30,600,000	\$49,000,000

The difference in the total contribution is a net gain of \$18.4 million (\$49 million − \$30.6 million). Based on this analysis, Wise Domotics should introduce the Wise Domotics2 model because it results in a positive incremental contribution. However, if fixed costs will increase by more than \$18.4 million as a result of adding this model, then the net effect will be negative and Wise Domotics should not pursue this tactic.

Now that you have seen these marketing tactic analysis concepts in action as they relate to Wise Domotics's new product, here are several exercises for you to apply what you have learned in this section in other contexts.

Marketing by the Numbers Exercise Set Three

3.1 Synegys, Inc. manufactures accent lighting that is sold to consumers through retail outlets in the southern United States. The company's sales are \$10 million and contribution margin is 40 percent. The company is considering options to increase sales.

a. The marketing manager has suggested increasing consumer advertising by \$450,000. By how much would dollar sales need to increase to break even on this expenditure? What percentage increase in sales does this represent?

b. Another suggestion is to make a 10 percent across-the-board price reduction. By how much would dollar sales need to increase to maintain Synegys's current contribution? What percentage increase in sales does this represent?

3.2 A company currently has 4,000 industrial customer accounts and wants to expand to another geographic market to acquire 2,000 more. It currently has 36 sales representatives who earn \$70,000 per year and 10 percent commission on sales. Each customer account is visited 10 times per year, and sales reps spend 1 hour on each call. An average salesperson works 2,000 hours per year (50 weeks per years × 40 hours per week), but each will spend 15 hours a week on nonselling activities, such as administrative tasks and travel. The company's contribution margin is 45 percent, and each customer generates an average $80,000 in sales for the company.

a. How many salespeople will the company need to hire?
b. What increase in sales is needed to cover the increased cost of an additional sales representative? How much must sales increase to break even on the number of sales representatives the company needs to hire?
c. How many customers must the company acquire to break even on this tactic?

3.3 BriteSmile brand of teeth whitening products is considering adding a modified version of the product—a gel product in addition to its regular paste product. Variable costs and prices to wholesalers are:

	Current paste product	New gel product
Unit selling price	$5.00	$6.50
Unit variable costs	$1.50	$3.25

BriteSmile expects to sell 2 million units of the new gel product in the first year after introduction, but it estimates that only 30 percent of those sales will come from buyers who do not already purchase the company's paste product (that is, new customers). BriteSmile estimates that it would sell 3 million units of the current paste product if it did not introduce the gel. If the fixed costs of launching the new gel product will be $300,000 during the first year, should BriteSmile add the new gel product to its line? Why or why not?

APPENDIX 3 Careers in Marketing

Marketing careers offer distinct experiences and opportunities that few other careers do. Consider whether these general characteristics of marketing jobs appeal to you:

Integrating analytical and creative thinking. Marketing jobs will frequently call on you to use both the analytical and the creative parts of your brain. You will think in a disciplined and focused way and become comfortable working with numbers. At the same time, a marketing job will call on you to think out of the box and creatively.

Working in an interdisciplinary context. Marketers work closely with other functions within the company, including operations and manufacturing, R&D, finance, and human resource management. Many marketing project teams will include people from other parts of the company. You can learn about how other functions work through these interactions.

Engaging with the marketplace. Marketers are not stuck to their desks. They are often out there in the field, meeting with customers and understanding their needs, solving customer problems, working with the company's advertising and digital marketing agencies, managing distribution channels, and working with sales forces.

Applying a general managerial perspective. Marketers are involved in most of the company's strategic decisions, from deciding what markets to enter and what products to introduce to branding and pricing decisions. This broad span of responsibility suggests that good marketers are ultimately also good general managers. This experience paves the way for capable marketers to become future company CEOs. In fact, many CEOs of leading companies have marketing backgrounds.

Many of you will find this combination of marketing job characteristics energizing and stimulating. And you may have already decided you want to pursue a marketing career. But you still may not know which part of marketing best suits you—marketing is a very broad field offering a wide variety of career options.

This appendix helps you discover what types of marketing jobs best match your special skills and interests, shows you how to conduct the kind of job search that will get you the position you want, describes marketing career paths open to you, and suggests other information resources.

Marketing Careers Today

The marketing field is booming, with nearly a third of all working Americans now employed in marketing-related positions. Marketing salaries may vary by company, position, and region, and salary figures change constantly. In general, entry-level marketing salaries usually are only slightly below those for engineering and chemistry but equal or exceed starting salaries in economics, finance, accounting, general business, and the liberal arts. Moreover, if you succeed in an entry-level marketing position, it's likely that you will be promoted quickly to higher levels of responsibility and salary. In addition, because of the knowledge you will gain in these jobs, marketing positions provide excellent training for the highest levels in an organization.

Overall Marketing Facts and Trends

In conducting your job search, consider the following facts and trends that are changing the world of marketing:

Focus on customers. More and more, companies are realizing that they win in the marketplace only by engaging customers and creating superior value for them. To capture value from customers, they must first find new and better ways to engage customers, solve customer problems, and improve customer brand experiences. This increasing focus on the customer puts marketers at the forefront of today's companies. As the primary customer- and market-facing function, marketing's mission is to get all company departments to "think customer."

Technology. Technology is changing the way marketers work. For example, internet, social media, mobile, and other digital technologies are rapidly changing the ways marketers interact with and serve customers. They are also changing everything from the ways marketers create new products and advertise them to how marketers access information and recruit personnel. Whereas advertising firms have traditionally recruited "generalists" in account management, *generalist* has now taken on a whole new meaning—advertising account executives must now have both broad and specialized knowledge. Marketers who are comfortable working in technology-intensive environments are highly valued today.

Diversity, Equity, and Inclusion. Marketers are becoming more responsive to the needs of growing customer segments that represent different ethnicities, races, national backgrounds, gender identifications, sexual orientations, and other characteristics and preferences. Accordingly, the need for diversity in marketing positions will continue to increase, opening up new opportunities.

Global. Companies such as Coca-Cola, McDonald's, Google, Walmart, IBM, Facebook, and P&G have become multinational, with manufacturing and marketing operations in numerous countries. Indeed, such companies often make more profit from sales outside the United States than from within. In fact, organizations of all sizes have moved into the global arena. Many new marketing opportunities and careers will be directly linked to the expanding global marketplace. The globalization of business also means that you will need more cultural, language, and people skills in the marketing world of the twenty-first century. In addition, your own marketing career can involve significant global opportunities.

Not-for-profit organizations. Most schools, arts organizations, hospitals, and other not-for-profit organizations have recognized the need for effectively marketing their "products" and services to various publics. This awareness has led to new marketing positions—with these organizations hiring their own marketing directors and vice presidents or using outside marketing specialists.

Looking for a Job in Today's Marketing World

To choose and find the right job, you will need to apply the marketing skills you've learned in this course, especially marketing analysis and planning. Follow these eight steps for marketing yourself: (1) Conduct a self-assessment and seek career counseling; (2) examine job descriptions; (3) explore the job market and assess opportunities; (4) develop search strategies; (5) prepare résumés; (6) write a cover letter, follow up, and assemble supporting documents; (7) interview for jobs; and (8) take a follow-up interview.

Conduct a Self-Assessment and Seek Career Counseling

If you're having difficulty deciding what kind of marketing position is the best fit for you, start out by doing some self-testing or seeking career counseling. Self-assessments require that you honestly and thoroughly evaluate your interests, strengths, and weaknesses. What do you do well (your best and favorite skills) and not so well? What are your favorite interests? What are your career goals? What makes you stand out from other job seekers?

The answers to such questions may suggest which marketing careers you should seek or avoid. For help in completing an effective self-assessment, look for the following books in your local bookstore or online: Nicholas Lore, *The Pathfinder: How to Choose or Change Your Career for a Lifetime of Satisfaction and Success* (Touchstone, 2012), and Richard Bolles, *What Color Is Your Parachute? 2022* (Ten Speed Press, 2021; also see www.eparachute.com). Many online sites also offer self-assessment tools, such as the Keirsey Temperament Theory and the Temperament Sorter, a free but broad assessment available at Keirsey.com. For a more specific evaluation, CareerLeader.com offers a complete online business career self-assessment program designed by the Directors of MBA Career Development at Harvard Business School. You can use this for a fee.

For help in finding a career counselor to guide you in making a career assessment, Richard Bolles's *What Color Is Your Parachute? 2022* contains a useful state-by-state sampling. CareerLeader.com also offers personal career counseling. (Some counselors can help you in your actual job search, too.) You can also consult the career counseling, testing, and placement services at your college or university.

Sometimes, you may lack a capability required for a specific marketing job. This does not mean that you should immediately rule out that line of work. If you are truly interested in that area, it does mean that you should plan on gaining an effective combination of learning, experience, and mentorship that will help you address that capability gap.

An effective approach to positioning yourself well in the career context is to focus on building your "personal brand." Noted management guru Tom Peters provides some insightful advice on getting started with your personal brand by "writing your own mission statement, to guide you as the CEO of Me Inc." (see www.fastcompany.com/28905/brand-called-you).

Examine Job Descriptions

After you have identified your skills, interests, and desires, you need to see which marketing positions are the best match for them. Two U.S. Labor Department publications available in your local library or online—the *Occupation Outlook Handbook* (www.bls.gov/ooh) and the *Dictionary of Occupational Titles* (www.occupationalinfo.org)—describe the duties involved in various occupations, the specific training and education needed, the availability of jobs in each field, possibilities for advancement, and probable earnings.

Your initial career shopping list should be broad and flexible. Look for different ways to achieve your objectives. For example, if you want a career in marketing management, consider the public as well as the private sector and local and regional as well as national and international firms. Be open initially to exploring many options, and then focus on specific industries and jobs, listing your basic goals as a way to guide your choices. Your list might include "a job in a startup company, near a big city on the West Coast, doing new product planning with a digital software firm."

Explore the Job Market and Assess Opportunities

At this stage, you need to look at the market and see what positions are actually available. You do not have to do this alone. Any of the following may assist you.

Career Development Centers

Your college's career development center and its website are excellent places to start. For example, the websites of undergraduate career services centers provide lists of career links that can help to focus your job search. Most schools also provide career coaches and career education courses. Also check the National Association of Colleges and Employers website (www.naceweb.org). It publishes a national forecast of hiring intentions of employers as they relate to new college graduates (search: "Job Outlook").

In addition, find out everything you can about the companies that interest you by consulting company websites, business magazine articles and online sites, annual reports, business reference books, faculty, career counselors, and others. Try to analyze the projected future growth and profit potential of the company and the industry, advancement opportunities, salary levels, entry positions, time away from the home base, and other factors of significance to you.

Job Fairs

Career development centers often work with corporate recruiters to organize on-campus job fairs. You might also use the internet to check on upcoming career fairs in your region. For example, visit National Career Fairs at www.nationalcareerfairs.com or Choice Career Fairs listings at https://choicecareerfairs.com.

Networking

Networking—asking for job leads from friends, family, people in your community, career centers, and successful alumni from your school or university—is one of the best ways to find a marketing job. Studies estimate that 60 to 90 percent of jobs are found through networking. The idea is to spread your net wide, contacting anybody and everybody.

Internships

An internship is filled with many benefits, such as gaining experience in a specific field of interest and building up a network of contacts. The biggest benefit: the potential of being offered a job shortly before or soon after graduation. According to a recent survey by the National Association of Colleges and Employers, employers converted more than 53 percent of the previous year's interns into full-time hires. In addition, 58 percent of the seniors who had internship experience and applied for a job received at least one job offer. Conversely, only 43 percent of seniors without internship experience who applied for a job received an offer. In addition, survey results show that the median accepted salary offer for seniors with a paid internship was, on average, $10,000 more than unpaid and non-intern seniors.

Many company internet sites have separate internship areas. For example, check out Internships.com, InternshipPrograms.com, CampusCareerCenter.com, InternJobs.com, and GoAbroad.com (www.goabroad.com/intern-abroad). If you know of a company for which you wish to work, go to that company's corporate website, enter the human resources area, and check for internships. If none are listed, try emailing the human resources department, asking if internships are offered.

Job Hunting on the Internet

A constantly increasing number of online sites deal with job hunting. You can also use the internet to make contacts with people who can help you gain information on and research companies that interest you. CareerBuilder, Indeed, Monster, and ZipRecruiter are good general sites for seeking job listings. Other helpful sites are Disability.gov and Diversity.com, which contain information on opportunities for individuals with disabilities and minorities, respectively.

Most companies have their own online sites on which they post job listings. This may be helpful if you have a specific and fairly limited number of companies that you are keeping your eye on for job opportunities. But if this is not the case, remember that to find out what interesting marketing jobs the companies themselves are posting, you may have to visit hundreds of corporate sites.

Professional Networking Sites

Many companies have now begun to take advantage of social networking sites to find talented applicants. From LinkedIn to Facebook, social networking has become professional networking. For example, companies ranging from P&G to BASF have jobs pages on LinkedIn (www.linkedin.com/company/procter-and-gamble/jobs/ and www.linkedin.com/company/basf/jobs/) to find potential candidates for entry-level positions. And professional organizations, such as the Public Relations Society of America and the American Advertising Federation, have job listings on their web and mobile sites. For job seekers, online professional networking offers more efficient job targeting and reduces associated costs as compared with traditional interaction methods such as traveling to job fairs and interviews, printing résumés, and other expenses.

However, although the internet offers a wealth of resources for searching for the perfect job, be aware that it's a two-way street. Just as job seekers can search the internet to find job opportunities, employers can search for information on job candidates. Jobs searches can sometimes be derailed by information mined by potential employers from online social networking sites that reveals unintended or embarrassing anecdotes and photos. Internet searches can sometimes also reveal inconsistencies and résumé inflation. A recent study found that more than half of recruiters surveyed have reconsidered a candidate based on their social profile.

Develop Search Strategies

Once you've decided which companies you are interested in, you need to contact them. One of the best ways is through on-campus interviews. However, not every company you are interested in will visit your school. In such instances, you can write, email, or phone the company directly or ask marketing professors or school alumni for contacts.

Prepare Résumés

A résumé is a concise yet comprehensive written summary of your qualifications, including your academic, personal, and professional achievements, that showcases why you are the best candidate for the job. Because an employer will spend on average only 15 to 20 seconds reviewing your résumé, you want to be sure that you prepare a good one.

In preparing your résumé, remember that all information on it must be accurate and complete. Résumés typically begin with the applicant's full name, telephone number, and mail and email addresses. A simple and direct statement of career objectives generally appears next, followed by work history and academic data (including awards and internships) and then by personal activities and experiences applicable to the job sought.

The résumé sometimes ends with a list of references the employer may contact (at other times, references may be listed separately). If your work or internship experience is limited, nonexistent, or irrelevant, then it is a good idea to emphasize your academic and nonacademic achievements, showing skills related to those required for excellent job performance.

There are three main types of résumés. Reverse *chronological* résumés, which emphasize career growth, are organized in reverse chronological order, starting with your most recent job. They focus on job titles within organizations, describing the responsibilities and accomplishments for each job. *Functional* résumés focus less on job titles and work history and more on assets and achievements. This format works best if your job history is scanty or discontinuous. *Mixed,* or *combination,* résumés take from each of the other two formats. First, the skills used for a specific job are listed, and then the job title is stated. This format works best for applicants whose past jobs are in other fields or seemingly unrelated to the position. For further explanation and examples of these types of résumés, see the Which Résumé Format to Use page at www.zipjob.com/blog/resume-format-types/.

Many books can assist you in developing your résumé. A popular guide is Dan Clay, *How to Write the Perfect Resume* (Dan Clay, 2018). Websites such as MyPerfectResume (www.myperfectresume.com) provide sample résumés and ready-to-use phrases while guiding you through the résumé preparation process. CareerOneStop (www.careeronestop.org/resumeguide/introduction.aspx) offers a step-by-step résumé tutorial, and Monster (www.monster.com/career-advice) offers résumé advice and writing services. Finally, you can even create your own personalized online résumé at sites such as optimalresume.com.

Online Résumés

The internet is now a widely used job-search environment, so it's a good idea to have your résumé ready for the online environment. You can forward it to networking contacts or recruiting professionals through email. You can also post it in online databases with the hope that employers and recruiters will find it.

Successful internet-ready résumés require a different strategy than that for paper résumés. For instance, when companies search résumé banks, they search key words and industry buzz words that describe a skill or the core work required for each job, so nouns are much more important than verbs. Two good resources for preparing internet-ready résumés are GCF (www.gcflearnfree.org/resumewriting/9/print) and LiveCareer (www.livecareer.com/resources/resumes/how-to/write/e-resumes).

After you have written your internet-ready résumé, you need to post it. Indeed and LinkedIn are good locations to start. However, use caution when posting your résumé on various sites. In this era of identity theft, you need to select sites with care so as to protect your privacy. Limit access to your personal contact information, and don't use sites that offer to "blast" your résumé into cyberspace.

Résumé Tips

- Communicate your worth to potential employers in a concrete manner, citing examples whenever possible.
- Be concise and direct.
- Use active verbs to show you are a doer.
- Do not skimp on quality or use gimmicks. Spare no expense in presenting a professional résumé.
- Have someone critique your work. A single typo can eliminate you from being considered.

- Customize your résumé for specific employers. Emphasize your strengths as they pertain to your targeted job.
- Keep your résumé compact, usually one page.
- Format the text to be attractive, professional, and readable. Times New Roman is often the font of choice. Avoid too much "design" or gimmicky flourishes.

Write a Cover Letter, Follow Up, and Assemble Supporting Documents

Cover Letter

You should include a cover letter informing the employer that a résumé is enclosed. But a cover letter does more than this. It also serves to summarize in one or two paragraphs the contents of the résumé and explains why you think you are the right person for the position. The goal is to persuade the employer to look at the more detailed résumé. A typical cover letter is organized as follows: (1) the name and position of the person you are contacting; (2) a statement identifying the position you are applying for, how you heard of the vacancy, and the reasons for your interest; (3) a summary of your qualifications for the job; (4) a description of what follow-ups you intend to make, such as phoning in two weeks to see if the résumé has been received; and (5) an expression of gratitude for the opportunity of being a candidate for the job.

CareerOneStop (www.careeronestop.org/JobSearch/Resumes/ResumeGuide/MarketYourResume/write-effective-cover-letters.aspx?frd=true) offers a step-by-step tutorial on how to create a cover letter, and Cover Letter Now contains more than 50 cover letter samples (www.cover-letter-now.com/). Another popular site, Resume Genius, can build a cover letter for you (https://resumegenius.com/cover-letter-builder). A popular guide to check out is Jeremy Schifeling, *Get It Done: Write a Cover Letter* (Jeremy Schifeling, 2018).

Follow Up

Once you send your cover letter and résumé to prospective employers via the method they prefer—email, their website, or regular mail—it's often a good idea to follow up. In today's market, job seekers can't afford to wait for interviews to find them. A quality résumé and an attractive cover letter are crucial, but a proper follow-up may be the key to landing an interview. However, before you engage your potential employer, be sure to research the company. Knowing about the company and understanding its place in the industry will help you shine. When you place a call, send an email, or mail a letter to a company contact, be sure to restate your interest in the position, check on the status of your résumé, and ask employers about any questions they may have.

Letters of Recommendation

Letters of recommendation are written references by professors, former and current employers, and others that testify to your character, skills, and abilities. Some companies may request letters of recommendation, to be submitted either with the résumé or at the interview. Even if letters of recommendation aren't requested, it's a good idea to bring them with you to the interview. A good reference letter tells why you would be an excellent candidate for the position. In choosing someone to write a letter of recommendation, be confident that the person will give you a good reference. In addition, do not assume the person knows everything about you or the position you are seeking. Rather, provide the person with your résumé and other relevant data. As a courtesy, allow the reference writer at least a month to complete the letter and enclose a stamped, addressed envelope with your materials.

In the packet or with the email containing your résumé, cover letter, and letters of recommendation, you may also want to attach other relevant documents that support your candidacy, such as academic transcripts, graphics, portfolios, and samples of writing. While you want to take the initiative in telling your story powerfully to recruiters, try not to overwhelm them with information at the outset. Provide them with the information they seek at each stage while mentioning that you have additional information you could provide if they would appreciate it.

Interview for Jobs

As the old saying goes, "The résumé gets you the interview; the interview gets you the job." The job interview offers you an opportunity to gather more information about the organization, while at the same time allowing the organization to gather more information about you. You'll want to present your best self. The interview process consists of three parts: before the interview, the interview itself, and after the interview. If you pass through these stages successfully, you will be called back for the follow-up interview.

Before the Interview

In preparing for your interview, do the following:

1. Understand that interviewers have diverse styles, including the "chitchat," let's-get-to-know-each-other style; the interrogation style of question after question; and the tough-probing "why, why, why" style, among others. So be ready for anything.
2. With a friend, practice being interviewed and then ask for a critique. Or video yourself in a practice interview so that you can critique your own performance. Your college placement service may also offer "mock" interviews to help you.
3. Prepare at least five good questions whose answers are not easily found in the company literature, such as "What is the future direction of the firm?" "How does the firm differentiate itself from competitors?" or "Do you have a new-media division?"
4. Anticipate possible interview questions, such as "Why do you want to work for this company?" or "Why should we hire you?" Prepare solid answers before the interview. Have a clear idea of why you are interested in joining the company and the industry to which it belongs.
5. Avoid back-to-back interviews—they can be exhausting, and it is unpredictable how long each will last.
6. Prepare relevant documents that support your candidacy, such as academic transcripts, letters of recommendation, graphics, portfolios, and samples of writing. Bring multiple copies to the interview.
7. Dress conservatively and professionally. Be neat and clean.
8. Arrive 10 minutes early to collect your thoughts and review the major points you intend to cover. Check your name on the interview schedule, noting the name of the interviewer and the room number. Be courteous and polite to office staff.
9. Approach the interview enthusiastically. Let your personality shine through.

During the Interview

During the interview, do the following:

1. Shake hands firmly in greeting the interviewer. Introduce yourself, using the same form of address that the interviewer uses. Focus on creating a good initial impression.
2. Keep your poise. Relax, smile when appropriate, and be upbeat throughout.
3. Maintain eye contact and good posture and speak distinctly. Don't clasp your hands or fiddle with jewelry, hair, or clothing. Sit comfortably in your chair.
4. Along with the copies of relevant documents that support your candidacy, carry extra copies of your résumé with you.
5. Have your story down pat. Present your selling points. Answer questions directly. Avoid either one-word or too-wordy answers.
6. Let the interviewer take the initiative but don't be passive. Find an opportunity to direct the conversation to things about yourself that you want the interviewer to hear.
7. To end on a high note, make your most important point or ask your most pertinent question during the last part of the interview.
8. Don't hesitate to "close." You might say, "I have enjoyed this interview, and I'm very interested in the position."
9. Obtain the interviewer's business card or address, email address, and phone number so that you can follow up later.

A tip for acing the interview: Before you open your mouth, find out *what it's like* to be a brand manager, sales representative, market researcher, advertising account executive, social media analyst, or other position for which you're interviewing. See if you can find a "mentor"—someone in a position similar to the one you're seeking, perhaps with another company. Talk with this mentor about the ins and outs of the job and industry.

After the Interview

After the interview, do the following:

1. Record the key points that arose. Be sure to note who is to follow up and when a decision can be expected.
2. Analyze the interview objectively, including the questions asked, the answers to them, your overall interview presentation, and the interviewer's responses to specific points.
3. Immediately send a thank-you letter or email, mentioning any additional items and your willingness to supply further information.
4. If you do not hear from the employer within the specified time, call, email, or write the interviewer to determine your status.

Take a Follow-Up Interview

If your first interview takes place off-site, such as at your college or at a job fair, and if you are successful with that initial interview, you will be invited to visit the company or to participate in subsequent virtual interviews. The in-company interviews will probably run from several hours to an entire day. Likewise, the virtual interviews could involve a series of online meetings with company individuals or groups over the course of a day or spread over multiple days. The organization will examine your interest, maturity, enthusiasm, assertiveness, logic, and company and functional knowledge. You should ask questions about issues of importance to you. Find out about the working environment, job role, responsibilities, opportunities for advancement, current industrial issues, and the company's personality. The company wants to discover if you are the right person for the job, whereas you want to find out if it is the right job for you. The key is to determine if the right *fit* exists between you and the company.

Marketing Jobs

This section describes some of the key marketing positions.

Advertising

Advertising is one of the most exciting fields in marketing, offering a wide range of career opportunities.

Job Descriptions

Key advertising positions include copywriter, art director, production manager, account executive, account planner, digital and social media content managers, and media planner/buyer.

- *Copywriters* write advertising copy and help find the concepts behind the written words and visual images of advertisements.
- *Art directors*, the other part of the creative team, help translate the copywriters' ideas into dramatic visuals called "layouts." Agency artists develop print layouts, package designs, television and video layouts (called "storyboards"), corporate logotypes, trademarks, and symbols.
- *Production managers* are responsible for physically creating ads, either in-house or by contracting through outside production houses.
- *Account development executives* research and understand clients' markets and customers and help develop marketing and advertising strategies to impact them.
- *Account executives* serve as liaisons between clients and agencies. They coordinate the planning, creation, production, and implementation of an advertising campaign for the account.
- *Account planners* serve as the voice of the consumer in the agency. They research consumers to understand their needs and motivations as a basis for developing effective ad campaigns.
- *Digital and social media content managers* plan and place digital and social media marketing and advertising content and coordinate it with traditional media content.

- *Media planners (or buyers)* determine the best mix of television, radio, newspaper, magazine, digital, and other media for the advertising campaign.

Skills Needed, Career Paths, and Typical Salaries

Work in advertising requires strong people skills in order to interact closely with an often difficult and demanding client base. In addition, advertising attracts people with strong skills in planning, problem solving, creativity, communication, initiative, leadership, and presentation. Advertising involves working under high levels of stress and pressure created by unrelenting deadlines. Advertisers frequently have to work long hours to meet deadlines for a presentation. But work achievements are very apparent, with the results of creative strategies observed by thousands or even millions of people.

Positions in advertising sometimes require an MBA. But most jobs only require a business, graphic arts, or liberal arts degree. Advertising positions often serve as gateways to higher-level management. Moreover, with large advertising agencies opening offices all over the world, there is the possibility of eventually working on global campaigns.

Starting advertising salaries are relatively low compared to those of some other marketing jobs because of strong competition for entry-level advertising jobs. Compensation will increase quickly as you move into account executive or other management positions. For more facts and figures, see the online pages of *Advertising Age*, a key ad industry publication (www.adage.com, click on the Jobs link), and the American Association of Advertising Agencies (www.aaaa.org).

Brand and Product Management

Brand and product managers plan, direct, and control business and marketing efforts for their products. They are involved with market research and customer-insight development, innovation, research and development, packaging, manufacturing, sales and distribution, advertising and branding, promotion, digital marketing, and business analysis and forecasting. As marketing technology has advanced rapidly expanded over the past decade, the number of brand and product management technology roles has grown dramatically.

Job Descriptions

A company's brand management team consists of people in several positions:

- *Brand managers* guide the development of marketing strategies for a specific brand.
- *Assistant brand managers* are responsible for certain strategic components of the brand.
- *Product managers* oversee several brands within a product line or product group.
- *Product category managers* direct multiple product lines in the product category.
- *Market analysts* research the market and provide important strategic information to the project managers.
- *Project directors* are responsible for collecting market information on a marketing or product project.
- *Research directors* oversee the planning, gathering, and analyzing of all organizational research.

Skills Needed, Career Paths, and Typical Salaries

Brand and product management requires high problem-solving, analytical, presentation, communication, and leadership skills as well as the ability to work well in a team. Product management requires long hours and involves the high pressure of running large projects. In consumer goods companies, the newcomer—who usually needs an MBA—joins a brand team as an assistant and learns the ropes by doing numerical analyses and assisting senior brand people. This person eventually heads the team and later moves on to manage a larger brand, then several brands.

Many industrial goods companies also have product managers. Product management is one of the best training grounds for future corporate officers. Product management also offers good opportunities to move into international marketing. Product managers command relatively high salaries. Because this job category encourages or requires a master's degree, starting pay tends to be higher than in other marketing categories such as advertising or retailing.

Management Consulting

Management consulting firms work with a range of companies to help them resolve major problems and challenges. Many consulting projects relate to market assessment and sizing, developing and executing market-related strategy, managing and enhancing profitability, and building more innovative and successful organizations. Given their training and strategic focus, many marketers fit well with consulting careers.

Professionals working in a management consulting firm can gain a range of learning experiences across client companies, industries, and functional areas. After a few years of experience, the portfolio of experience that you can build can be impressive. Some consultants will, at some stage, focus more narrowly on and build deep experience in one or two industries.

Job Descriptions

Management consulting companies work with their clients on a range of managerial problems and challenges. Therefore, for each assignment, the company will put together a carefully chosen consulting team that will be able to effectively work with—and bring strong value to—the client. The consulting team will include people in different positions:

- *Partners* typically bring in new business and have relationships with senior client executives.
- *An engagement manager* is responsible for the leadership of the consulting team, plans the team's work trajectory, and allocates work across the team members. The engagement manager allocates full time to the consulting project.
- *Consultants and associates* work under the supervision of the engagement manager and perform much of the core work related to problem definition, analysis, and client interaction. They may be responsible for generating preliminary recommendations. They also join more senior team members in mentoring the junior members. Similar to engagement managers, they typically focus on one client project at a time.
- *Analysts and junior analysts* typically focus on collecting, organizing, and analyzing data and industry insights under the mentorship and supervision of more senior team members.

Skills Needed, Career Paths, and Typical Salaries

Consultants require excellent problem-solving, analytical, creative, presentation, communication, and people-management skills. They must be comfortable with rapidly switching their focus across industries and problem areas and across high-level perspectives and granular, tactical details. Successful consultants work excellently in teams. Loners are a poor fit with consulting. Most management consulting firms will expect their consultants to have an MBA at some stage to move further up the ladder.

The consulting industry is well known for its demanding work hours and on-the-road workstyle. A 60- or 70-hour workweek is not uncommon in management consulting. Many consultants spend years on the road, with a typical week involving flying out to the client's work site early on Monday morning and returning to the home base late on Friday night.

In return, however, management consulting offers a range of work experience across companies, industries, and functional areas that no other career path can match. Salaries are among the highest offered across functional areas. And, in the long run, client companies will often poach consultants who have worked with them to fill senior, even C-suite, jobs. These opportunities, even when challenging, serve as excellent "off-ramps" for consultants who have tired of the relentlessly long workweeks and continuous, on-the-road lifestyle.

Sales and Sales Management

Sales and sales management opportunities exist in a wide range of profit and not-for-profit organizations and in product and service organizations, including financial, insurance, consulting, and government organizations.

Job Descriptions

Key jobs include consumer sales, industrial sales, national account managers, service support, sales trainers, and sales management:

- *Consumer sales* involves selling consumer products and services through retailers.
- *Industrial sales involves* selling products and services to other businesses.
- *National account managers (NAMs)* oversee a few very large accounts.
- *Service support* personnel support salespeople during and after the sale of a product.
- *Sales trainers* train new hires and provide refresher training for all sales personnel.
- *Sales management* includes a sequence of positions ranging from district manager to vice president of sales.

Salespeople enjoy active professional lives, working outside the office and interacting with others. They manage their own time and activities. And successful salespeople can be very well paid. Competition for top jobs can be intense. Every sales job is different, but some positions involve extensive travel, long workdays, and working under pressure. You can also expect to be transferred more than once between company headquarters and regional offices. However, most companies are now working to bring good work–life balance to their salespeople and sales managers.

Skills Needed, Career Paths, and Typical Salaries

Selling is a people profession in which you will work with people every day, all day long. In addition to people skills, sales professionals need sales and communication skills. Most sales positions also require strong problem-solving, analytical, presentation, and leadership abilities as well as creativity and initiative. In today's high-tech selling environments, most selling also requires a working familiarity and comfort with social selling and engagement technologies. Teamwork skills are increasingly important.

Career paths lead from salesperson to district, regional, and higher levels of sales management and, in many cases, to the top management of the firm. Today, most entry-level sales management positions require a college degree. Increasingly, people seeking selling jobs are acquiring sales experience in an internship capacity or from a part-time job before graduating. Sales positions are great springboards to leadership positions, with more CEOs starting in sales than in any other entry-level position. This might explain why competition for top sales jobs is intense.

Starting base salaries in sales may be moderate but compensation is often supplemented by significant commission, bonus, or other incentive plans. In addition, many sales jobs include a company car or car allowance. Successful salespeople are among most companies' highest paid employees.

Other Marketing Jobs

Marketing Research

Marketing researchers interact with managers to define problems and identify the information needed to resolve them. They design research projects, prepare questionnaires and samples, analyze data, prepare reports, and present their findings and recommendations to management. They must understand statistics, data analytics tools, consumer behavior, psychology, and sociology. As more and more marketing research goes digital, they must also understand the ins and outs of obtaining and managing online information. A master's degree helps. Career opportunities exist with manufacturers, retailers, some wholesalers, trade and industry associations, marketing research firms, advertising agencies, and governmental and private nonprofit agencies.

Marketing Data Science

A marketing data scientist's job is to analyze marketing data to gain actionable customer insights. Data scientists collect big data sets and apply marketing analytics to discover actionable insights and marketing solutions. They share these insights and solutions with marketing managers to help them make better marketing decisions. Being a marketing data scientist often requires math, statistics, analytical, and computer science skills, along with an understanding of marketing strategy. Most data scientists have at least a master's degree.

Digital and Social Media Management

The exploding use of digital and social media has created a wide range of marketing positions and careers, from digital and social media strategists and managers to social media planners, digital content producers, data scientists and big data analysts, and online community managers. These positions involve varying degrees of helping to develop digital and social media campaigns, developing and managing digital content across social media platforms, managing online brand communities, mining customer insights from social media data, and engaging and interacting with customers via websites, mobile, and social media. Such positions require a knowledge of digital technologies and social media platforms such as Twitter, Facebook, YouTube, Instagram, TikTok, LinkedIn, Pinterest, and Snapchat.

Retailing

Retailing provides an early opportunity to assume marketing responsibilities. Key jobs include store manager, regional manager, buyer, department manager, and salesperson. *Store managers* direct the management and operation of an individual store. *Regional managers* manage groups of stores across several states and report performance to headquarters. *Buyers* select and buy the merchandise that the store carries. The *department manager* acts as store manager of a department, such as clothing, but on the department level. The *salesperson* sells merchandise to retail customers. Retailing can involve relocation, but generally there is little travel, unless you are a buyer. Retailing requires high people and sales skills because retailers are constantly in contact with customers. Enthusiasm, willingness, and communication skills are very helpful for retailers, too. With the recent rapid growth of online retailing and omni-channel marketing, many retailing careers now also require digital and data skills and aptitudes.

Retailers work long hours, but their daily activities are often more structured than in some types of marketing positions. Starting salaries in retailing tend to be low but pay increases as you move into management or a retailing specialty job.

New Product Planning

People interested in new product planning can find opportunities in many types of organizations. They usually need a good background in marketing, marketing research, and sales forecasting; they need organizational skills to motivate and coordinate others; and they may need a technical background. Usually, these people work first in other marketing positions before joining new product projects.

Marketing Logistics (Physical Distribution)

Marketing logistics, or physical distribution, is a large and dynamic field, with many career opportunities. Major transportation carriers, manufacturers, wholesalers, and retailers all employ logistics specialists. Increasingly, marketing teams include logistics specialists, and marketing managers' career paths include marketing logistics assignments. Coursework in quantitative methods, finance, accounting, and marketing will provide you with the necessary skills for entering the field.

Not-for-Profit Services

The key jobs in not-for-profits include marketing director, director of development, event coordinator, publication specialist, and intern/volunteer. The *marketing director* is in charge of all marketing activities for the organization. The *director of development* organizes, manages, and directs the fundraising campaigns that keep a not-for-profit in existence. An *event coordinator* directs all aspects of fundraising events, from initial planning through implementation. The *publication specialist* oversees publications designed to promote awareness of the organization. Although typically an unpaid position, the *intern/volunteer* performs various marketing functions, and this work can be an important step to gaining a full-time position.

The not-for-profit sector is typically not for someone who is money-driven. Rather, most not-for-profits look for people with a strong sense of community spirit and the desire to help others. Therefore, starting pay is usually lower than in other marketing fields. However, the bigger the not-for-profit, the better your chance of rapidly increasing your income when moving into upper management.

Other Resources

Professional marketing associations and organizations are another source of information about careers. Marketers belong to many such societies. You may want to contact some of the following in your job search:

American Advertising Federation, 1101 Vermont Avenue NW, 5th Floor, Washington, DC 20005. (202) 898-0089 (www.aaf.org)

American Marketing Association, 130 E Randolph Street, 22nd Floor, Chicago, IL 60601. (800) AMA-1150 (www.ama.org)

The Association of Women in Communications, 1717 E Republic Road, Suite A, Springfield, MO 65804. (417) 886-8606 (www.womcom.org)

Ellevate Network, 12 E 33rd St, 11th Floor, New York, NY 10016 (www.ellevatenetwork.com)

The Insights Association, 1156 15th Street NW, Suite 700, Washington, DC 20005. (202) 800-2545 (www.insightsassociation.org)

National Association of Sales Professionals, 2121 Lohmans Crossing Rd, Ste 504579, Austin, TX 78734. (866) 365-1520 (www.nasp.com)

National Management Association, 2210 Arbor Boulevard, Dayton, OH 45439. (937) 294-0421 (www.nma1.org)

National Retail Federation, 1101 New York Avenue NW, Suite 1200, Washington, DC 20005. (800) 673-4692 (www.nrf.com)

Product Development and Management Association, 1000 Westgate Drive, Suite 252, St. Paul, MN 55114. (651) 290-6280 (www.pdma.org)

Public Relations Society of America, 120 Wall St, 21st Floor, New York, NY 10005. (212) 460-1400 (www.prsa.org)

Sales and Marketing Executives International, PO Box 1390, Sumas, WA, 98295. (312) 893-0751 (www.smei.org)

She Runs It, 1460 Broadway, New York, NY 10036. (212) 221-7969 (https://sherunsit.org)

Glossary

Adapted global marketing A global marketing approach that adjusts the marketing strategy and mix elements to each global target market, which increases costs but hopefully yields larger market shares and financial returns.

Administered VMS A vertical marketing system that coordinates successive stages of production and distribution through the size and power of one of the parties.

Adoption process The process through which an individual passes from first hearing about an innovation to final adoption.

Advertising Any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor.

Advertising agency A marketing services firm that assists companies in planning, preparing, implementing, and evaluating all or portions of their advertising programs.

Advertising budget The dollars and other resources allocated to a product or a company advertising program.

Advertising media The vehicles through which advertising messages are delivered to their intended audiences.

Advertising objective A specific communication task to be accomplished with a specific target audience during a specific period of time.

Advertising strategy The strategy by which the company accomplishes its advertising objectives. It consists of two key elements: creating advertising messages and selecting advertising media.

Affordable method Setting the promotion budget at the level management thinks the company can afford.

Agent A wholesaler who represents buyers or sellers on a relatively permanent basis, performs only a few functions, and does not take title to goods.

Age and life-cycle segmentation Dividing a market into different age and life-cycle groups.

Allowance Promotional money paid by manufacturers to retailers in return for an agreement to feature the manufacturer's products in some way.

Alternative evaluation The stage of the buyer decision process in which the consumer uses information to evaluate alternative brands.

Approach The sales step in which a salesperson meets the customer for the first time.

Artificial intelligence (AI) Technology by which machines think and learn in a way that looks and feels human but with a lot more analytical capacity.

Attitude A person's consistently favorable or unfavorable evaluations, feelings, and tendencies toward an object or idea.

B-to-B digital and social media marketing Using digital and social media marketing approaches to engage business customers and manage customer relationships anywhere, anytime.

Baby boomers The 71 million people born during the years following World War II, from 1946 through 1964.

Basing-point pricing Pricing in which the seller designates some city as a basing point and charges all customers the freight cost from that city to the customer.

Behavioral segmentation Dividing a market into segments based on consumer knowledge, attitudes, uses of a product, or responses to a product.

Behavioral targeting Using online consumer tracking data and analytics to target advertisements and marketing offers to specific consumers.

Belief A descriptive thought that a person holds about something.

Benchmarking Comparing the company's products and processes to those of competitors or leading firms in other industries to identify best practices and find ways to improve quality and performance.

Benefit segmentation Dividing the market into segments according to the different benefits that consumers seek from the product.

Big data The huge and complex data sets generated by today's sophisticated information generation, collection, storage, and analysis technologies.

Blogs Online forums where people and companies post their thoughts and other content, usually related to narrowly defined topics.

Brand A name, term, sign, symbol, or design, or a combination of these that identifies the products or services of one seller or group of sellers and differentiates them from those of competitors.

Brand community website A website that presents brand-related content that engages consumers and creates a customer community around a brand.

Brand equity The differential effect that knowing the brand name has on a customer's emotions, attitudes, and behaviors related to the product or its marketing.

Brand extension Extending an existing brand name to new product categories.

Brand value The total financial value of a brand.

Break-even analysis Analysis to determine the unit volume and dollar sales needed to be profitable given a particular price and cost structure.

Break-even price The price at which total revenue equals total cost and profit is zero.

Break-even pricing (target return pricing) Setting price to break even on the costs of making and marketing a product, or setting price to make a target return.

Broker A wholesaler who does not take title to goods and whose function is to bring buyers and sellers together and assist in negotiation.

Business analysis A review of the sales, costs, and profit projections for a new product to find out whether these factors satisfy the company's objectives.

Business buyer behavior The buying behavior of organizations that buy goods and services for use in the production of other products and services that are sold, rented, or supplied to others.

Business buying process The decision process by which business buyers determine which products and services their organizations need to purchase and then find, evaluate, and choose among alternative suppliers and brands.

Business portfolio The collection of businesses and products that make up the company.

Business promotions Sales promotion tools used to generate business leads, stimulate purchases, reward business customers, and motivate salespeople.

Buyers People in an organization's buying center who make an actual purchase.

Buying center All the individuals and units that play a role in the purchase decision-making process.

Buzz marketing Cultivating opinion leaders and getting them to spread information about a product or a service to others in their communities.

By-product pricing Setting a price for by-products to help offset the costs of disposing of them and help make the main product's price more competitive.

Cannibalization The situation in which one product sold by a company takes a portion of its sales from other company products.

Captive-product pricing Setting a price for products that must be used along with a main product, such as toner cartridges for a printer and games for a video-game console.

Carbon footprint A term that captures the total negative CO_2e impact associated with a product or service.

Catalog marketing Direct marketing through print, video, or digital catalogs that are mailed to select customers, made available in stores, or presented online.

Causal research Marketing research to test hypotheses about cause-and-effect relationships.

Chain ratio method Estimating market demand by multiplying a base number by a chain of adjusting percentages.

Channel conflict Disagreements among marketing channel members on goals, roles, and rewards—who should do what and for what rewards.

Channel level A layer of intermediaries that performs some work in bringing the product and its ownership closer to the final buyer.

Choice set The smaller set of brands—say, five or fewer—that consumers carefully evaluate in order to make their final choice.

Closing The sales step in which a salesperson asks the customer for an order.

Co-branding The practice of using the established brand names of two different companies on the same product.

Cognitive dissonance Buyer discomfort caused by postpurchase conflict.

Commercialization Introducing a new product into the market.

Communication adaptation A global communication strategy of fully adapting advertising messages to local markets.

Competition-based pricing Setting prices based on competitors' strategies, prices, costs, and market offerings.

Competitive advantage An advantage over competitors gained by offering greater customer value either by having lower prices or providing more benefits that justify higher prices.

Competitive marketing intelligence The systematic monitoring, collection, and analysis of available information about competitors and developments in the marketing environment.

Competitive marketing strategies Strategies that strongly position the company against competitors and give it the greatest possible competitive advantage.

Competitive-parity method Setting the promotion budget to match competitors' outlays.

Competitor analysis Identifying key competitors; assessing their objectives, strategies, strengths and weaknesses, and reaction patterns; and selecting which competitors to attack or avoid.

Competitor-centered company A company whose moves are mainly based on competitors' actions and reactions.

Complex buying behavior Consumer buying behavior in situations characterized by high consumer involvement in a purchase and significant perceived differences among brands.

Concentrated (niche) marketing A market-coverage strategy in which a firm goes after a large share of one or a few segments or niches.

Concept testing Testing new product concepts with a group of target consumers to find out if the concepts have strong consumer appeal.

Consideration set The set of perhaps 10 or more brands that consumers begin evaluating in order to generate a smaller choice set.

Consumer buyer behavior The buying behavior of final consumers—individuals and households that buy goods and services for personal consumption.

Consumer market All the individuals and households that buy or acquire goods and services for personal consumption.

Consumer omni-channel navigation behavior The consumer's use of multiple marketing channels, both digital and nondigital, across stages of the consumer buying decision process.

Consumer product A product bought by final consumers for personal consumption.

Consumer promotions Sales promotion tools used to boost short-term customer buying and engagement or enhance long-term customer relationships.

Consumer value–building marketing A company should put most of its resources into long-term consumer value–building marketing investments.

Consumer-centric marketing A company should view and organize its marketing activities from the customer's point of view to sense, serve, and satisfy customer needs, now and in the future.

Consumerism An organized movement of citizens and government agencies designed to improve the rights and power of buyers in relation to sellers.

Content marketing Creating, inspiring, and sharing brand messages and conversations with and among consumers across a fluid mix of paid, owned, earned, and shared communications channels and media.

Contract manufacturing A joint venture in which a company contracts with manufacturers in a global market to produce its product or provide its service.

Contractual VMS A vertical marketing system in which independent firms at different levels of production and distribution join together through well-defined contracts.

Contribution margin The unit contribution divided by the selling price.

Convenience product A consumer product that customers usually buy frequently, immediately, and with minimal comparison and buying effort.

Convenience store A small store, located near a residential area, that is open long hours seven days a week and carries a limited line of high-turnover convenience goods.

Conventional distribution channel A channel consisting of one or more independent producers, wholesalers, and retailers, each a separate business seeking to maximize its own profits, perhaps even at the expense of profits for the system as a whole.

Corporate chains Two or more outlets that are commonly owned and controlled.

Corporate VMS A vertical marketing system that combines successive stages of production and distribution under single ownership—channel leadership is established through common ownership.

Cost-based pricing Setting prices based on the costs of producing, distributing, and selling the product plus a fair rate of return for effort and risk.

Cost-plus pricing (markup pricing) Adding a standard markup to the cost of the product.

Creative concept The compelling "big idea" that will bring an advertising message strategy to life in a distinctive and memorable way.

Crowdsourcing Inviting broad communities of people—customers, employees, independent scientists and researchers, and even the public at large—into the new product innovation process.

Cultural environment Institutions and other forces that affect society's basic values, perceptions, preferences, and behaviors.

Culture The set of basic values, perceptions, wants, and behaviors learned by a member of society from family and other important institutions.

Customer (or market) sales force structure A sales force organization in which salespeople specialize in selling only to certain customers or industries.

Customer brand advocacy Actions by which satisfied customers initiate favorable interactions with others about a brand.

Customer equity The total combined customer lifetime values of all of the company's customers.

Customer experience A market offering with a strong sensory or emotional component that plays out for the customer over time.

Customer insight community An ongoing online company panel or community of engaged consumers who provide input and take part in research projects over time.

Customer insights Deep understandings of customers' stated and unstated needs and wants that become the basis for creating enduring customer value, engagement, and relationships.

Customer journey The sum of the ongoing experiences consumers have with a brand that affect their buying behavior, engagement, and brand advocacy over time.

Customer lifetime value The value of the entire stream of purchases a customer makes over a lifetime of patronage.

Customer relationship management (CRM) Managing detailed information about individual customers and using that information to carefully manage customer touch points to maximize customer loyalty.

Customer relationship management The overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction.

Customer satisfaction The sense of pleasure a buyer feels when a product's perceived performance matches or exceeds their expectations.

Customer value analysis An analysis conducted to determine what benefits target customers value and how they rate the relative values of various competitors' offers.

Customer value–based pricing Setting price based on buyers' perceptions of value rather than on the seller's cost.

Customer-centered company A company that focuses on customer developments in designing its marketing strategies and delivering superior value to its target customers.

Customer-centered new product development New product development that focuses on finding new ways to solve customer problems and create more customer-satisfying experiences.

Customer-engagement marketing Making the brand a meaningful part of customers' conversations and lives by fostering direct and continuous customer involvement in shaping brand conversations, experiences, and community.

Customer-generated marketing Brand exchanges created by customers themselves—both invited and uninvited—by which customers play a role in shaping their own brand experiences and those of other customers.

Customer-perceived value The customer's evaluation of the difference between the benefits delivered by and the costs of obtaining and using a market offering, relative to those of competing offerings.

Deciders People in an organization's buying center who have formal or informal power to select or approve the final suppliers.

Decline stage The PLC stage in which a product's sales fade away.

Deficient products Products that have neither immediate appeal nor long-run benefits.

Demand curve A curve that shows the number of units the market will buy in a given time period at different prices that might be charged.

Demands Human wants that are backed by buying power.

Demographic segmentation Dividing the market into segments based on variables such as age, life-cycle stage, gender, income, occupation, education, religion, ethnicity, and generation.

Demography The study of human populations in terms of size, density, location, age, gender, race, occupation, and other characteristics.

Department store A retail store that carries a wide variety of product lines, each operated as a separate department managed by specialist buyers or merchandisers.

Derived demand Business demand that ultimately comes from (derives from) the demand for consumer goods.

Descriptive research Marketing research to better describe market and consumer characteristics, such as the market potential for a product or the demographics and attitudes of consumers who buy the product.

Desirable products Products that give both high immediate satisfaction and high long-run benefits.

Differentiated (segmented) marketing A market-coverage strategy in which a firm targets several market segments and designs separate offers for each.

Differentiation Actually differentiating the market offering to create superior customer value relative to the competition.

Digital and social media marketing Using digital marketing tools such as websites, social media, mobile apps and ads, online video, email, and blogs to engage consumers anywhere, at any time, via their digital devices.

Digital consumer personas Detailed, nuanced, and tangible representations of prototypical consumers to be targeted by the digital marketing campaign.

Digital marketing The use of technology-intensive platforms such as the internet, mobile networks and devices, and social media to engage directly with carefully targeted individual consumers, consumer communities, and businesses.

Digital text analysis Using artificial intelligence–driven automated analysis to gain insights from large volumes of text data that are posted by customers on social media, internet forums, company websites, and other digital platforms.

Direct investment Entering a global market by developing assembly or manufacturing facilities within that market.

Direct marketing channel A marketing channel that has no intermediary levels, with the producer selling directly to the consumer.

Direct-mail marketing Marketing that occurs by sending an offer, announcement, reminder, or other item directly to a person at a particular address.

Direct-to-consumer (DTC) brands Brands that avoid direct competition with established traditional brands by selling and shipping to consumers only through online and mobile channels.

Discount A straight reduction in price on purchases during a stated period of time or of larger quantities.

Discount store A retail operation that sells standard and own-branded merchandise at lower prices by accepting lower margins and selling at higher volume.

Disintermediation (or channel disruption) The cutting out of marketing channel intermediaries by product or service producers or the displacement of traditional resellers by radical new types of intermediaries.

Dissonance-reducing buying behavior Consumer buying behavior in situations characterized by high involvement but few perceived differences among brands.

Distribution center A large, highly automated warehouse designed to receive goods from various plants and suppliers, take orders, fill them efficiently, and deliver goods to customers as quickly as possible.

Diversification Company growth through starting up or acquiring businesses outside the company's current products and markets.

Diversity, equity, and inclusion (DEI) in advertising Applying DEI values with and within advertising to ensure full, accurate, and inclusive representations across different gender, religious, racial, ethnic, nationality, ability, age, sexuality, and socioeconomic groups.

Dynamic pricing Adjusting prices continually to meet changing conditions and situations in the marketplace.

E-procurement Purchasing through electronic connections between buyers and sellers—usually online.

Economic community A group of nations organized to work toward shared global trade and other goals.

Economic environment Economic factors that affect consumer purchasing power and spending patterns.

Email marketing Sending targeted and personalized relationship-building or sales-promoting marketing messages via email.

Environmental sustainability A management approach that involves developing strategies that both sustain the environment and produce profits for the company (Chapter 20).

Environmental sustainability Developing strategies and practices that create a world economy that the planet can support indefinitely (Chapter 3).

Environmentalism An organized movement of concerned citizens, businesses, and government agencies designed to protect and improve people's current and future living environment.

Ethical marketing Applying high standards of ethics and morality when making marketing decisions.

Ethnographic research A form of observational research that involves sending observers to watch consumers—usually unobtrusively—in their "natural environments" as they go about their daily lives.

Event marketing (or event sponsorships) Creating a brand-marketing event or serving as a sole or participating sponsor of events created by others.

Exchange The act of obtaining a desired object from a person or an organization by offering something in return.

Exclusive distribution Giving a limited number of dealers the exclusive right to distribute the company's products in their territories.

Execution style The approach, style, tone, words, and format used for executing an advertising message.

Experience curve The drop in the average per-unit production cost that comes with accumulated production experience.

Experimental research Gathering primary data by selecting matched groups of participants, giving them different treatments, controlling unrelated factors, and checking for differences in group responses.

Exploratory research Marketing research to gather preliminary information that will help further define the research problems and suggest hypotheses.

Exporting Entering international markets by selling goods produced in the company's home country, often with little or no modification.

Fad A temporary period of unusually high sales or interest driven by consumer enthusiasm and immediate product or brand popularity.

Fashion A currently accepted or popular style in a given field.

Five As The five customer journey stages on the path from awareness of a brand to advocating it to others: awareness, appeal, ask, act, and advocacy.

Fixed costs (overhead) Costs that do not vary with production or sales level.

FOB-origin pricing Pricing in which goods are placed free on board a carrier; the customer pays the freight from the factory to the destination.

Focus group A focus group involves inviting a small, carefully chosen group of people to meet with a trained moderator to discuss and exchange views about a product, service, or organization. The moderator keeps the discussion "focused" on important issues.

Follow-up The sales step in which a salesperson follows up after the sale to ensure customer satisfaction and repeat business.

Franchise A contractual association between a manufacturer, wholesaler, or service organization (a franchisor) and independent businesspeople (franchisees) who buy the right to own and operate one or more units in the franchise system.

Franchise organization A contractual vertical marketing system in which a channel member, called a franchisor, links several stages in the production-distribution process.

Freight-absorption pricing Pricing in which the seller absorbs all or part of the freight charges in order to get or keep the desired business.

Gatekeepers People in an organization's buying center who control the flow of information to others.

Gender segmentation Dividing a market into different segments based on gender.

General need description The stage in the business buying process in which a buyer describes the general characteristics and quantity of a needed item.

Generation Alpha Kids born after 2012, largely the children of the millennials.

Generation X The 65 million people born between 1965 and 1980 in the "birth dearth" following the baby boom.

Generation Z People born between 1997 and 2012 who make up the tween to mid-20-something markets.

Geographic segmentation Dividing a market into different geographical units, such as nations, states, regions, counties, cities, or even neighborhoods.

Geographical pricing Setting prices for customers located in different parts of the country or world.

Global company A company that, by operating in more than one country, gains marketing, production, research and development (R&D), and financial advantages that are not available to purely domestic competitors.

Global marketing The full process of marketing products and services within and across multiple countries.

Good-value pricing Offering just the right combination of quality and good service at a fair price.

Government market Governmental units—federal, state, and local—that purchase or rent goods and services for carrying out the main functions of government.

Gross margin percentage The percentage of net sales remaining after cost of goods sold—calculated by dividing gross margin by net sales.

Growth stage The PLC stage in which a product's sales start climbing quickly.

Growth-share matrix A portfolio-planning method that evaluates a company's strategic business units (SBUs) in terms of market growth rate and relative market share.

Habitual buying behavior Consumer buying behavior in situations characterized by low consumer involvement and few significant perceived differences among brands.

Handling objections The sales step in which a salesperson seeks out, clarifies, and overcomes any customer objections to buying.

Horizontal marketing system A channel arrangement in which two or more companies at one level join together to follow a new marketing opportunity.

Hyperlocal social marketing Location-based targeting to consumers in local communities or neighborhoods using digital and social media.

Idea generation The systematic search for new product ideas.

Idea screening Screening new product ideas to spot good ones and drop poor ones.

Income segmentation Dividing a market into different income segments.

Indirect marketing channel A marketing channel containing one or more intermediary levels between the producer and the consumer.

Individual marketing Tailoring products and marketing programs to the needs and preferences of individual customers.

Industrial product A product bought by individuals and organizations for further processing or for use in conducting a business.

Influencer marketing Enlisting established influencers or creating new influencers to spread positive information about a company's brands.

Influencers People in an organization's buying center who affect the buying decision; they often help define specifications and also provide information for evaluating alternatives.

Information search The stage of the buyer decision process in which the consumer is motivated to search for more information.

Inside sales force Salespeople who conduct business from their offices via telephone, online and social media interactions, or visits from prospective buyers.

Institutional market Schools, hospitals, nursing homes, prisons, and other institutions that provide goods and services to people in their care.

Integrated logistics management The logistics concept that emphasizes teamwork—both inside the company and among all the marketing channel organizations—to maximize the performance of the entire distribution system.

Integrated marketing communications (IMC) Carefully integrating and coordinating the company's communications channels to deliver a clear, consistent, and compelling brand and company message.

Intensive distribution Stocking the product in as many outlets as possible.

Interactive marketing Training service employees in the fine art of interacting with customers to satisfy their needs.

Intermarket (cross-market) segmentation Forming segments of consumers who have similar needs and buying behaviors even though they are located in different countries.

Internal databases Collections of consumer and market information obtained from data sources within the company network.

Internal marketing Orienting and motivating customer-contact employees and supporting service employees to work as a team to provide customer satisfaction.

Internet of Things (IoT) A global environment where everything and everyone is digitally connected to everything and everyone else.

Interviews Gathering primary data by engaging participants in one-on-one, semistructured, but open-ended conversations that can reveal deep or unexpected insights.

Introduction stage The PLC stage in which a new product is first distributed and made available for purchase.

Inventory turnover rate (or stockturn rate) The number of times an inventory turns over or is sold during a specified time period (often one year)—calculated based on costs, selling price, or units.

Joint ownership A cooperative venture in which a company creates a local business with investors in a global market who share ownership and control.

Joint venturing Entering international markets by joining with companies within a global market to produce or market a product or service.

Learning Changes in an individual's behavior arising from experience.

Licensing Entering a global market by developing an agreement with an entity within that market to use the company's brand, trademark, patent, trade secret, manufacturing process, or some other item of value in return for some payment.

Lifestyle A person's pattern of living as expressed in his or her activities, interests, and opinions.

Line extension Extending an existing brand name to new forms, colors, sizes, ingredients, or flavors of an existing product category.

Local marketing Tailoring brands and marketing to the needs and wants of local customer segments—cities, neighborhoods, and even specific stores.

Macroenvironment The larger societal forces that affect the microenvironment—demographic, economic, natural, technological, political, and cultural forces.

Management contracting A joint venture in which the domestic company supplies the management know-how to a company in another country that supplies the capital; the domestic company exports management services rather than products.

Manufacturers' and retailers' branches and offices Wholesaling by sellers or buyers themselves rather than through independent wholesalers.

Market The set of all actual and potential buyers of a product or service.

Market challenger A runner-up firm that is fighting hard to increase its market share in an industry.

Market development Company growth by identifying and developing new market segments for current company products.

Market follower A runner-up firm that wants to hold its share in an industry without rocking the boat.

Market leader The firm in an industry with the largest market share.

Market nicher A firm that serves small segments that the other firms in an industry overlook or ignore.

Market offerings Some combination of products, services, solutions, and experiences offered to a market to satisfy a need or want.

Market penetration Company growth by increasing sales of current products to current market segments without changing the product.

Market potential The upper limit of market demand.

Market segment A group of consumers who are expected to respond in a similar way to a given set of marketing efforts.

Market segmentation Dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviors and who might require separate marketing strategies or mixes.

Market share Company sales divided by market sales.

Market targeting (targeting) Evaluating each market segment's attractiveness and selecting one or more segments to serve.

Market-centered company A company that pays balanced attention to both customers and competitors in designing its marketing strategies.

Market-penetration pricing Setting a low price for a new product in order to quickly attract buyers and gain a large market share.

Market-skimming pricing (price skimming) Setting a high price for a new product to skim maximum revenues layer by layer from customer segments in line with their willingness to pay.

Marketing The set of strategies and activities by which companies acquire and engage customers, build strong customer relationships, and create superior customer value in order to capture value from customers in return.

Marketing analytics The analysis tools, technologies, and processes by which marketers dig out meaningful patterns in big data to gain customer insights, gauge marketing performance, and improve the customer experience.

Marketing channel (distribution channel) A set of interdependent organizations that help make a product or service available for use or consumption by the consumer or business user.

Marketing channel design Designing effective marketing channels by analyzing customer needs, setting channel objectives, identifying major channel alternatives, and evaluating those alternatives.

Marketing channel management Selecting, managing, and motivating individual channel members and evaluating their performance over time.

Marketing concept A philosophy in which achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do.

Marketing control Measuring and evaluating the results of marketing strategies and plans and taking corrective action to ensure that the objectives are achieved.

Marketing environment The actors and forces outside marketing that affect marketing management's ability to build and maintain successful and profitable relationships with target customers.

Marketing implementation Turning marketing strategies and plans into marketing actions to accomplish strategic marketing objectives.

Marketing information ecosystem (MIE) People, processes, and assets dedicated to assessing managers' information needs, developing the needed information, and helping managers and decision makers apply that information to generate and validate actionable customer and market insights.

Marketing intermediaries Firms that help the company to promote, finance, sell, and distribute its goods to final buyers.

Marketing logistics (physical distribution) Planning, implementing, and controlling the physical flow of materials, final goods, and related information from points of origin to points of consumption to meet customer requirements at a profit.

Marketing mix The set of marketing tools—product, price, place, and promotion—that the firm blends to produce the response it wants in the target market.

Marketing myopia The mistake of paying more attention to the specific products a company offers than to the benefits and experiences produced by these products.

Marketing research The systematic design and execution of initiatives to collect, analyze, and report data, information, and insights relevant to a specific marketing situation facing an organization.

Marketing return on investment (marketing ROI) The net return from a marketing investment divided by the costs of the marketing investment (Chapter 2).

Marketing return on investment (marketing ROI) A measure of the marketing productivity of a marketing investment—calculated by dividing net marketing contribution by marketing expenses (Appendix 2).

Marketing return on sales (marketing ROS) The percent of net sales attributable to the net marketing contribution—calculated by dividing net marketing contribution by net sales.

Marketing strategy The marketing logic by which the company hopes to create customer value and achieve profitable customer relationships.

Marketing strategy development Designing an initial marketing strategy for a new product based on the product concept.

Marketing website A website that engages consumers to move them closer to a direct purchase or other marketing outcome.

Markup The difference between a company's selling price for a product and its cost to manufacture or purchase it.

Markup chain The sequence of markups used by firms at each level in a channel.

Maturity stage The PLC stage in which a product's sales growth slows or levels off.

Merchant wholesaler An independently owned wholesale business that takes title to the merchandise it handles.

Metaverse An immersive digital environment, often using virtual- or augmented-reality technology, where virtual avatars representing real people work, play, learn, socialize, shop, and generally communicate with one another.

Microenvironment The actors close to the company that affect its ability to serve its customers—the company, suppliers, marketing intermediaries, competitors, publics, and customers.

Micromarketing Tailoring products and marketing programs to the needs and wants of specific individuals and local customer segments; it includes local marketing and individual marketing.

Millennials (or Generation Y) The 73 million children of the baby boomers born between 1981 and 1996.

Mission statement A statement of the organization's purpose—what it wants to accomplish in the larger environment.

Mobile marketing Marketing messages, promotions, and other content delivered to on-the-go consumers through their mobile devices.

Modified rebuy A business buying situation in which the buyer wants to modify product specifications, prices, terms, or suppliers.

Motive (drive) A need that is sufficiently pressing that the person seeks to satisfy it.

Multichannel distribution system A distribution system in which a single firm sets up two or more marketing channels to reach one or more customer segments, coordinating channel strategies to maximize total profits across all the channels.

Multimodal transportation Combining two or more modes of transportation.

Native advertising Advertising or other brand-produced online content that looks in form and function like the other natural content surrounding it on a web or social media platform.

Natural environment The physical environment and the natural resources that are needed as inputs by marketers or that affect or are affected by marketing activities.

Need recognition The first stage of the buyer decision process in which the consumer recognizes a problem or need.

Needs States of felt deprivation.

Net marketing contribution (NMC) A measure of marketing profitability that includes only components of profitability controlled by marketing.

Net profit percentage The percentage of each sales dollar going to profit—calculated by dividing net profits by net sales.

New product A good, service, or idea that is perceived by some potential customers as new.

New product development The development of original products, product improvements, product modifications, and new brands through the firm's own product development efforts.

New task A business buying situation in which the buyer purchases a product or service for the first time.

Nonpersonal communication channels Media that carry messages with minimal personal contact or feedback, including major media, atmospheres, and events.

Objective-and-task method Developing the promotion budget by (1) defining specific promotion objectives, (2) determining the tasks needed to achieve these objectives, and (3) estimating the costs of performing these tasks. The sum of these costs is the proposed promotion budget.

Observational research Gathering primary data by observing relevant people, actions, and situations.

Occasion segmentation Dividing the market into segments according to occasions when buyers get the idea to buy, actually make their purchase, or use the purchased item.

Off-price retailer A retailer that buys at less-than-regular wholesale prices and sells at low retail prices.

Omni-channel marketing Creating a seamless cross-channel buying experience that integrates in-store, online, and mobile shopping.

Online advertising Advertising such as display ads and search-related ads that appear while consumers are navigating websites or other digital platforms.

Online display ads Digital ads that appear anywhere on an internet or mobile user's screen and are often related to the information being viewed.

Online focus group Gathering a small group of people online with a trained moderator to chat about a product, service, or organization and gain qualitative insights about consumer attitudes and behavior.

Online marketing Marketing via the internet using company websites, online ads and promotions, email, online video, and blogs.

Online marketing survey research Collecting primary marketing research data through internet and mobile surveys, online focus groups, and online panels and brand communities.

Online social networks Online social communities—blogs, online social media, brand communities, and other online forums—where people socialize and exchange information and opinions.

Operating expense percentage The portion of net sales going to operating expenses—calculated by dividing total expenses by net sales.

Operating ratios The ratios of selected operating statement items to net sales.

Opinion leader A person within a reference group who, because of special skills, knowledge, personality, or other characteristics, can socially influence others.

Optional-product pricing The pricing of optional or accessory products along with a main product.

Order-routine specification The stage of the business buying process in which the buyer writes the final order with the chosen supplier(s), listing the technical specifications, quantity needed, expected time of delivery, return policies, and warranties.

Outside sales force (or field sales force) Salespeople who travel to call on customers in the field.

Packaging Designing and producing the container or wrapper for a product.

Partner relationship management Working closely with partners in other company departments and outside the company to jointly bring greater value to customers.

Percentage-of-sales method Setting the promotion budget at a certain percentage of current or forecasted sales.

Perception The process by which people select, organize, and interpret information to form a meaningful picture of the world.

Performance review The stage of the business buying process in which the buyer assesses the performance of the supplier and decides to continue, modify, or drop the arrangement.

Personal communication channels Channels through which two or more people communicate directly with each other, including face-to-face, on the phone, via mail or email, on social media, or even through an internet "chat."

Personal selling Personal presentations by the firm's sales force for the purpose of engaging customers, making sales, and building customer relationships.

Personality The psychological characteristics that distinguish a person that are expressed in traits such as self-confidence, dominance, sociability, and adaptability.

Personalized pricing Adjusting prices in real time to fit individual customer needs, situations, locations, and buying behaviors.

Pleasing products Products that give high immediate satisfaction but may hurt consumers in the long run.

Political environment Laws, government agencies, and pressure groups that influence and limit various organizations and individuals in a given society.

Portfolio analysis The process by which management evaluates and plans for the future of the products and businesses that make up the company.

Positioning Arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.

Positioning statement A statement that summarizes company or brand positioning using this form: "**For** (target customers), **who** (unsolved customer needs), **our product is** (product description), **that provides** (key benefits). **Unlike** (key competing brands), **our product** (points of difference)."

Postpurchase behavior The stage of the buyer decision process in which consumers take further action after purchase based on their satisfaction or dissatisfaction.

Preapproach The sales step in which a salesperson learns as much as possible about a prospective customer before making a sales call.

Presentation The sales step in which a salesperson tells the "value story" to the buyer, showing how the company's offer solves the customer's problems.

Price The amount of money charged for a product or service, or the sum of the values that customers exchange for the benefits of having or using the product or service.

Price elasticity A measure of the sensitivity of demand to changes in price.

Primary data Information collected for the specific purpose at hand.

Problem recognition The first stage of the business buying process in which someone in the company recognizes a problem or need that can be met by acquiring a good or a service.

Product Anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need.

Product adaptation Adapting a product to meet local conditions or wants in global markets but without significantly changing the positioning and communication associated with it.

Product bundle pricing Combining several products and offering the bundle at a reduced price.

Product concept The idea that consumers will favor products that offer the most quality, performance, and features; therefore, the organization should devote its energy to making continuous product improvements (Chapter 1).

Product concept A detailed version of the new product idea stated in terms that are meaningful to the consumer (Chapter 9).

Product development Company growth by offering modified or new products to current market segments (Chapter 2).

Product development Developing the product concept into a physical product or a detailed service blueprint to ensure that the product idea can be turned into a workable market offering (Chapter 9).

Product invention Creating new products or services for global markets.

Product life cycle (PLC) The course of a product's sales and profits over its lifetime.

Product line A group of products from a company that are closely related because they function in a similar manner, are sold to similar customer groups, serve similar customer needs, are marketed through the same types of outlets, or fall within given price ranges.

Product line pricing Setting the price steps between various products in a product line based on cost differences between the products, customer evaluations of different features, and competitors' prices.

Product mix (or product portfolio) The set of all product lines and items that a seller offers for sale.

Product positioning The way a product is defined by consumers on important attributes—the place it occupies in consumers' minds relative to competing products.

Product quality The characteristics of a product or service that bear on its ability to consistently and reliably satisfy stated or implied customer needs.

Product sales force structure A sales force organization in which salespeople specialize in selling only a portion of the company's products or lines.

Product specification The stage of the business buying process in which the buying organization decides on and specifies the best technical product characteristics for a needed item.

Product/market expansion grid A portfolio-planning tool for identifying company growth opportunities through market penetration, market development, product development, or diversification.

Production concept The idea that consumers will favor products that are available and highly affordable; therefore, the organization should focus on improving production and distribution efficiency.

Profit-and-loss statement (or income statement or operating statement) A statement that shows actual revenues less expenses and net profit for an organization, product, or brand during a specific planning period, typically a year.

Pro forma (or projected) profit-and-loss statement (or income statement or operating statement) A statement that shows projected revenues less budgeted expenses and estimates the projected net profit for an organization, product, or brand during a specific planning period, typically a year.

Promotion mix (marketing communications mix) The specific blend of promotion tools that the company uses to persuasively communicate customer value and build customer relationships.

Promotional pricing Temporarily pricing products below the list price, and sometimes even below cost, to increase short-run sales.

Proposal solicitation The stage of the business buying process in which the buyer invites qualified suppliers to submit proposals.

Prospecting The sales step in which a salesperson or company identifies qualified potential customers.

Psychographic segmentation Dividing a market into different segments based on lifestyle or personality characteristics.

Psychological pricing Pricing that considers the psychology behind how consumer evaluate price and value, not just the economics.

Public Any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives.

Public relations (PR) Activities designed to engage the company's various publics and build good relations with them.

Pull strategy A promotion strategy that calls for targeting consumer advertising, promotion, and other content at final consumers to induce them to engage with and buy the product, creating a demand vacuum that "pulls" the product through the channel.

Purchase decision The buyer's decision about which brand to purchase.

Push strategy A promotion strategy that calls for using the sales force and trade promotion to push the product through channels. The producer promotes the product to channel members who in turn promote it to final consumers.

Reference group A group that serves as a point of comparison or reference in shaping a person's attitudes or behavior.

Reference prices Prices that buyers carry in their minds and refer to when they look at a given product.

Relevant costs Costs that will occur in the future and that will vary across the alternatives being considered.

Retailer A business whose sales come primarily from retailing.

Retailing All the activities involved in selling goods or services directly to final consumers for their personal, nonbusiness use.

Return on advertising investment The net return on advertising investment divided by the costs of the advertising investment.

Return on investment (ROI) A measure of managerial effectiveness and efficiency—net profit before taxes divided by total investment.

Return on investment (ROI) pricing (or target-return pricing) A cost-based pricing method that determines price based on a specified rate of return on investment.

Sales force management Analyzing, planning, implementing, and controlling sales force activities.

Sales promotion Short-term incentives to encourage the purchase or sale of a product or a service.

Sales quota A standard that states the amount a salesperson should sell and how sales should be divided among the company's products.

Salesperson An individual who represents a company to customers by performing one or more of the following activities: prospecting, communicating, selling, servicing, information gathering, and relationship building.

Salutary products Products that have low immediate appeal but may benefit consumers in the long run.

Sample A fraction of the population selected for marketing research to represent the population as a whole.

Search-related advertising Text- and image-based ads and links that appear atop or alongside search engine results on sites such as Google, Yahoo!, and Bing.

Secondary data Information that already exists somewhere, having been collected for another purpose.

Segmented pricing Selling a product or service at two or more prices, where the difference in prices is not based on differences in costs.

Selective distribution The use of more than one but fewer than all of the intermediaries that are willing to carry the company's products.

Selling concept The idea that consumers will not buy enough of the firm's products unless the firm undertakes a large-scale selling and promotion effort.

Selling process The steps that salespeople follow when selling, which include prospecting and qualifying, preapproach, approach, presentation and demonstration, handling objections, closing, and follow-up.

Sense-of-mission marketing A company should define its mission in broad social terms rather than narrow product terms.

Service An activity, benefit, or satisfaction offered for sale that is essentially intangible and does not result in a customer's ownership of anything.

Service inseparability Services are produced and consumed at the same time and cannot be separated from their providers.

Service intangibility Services cannot be seen, tasted, felt, heard, or smelled before they are bought.

Service perishability Services cannot be stored for later sale or use.

Service profit chain The chain that links customer satisfaction and profits for service firms with employee satisfaction.

Service retailer A retailer whose product line is actually a service; examples include hotels, airlines, banks, colleges, and many others.

Service variability The quality of services may vary greatly depending on who provides them and when, where, and how they are provided.

Share of customer The portion of the customer's spending in its product categories that a company captures.

Shopper marketing Focusing the marketing process on turning shoppers into buyers as they move along toward the point of sale, whether during in-store, online, or mobile shopping.

Shopping center A group of retail businesses built on a site that is planned, developed, owned, and managed as a unit.

Shopping product A consumer product that the customer, in the process of selecting and purchasing, usually compares on such attributes as suitability, quality, price, and style.

Social marketing The use of traditional business marketing concepts and tools to encourage behaviors that will create individual and societal well-being.

Social media Independent and commercial online social networks where people congregate to socialize and share messages, opinions, pictures, videos, and other content.

Social selling Using digital platforms and sales tools to engage customers, build stronger customer relationships, and augment sales performance.

Societal marketing concept The idea that a company's marketing decisions should consider consumers' wants, the company's requirements, consumers' long-run interests, and society's long-run interests.

Spam Unsolicited, unwanted commercial email messages.

Specialty product A consumer product with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort.

Specialty store A retail store that carries a narrow product line with a deep variety within that line.

Standardized global marketing A global marketing strategy that basically uses the same marketing strategy and mix in all of the company's global markets.

Store brand (or private label) A brand created and owned by a reseller of a product or service.

Straight product extension Marketing a product in a global market without making any changes to the product or its positioning and communication.

Straight rebuy A business buying situation in which the buyer routinely reorders something without modifications.

Strategic group A group of firms in an industry following the same or a similar strategy.

Strategic planning The process of developing and maintaining a profitable strategic fit between the organization's goals and capabilities and its changing marketing opportunities.

Style A basic and distinctive mode of expression.

Subculture A group of people with shared value systems based on common life experiences and situations.

Supermarket A large, low-cost, low-margin, high-volume, self-service store that carries a wide variety of grocery and household products.

Superstore A store much larger than a regular supermarket that offers a large assortment of routinely purchased food products, nonfood items, and services.

Supplier development Systematic development of networks of supplier-partners to ensure an appropriate and dependable supply of products and materials for use in making products or reselling them to others.

Supplier search The stage of the business buying process in which the buyer tries to find the best vendors.

Supplier selection The stage of the business buying process in which the buyer reviews proposals and selects a supplier or suppliers.

Supply chain management Managing upstream, downstream, and reverse value-added flows of materials, final goods, and related information among suppliers, the company, resellers, and final consumers.

Survey and questionnaire research Gathering primary data by asking people questions about their knowledge, attitudes, preferences, and buying behavior.

Sustainable company A company that creates value for customers through socially, environmentally, and ethically responsible actions.

Sustainable marketing Socially and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs.

SWOT analysis An overall evaluation of the company's strengths (S), weaknesses (W), opportunities (O), and threats (T).

Systems selling (or solutions selling) Buying a packaged solution to a problem from a single seller, thus avoiding all the separate decisions involved in a complex buying situation.

Target costing Pricing that starts with an ideal selling price and then targets costs that will ensure that the price is profitably met.

Target market A set of buyers who share common needs or characteristics that a company decides to serve.

Team selling Using teams of people from sales, marketing, engineering, finance, technical support, and even upper management to service large, complex accounts.

Team-based new product development New product development in which various company departments work closely together, overlapping the steps in the product development process to save time and increase effectiveness.

Technological environment Forces that create new technologies, leading to new product and market opportunities.

Telemarketing Using the telephone to sell directly to customers.

Territorial sales force structure A sales force organization that assigns each salesperson to an exclusive geographic territory in which that salesperson sells the company's full line.

Test marketing The stage of new product development in which the product and its proposed marketing program are tested in realistic market settings.

Third-party logistics (3PL) provider An independent logistics provider that performs any or all of the functions required to get a client's product to market.

Total costs The sum of the fixed and variable costs for any given level of production.

Total market demand The total volume that would be bought by a defined consumer group in a defined geographic area in a defined time period in a defined marketing environment under a defined level and mix of industry marketing effort.

Trade promotions Sales promotion tools used to persuade resellers to carry a brand, give it shelf space, and promote it in advertising.

Undifferentiated (mass) marketing A market-coverage strategy in which a firm decides to ignore market segment differences and go after the whole market with one offer.

Uniform-delivered pricing Pricing in which the company charges the same delivered price, including freight, to all customers regardless of their location.

Unit contribution The amount that each unit contributes to covering fixed costs—the difference between price and variable costs.

Unsought product A consumer product that the consumer either does not know about or knows about but does not normally consider buying.

Users Members of the buying organization who will actually use the purchased product or service.

Value chain The set of internal departments that carry out value-creating activities to design, produce, market, deliver, and support a firm's products.

Value delivery network A network composed of the company, suppliers, distributors, and, ultimately, even customers—all of whom partner together to improve the performance of the entire system in delivering customer value and driving profits.

Value proposition The full positioning of a brand—the full mix of benefits on which it is positioned.

Value-added pricing Attaching value-added features and services to differentiate a company's offers and charging higher prices.

Value-based pricing Offering just the right combination of quality and good service at a fair price.

Variable costs Costs that vary directly with the level of production.

Variety-seeking buying behavior Consumer buying behavior in situations characterized by low consumer involvement but significant perceived differences among brands.

Vertical marketing system (VMS) A channel structure in which producers, wholesalers, and retailers act as a unified system. One channel member owns the others, has strong contracts with them, or has so much power that they all cooperate.

Viral marketing The digital version of word-of-mouth marketing: videos, ads, and other marketing content that are so engaging and infectious that consumers will seek them out and pass them along to friends.

Wants The form human needs take as they are shaped by culture and individual personality.

Whole-channel view Designing global channels that consider the entire global supply chain and marketing channel, forging an effective global value delivery network.

Wholesaler A firm engaged primarily in wholesaling activities.

Wholesaling All the activities involved in selling goods and services to those buying for resale or business use.

Word-of-mouth influence The impact of the personal words and recommendations of trusted friends, family, associates, and other consumers on buying behavior.

Workload method An approach to determining sales force size based on the workload required and the time available for selling.

Zone pricing Pricing in which the company sets up two or more delivery zones. All customers within a zone pay the same total price; the more distant the zone, the higher the price.

References

Chapter 1

1. The Brand Finance Group, "Emirati Brands Are Jewel in the Crown of Middle East," January 22, 2019, https://brandfinance.com/news/press-releases/emirati-brands-are-jewel-in-the-crown-of-middle-east/; "Emirates Wins Four Gongs at the World Travel Awards 2021," *Times Aerospace*, October 22, 2021, https://www.timesaerospace.aero/news/events/emirates-wins-four-gongs-at-the-world-travel-awards-2021; "Emirates Airlines Expects Positive Performance in Its Annual Financial Results," *Teller Report*, April 6, 2022, https://www.tellerreport.com/business/2022-04-05-emirates-airlines-expects-positive-performance-in-its-annual-financial-results.ByevfmHc79.html; Victoria Bryan, "Brand Value: How Emirates Uses Adverts to Boost Its Brand," *AeroTime Hub*, August 25, 2021, https://www.aerotime.aero/articles/28661-Emirates-brand-advert-pandemic; John Strickland, "Sir Tim Clark: Steering Emirates through the Crisis," May 24, 2021, https://www.forbes.com/sites/johnstrickland/2021/05/24/sir-tim-clark-steering-emirates-through-the-crisis/?sh=146fc92e2577; "World's Best Airline Inflight Entertainment of 2021," Skytrax, https://www.worldairlineawards.com/worlds-best-inflight-entertainment-2021/; Geoffrey Thomas, "Emirates Celebrates 30 Years of Inflight Entertainment for All Classes," *Airline Ratings*, March 29, 2022, https://www.airlineratings.com/news/emirates-celebrates-30-years-inflight-entertainment-classes/; "About Us," Emirates Canada, https://www.emirates.com/ca/english/about-us/.
2. See http://newsroom.fb.com/company-info/, https://mission-statement.com/amazon/, and www.starbucks.com/about-us/company-information/mission-statement, accessed June 2022.
3. See Philip Kotler, Kevin Lane Keller, and Alexander Chernev, *Marketing Management*, 16th ed. (Hoboken, NJ: Pearson Education, 2022), p. 4.
4. The American Marketing Association offers the following definition: "Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large." See https://marketing-dictionary.org/m/marketing, accessed September 2022.
5. See Leah Fessler, "Airbnb Is Defined by Its CEO's Obsessive Perfection," *Quartz*, February 21, 2018, https://work.qz.com/1214411/airbnb-ceo-brian-chesky-wants-to-do-home-visits-to-check-your-wifi/; Catherine Clifford, "The Brilliant Business Lesson behind the Emails Jeff Bezos Sends to His Amazon Executives with a Single '?,'" *CNBC*, May 8, 2018, www.cnbc.com/2018/05/07/why-jeff-bezos-still-reads-the-emails-amazon-customers-send-him.html; and Jennifer Warnick, "AI for Humanity: How Starbucks Plans to Use Technology to Nurture the Human Spirit," *Starbucks Stories & News*, January 10, 2020, https://stories.starbucks.com/stories/2020/how-starbucks-plans-to-use-technology-to-nurture-the-human-spirit/.
6. Land Transport Authority website, https://www.lta.gov.sg/content/ltagov/en.html; LTA Singapore, "Show Care on the Roads We Share," YouTube, December 11, 2021, https://www.youtube.com/watch?v=QlupCO4UVWs&t=8s.
7. See Theodore Levitt's classic article, "Marketing Myopia," *Harvard Business Review*, July–August 1960, pp. 45–56. For more recent discussions, see Roberto Friedmann, "What Business Are You In?" *Marketing Management*, Summer 2011, pp. 18–23; Al Ries, "'Marketing Myopia' Revisited: Perhaps a Narrow Vision Is Better Business," *Advertising Age*, December 4, 2013, http://adage.com/print/245511; and Amy Gallo, "A Refresher on Marketing Myopia," *Harvard Business Review*, August 22, 2016, https://hbr.org/2016/08/a-refresher-on-marketing-myopia.
8. See "Apple Stores: Keep Track of Apple's Retail Stores Worldwide," *MacRumors*, October 16, 2021, www.macrumors.com/roundup/apple-retail-stores/; "How Online Retailers Are Creating Immersive Brand Experiences in the Real World," *Advertising Age*, March 25, 2015, www.adage.com/print/297750; "Apple Retail," *MacRumors*, March 18, 2021, www.macrumors.com/guide/apple-store/, and https://9to5mac.com/guides/apple-store/, accessed September 2022.
9. See Gretchen Kelly, "The Lion King Is in the House: Kenya's Mahali Mzuri," *Forbes*, January 31, 2019, www.forbes.com/sites/gretchenkelly/2019/01/31/the-lion-king-is-in-the-house-kenyas-mahali-mzuri/?sh=3556ad2a52bc; Victor Oluwole, "Richard Branson's Mahali Mzuri Hotel in Kenya Is Now the Best in the World," *Business Insider Africa*, September 15, 2021, https://africa.businessinsider.com/local/lifestyle/richard-bransons-mahali-mzuri-hotel-in-kenya-is-now-the-best-in-the-world/5qeq3sf; and www.masaimara.com/mahali-mzuri.php, www.virginlimitededition.com/en/mahali-mzuri, and www.expertafrica.com/kenya/maasai-mara-conservancies/mahali-mzuri/in-detail, accessed September 2022.
10. See Michael E. Porter and Mark R. Kramer, "Creating Shared Value," *Harvard Business Review*, January–February 2011, pp. 63–77; Marc Pfitzer, Valerie Bockstette, and Mike Stamp, "Innovating for Shared Value," *Harvard Business Review*, September 2013, pp. 100–107; Mark R. Kramer and Marc W. Pfitzer, "The Ecosystem of Shared Value," *Harvard Business Review*, October 2016, https://hbr.org/2016/10/the-ecosystem-of-shared-value; and "About Shared Value," Shared Value Initiative, http://sharedvalue.org/about-shared-value, accessed September 2022.
11. See www.nestle.com/csv/what-is-csv, accessed September 2022.
12. Julie Sygiel, "How the Visionary Founder behind Jeni's Splendid Churned Her Ice Cream Dreams into Reality," *Forbes*, February 28, 2018, www.forbes.com/sites/juliesygiel/2018/02/28/jenibrittonbauer/#79fc3eaa58bf; Kara Stiles, "How Jeni's Splendid Ice Creams Flavor-Finessed Its Way to the Top," *Forbes*, December 15, 2017, www.forbes.com/sites/karastiles/2017/12/15/how-jenis-splendid-ice-creams-flavor-finessed-its-way-to-the-top/#1c6472694807; Hanna Snyder, "Community, Quality and Creativity: Jeni's Splendid Ice Cream Founder Shares the Scoop on Her B-Corp Business," *Yellow/Co.*, December, 29, 2017, https://yellowco.co/blog/2017/12/29/jenis-ice-cream-b-corp-business/; Georgia Slater, "Jeni's Recreates President Joe Biden's Favorite Ice Cream Order in Pint Form," *People*, January 20, 2021, https://people.com/food/jenis-ice-cream-recreates-joe-biden-favorite-flavor/; and https://issuu.com/jeniscecreams/docs/2021_annual_report and https://jenis.com/about/, accessed September 2022.
13. See "How Expensive Are Patek Philippe Watches?," *Gemma*, https://gemmabywpd.com/blogs/news/how-expensive-are-patek-philippe-watches, accessed April 2021; Megan Willett, "How Swiss Watchmaker Patek Philippe Handcrafts Its Famous $500,000 Watches," *Business Insider*, July 12, 2013, www.businessinsider.com/how-a-patek-philippe-watch-is-made-2013-7; Stacy Perman, "Patek Philippe Crafts Its Future," *Fortune*, June 16, 2014, pp. 37–44, https://fortune.com/2014/06/02/patek-philippe-watch/; and www.patek.com/en/company/savoir-faire/rare-handcrafts/the-crafts, accessed September 2022.
14. Alicia Kelso, "Chick-fil-A's Satisfaction Reign over Restaurant Segment Reaches 7 Years, but Its Lead Is Shrinking," *BusinessWire*, June 29, 2021, www.businesswire.com/news/home/20210629005129/en/Chick-fil-A's-Satisfaction-Reign-Over-Restaurant-Segment-Reaches-7-Years-but-its-Lead-Is-Shrinking-ACSI-Data-Show; Juliana Rose Pignataro,

"Chick-fil-A Is More Than Waffle Fries: Here's How It Created Its Legendary Customer Service Culture," *Newsweek,* November 20, 2018, www.newsweek.com/chick-fil-more-waffle-fries-heres-how-it-created-its-legendary-customer-1225703; Eric Mandel, "Chick-fil-A Flies to Top 3 in Restaurant Sales Rankings," *Triad Business Journal*, May 18, 2020, www.bizjournals.com/triad/news/2020/05/18/chick-fil-a-top-3-restaurant-sales-technomic.html; and www.chick-fil-a.com/About/Who-We-Are, accessed September 2022.

15. Stephen Diorio, "How Leading Brands Are Winning the 'Direct-to-Customer' Conversation," *Forbes*, http://www.forbes.com/sites/forbesinsights/2016/06/07/how-leading-brands-arewinning-the-direct-to-customer-conversation/; Hilton, "Hilton Honors History," Honors Global Media Center, http://news.hiltonhhonors.com/index.cfm/page/9013; Hilton, "Hilton's Loyalty Program—Hilton HHonors—Again Achieves Top Ranking from J.D. Power for Excellence in Customer Satisfaction," Honors Global Media Center, http://news.hiltonworldwide.com/index.cfm/newsroom/detail/30410; Hilton, "Hilton Launches Its Largest Campaign Ever with Exclusive Room Rates Not Found Anywhere Else," Honors Global Media Center, http://news.hiltonworldwide.com/index.cfm/news/hilton-launches-itslargest-campaign-ever-with-exclusive-room-rates-not-foundanywhere-else; Hilton, "Hilton Honors Fact Sheet," Honors Global Media Center, http://news.hiltonhhonors.com/index.cfm/page/9001; Hilton, "Hilton Honors App," http://hhonors3.hilton.com/en/hhonors-mobile-app/index2.html?cid=OM,MB,CORE9974x_52c31.3658.c6cbdb0.6c3b88c8_All,MULTIPR,Interact, Multipage, SingleLink; BigDoor, "Top 5 Hotel Loyalty Programs," http://bigdoor.com/blog/2014/03/11/top-5-hotel-loyalty-programs/; "Kundenbindungsprogramme Hilton HHonors," Tophotel.de, http://www.tophotel.de/kundenbindung/5355-kundenbindungsprogramme-hilton-hhonors.html.

16. See https://www.innocentdrinks.co.uk/, accessed February 2019; https://twitter.com/innocent, accessed January 2023.

17. See Ann-Christine Diaz, "Heinz (Anonymously) Asked People to Draw Ketchup and This Is What Happened," *Advertising Age,* January 22, 2021, https://adage.com/creativity/work/heinz-anonymously-asked-people-draw-ketchup-and-what-happened/2308141; and www.youtube.com/watch?v=4A0tvXSZgXk, accessed September 2022.

18. See Lydia Bird, "Top 5 Marketing Ads Created in Lockdown Using UGC," imagen, https://imagen.io/resources/top-marketing-ads-using-ugc/, accessed September 2022.

19. See "#Bashtag: Avoiding User Outcry in Social Media," *WordStream,* March 8, 2013, www.wordstream.com/blog/ws/2013/03/07/bashtag-avoiding-social-media-backlash; "What Is Hashtag Hijacking?" *Small Business Trends,* August 18, 2013, http://smallbiztrends.com/2013/08/what-is-hashtag-hijacking-2.html; and "HBD #Hashtag! What Brands Can Learn from a Decade of Hashtagging," *Social Media Week,* August 23, 2017, https://socialmediaweek.org/blog/2017/08/hashtag-ten-years-old/; "Hashtags Turned Bashtags: When Marketing Goes Wrong," *Search Engine People,* January 27, 2017, www.searchenginepeople.com/blog/150240925-epic-hashtag-fails.html; and Steve Hand, "The 10 Worst Twitter Hashtag Fails of All Time," *miappi,* https://blog.miappi.com/10-worst-twitter-hashtag-fails-time, accessed September 2022.

20. See www.stewleonards.com/how-it-all-began/, accessed June 2022; Rob Marley, "Are You Undervaluing Your Customers?" *Harvard Business Review,* January-February 2020, pp. 43–55; and "How to Calculate Customer Lifetime Value," Qualtrics, accessed at www.qualtrics.com/experience-management/customer/how-to-calculate-customer-lifetime-value/, accessed September 2022.

21. See Jason Wise, "Amazon Prime Statistics 2022 How Many People Use Amazon Prime?" *Earthweb*, April 2, 2022, https://earthweb.com/amazon-prime-statistics/; Carl Richards, "4 Steps to Manage Your Desire for Instant Gratification," *The Motley Fool,* April 24, 2013, www.fool.com/investing/general/2013/04/24/4-steps-to-manage-your-desire-for-instant-gratific.aspx; and www.amazon.com/prime, accessed September 2022.

22. For more discussions on customer equity, see Roland T. Rust, Valerie A. Zeithaml, and Katherine N. Lemon, *Driving Customer Equity* (New York: Free Press, 2000); Roland T. Rust, Katherine N. Lemon, and Valerie A. Zeithaml, "Return on Marketing: Using Customer Equity to Focus Marketing Strategy," *Journal of Marketing,* January 2004, pp. 109–127; Christian Gronroos and Pekka Helle, "Return on Relationships: Conceptual Understanding and Measurement of Mutual Gains from Relational Business Engagements," *Journal of Business & Industrial Marketing,* Vol. 27, No. 5, 2012, pp. 344–359; and V. Kumar, "A Theory of Customer Valuation: Concepts, Metrics, Strategy, and Implementation," *Journal of Marketing,* January 2018, pp. 1–19.

23. This example is based on one found in Rust, Lemon, and Zeithaml, "Where Should the Next Marketing Dollar Go?" Marketing Management, September–October 2001, pp. 24–28; with information from Daniel Gessner, "The Rise and Fall of Cadillac," *Business Insider,* October 31, 2019, www.businessinsider.com/cadillac-rise-fall-luxury-brand-market-industry-2019-10; Cole Villena, "General Motors Launches All-Electric Cadillac Lyriq at Spring Hill, Rennessee Plant," *Tennessean*, March 21, 2022, www.tennessean.com/story/money/2022/03/21/gm-general-motors-launches-cadillac-lyriq-electric-vehicle-spring-hill-tn/7080578001/; and www.cadillac.com/future-vehicles/lyriq and http://forward.daregreatly.com/, accessed June 2022.

24. Khadeeja Sadar, "How Your Returns Are Used against You at Best Buy, Other Retailers," *Wall Street Journal,* March 13, 2018, www.wsj.com/articles/how-your-returns-are-used-against-you-at-best-buy-other-retailers-1520933400; Elizabeth Harper, "You Can Be Banned from Making Returns at Best Buy," *techlicious,* February 4, 2021, www.techlicious.com/blog/best-buy-return-policy/; and LT Wright, "Will Amazon Ban Your Account If You Have Too Many Returns?" *Tough Nickel,* March 31, 2022, https://toughnickel.com/industries/amazon-banning-accounts-because-of-too-many-returns.

25. Pew Research Center, "Mobile Fact Sheet," April 7, 2021, www.pewresearch.org/internet/fact-sheet/mobile/; and "Digital around the World," *Datareportal,* https://datareportal.com/global-digital-overview#, accessed September 2022.

26. Justin Smith, "Mobile eCommerce Stats in 2022 and the Future Online Shopping Trends of mCommerce," *OuterBox*, February 22, 2022, www.outerboxdesign.com/web-design-articles/mobile-ecommerce-statistics; and Trevor Wheelwright, "2022 Cell Phone Usage Statistics: How Obsessed Are We?" *Reviews.org*, January 24, 2022, www.reviews.org/mobile/cell-phone-addiction/.

27. See Sarah Perez, "COVID-19 Pandemic Accelerated Shift to E-Commerce by 5 Years, New Report Says," *Tech Crunch,* August 24, 2020, https://techcrunch.com/2020/08/24/covid-19-pandemic-accelerated-shift-to-e-commerce-by-5-years-new-report-says/; "Marketing in the Time of COVID-19," *Advertising Age and Kantar*, October 19, 2020, https://info.kantarmedia.com/hubfs/Kantar_AdAge_MktgDuringCOVID.pdf; and April Berthene, "Coronavirus Pandemic Adds $219 Billion to US Ecommerce Sakes in 2020–2021," *Digitalcommerce360.com*, March 15, 2022, www.digitalcommerce360.com/article/coronavirus-impact-online-retail/.

28. See "Fitbit Community Grows to More Than 25 Million Active Users," *BusinessWire,* January 8, 2018, www.businesswire.com/news/home/20180108005763/en/Fitbit-Community-Grows-25-Million-Active-Users; Danielle Kosecki, "New Fitbit Community Makes It Easier to Find Friends, Join Groups & Share Inspiration," *Fitbit Blog,* January 5, 2017, https://blog.fitbit.com/fitbit-community-announcement/; Jordan P. Kelley, "Sephora Affirms Its Commitment to Diverse Beauty with Original Documentary Film," *Forbes*, March 25, 2022, www.

forbes.com/sites/brandstorytelling/2022/03/25/sephora-affirms-its-commitment-to-diverse-beauty-with-original-documentary-film/?sh=d6c56714c684; and https://community.fitbit.com, https://help.fitbit.com/articles/en_US/Help_article/2187, and https://community.sephora.com/, accessed September 2022.

29. See www.statista.com/statistics/272014/global-social-networks-ranked-by-number-of-users/, https://backlinko.com/reddit-users#reddit-statistics, https://expandedramblings.com/index.php/cafemom-statistics-and-facts/, www.newgrounds.com, and ravelry.com, accessed September 2022.

30. Brian Peters, "7 of the Best Social Media Marketing Examples in 2021," *Meltwater*, June 30, 2021, https://www.meltwater.com/en/blog/best-social-media-marketing-examples; Rishi Iyengar, "Zoom's Revenue Soars 169% as People Flock to Service during Pandemic," *CNN Business*, June 2, 2020, https://www.cnn.com/2020/06/02/tech/zoom-earnings-coronavirus/index.html; "Zoom Sees More Growth after 'Unprecedented' 2020," *BBC*, March 1, 2020, https://www.bbc.com/news/business-56247489; Ashley Carman, "Why Zoom Became so Popular," *The Verge*, April 3, 2020, https://www.theverge.com/2020/4/3/21207053/zoom-video-conferencing-security-privacy-risk-popularity, accessed October 20, 2021.

31. See Rhett Power, "3 Things You Can Learn from Starbucks about Mobile App Marketing," *Inc.*, March 17, 2021, www.inc.com/rhett-power/3-things-you-can-learn-from-starbucks-about-mobile-app-marketing.html; Jason Aten, "Starbucks Just Lost $1.2 Billion in Sales but Still Came Out Ahead Because of This Brilliant Decision It Made 5 Years Ago," *Inc.*, November 2. 2020, www.inc.com/jason-aten/starbucks-lost-1-billion-in-sales-but-25-percent-of-orders-now-come-from-mobile-app.html; and www.starbucks.com/rewards/mobile-apps, accessed September 2022.

32. See "Mobile Commerce Sales in 2022," *Oberlo*, www.oberlo.com/statistics/mobile-commerce-sales, accessed June 2022; Yoram Wurmser, "US Mobile Ad Spending 2020," *eMarketer*, April 22, 2020, www.emarketer.com/content/us-mobile-ad-spending-2020; and Ying Lin, "10 Mobile Usage Statistics Marketers Should Know in 2021," June 20, 2021, www.oberlo.com/blog/mobile-usage-statistics#.

33. Lauren Johnson, "Taco Bell's Mobile Ads Are Highly Targeted to Make Users Crave Its Breakfast Menu," *Adweek*, March 14, 2016, www.adweek.com/print/170155; and Johnson, "Taco Bell Beefs Up Mobile Advertising Play to Drive In-Store Foot Traffic," *Mobile Marketer*, www.mobilemarketer.com/ex/mobilemarketer/cms/news/advertising/13229.html, accessed September 2021; Mary Meisenzahl, "I Tried Taco Bell's New Two-Lane Drive-Thru, and I Think It's the Future of Fast Food," *Business Insider*, January 21, 2022, www.businessinsider.com/taco-bell-go-mobile-drive-thru-in-photos-2021-10; and Danny Klein, "Taco Bell Unveils New Restaurant Built for a Digital Future," *QSR*, August 2020, www.qsrmagazine.com/fast-food/taco-bell-unveils-new-restaurant-built-digital-future.

34. See Michele DeSelms, "'Fantastic Beasts' Event to Support Helen DeVos, Make-A-Wish," *WoodTV.com*, March 30, 2022, www.woodtv.com/news/grand-rapids/fantastic-beasts-event-to-support-helen-devos-make-a-wish/; "Make-A-Wish Releases Study with Eye-Opening Results about the Impact of Wishes on Mental and Emotional Well-Being," *PRNewswire*, March 29, 2022, www.prnewswire.com/news-releases/make-a-wish-releases-study-with-eye-opening-results-about-the-impact-of-wishes-on-mental-and-emotional-well-being-301512279.html; "Make-A-Wish Set to Host 6th Annual Mac & Cheese Challenge," *ABC7 News*, March 31, 2022, https://abc-7.com/news/entertainment/2022/03/31/make-a-wish-set-to-host-6th-annual-mac-cheese-challenge/; and https://wish.org/media-kit, https://wish.org/become-a-national-partner, and https://wish.org/our-stories, accessed September 2022.

35. Federal Ministry of Education and Research, "Internationalization of Universities," 2019, https://www.bmbf.de/bmbf/de/bildung/studium/internationalisierung-der-hochschulen/internationalisierung-der-hochschulen_node.html; German Academic Exchange Service, "Marketing Campaigns," 2021, https://www.daad.de/de/infos-services-fuer-hochschulen/marketing-beratung-service/marketingkampagnen, accessed September 2021.

36. See https://corporate.mcdonalds.com/corpmcd/about-us/our-business-model.html and www.nikeinc.com, accessed June 2022.

37. See www.benjerry.com/values, www.benandjerrysfoundation.org, and www.unilever.com/brands/foods-refreshment/ben-jerrys/, accessed September 2022.

38. See Robert Niles, "Ride Review: Disney's Guardians of the Galaxy Cosmic Rewind," *Theme Park Insider*, May 5, 2022, www.themeparkinsider.com/flume/202205/8929/; Kelly Oliveros, "Big Disney World Problems (with No Solutions)," *AllEars*, January 2, 2022, https://allears.net/2022/01/02/big-disney-world-problems-with-no-solutions/; Briana Hansen, "Hilarious One-Star Reviews of Disneyland and Disney World," *Far and Wide*, December 21, 2021, www.farandwide.com/s/one-star-reviews-disney-195087d6742243a2; Bruce Jones, "3 Principles Disney Uses to Enhance Customer Experience," *Harvard Business Review*, February 28, 2018, https://hbr.org/sponsored/2018/02/3-principles-disney-uses-to-enhance-customer-experience; "How Much Does It Cost to Go to Disney World in 2022–2023?" *Mouse Hacking*, November 5, 2021, www.mousehacking.com/blog/how-much-does-it-cost-to-go-to-disney-world; "Why I Love Walt Disney World," www.ithoughtyouwereshorter.wordpress.com/2012/11/15/why-i-love-walt-disney-world/, accessed May 2022; "Walt Disney World Statistics," www.magicguides.com/disney-world-statistics/, accessed May 2022.

Chapter 2

1. See Jason Aten, "With Its Latest Store, Starbucks Just Threw Out a Strategy It Spent 40 Years Perfecting and It's Totally Brilliant," *Inc.*, November 19, 2021, www.inc.com/jason-aten/starbucks-just-threw-out-a-strategy-it-spent-40-years-perfecting-its-totally-brilliant.html; "Starbucks Statistics, Restaurant Counts, Facts & News," *Expanded Ramblings*, April 1, 2022, https://expandedramblings.com/index.php/starbucks-statistics/; Laura Lorenzetti, "Fortune's World's Most Admired Companies: Starbucks, Where Innovation Is Always Brewing," *Fortune*, October 30, 2014, http://fortune.com/2014/10/30/starbucks-innovation-cafe-toclassroom/; David Kaplan, "Starbucks: The Art of Endless Transformation," *Inc.*, June 2014, pp. 82–86+; "Starbucks Expands Chinese Order Services to Multiple Alibaba Apps," *CNBC*, July 21, 2020, www.cnbc.com/2020/07/21/starbucks-expands-chinese-order-services-to-multiple-alibaba-apps.html; "How Starbucks Is Using COVID-19 Crisis to Differentiate the Brand," *WARC*, March 8, 2020, www.warc.com/newsandopinion/news/how-starbucks-is-using-covid-19-crisis-to-differentiate-the-brand/43929; and https://stories.starbucks.com/press/2020/what-customers-need-to-know-about-starbucks-response-to-covid-19/, www.starbucks.com, www.starbucksreserve.com/en-us/visit, www.macrotrends.net/stocks/charts/SBUX/starbucks/net-income, and https://investor.starbucks.com/financial-data/annual-reports/default.aspx, accessed September 2022.

2. See www.ritzcarlton.com/en/about/gold-standards, accessed June 2022. For more mission statement examples, see www.missionstatements.com/fortune_500_mission_statements.html, accessed June 2022.

3. See Michelle Evans, "How IKEA, DICK'S Sporting Goods, and Adidas Are Rethinking the Store," *Forbes*, April 7, 2022, www.forbes.com/sites/michelleevans1/2022/04/07/how-ikea-dicks-sporting-goods-and-adidas-are-rethinking-the-store/?sh=58807bd114e7; C. Simionato, "IKEA Statistics & Facts," *Statista*, March 7, 2022, www.statista.com/topics/1961/ikea/#topicHeader__wrapper;

Emanuela Barbiroglio and Warren Shoulberg, "IKEA Moving Fast to Multi-Tier Store Strategy in U.S.," *Forbes,* January 26, 2021, www.forbes.com/sites/warrenshoulberg/2021/01/26/ikea-moving-fast-to-multi-tier-store—strategy-in-us/?sh=33d0641f4e1e; Daniel Politi, "The Swedish Entrepreneur Who Founded IKEA, Ingvar Kamprad, Dies at 91," *Slate,* January 28, 2018, https://slate.com/news-and-politics/2018/01/the-swedish-entrepreneur-who-founded-ikea-ingvar-kamprad-dies-at-91.html; and www.ikea.com and www.ikea.com/us/en/this-is-ikea/about-us/, accessed September 2022.

4. Information about CVS Health and its mission and activities from www.cvshealth.com/about-cvs-health, www.cvs.com/minuteclinic/visit/about-us/history, and www.cvshealth.com/our-services, accessed September 2022.
5. See Charlotte Morabito, "Johnson & Johnson Is Spinning Off Its Consumer Division, Which Could Come with Risks," *CNBC,* January 10, 2022, www.cnbc.com/2022/01/10/johnson-johnson-spin-off-consumer-division.html; Ricky Zipp, "What Does J&J's Split Mean for the Medical Device Business?" *MedTechDive,* November 16, 2021, www.medtechdive.com/news/jj-split-medical-devices-pharmaceutical-ge-zimmer/610102/; and www.investor.jnj.com/annual-meeting-materials/2021-annual-report and www.jnj.com/about-jnj, accessed September 2022.
6. The following discussion is based in part on information found at www.bcg.com/publications/2014/growth-share-matrix-bcg-classics-revisited and www.bcg.com/about/overview/our-history/growth-share-matrix, accessed September 2022.
7. H. Igor Ansoff, "Strategies for Diversification," *Harvard Business Review*, September–October 1957, pp. 113–124. Also see "How to Use the Ansoff Matrix for Market Expansion," *Conceptboard,* February 9, 2021, https://conceptboard.com/blog/ansoff-matrix-market-expansion/, and "Ansoff Matrix: Understanding the Firm's Growth Options," *Think Insights,* https://thinkinsights.net/strategy/ansoff-matrix/, accessed September 2022.
8. Information about Starbucks in this section is from Mary Meisenzahl, "Starbucks Opened More New Stores Than McDonald's and Subway, the Two Biggest Chains in the World, during the Pandemic," *Business Insider,* February 5, 2022, www.businessinsider.com/starbucks-is-outpacing-subway-and-mcdonalds-in-new-store-openings-2022-2; "Revenue Distribution of Starbucks from 2009 to 2021, by Product Type (in Billion U.S. Dollars)," November 24. 2021, www.statista.com/statistics/219513/starbucks-revenue-by-product-type/; "Starbucks Showcases Innovation for Growth and a More Connected and Sustainable Future at 2022 Annual Meeting of Shareholders," www.businesswire.com/news/home/20220316005821/en/Starbucks-Showcases-Innovation-for-Growth-and-a-More-Connected-and-Sustainable-Future-at-2022-Annual-Meeting-of-Shareholders, *BusinessWire,* March 16, 2022, www.businesswire.com/news/home/20220316005821/en/Starbucks-Showcases-Innovation-for-Growth-and-a-More-Connected-and-Sustainable-Future-at-2022-Annual-Meeting-of-Shareholders; and various pages at www.starbucks.com, accessed September 2022.
9. See Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance* (New York: Free Press, 1985); and Michael E. Porter, "What Is Strategy?" *Harvard Business Review*, November–December 1996, pp. 61–78. Also see "The Value Chain," www.quickmba.com/strategy/value-chain, accessed September 2022; and Philip Kotler, Kevin Lane Keller, and Alexander Chernev, *Marketing Management*, 16th ed. (Hoboken, NJ: Pearson Education, 2022), Chapter 2.
10. Tim Hepher, "Airbus to Create Own Airline to Rent Out Whale Plane," *Reuters*, January 25, 2022, www.reuters.com/business/aerospace-defense/airbus-charter-out-whale-shaped-beluga-transport-planes-2022-01-25/. Also see www.airbus.com/en/who-we-are and www.airbus.com/en/products-services, accessed September 2022.
11. See www.swamedia.com/pages/corporate-fact-sheet, accessed June 2022.
12. Cathy Siegner "Consumers Reveal Why They Buy Plant-Based Dairy Alternatives," *Food Dive*, February 15, 2015, https://www.fooddive.com/news/consumers-reveal-why-they-buy-plant-based-dairyalternatives/516702/; Katarina Gustaffsson, "Oatly Riles Big Dairy," *Bloomberg Business Week*, May 14, 2015, https://www.bloomberg.com/news/articles/2015-05-14/swedishoat-milk-producer-benefitsfrom-dairy-industry-lawsuit; Thomas Campbell, "A Doctor's Thoughts on Choosing the Healthiest Plant-Based Milk," *Food Revolution Network*, January 11, 2018, https://foodrevolution.org/blog/healthiestplant-based-milk/; PBN Contributor, "EU Court Says Plant-Based Products Cannot Have 'Dairy-Style' Names," *Plant Based News*, June 15, 2017, https://www.plantbasednews.org/post/dairy-like-namesbanned-for-vegan-products-within-eu; Katie Morley, "Is Carbonated Milk the Next Sparkling Water?," *The Telegraph*, September 23, 2017, https://www.telegraph.co.uk/news/2017/09/23/afizzy-milk-could-hitsupermarket-shelves-boost-milk-sales/; "Plant Milk Market," *Global Market Insights*, https://www.gminsights.com/industry-analysis/plantmilk-market, accessed October 15, 2021.
13. Neil Halligan, "Dubai's Global Village Is Ready to Go Global," *Arabian Business*, May 7, 2017, https://www.arabianbusiness.com/industries/travel-hospitality/dubai-s-global-village-is-ready-go-global-673026.
14. "Ad Age Leading National Advertisers," *Advertising Age Fact Pack,* July 13, 2020, p. 5.
15. The four Ps classification was first suggested by E. Jerome McCarthy, *Basic Marketing: A Managerial Approach* (Homewood, IL: Irwin, 1960). The four As are discussed in Jagdish Sheth and Rajendra Sisodia, *The 4 A's of Marketing: Creating Value for Customer, Company and Society* (New York: Routledge, 2012). For other classifications, see Philip Kotler, Kevin Lane Keller, and Alexander Chernev, *Marketing Management*, 16th ed. (Hoboken, NJ: Pearson Education, 2022), p. 38.
16. "How Noon.com Is Doing It Differently," *Logistics Middle East*, September 18, 2018, https://www.logisticsmiddleeast.com/business/31355-how-nooncom-is-doing-it-differently; Noon.com: "Driving Growth and Innovation across the Middle East to Serve Online Shoppers Better," Google Cloud, https://cloud.google.com/customers/noon-com; "Noon Changes the Face of E-commerce by Offering the Fastest Delivery," INSITE OOH, https://insiteooh.com/article/4591-noon-changes-the-face-of-e-commerce-by-offering-the-fastest-delivery; Jochebed Menon, "Noon.com Gets a New Modern Warehouse in Dubai South," *Construction Business News*, January 26, 2021, https://www.cbnme.com/logistics-news/noon-com-gets-a-new-modern-warehouse-in-dubai-south/; "Noon.com, the Middle East's Most Awaited Ecommerce Platform Is Now Live in the UAE," *Quest Search and Selection*, October 1, 2017, https://www.questsearch.co.uk/2017/10/noon-com-middle-easts-awaited-ecommerce-platform-now-live-uae/.
17. Blake Morgan, "When the CMO Owns the Customer Experience: 10 Top CMOs Share Their POV," *Forbes,* August 29, 2017, www.forbes.com/sites/blakemorgan/2017/08/29/when-the-cmo-owns-customer-experience-10-top-cmos-share-their-pov/#65afabf469d2; Sonal Jaiswal, "Under the Microscope—Who Is a Chief Customer Officer?" *Customer Think,* September 5, 2018, http://customerthink.com/under-the-microscope-who-is-a-chief-customer-officer/; and "The 5 Roles of the CMO," *Deloitte*, www2.deloitte.com/us/en/pages/chief-marketing-officer/articles/five-roles-of-the-cmo.html, accessed September 2022.
18. For more on marketing dashboards and financial measures of marketing performance, see Jim Hopkins, "6 Sales Management Dashboards Every Leader Needs," *Salesforce Blog,* January 16, 2019, www.salesforce.com/blog/2019/01/sales-management-dashboards.html; and "Marketing Dashboard Examples," *Klipfolio,* www.klipfolio.com/resources/dashboard-examples, accessed September 2022.

19. For a full discussion of this model and details on customer-centered measures of marketing return on investment, see Roland T. Rust, Katherine N. Lemon, and Valerie A. Zeithaml, “Return on Marketing: Using Customer Equity to Focus Marketing Strategy,” *Journal of Marketing*, January 2004, pp. 109–127; Andreas Persson and Lynette Ryals, “Customer Assets and Customer Equity: Management and Measurement Issues,” *Marketing Theory*, December 2010, pp. 417–436; and Rob Marley, “Are You Undervaluing Your Customers?” *Harvard Business Review,* January–February 2020, pp. 43–55.
20. Molly Soat, “More Companies Require Revenue–Focused Marketing ROI Measures, Study Finds,” *Marketing News,* April 2015, p. 4; “Marketing Return on Investment,” *McKinsey & Company*, www.mckinsey.com/business-functions/marketing-and-sales/how-we-help-clients/marketing-return-on-investment#, accessed June 2022; and Stoney G. deGeyter, “15 Digital Marketing ROI Metrics You Need to Know,” *SEJ Search Engine Journal*, April 6, 2022, www.searchenginejournal.com/digital-marketing-roi-metrics/410847/#close
21. See www.dupont.com/about/our-history.html and https://www.dupont.com/, accessed September 2022.

Chapter 3

1. Line Corp., “Case Study: How L’Occitane Grew Online Sales during the Pandemic,” https://www.digitalmarketingforasia.com/line-ads-case-study-how-loccitane-grew-online-sales-during-the-pandemic/; “Who We Are,” Group L’Occitane website, https://group.loccitane.com/group/who-we-are; “L’Occitane Expands Omnichannel Strategy with New Social Selling Platform,” *Premium Beauty News*, September 17, 2021, https://www.premiumbeautynews.com/en/l-occitane-expands-omnichannel,19065; https://www.cosmeticsdesign-asia.com/Article/2020/07/28/L-Occitane-says-physical-store-network-remains-vital-despite-sluggish-sales; Amanda Lim, “Bricks Still Matter: L’Occitane Says Physical Store Network Remains ‘Vital’ Despite Sluggish Sales,” *CosmeticDesign-Asia*, July 28, 2020, https://www.cosmeticsdesign-asia.com/Article/2021/06/29/L-Occitane-online-sales-grow-69-thanks-to-social-selling-initiatives; “Did L’Occitane Really Increase ROAS by 74% in under a Month?!,” *ROI Hunter*, https://www.roihunter.com/success-stories/did-loccitane-really-increase-roas-by-74-in-under-a-month; “L’Occitane—Local Roots and Global Appeal,” August 5, 2010, *Cosmetics Business*, https://cosmeticsbusiness.com/news/article_page/LOccitane_local_roots_and_global_appeal/55976; Amanda Lim, “L’Occitane H1: China Sales Rise 23% on the Back of New Launches such as Osmanthus Fragrance,” *CosmeticDesign-Asia*, December 1, 2021, https://www.cosmeticsdesign-asia.com/Article/2021/12/01/L-Occitane-China-sales-rise-23-on-the-back-of-new-launches-such-as-Osmanthus-fragrance#:~:text=L’Occitane%20International%20has%20recorded,ELEMIS%2C%20Melvita%2C%20and%20Erborian.
2. See “L’Oréal: Our Suppliers,” www.loreal.com and www.loreal.com/en/audiences/suppliers/, accessed September 2022.
3. See www.cokesolutions.com, accessed September 2022.
4. See https://corporate.homedepot.com/foundation, accessed September 2022.
5. U.S. and World POP Clock, U.S. Census Bureau, www.census.gov/popclock/, accessed September 2022. This website provides continuously updated projections of the U.S. and world populations.
6. See “Population Projections for the United States from 2015 to 2060,” *Statista,* www.statista.com/statistics/183481/united-states-population-projection/, accessed September 2022.
7. “U.S. Population,” *Worldometers,* www.worldometers.info/world-population/us-population/; www.census.gov/popclock/; and www.ibisworld.com/us/bed/median-age-of-population/334/, accessed September 2022.
8. See Theo Francis, “U.S. Companies Are Thriving despite the Pandemic—or because of It,” *Wall Street Journal,* January 1, 2022, www.wsj.com/articles/u-s-companies-are-thriving-despite-the-pandemic-or-because-of-it-11641033005; Paul Ziobro, “These Businesses Thrived in Lockdown. Can They Keep It Up Now?,” *Wall Street Journal,* March 10, 2021, www.wsj.com/articles/for-doordash-etsy-and-others-next-test-is-sustaining-pandemic-growth-11615384800; Shawn Tully, “Keurig Is a Machine,” *Fortune*, November 2020, pp. 42–46; “Keurig Dr Pepper Reports Strong Finish to 2020,” *PRNewswire,* February 25, 2021, https://news.keurigdrpepper.com/2021-02-25-Keurig-Dr-Pepper-Reports-Strong-Finish-to-2020; Jack Neff, “Marketers Are Pulling Back on Products,” *Advertising Age,* October 19, 2020, p. 26; Drew Armstrong, “America Just Can’t Get Enough Lysol,” *Bloomberg*, November 19, 2020, www.bloomberg.com/news/features/2020-11-19/lysol-is-making-more-sanitizer-than-ever-in-pandemic-america-it-s-not-enough; “Marketing in the Time of COVID-19,” *Advertising Age,* https://s3-prod.adage.com/whitepapers/marketing-in-the-time-of-COVID-19.html, accessed June 2022, Andy Markowitz, “14 Iconic Retailers That Fell into Pandemic Bankruptcy,” *AARP,* May 4, 2021, www.aarp.org/money/credit-loans-debt/info-2020/bankrupt-retail-chain-store-list-is-growing.html; and www.reckitt.com and www.keurigdrpepper.com/, accessed September 2022.
9. Population numbers in this section are based on “Millennials Overtake Baby Boomers as Largest Generation,” *Pew Research*, April 28, 2020, www.pewresearch.org/fact-tank/2020/04/28/millennials-overtake-baby-boomers-as-americas-largest-generation. The specific date ranges for the generations vary by source. The ones used here are from the Pew Research Center. See www.pewresearch.org/fact-tank/2020/04/28/millennials-overtake-baby-boomers-as-americas-largest-generation/ft_20-04-27_generationsize_2/. Financial numbers are based on Hillary Hoffower, “Millennials Dominate the US Workforce, but They’re Still 10 Times Poorer Than Boomers,” *Business Insider,* October 12, 2020, www.businessinsider.com/millennials-versus-boomers-wealth-gap-2020-10; and “US Household Wealth Update: Baby Boomers Still Control Half; Gen X Share Rising,” April 13, 2022, https://www.marketingcharts.com/demographics-and-audiences/household-income-225380.
10. Emily A. Vogels, “Millennials Stand Out for Their Technology Use, but Older Generations Also Embrace Digital Life,” *Pew Research*, September 9, 2019, www.pewresearch.org/fact-tank/2019/09/09/us-generations-technology-use/; Natash Dailey, “Baby Boomers Flocked to Online Shopping Like Never Before during the Pandemic,” *Business Insider* January 22, 2021, www.businessinsider.com/baby-boomers-e-commerce-fastest-growing-demographic-online-shoppers-2021-1; Susan Williams, “Technology Is Going Mobile but Will Baby Boomers Follow?,” *Becoming Encore*, https://boomingencore.com/en/article/technology-going-mobile-will-baby-boomers-follow, accessed April 2022; and Tod Perry, “Boomers and Millennials Love Sparring but *SURPRISE* Their Phone Habits Are Eerily Similar,” *Upworthy*, August 3, 2021, www.upworthy.com/boomers-and-millennials-phone-habits.
11. See “OurTime,” *Retirement Living,* June 20, 2020, www.retirementliving.com/reviews/ourtime-senior-dating-service; and www.ourtime.com, accessed September 2022.
12. Corinne Purtill, “The Key to Marketing to Older People? Don’t Say ‘Old.’” *New York Times*, December 8, 2021, www.nytimes.com/2021/12/08/business/dealbook/marketing-older-people.html.
13. Robert Klara, “5 Reasons Marketers Have Largely Overlooked Generation X,” *Adweek,* April 4, 2016, www.adweek.com/brand-marketing/5-reasons-marketers-have-largely-overlooked-generation-x-170539/; Richard Fry, “Millennials Projected to Overtake Baby Boomers as America’s Largest Generation,” Pew Research, March 1, 2018, www.pewresearch.org/fact-tank/2018/03/01/millennials-overtake-baby-boomers/;

Colby Graff, "Gen X: 'The Forgotten Generation' by Name, by Advertisers in Real Life," *Marketing Insider*, March 30, 2018, www.mediapost.com/publications/article/316885/gen-x-the-forgotten-generation-by-name-by-adve.html; Nicole Lyn Pesce, "This Depressing Chart Shows the Jaw-Dropping Wealth Gap between Millennials and Boomers," *MarketWatch*, December 28, 2019, www.marketwatch.com/story/this-depressing-chart-shows-the-jaw-dropping-wealth-gap-between-millennials-and-boomers-2019-12-04; and "Generation Pay: Generation X Spending Habits," *FISGlobal*, March 8, 2021, www.fisglobal.com/en/insights/merchant-solutions-worldpay/article/generation-pay-generation-x-spending-habits.

14. See Kristi Kellogg, "24 Best Meal Delivery Services and Kits of 2021," *Epicurious*, January 1, 2021, www.epicurious.com/expert-advice/every-meal-kit-delivery-service-in-america-article; Global Meal Kit Delivery Services Market Size, Share & Trends Analysis 2022 Report," *BusinessWire*. April 19, 2022, www.businesswire.com/news/home/20220419005851/en/Global-Meal-Kit-Delivery-Services-Market-Size-Share-Trends-Analysis-2022-Report-A-64.3-Billion-Market-by-2030—ResearchAndMarkets.com; and www.hellofresh.com, accessed September 2022.

15. Carrie Cummings, "Blue Ribbon Millennials," *Adweek*, April 11, 2018, p. 13; "How Digital Are Millennials in Their Shopping," *eMarketer*, February 26, 2020, www.emarketer.com/content/how-digital-are-millennials-in-their-shopping; and "How Gen Z and Millennials Are Influencing the Future of Shopping," *Total Retail*, March 1, 2021, www.mytotalretail.com/article/how-gen-z-and-millennials-are-influencing-the-future-of-shopping/.

16. Mindy Weinstein, "Demographic: 10 Brands That Got Millennial Marketing Right," *SearchEngineJournal*, July 23, 2015, www.searchenginejournal.com/trillion-dollar-demographic-10-brands-got-millennial-marketing-right/135969/#close; https://pgpro.com/en-us/brands/tide-professional/pods, accessed June 2022; and "Laundry Detergent Pods Market Value in the United States from 2015 to 2025," *Statista*, www.statista.com/statistics/1064616/laundry-detergent-pods-market-value-us/, accessed September 2022.

17. The specific date ranges and statistics for this generation vary by source. The one used here are from the Pew Research Center. See www.pewresearch.org/fact-tank/2020/04/28/millennials-overtake-baby-boomers-as-americas-largest-generation/ft_20-04-27_generationsize_2/. For other data listed, see Josh Perlstein, "Engaging Generation Z: Marketing to a New Brand of Consumer," *Adweek*, November 27, 2017, www.adweek.com/digital/josh-perlstein-response-media-guest-post-generation-z/; Libby Kane, "Meet Generation Z, the 'Millennials on Steroids' Who Could Lead the Change in the US," *Business Insider*, December 4, 2017, www.businessinsider.com/generation-z-profile-2017-9; "The Power of Gen Z Influence," *Barkley Report*, January 2018, www.millennialmarketing.com/wp-content/uploads/2018/01/Barkley_WP_GenZMarketSpend_Final.pdf; and "Resident Population in the United States in 2021, by Generation," *Insider Intelligence*, December 14, 2021, www.insiderintelligence.com/charts/united-states-population-by-generation/.

18. Blake Morgan, "50 Stats All Marketers Must Know about Gen-Z," *Forbes*, February 20, 2020, www.forbes.com/sites/blakemorgan/2020/02/28/50-stats-all-marketers-must-know-about-gen-z/?sh=13bbe72c76d0; "Kibo Study: Younger Generations Show Increased Shift to Long-Term Online Shopping," *BusinessWire*, December 13, 2020, www.businesswire.com/news/home/20201214005586/en/Kibo-Study-Younger-Generations-Show-Increased-Shift-to-Long-Term-Online-Shopping; and "How Each Generation Shops," *Salesfloor Blog*, https://salesfloor.net/blog/generations-shopping-habits/, accessed September 2022.

19. Thomas J. Law, "10 Vital Strategies to Use When Marketing to Generation Z," *Oberlo*, November 3, 2020, www.oberlo.com/blog/marketing-strategies-generation-z; Marc Grabowski, "Infographic: A Look at Consumer CPG Spending One Year into Pandemic," *Open Mic*, April 7, 2021, www.thedrum.com/profile/oracle-advertising/news/infographic-a-look-at-consumer-cpg-spending-one-year-into-pandemic; and https://anyware.dominos.com/ and https://support.google.com/displayvideo/answer/7245674?hl=en, accessed September 2022.

20. Erica Sweeney, "American Eagle Hands Creative Control to Gen Zers for Spring Campaign," Marketing Dive, January 28, 2019, www.marketingdive.com/news/american-eagle-handscreative-control-to-gen-zers-for-spring-campaign/546938/; "Gen Z Is Leading an Evolution in Shopping That Could Kill Brands as We Know Them, *Business Insider*, July 2019, www. businessinsider.com/gen-z-shopping-habits-kill-brands-2019-7; Ally Nguyen, "American Eagle's Story on Its Firm Stand in the Gen Z Market Share," *EnvZone*, January 19, 2021, www. envzone.com/ecommerce-and-retail/american-eaglesstory-on-its-firm-stand-in-the-gen-z-market-share/; and Eve Bacarrisas, "Best Gen Z Marketing Strategies for 2022," Thrive Agency, November 18, 2021, https://thriveagency.com/news/best-gen-z-marketing-strategies-for-2022/.

21. Paul Lipscombe, "Xiaomi Keeps Sights on Top Three as Vendor Looks Ahead," *Mobile News*, April 6, 2022, https://www.mobilenewscwp.co.uk/Features/article/xiaomi-keeps-sights-top-three-vendor-looks-ahead; Tan Chee Yun, "Once 'The World's Factory', China Now Builds Global Brands," *ThinkChina*, August 1, 2022, https://www.thinkchina.sg/once-worlds-factory-china-now-builds-global-brands.

22. Terry Nguyen, "Brands Are Already Marketing to Generation Alpha," *Vox*, August 9, 2021, www.vox.com/the-goods/22611284/brands-gen-alpha-millennial-parents; and Rob Litterst, "Gen Z Is Old News—Brands Are Moving on to Generation Alpha," *The Hustle*, August 19, 2021, https://thehustle.co/0819 2021-generation-alpha/.

23. For statistics on family composition, see U.S. Census Bureau, "Family by Presence of Own Children under 18," Table FM1, www.census.gov/data/tables/time-series/demo/families/families.html, accessed April 2022; U.S. Census Bureau, "Households by Type, Age of Members, Region of Residence, and Age of Householder: 2018," Table H2, www.census.gov/data/tables/2018/demo/families/cps-2018.html, accessed April 2022; and U.S. Census Bureau, "America's Families and Living Arrangements: 2021," November 29, 2021, www.census.gov/data/tables/2021/demo/families/cps-2021.html.

24. Brittany Rico, Rose M. Kreider, and Lydia Anderson, "Growth in Interracial and Interethnic Married-Couple Households," July 9, 2018, www.census.gov/library/stories/2018/07/interracial-marriages.html; "U.S. Census Bureau Releases New Estimates on America's Families and Living Arrangements," December 2, 2020, www.census.gov/newsroom/press-releases/2020/estimates-families-living-arrangements.html; and U.S. Census Bureau, "Same-Sex Couple Households: 2019," February 2021, www.census.gov/content/dam/Census/library/publications/2021/acs/acsbr-005.pdf.

25. See Jack Neff, "Dove Men+Care Looks for the Positive during the Pandemic in Campaign about Dads Caring for Kids," *Advertising Age*, May 5, 2020, https://adage.com/creativity/work/dove-mencare-dad/2254651; and www.youtube.com/watch?v=gw7GcdlNt_M, accessed September 2022.

26. See Jessica Wohl, "Campbell Soup Shows 'Real, Real Life' in New Brand Campaign," *Advertising Age*, October 5, 2016, http://adage.com/print/300750; Deborah Block, "Americans See More Interracial Relationships in Advertising, *VOA News*, March 17, 2021, www.voanews.com/usa/race-america/americans-see-more-interracial-relationships-advertising; Avi Dan, "As America Is Changing into a 'Majority-Minority' Country, Advertising Starts

Changing as Well," *Forbes*, April 13, 2022, www.forbes.com/sites/avidan/2022/04/13/as-america-is-changing-into-a-majority-minority-country-advertising-starts-changing-as-well; and www.youtube.com/watch?v=yNkCp5vjYzs, accessed September 2022.

27. Elliott Davis, "Study: Americans Moved West, South in 2020," *U.S. News & World Report*, January 4, 2021, www.usnews.com/news/best-states/articles/2021-01-04/americans-moved-west-and-south-in-2020-amid-coronavirus-pandemic-study-finds; and U.S. Census Bureau, "Geographic Mobility: 2019 to 2020," December 2020, www.census.gov/data/tables/2020/demo/geographic-mobility/cps-2020.html.

28. See U.S. Census Bureau, "Metropolitan and Micropolitan Statistical Areas," www.census.gov/programs-surveys/metro-micro.html, accessed September 2019; and "List of Micropolitan Statistical Areas," *Wikipedia,* http://en.wikipedia.org/wiki/List_of_Micropolitan_Statistical_Areas, accessed September 2022.

29. Alex Lardieri, "Poll: Americans Like Working at Home," *U.S. News and World Report,* February 12, 2021, www.usnews.com/news/national-news/articles/2021-02-12/majority-of-americans-work-remotely-a-year-into-coronavirus-pandemic-poll-finds; and "The Future of Work after COVID-19," *McKinsey Global Institute*, February 18, 2021, www.mckinsey.com/featured-insights/future-of-work/the-future-of-work-after-covid-19.

30. See "Zoom Whiteboard, the Collaboration Canvas for Hybrid Teams, Now Available," *Zoom*, April 19, 2022, https://investors.zoom.us/news-releases/news-release-details/zoom-whiteboard-collaboration-canvas-hybrid-teams-now-available; and https://explore.zoom.us/en/products/online-whiteboard/, accessed September 2022.

31. See www.regus.com/en-us and www.davincivirtual.com, accessed September 2022.

32. See U.S. Census Bureau, "Demographic Turning Points for the United States: Population Projections for 2020 to 2060," February 2020, www.census.gov/content/dam/Census/library/publications/2020/demo/p25-1144.pdf; and U.S. Census Bureau, "Quick Facts," www.census.gov/quickfacts/fact/table/US/PST045221, accessed September 2022.

33. Katie Baron, "Prepping for Pride 2022 & Beyond: Engaging a Booming LGBTQ+ Consumer Landscape," *Forbes,* April 11, 2022, www.forbes.com/sites/katiebaron/2022/04/11/prepping-for-pride-2022-beyond-engaging-a-booming-lgbtq-consumer-landscape/?sh=295d8ac27faf; and Jo Yurcaba, "Percentage of LGBTQ Adults in U.S. Has Doubled over Past Decade, Gallup Finds," *NBC News*, February 17, 2022, www.nbcnews.com/nbc-out/out-news/percentage-lgbtq-adults-us-doubled-decade-gallup-finds-rcna16556.

34. For more discussion, see Jacob Passy, "Wells Fargo: Ad with Gay Couple Reflects 'Demographic Reality,'" *American Banker*, June 23, 2015, www.americanbanker.com/news/consumer-finance/wells-fargo-ad-with-gay-couple-reflects-demographic-reality-1075043-1.html; Kristina Monllos, "Doritos Has Launched Limited-Time Rainbow Chips in Support of the LGBT Community," *Adweek*, September 17, 2015, www.adweek.com/brand-marketing/doritos-has-launched-limited-time-rainbow-chips-support-lgbt-community-166983/; "Oreo Is Giving Away 10,000 Packs of Rainbow Cookies. Here's How to Get Yours," *KSAT,* October 10, 2020, www.ksat.com/news/local/2020/10/10/oreo-is-giving-away-10000-packs-of-rainbow-cookies-heres-how-to-get-yours/; and www.youtube.com/watch?v=hKzoNA6Gm18, accessed September 2022.

35. "P&G and GLAAD Announce 'The Visibility Project' and Release New Research to Advance LGBTQ Visibility in Advertising," May 12, 2021, https://news.pg.com/news-releases/news-details/2021/PG-and-GLAAD-Announce-The-Visibility-Project-and-Release-New-Research-to-Advance-LGBTQ-Visibility-in-Advertising/default.aspx; and "How OREO's #ProudParent campaign connected to National Coming Out Day and started a lasting conversation," Twitter Case Study, https://marketing.twitter.com/en/success-stories/oreo-proud-parent-twitter-campaign#, accessed September 2022.

36. Economic Impact of Disability Travel Reaches $58.7 Billion," Open Doors Organization, October 28, 2020, https://opendoorsnfp.org/news/news-items.

37. See Michelle Diament, "Microsoft Spotlights Adaptive Device in Holiday TV Commercial," *Disability Scoop,* December 11, 2018, www.disabilityscoop.com/2018/12/11/microsoft-adaptive-commercial/25800/; and www.microsoft.com/en-us/accessibility and www.xbox.com/en-US/community/for-everyone/accessibility, accessed September 2022.

38. Katie Richards, "Toyota Is Betting on the Olympics with 7 New Pieces of Creative for Its First Global Campaign," *Adweek,* February 9, 2018, www.adweek.com/brand-marketing/toyota-is-betting-big-on-the-olympics-with-7-new-pieces-of-creative-for-its-first-global-campaign/; "Toyota Rolls Out 'Start Your Impossible' Global Campaign That Reflects the Olympic and Paralympic Spirit of Encouragement, Challenge and Progress," Toyota Newsroom, February 9, 2018, https://newsroom.toyota.co.jp/en/corporate/21064838.html; and www.youtube.com/watch?v=u3pbC74bf8E&ab_channel=ToyotaUSA, accessed September 2022.

39. Whitney Wolfe Herd, "Bumble Founder Whitney Wolfe Herd: New Yorkers, You Inspire Us," https://thebeehive.bumble.com/whitneyftob, accessed April 2022; "6 Examples of Brands Who Got Multicultural Marketing Right," *Refuel Agency*, www.refuelagency.com/blog/multicultural/examples-of-brands-who-got-multicultural-marketing-right/, accessed September 2022; and https://thebeehive.bumble.com/find-them-on-bumble, accessed September 2022.

40. See "Luxury Brand Stretching," *Jim.Shamlin.com*, http://jim.sha.html, accessed April 2021; and Florine Eppe Beauloye, "The 15 Most Popular Luxury Brands Online in 2021," *Luxe Digital*, October 27, 2021, https://luxe.digital/business/digital-luxury-ranking/most-popular-luxury-brands/.

41. Drew Harwell, "Meet the Secret Army of Meteorologists Who Keep Your Holiday Deliveries on Time," *The Washington Post*," December 8, 2014, www.washingtonpost.com/business/economy/meet-the-secret-army-of-meteorologists-who-keep-your-holiday-deliveries-on-time/2014/12/08/2d9d3c82-759d-11e4-9d9b-86d397daad27_story.html; and Will Nunley and Andrew Wulfeck, "UPS Meteorologists Work to Keep America Moving," *Fox News,* March 10, 2022, www.foxweather.com/learn/ups-meteorologists-work-to-keep-america-moving.

42. Shelley E. Kohan, "Walmart Revenue Hits $559 Billion for Fiscal Year 2020," *Forbes,* February 18, 2021, www.forbes.com/sites/shelleykohan/2021/02/18/walmart-revenue-hits-559-billion-for-fiscal-year-2020/?sh=74e1292d3358.

43. Information from "Sustainability Is Opportunity for the North Face," *Clean Technica,* August 27, 2018, https://cleantechnica.com/2018/08/27/sustainability-is-opportunity-for-the-north-face-an-interview-with-james-rogers-director-of-sustainability; "North Face Building Solar Power System in Visalia," *The Electricity Forum,* www.electricityforum.com/news-archive/aug08/NorthFacegoingsolar, accessed April 2022; and www.thenorthface.com/about-us/responsibility.html, accessed September 2022.

44. Nike, "Sustainable Innovation," http://about.nike.com/pages/sustainableinnovation; Nike, "Minimize Environmental Footprint," http://about.nike.com/pages/environmental-impact; "Our Carbon Footprint and Our Next Steps," https://news.nike.com/news/our-carbon-footprint-and-our-next-steps, accessed September 2021; "Protecting the Planet," Nike website, https://about.nike.com/en/impact/focus-areas/protecting-the-planet; What to Know About Nike's Stance on Tackling Climate Change," Nike website, Newsroom, September 19, 2019, https://about.nike.com/en/newsroom/releases/nike-move-to-zero-climate-change-initiative, accessed January 2023.

45. See Jeremy Schoolfield, "JUST ANNOUNCED: MagicBand+ Will Debut in 2022 at Walt Disney World Resort as Part of 50th

Anniversary Celebration," *Disney Parks Blog*, September 30, 2021, https://disneyparks.disney.go.com/blog/2021/09/just-announced-magicband-will-debut-in-2022-at-walt-disney-world-resort-as-part-of-50th-anniversary-celebration/; and https://disneyworld.disney.go.com/guest-services/magicband-plus/ and https://disneyworld.disney.go.com/plan/my-disney-experience/my-magic-plus/, accessed September 2022.

46. See, for example, Dan Swinhoe, "The 15 Biggest Data Breaches of the 21st Century," *CSO*, January 8, 2021, www.csoonline.com/article/2130877/the-biggest-data-breaches-of-the-21st-century.html; and Emily Stewart, "Companies Lose Your Data and Then Nothing Happens," *Vox*, April 21, 2022, www.vox.com/the-goods/23031858/data-breach-data-loss-personal-consequences.

47. See www.walgreens.com/topic/promotion/rednoseday.jsp, www.whirlpool.com/care-counts.html, https://wildlife.dawn-dish.com/, and www.benjerry.com/values/issues-we-care-about, accessed September 2022.

48. See www.linkedin.com/company/the-right-to-shower, www.therighttoshower.com/mission, and www.therighttoshower.com/, accessed September 2022.

49. "What We Fund," Innocent Foundation, https://www.innocentfoundation.org/what-we-fund/what-we-fund/; Valerie Auer, "Innocent: Fixed Donation Commitment," Wirtschaft hilft, July 28, 2020, https://www.wirtschaft-hilft.at/wir-spenden/postid/1379/innocent-fixe-spendenzusage; "Butterfly Savior," Blühende-Landschaft, https://bluehende-landschaft.de/retterling-vom-schmetterling/?aaazw-bienen-brauchen-unseren-schutz-kopie-1/spende, accessed October 2021.

50. See Chloe Satenberg, "Actions Speak Louder Than Words: Brand Activism in 2021," *Brand Innovators,* March 30, 2021, www.brand-innovators.com/news/actions-speak-louder-than-words-brand-activism-in-2021.

51. See Amrita Singh, "Aerie: How This Label Is Redefining Body Positivity," *AboutHer,* April 15, 2022, www.abouther.com/node/48521/fashion/what-shop/aerie-how-label-redefining-body-positivity; Lauren Thomas, "Victoria's Secret Is Leaning More into Comfort—and Women Are Taking Notice," *CNBC,* February 2022, www.cnbc.com/2022/02/28/victorias-secret-is-leaning-into-comfort-and-women-are-taking-notice.html; "Sarah Jessica Parker Joins Stella Artois and Water.org to 'Pour It Forward.' and Help End the Global Water Crisis," *PR Newswire,* January 22, 2019, www.prnewswire.com/news-releases/sarah-jessica-parker-joins-stella-artois-and-waterorg-to-pour-it-forward-and-help-end-the-global-water-crisis-300782004.html; Janet Freund, "A Stumbling Victoria's Secret Could Become the 'Sears of Brassieres,'" *Bloomberg,* May 10, 2018, www.bloomberg.com/news/articles/2018-05-10/victoria-s-secret-weak-pink-sales-has-l-brands-deeper-in-the-red; "NEDA 2021 Partnership," February 23, 2021, www.ae.com/aerie-real-life/2021/02/23/neda-partnership-2021/#; and www.thedrum.com/creative-works/project/mother-new-york-stella-artois-pour-it-forward and www.water.org/stellaartois/, accessed September 2022.

52. See David Gianatasio, "A New Cycle," *Adweek,* September 11, 2017, p. 13; Warby Parker Raises $245 Million for a $3 Billion Valuation," *Fortune,* August 27, 2021, https://fortune.com/2020/08/27/warby-parker-3-billion-dollar-valuation-245-million-funding/; and www.warbyparker.com, accessed September 2022.

53. See Sherry Turkle, "The Flight from Conversation," *New York Times,* April 22, 2012, p. SR1; and Turkle, "Stop Googling. Let's Talk," *New York Times,* September 27, 2015, p. SR1; and Jenny Anderson, "In the Age of Screens, Families Are Spending More Time 'Alone-Together,'" *Quartz,* March 16, 2019, https://qz.com/1573329/are-families-spending-less-time-together-due-to-screens/.

54. See "Jeep Has One of the Most Patriotic Ads You'll Ever Watch," *Lifezette,* February 3, 2019, www.lifezette.com/2019/02/jeep-has-one-of-the-most-patriotic-ads-youll-ever-watch/; Erica Sweeney, "Jeep Racks Up 106M Online Views without Running Super Bowl Ad," *Marketing Dive,* February 6, 2019, www.marketingdive.com/news/jeeps-digital-only-super-bowl-spot-racks-up-106m-views-breaks-company-rec/547740/'; and www.youtube.com/watch?v=TMCfywIaznc&ab_channel=dimadmitriev, accessed September 2022.

55. See "U.S. Organic Food Market Size Worth $70.4 Billion by 2025," *PR Newswire*, July 18, 2018, www.prnewswire.com/news-releases/u-s-organic-food-market-size-worth-70-4-billion-by-2025-hexa-research-894007633.html; "Everyday Natural and Organic Products in Continued High Demand," *Entrepreneur*, February 8, 2021, www.entrepreneur.com/article/364946; and "Sales Growth of Natural, Organic Products Continues to Drop but Holds Long-Term Promise," *Food Navigator,* March 14, 2022, www.foodnavigator-usa.com/Article/2022/03/14/sales-growth-of-natural-organic-products-continues-to-drop-but-holds-long-term-promise.

56. See www.lovebeautyandplanet.com and https://gillette.com/en-us/the-latest-from-gillette/planet-kind, accessed June 2022.

57. See Gini Dietrich, "5 Crisis Lessons from Crock-Pot and 'This Is Us,'" *PR Daily,* February 19, 2017, www.prdaily.com/mediarelations/Articles/5_crisis_lessons_from_CrockPot_and_This_Is_Us_23990.aspx; Amy George, "Crock-Pot's Response to Its Tragic Role in 'This Is Us' Is a Lesson in Smart PR," *Inc.,* January 29, 2018, www.inc.com/amy-george/crock-pots-response-to-angry-this-is-us-fans-shows-why-every-company-needs-a-pr-crisis-plan.html; and Dan Snierson, "One Year after Jack's Death on *This Is Us*, the Slow Cooker Defends Itself," *Entertainment Weekly,* February 4, 2019, https://ew.com/tv/2019/02/04/this-is-us-jack-death-anniversary-slow-cooker/.

58. See Tom Foster, "The GoPro Army," *Inc.*, January 26, 2012, accessed online at www.inc.com; Benjamin Schroeder, "Can GoPro Make a Comeback?" *Ever Higher Peaks*, April 20, 2021, www.bcrschroeder.com/p/can-gopro-make-a-comeback?s=r; Mark Wilson, "GoPro's FPV Drone Camera Is the Start of Its New Age of Anti-Heros," *TechRadar*, April 12, 2022, www.techradar.com/news/gopros-new-action-cams-can-fly-where-its-karma-drone-fell; "Global Digital Still Camera Market and 360 Fisheye IP Cameras Market Size 2022," *GlobalNewswire*, March 9, 2022, www.globenewswire.com/news-release/2022/03/09/2400240/0/en/Global-Digital-Still-Camera-Market-and-360-Fisheye-IP-Cameras-Market-Size-2022-Top-Countries-Data-Analysis-Latest-Trends-Business-Boosting-Strategies-Growth-Opportunities-New-Produ.html#; and information from www.macrotrends.net and www.gopro.com/en/us/, accessed September 2022.

Chapter 4

1. See "Roku Measurement Now Available in Nielsen Digital Content Ratings," Morningstar, October 26, 2021, www.morningstar.com/news/pr-newswire/20211026ny51727/roku-measurement-now-available-in-nielsen-digital-content-ratings; Diane Bowers, "2020 Top 50 U.S. Market Research and Data Analytics Companies," Marketing News, October 1, 2020, www.ama.org/marketing-news/2020-top-50/; and information found at www.global.nielsen.com/global/en/, www.nielsen.com/us/en/insights/, and www.nielsen.com/us/en/about-us/panels/, accessed September 2022.

2. See "Volume of Data/Information Created, Captured, Copied, and Consumed Worldwide from 2010 to 2025 (in Zettabytes)," *Statista,* www.statista.com/statistics/871513/worldwide-data-created/, accessed April 2022; and "Big Data," Wikipedia, http://en.wikipedia.org/wiki/Big_data, accessed September 2022.

3. See Jordan Bitterman, "Let's Clear Up the Data Forecast," *Adweek,* December 12, 2016, p. W1. Also see Andrei Hagiu and Julian Wright, "When Data Creates Competitive Advantage …

and When It Doesn't," *Harvard Business Review,* January-February 2020, pp. 94–101.

4. Elizabeth Morgan, "An Insights Ecosystem for General Mills," *MARKETLOGIC*, December 8, 2020, www.marketlogicsoftware.com/blog/a-one-stop-shop-insights-ecosystem-for-general-mills/; "Brand Psychology—General Mills Cereals with the Most Adventurous Customers," *StatSocial*, July 26, 2019, medium.com/statsocial-insights/brand-psychology-general-mills-cereals-with-the-most-adventurous-customers-4290659d8df0; www.generalmillscf.com, accessed September 2022.
5. See https://corporate.walmart.com/suppliers, accessed September 2022; and "What Is Retail Link For?" *8th & Walton,* https://blog.8thandwalton.com/2015/08/what-is-retail-link-for, accessed September 2022.
6. See "For Companies Like Stitch Fix, Try These 19 Compelling Alternatives," *Modern Fellows*, October 30, 2021, www.modernfellows.com/companies-like-stitch-fix/; Anshul Agarwal, "Recommendation Systems at Trunk Club: Overview," *medium.com*, January 27, 2020, http://medium.com/unpacking-trunk-club/recommendation-systems-at-trunk-club-overview-part-1-cc5783e5ff4b; Anshul Agarwal, "Recommendation Systems at Trunk Club: Algorithms, Challenges, and Future Outlook (Part 2)," *medium.com*, January 27, 2020, http://medium.com/unpacking-trunk-club/recommendation-systems-at-trunk-club-algorithms-challenges-and-future-outlook-part-2-afdda5d69bae; and www.trunkclub.com and www.trunkclub.com/faq#how-does-the-referral-program-work, accessed September 2022.
7. See www.kroll.com/en/services/forensic-investigations-and-intelligence/intelligence-transactions-and-due-diligence/competitor-intelligence, accessed January 2022.
8. See "Samsung: Growing Up," www.theverge.com/2017/11/6/16611758/samsung-mocks-iphone-x-commercial, November 6, 2017; Mike Murphy, "Samsung's Strategy for Keeping Up with Apple Is to Be Mean," *Quartz,* August 18, 2018, https://qz.com/1358333/samsungs-strategy-for-keeping-up-with-apple-is-to-be-mean; and Geoffrey Cain, "Samsung vs Apple: Inside the Brutal War for Smartphone Dominance," *Forbes,* March 13, 2020, www.forbes.com/sites/forbesdigitalcovers/2020/03/13/samsung-vs-apple-inside-the-brutal-war-for-smartphone-dominance/?sh=13b500824142.
9. Kenneth Hein, "3 Actionable Insights from . . . Gary Vaynerchuk," *The Drum,* July 29, 2020, www.thedrum.com/news/2020/07/29/3-actionable-insights-gary-vaynerchuk.
10. "MasterCard Conversation Suite Video," https://newsroom.mastercard.com/videos/mastercard-conversation-suite-video/, accessed January 2021; Josh Sternberg, "Tuning In to Marriott," *Adweek,* September 16, 2019, 60(22), pp. 18–21; Leslie Josephs, "Inside Marriott's Social-Media Command Center," *Quartz,* March 11, 2017, https://qz.com/890383/marriott-is-spying-on-its-guests-and-sometimes-sending-them-champagne/; Frank Rojas, "Council Post: Actionable Strategies in Real-Time Marketing Using Sentiment Analysis," *Forbes*, July 23, 2020, www.forbes.com/sites/forbesagencycouncil/2020/07/24/actionable-strategies-in-real-time-marketing-using-sentiment-analysis/?sh=2616bb01e8e0; Sheila Shayon, "MasterCard Harnesses the Power of Social with Innovative Conversation Suite," *brandchannel,* May 7, 2013, www.brandchannel.com/home/post/2013/05/07/MasterCard-Conversation-Suite-050713.aspx; Giselle Abramovich, "Inside Mastercard's Social Command Center," *Digiday,* May 9, 2013, http://digiday.com/brands/inside-mastercards-social-command-center/; "4 Examples of Brands Getting Real Time Marketing Right," *Big Marketing,* April 12, 2018, https://bigmarketing.co.uk/4-examples-of-brands-getting-real-time-marketing-right/; and "Examples of Ten Social Media Command Centers," Salesforce, www.exacttarget.com/sites/exacttarget/files/10-Examples-of-Social-Media-Command-Centers.pdf; accessed April 2021.
11. See Nick Statt, "Self-Driving Car Engineer Anthony Levandowski Pleads Guily to Stealing Google Trade Secrets," *TheVerge.com*, March 19, 2020, www.theverge.com/2020/3/19/21187651/anthony-levandowski-pleads-guilty-google-waymo-uber-trade-secret-theft-lawsuit; and Paresh Dave, "Former Uber Self-Driving Head Levandowski Agrees to Plea Deal over Google Secrets," *reuters.com*, March 19, 2020, www.reuters.com/article/us-uber-autonomous-levandowski/former-uber-self-driving-head-levandowski-agrees-to-plea-deal-over-google-secrets-idUSKBN21646I.
12. Michael Brereton and Diane Bowers, "The 2017 AMA Gold Global Top 25 Market Research Firms," *Marketing News,* October 1, 2017, www.ama.org/marketing-news/the-2017-ama-gold-global-top-25-market-research-companies. Also see Zach Brooke, "The Market Research Arms Race," *Marketing News,* July 2018, pp. 79–85, https://issuu.com/molly.soat/docs/mn_junejuly2018-lr.
13. Patrick Young, "Embracing an Era of Just-in-Time Research," *Marketing,* October 19, 2017, www.marketing-interactive.com/embracing-an-era-of-just-in-time-research/. Also see Michael Beebe, "Disruption Is Coming to Marketing Research," *MTA Martech Advisor,* September 3, 2018, www.martechadvisor.com/articles/interactive-marketing/disruption-is-coming-to-marketing-research/; and "Top 11 Market Research Trends in 2021 to Keep an Eye On," *QuestionPro,* accessed September 2021, www.questionpro.com/blog/market-research-trends/.
14. Kristen Meyer, "Data Science and the Art of Persuasion," *Harvard Business Review,* January–February 2019, pp. 127–137; Dan Tynan, "Winners' Playbook," *Adweek,* December 2, 2018, pp. 21–22.
15. Stacy Roman, "7 European Fast-Food Chains to Check Out," Stripes Europe, March 22, 2018, https://europe.stripes.com/lifestyle/7-europeanfast-food-chains-check-out; "Vegan-Trend: Daten und Fakten zum Veggie-Boom," VEBU, https://vebu.de/veggie-fakten/entwicklung-in-zahlen/vegan-trend-fakten-zum-veggie-boom/; "Flensburg Holm," Nordsee website, https://www.nordsee.com/de/filialen/detail/store/nordsee-flensburgholm-278/; "Nordsee Franchise," World Franchise, http://worldfranchise.eu/franchise/nordsee; Nils-Gerrit Wunsch, "Number of People Who Classify Themselves as Vegetarians or as People Who Largely Forgo Meat in Germany From 2014 to 2022 (In Million People)," Statista, February 13, 2023.
16. See information from https://consulting.kantar.com/our-solutions/monitor/us-monitor/ and https://sites.kantar.com/Offers/Streetscapes.html, accessed September 2022.
17. See www.iriworldwide.com/en-us/solutions/retail, accessed September 2022.
18. Kai Ryssdal and Tommy Andres, "Domino's CEO Patrick Doyle: Tech with a Side of Pizza," *Marketplace*, September 24, 2015, www.marketplace.org/2015/09/24/business/corner-office/dominos-ceo-patrick-doyle-tech-side-pizza; Nathaniel Meyersohn, "Why Domino's Is Winning the Pizza Wars," *CNN Business,* March 6, 2018, https://money.cnn.com/2018/03/06/news/companies/dominos-pizza-hut-papa-johns/index.html; and Daniel B. Kline, "Dominoes Has a New Space for Innovation," *The Motley Fool,* September 4, 2019, www.fool.com/investing/2019/09/04/dominos-has-a-new-space-for-innovation.aspx.
19. See Geoff Colvin, "How Intuit Reinvents Itself," *Fortune,* November 12, 2017, pp. 76–82; and "Follow Me Home: Creative R Solutions," https://quickbooks.intuit.com/in/resources/interview-business-profile/follow-me-home-creative-r-solutions/, accessed April 2022.
20. "About Us," Bizdaq, https://www.mybizdaq.com/about; "3 Small Business Marketing Success Stories You Can Learn From," Media Moguls PR, https://mediamogulspr.com/3-small-business-marketing-success-storiesyou-can-learn-from/.
21. See Bulldog Reporter, "MediaScience Launches New Division, HARK Connect, Dedicated to Qual Tech," *Agility PR Solutions*, February 3, 2020, www.agilitypr.com/pr-agency-news/media science-launches-new-division-hark-connect-dedicated-to-qual-tech/; and http://harkconnect.com, accessed September 2022.
22. See "Customer Success Story: Wolverine Worldwide," Vision Critical, www.visioncritical.de/kunden/wolverine-worldwide,

accessed January 2019; Tina Mulqueen, "How to Make the Most of Customer Insights," *Forbes,* January 17, 2018, www.forbes.com/sites/tinamulqueen/2018/01/17/how-to-make-the-most-of-customer-insights/?sh=204b6d221f85; Gretchen Jezerc, "Wolverine Worldwide and First Insight Announce Global Strategic Partnership to Integrate Digital Product Testing and Voice of Customer Analytics," *First Insight*, August 17, 2020, www.firstinsight.com/press-releases/wolverine-worldwide-and-first-insight-announce-global-strategic-partnership-to-integrate-digital-product-testing-and-voice-of-customer-analytics; and www.wolverineworldwide.com, accessed September 2022.

23. Ron Kohavi and Stefan Thomke, "The Surprising Power of Experiments," *Harvard Business Review,* September-October 2017, pp. 74–82. Also see Iavor Bojinov, Guillaume Saint-Jacques, and Martin Tingly, "Avoid the Pitfalls of A/B Testing," *Harvard Business Review,* March–April 2020, pp. 48–53; and Eva Asvarza, "When A/B Testing Doesn't Tell You the Whole Story," *Harvard Business Review,* June 23, 2021, https://hbr.org/2021/06/research-when-a-b-testing-doesnt-tell-you-the-whole-story.

24. See Kayla Carmichael, "63 Facebook Statistics to Know for 2021," *HubSpot,* https://blog.hubspot.com/blog/tabid/6307/bid/6128/the-ultimate-list-100-facebook-statistics-infographics.aspx, accessed April 2022; and Margot Whitney, "39 Twitter Statistics Marketers Need to Know in 2022," *WordStream,* October 27, 2021, www.wordstream.com/blog/ws/2020/04/14/twitter-statistics.

25. See Naveen Joshi, "Employing Sentiment Analytics to Address Citizens' Problems," *Forbes*, September 10, 2021, www.forbes.com/sites/naveenjoshi/2021/09/10/employing-sentiment-analytics-to-address-citizens-problems/?sh=2a339a3a2675; IT Pro, "What Is AI Text Mining and How Can It Benefit Your Business?," June 17, 2021, www.itpro.co.uk/data-insights/data-mining/359880/what-is-ai-text-mining-and-how-can-it-benefit-your-business; and http://monkeylearn.com/text-mining/, accessed April 2022.

26. See Chris St. Jeor, "Text Analytics: 5 Examples to Open Your Eyes to Your Own Opportunities," *Zencos,* October 1, 2020, www.zencos.com/blog/text-mining-examples-advanced-analytics/; and Colin O'Riordan, "5 Brands Using Social Media to Grow Buzzworthy Online Communities," HubSpot, January 8, 2020, blog.hubspot.com/marketing/brands-growing-online-communities.

27. See www.nielsen.com/us/en/solutions/measurement/audience/, accessed September 2022.

28. Mike Thomas, "15 IoT in Retail Examples That are Improving Your Shopping Experience," *builtin.com*, May 7, 2021, http://builtin.com/internet-things/iot-in-retail-tech-applications; and Ned Hayes, "Four Tech Trends Accelerating a Retail Revival," *Multichannel Merchant*, August 5, 2021, http://multichannelmerchant.com/blog/four-tech-trends-accelerating-a-retail-revival/.

29. See www.smartshelf.com and www.zebra.com, accessed September 2022.

30. Based on information from Drake Bennett, "Getting to Know You: Expedia Has Bet Everything on Understanding the Psyche of the Modern Traveler," *Bloomberg Businessweek,* February 29, 2016, pp. 45–49; Jeremy Kahn, "Expedia Reads Your Mind (and Face) to Beat Rivals," *Bloomberg Businessweek,* January 19, 2017, www.bloomberg.com/news/articles/2017-01-19/expedia-reads-your-mind-and-face-to-beat-rivals; Rob Loveitt, "Inside Expedia's Usability Lab, Consumer Behavior Provides Insights," *PhocusWire,* May 23, 2016, www.phocuswire.com/Inside-Expedia-s-Usability-Lab-consumer-behavior-provides-insights; "This New Experiment by Expedia Might Give It a Significant Competitive Advantage," *Forbes,* February 1, 2017, www.forbes.com/sites/greatspeculations/2017/02/01/this-new-experiment-by-expedia-might-give-it-a-significant-competitive-advantage/#6ca49b821830; and Julie Weed, "A.I. Wants to Know How You Plan a Trip," *New York Times,* March 4, 2019, www.nytimes.com/2019/03/04/business/ai-technology-travel-planning.html.

31. Andrew Hutchinson, "How Consumers Feel about Ad Personalization," *Social Media Today,* May 30, 2019, www.socialmediatoday.com/news/how-consumers-really-feel-about-ad-personalization-infographic/555766/. Also see Anil Malhotra, "How and Why to Use Purchase Behavior Targeting for Digital Advertising," *Forbes,* August 18, 2021, www.forbes.com/sites/forbescommunicationscouncil/2021/08/18/how-and-why-to-use-purchase-behavior-targeting-for-digital-advertising/?sh=7e46ac831fc0.

32. For more discussion, see "S.2404 (114th): Do Not Track Online Act of 2015," January 17, 2018, www.govtrack.us/congress/bills/114/s2404; "GDPR in 2021: Key Updates and Implications for Data Strategies," tdwi, August 13, 2021, https://tdwi.org/articles/2021/08/13/biz-all-gdpr-in-2021-key-updates.aspx; "Do Not Track Legislation," http://en.wikipedia.org/wiki/Do_Not_Track_legislation, accessed September 2022; and Complete Guide to GDPR Compliance. https://gdpr.eu/, accessed September 2022.

33. See Garett Sloane, "Digital Advertisers Fret over California's New Privacy Law," *Advertising Age,* November 9, 2020, p. 2; "CCPA vs CPRA: What's the Difference?" *BloombergLaw,* July 13, 2021, https://pro.bloomberglaw.com/brief/the-far-reaching-implications-of-the-california-consumer-privacy-act-ccpa/; and "California Consumer Privacy Act," https://oag.ca.gov/ccpa, accessed September 2022.

34. See "Smartphones in the U.S.—Statistics & Facts," *Statista*, August 4, 2021, www.statista.com/topics/2711/us-smartphone-market/; "Internet World Stats," www.internetworldstats.com/stats.htm, accessed September 2022.

35. See Jennifer Alsever, "Technology Is the Best Policy," *Fortune,* November 18, 2013; "Rethinking the Customer Experience at MetLife," MongoDB, www.mongodb.com/-customers/metlife, accessed September 2019; and "MetLife Wall—Customer Focus by Leveraging Big Data," KPMG, www.the-digital-insurer.com/dia/metlife-wall-customer-focus-by-leveraging-big-data/, accessed April 2021.

36. Andrew Nusca, "Despite High Tech, the Future of Marketing Is Exactly the Same: Focus on Customers," *Fortune,* July 15, 2014, http://fortune.com/2014/07/15/big-data-future-marketing-customer-focus; and Carl F. Mela and Christine Moorman, "Why Marketing Analytics Hasn't Lived Up to Its Promise," *Harvard Business Review,* May 30, 2018, https://hbr.org/2018/05/why-marketing-analytics-hasnt-lived-up-to-its-promise.

37. See "51+ Mind-Blowing Netflix Statistics for 2021," *techjury,* December 6, 2021, https://techjury.net/blog/netflix-statistics/#gref; Kelsey Sutton, "The Streaming Wars' Next Battle," *Adweek*, September 27, 2021, pp. 18–21; and www.netflix.com, accessed September 2022.

38. Thomas Aichner and Abdel Monim Shaltoni, "Making Market Research Work in Saudi Arabia," *International Journal of Market Research*, Vol. 61, No. 1, 2019, pp.: 10–11, https://doi.org/10.1177/1470785318754978; Dionne Aiken, "Importance of Research in an Ever-changing Economy," *Kantar*, September 15, 2022, https://www.kantar.com/inspiration/inflation/importance-of-research-in-an-ever-changing-economy-pf; Gonca Bubani, "How to Navigate the Media Environment in 2022," *Kantar*, September 7, 2022, https://www.kantar.com/inspiration/advertising-media/revealed-the-top-ranking-media-channels-and-brands-for-2022; Ankur Jalan and Nadeem Ibrahim, "Synergy in Saudi Arabia—by Snap Inc's Ankur Jalan & UM's Nadeem Ibrahim," *CampaignME*, June 7, 2022, https://campaignme.com/synergy-in-saudi-arabia-by-snap-incs-ankur-jalan-ums-nadeem-ibrahim/; Simon Kemp, "Digital 2022: Saudi Arabia," *DataReportal*, February 9, 2022, https://datareportal.com/reports/digital-2022-saudi-arabia; Mohammad Naquibur Rahman, "Managing New Product Launch & Development in the Dynamic Emerging Market: A Case Study of Saudi Arabia," *Entrepreneurship and Sustainability Issues*, Vol. 9, No. 3, 2022, http://doi.org/10.9770/jesi.2022.9.3(19); Sofia Serrano, "In Search of Sustained Growth, by Kantar's Amol Ghate," *CampaignME*, March 22, 2022, https://campaignme.com/in-search-of-sustained-growth-by-kantars-amol-ghate/; "Bringing It Back Home to Saudi Arabia—by UM's Nadeem Ibrahim," *CampaignME*, July 13, 2022, https://campaignme.com/bringing-it-back-home-to-saudi-arabia-by-ums-nadeem-ibrahim/; "Kantar Releases Media Trends and Predictions for 2022," *Arab News*, December 22, 2021, https://www.arabnews.com/node/1991451/media; "Understanding Snapchat Parents in Saudi Arabia with Kantar," *Snapchat for Business*, August 26, 2022, https://forbusiness.snapchat.com/blog/understanding-snapchat-parents-in-ksa.

39. See Dan Berthaiume, "Starbucks Improves Customer Experience with AI," *Chain Store Age,* February 4, 2020, https://chainstoreage.com/starbucks-improves-customer-experience-ai; and "Deep Brew: Transforming Starbucks into an AI & Data-Driven Company," *Hyperight,* https://hyperight.com/deep-brew-transforming-starbucks-into-a-data-driven-company/, accessed April 2022.

40. See Marty Swant, "As IBM Ramps Up Its AI-Powered Advertising, Can Watson Crack the Code of Digital Marketing?" *Adweek,* September 24, 2017, www.adweek.com/performance-marketing/ibm-is-bringing-next-level-ai-technology-to-marketers/; and "Global Artificial Intelligence Market Size 2021 Rise at 35.6% CAGR, Will Grow to USD 299.64 Billion by 2026: Facts & Factors," *GlobalNewswire,* June 28, 2021, www.globenewswire.com/en/news-release/2021/06/28/2253975/0/en/Global-Artificial-Intelligence-Market-Size-2021-Rise-at-35-6-CAGR-Will-Grow-to-USD-299-64-Billion-by-2026-Facts-Factors.html.

41. Mike Kaput, "AI and Advertising: Everything You Need to Know," *Marketingaiinstitute.com,* December 22, 2020, www.marketingaiinstitute.com/blog/ai-in-advertising; "Google CEO: AI Is a Bigger Deal Than Fire or Electricity," *Fast Company,* January 19, 2018, www.fastcompany.com/40519204/google-sundar-pichai-ai-is-a-bigger-deal-than-fire-or-electricity; Hal Connick, "The Past, Present, and Future of AI in Marketing," *Marketing News,* January 2017, 51(1), pp. 26–35; and www.ibm.com/weather, accessed September 2021.

42. See Daryl Travis, "The Best Omni-Channel Brands Look More Like a Cause Than a Business," *The Hub,* August 2014, www.hubmagazine.com/the-hub-magazine/zappos-omnivalues-082014/; and https://zuul.zappos.com/zuul, accessed September 2021.

43. Oxfam International, "Working Worldwide," https://www.oxfam.org/en/what-we-do/countries/pakistan; "Pakistan Marks 16 Days of Activism with 'I Am More' Campaign," Empower Youth for Work, https://www.empoweryouthforwork.org/pakistan-marks-16-days-of-activism-with-i-am-more-campaign/.

44. For some good advice on conducting market research in a small business, search "conducting market research" at www.sba.gov or see "Researching Your Market," *Entrepreneur*, www.entrepreneur.com/article/43024-1, accessed September 2021.

45. See "2019 GreenBook Market Leaders Report," December 6, 2019, www.flipsnack.com/GRITarchive/2019-greenbook-market-leaders-report-fc8y7a8jd.html; and www.nielsen.com/us/en/about-us/, accessed September 2021

46. Subhash C. Jain, *International Marketing Management*, 3rd ed. (Boston: PWS-Kent, 1990), p. 338. For more discussion on international marketing research issues and solutions, see Mark C. Green and Warren J. Keegan, *Global Marketing*, 10th ed. (Upper Saddle River, NJ: Pearson, 2020), Chapter 6.

47. See Charles Duhigg, "Psst, You in Aisle 5," *New York Times,* February 19, 2012, p. MM30; Kashmir Hill, "How Target Figured Out a Teen Girl Was Pregnant before Her Father Did," *Forbes,* February 16, 2012, www.forbes.com/sites/kashmirhill/2012/02/16/how-target-figured-out-a-teen-girl-was-pregnant-before-her-father-did/; "7 Big Data Blunders You're Thankful Your Company Didn't Make," *Umbel*, October 22, 2014, www.umbel.com/blog/big-data/7-big-data-blunders/?utm_content=buffer6a719&utm_medium=social&utm_source=twitter.com&utm_campaign=buffer; Leslie K. John, Tami Kim, and Kate Barasz, "Ads That Don't Overstep," *Harvard Business Review,* January–February 2018, pp. 62–69; and Andy Greenberg, "Apple Walks a Privacy Tightrope to Spot Child Abuse in iCloud," *WIRED*, August 5, 2021, www.wired.com/story/apple-csam-detection-icloud-photos-encryption-privacy/.

48. See "Respondent Bill of Rights," www.marketingresearch.org/issues-policies/best-practice/respondent-bill-rights, accessed September 2022.

49. See Dennis Green and Mary Hanbury, "If You Shopped at These 16 Stores in the Last Year, Your Data Might Have Been Stolen," *Business Insider,* August 22, 2018, www.businessinsider.com/data-breaches-2018-4; "Learn More about the Latest Data Breaches," *Fraud!Org,* www.fraud.org/latest_breaches?page=1, accessed September 2018; and Zack Doffman, "Facebook Dark Web Deal: Hackers Just Sold 267 Million User Profiles for $540," *Forbes,* April 20, 2020, www.forbes.com/sites/zakdoffman/2020/04/20/facebook-users-beware-hackers-just-sold-267-million-of-your-profiles-for-540/?sh=2928e2e17c85; and Katie Regan, "Worst Data Breaches of 2021: 4 Critical Examples," November 8, 2021, www.bmc.com/blogs/data-breaches/.

50. See Nicole Perlroth, Amie Tsang, and Adam Satariano, "Marriott Hacking Exposes Data of Up to 500 Million Guests," *New York Times,* November 30, 2018, www.nytimes.com/2018/11/30/business/marriott-data-breach.html; Seena Gressin, "The Marriott Data Breach," *Federal Trade Commission: Consumer Information Blog,* December 6, 2018, www.consumer.ftc.gov/blog/2018/12/marriott-data-breach; and Joe Tidy, "Marriott Hotels Fined £18.4m for Data Breach That Hit Millions, *BBC News,* October 30, 2020, www.bbc.com/news/technology-54748843.

51. See www.insightsassociation.org/issues-policies/casro-code-standards-and-ethics, accessed September 2022.

52. Oliver Maier, "Bayer AG Capital Markets Day," December 5, 2018, https://www.investor.bayer.com/securedl/16668, accessed August 2019; Luis H. Tobler Garcia, "Big Data for Best Results," Bayer: Crop Science, https://www.cropscience.bayer.com/en/blogs/corporate-blog/2017/luis-tobler-garcia-big-data-for-best-results; Bayer, "Corporate Policy 'Responsible Marketing & Sales'," https://www.bayer.com/downloads/bayer-responsible-marketing-and-sales-policy.pdfx; Bayer AG, "Privacy Statement," November 26, 2019, https://www.bayer.com/en/privacy-statement.aspx; Bayer AG, "Bayer's Annual Report 2017: Marketing and Distribution," https://www.annualreport2017.bayer.com/management-reportannexes/about-the-group/sustainable-conduct/marketing-anddistribution.html; Ruth Bender, "How Bayer-Monsanto Became One of the Worst Corporate Deals—in 12 Charts," *Wall Street Journal*, August 28, 2019, https://www.wsj.com/articles/how-bayer-monsanto-became-one-of-the-worst-corporate-deals-in-12-charts-11567001577; T. Buck, "Bayer Keen to Shift Attention from Monsanto Woe to Tech Vision," *Financial Times*, 2019, https://www.ft.com/content/63942794-1b32-11e9-9e64-d150b3105d21; Business and Human Rights Resource Center, "Bayer: Business & Human Rights Resource Centre," n.d., https://www.businesshumanrights.org/en/bayer-0; L. Chao, "Big Data Brings Relief to Allergy Medicine Supply Chains," *Wall Street Journal*, May 26, 2015, https://www.wsj.com/articles/big-data-brings-relief-to-allergy-medicine-supply-chains-1432679948; J. Dye, "U.S. Set to Approve Bayer-Monsanto Deal with Divestitures," *Financial Times*, May 29, 2018, https://www.ft.com/content/8c3d51d0-6349-11e8-90c2-9563a0613e56; A. Green, "Sustainable Agriculture," *The Economist*, December 1, 2016, https://eiuperspectives.economist.com/sustainability/food-sustainability-index-2016/infographic/sustainable-agriculture; FAO, IFAD, UNICEF, WFP, and WHO, 2019, The State of Food Security and Nutrition in the World 2019, "Safeguarding against Economic Slowdowns and Downturns," Rome, FAO, https://www.unicef.org/reports/state-of-food-security-and-nutrition-2019; Life Sciences Trainers & Educators Network, "Training's Vital Role in the Patient-Focused Transformation of Customer Engagement at Bayer Pharma," 2019, https://www.ltenconference.com/sessions/trainings-vital-role-in-the-patient-focused-transformation-of-customer-engagement-at-bayer-pharma/; National Health Policy Forum, *Pharmaceutical Marketplace Dynamics*, Issue Brief, 2000, Washington. https://www.nhpf.org/library/issue-briefs/IB755_RxMarketplace_5-31-00.pdf; PTI, "Bayer Pharmaceuticals Committed to India Growth; to Push for More R&D," March 15, 2018, https://economictimes.indiatimes.com/industry/healthcare/biotech/pharmaceuticals/bayer-pharmaceuticals-committed-to-india-growth-to-push-for-more-rd/articleshow/63317722.cms; Reuters, "Factbox: Challenges Facing German Pharmaceutical Company Bayer," September 4, 2018, https://www.reuters.com/article/us-bayer-development-factbox/factbox-challenges-facing-german-pharmaceutical-company-bayer-idUSKCN1LK171; E. Reuter, "Bayer Targets Animal Health Marketing in a World 'Awash' in Data," *Kansas City Business Journal*, https://www.bizjournals.com/kansascity/news/2016/12/08/bayer-animal-health-marketing-big-data-changes.html; Statista, "Bayer AG's Total Revenue from 1995 to 2018 (in Million Euros)," 2019, https://www.statista.com/statistics/263778/revenue-of-bayer-ag-since-1995/; Matej Mikulic, "Bayer - Statistics & Facts," *Statista*, February 28, 2019, https://www.statista.com/topics/4292/bayer-ag/; Martine Vesco, "How Bayer Pharmaceuticals Found the Right Prescription for Clinical Data Access," Talend, January 31, 2019, https://www.talend.com/blog/2019/01/31/how-bayer-pharmaceuticals-found-the-right-prescription-for-clinical-data-access/.

Chapter 5

1. See Dale Cudmore, "Beyond Meat vs. Beef: Nutrition, Price, Carbon Footprint," *VegFAQs,* October 28, 2021, www.vegfaqs.com/beyond-meat-vs-beef/; Kelsey Piper, "The Rise of Meatless Meat Explained," *Vox,* February 20, 2020, www.vox.com/2019/5/28/18626859/meatless-meat-explained-vegan-impossible-burger; Larissa Zimberoff, "New-Wave Veggie Burgers," *Rachael Ray In Season,* May 30, 2017, www.rachaelraymag.com/food/new-wave-veggieburgers-burgers; Chris Taylor, "Impossible Burger vs. Beyond Meat: Which Tastes More Like Real Beef and Does It Matter?," *Mashable,* November 27, 2019; "Costco Beyond Meat Beyond Burger Review," *Costcuisine,* June 21, 2021, www.costcuisine.com/post/costco-beyond-meat-beyond-burger-review; and www.beyondmeat.com/en-US/ and https://investors.beyondmeat.com/static-files/8bd1c870-955e-4616-8f37-e57d91ff0f44, accessed September 2022.
2. Consumer expenditure figures from "Personal Consumption Expenditures," *FRED Economic Data,* https://fred.stlouisfed.org/series/PCE, accessed September 2022. Population figures from the World POPClock, U.S. Census Bureau, www.census.gov/popclock, accessed September 2022. This website provides continuously updated projections of U.S. and world populations.
3. Lindsey Rittenhouse, "Casting Alone Won't Cut It," *Advertising Age,* August 18, 2020, https://adage.com/article/agencies/casting-alone-wont-cut-it-your-brand-just-paying-lip-service-multicultural-marketing/2273886.
4. See "The 2021 Hispanic Market Report: actionable insights for marketers," *The Drum,* November 24, 2021, www.thedrum.com/news/2021/11/24/the-2021-hispanic-market-report-actionable-insights-marketers; "The Multicultural Economy 2021," Selig Center for Economic Growth, August 11, 2021, https://news.uga.edu/selig-multicultural-economy-report-2021/; and "Buying Power of Hispanic Consumers in the United States," *Statista,* www.statista.com/statistics/251438/hispanics-buying-power-in-the-us/, accessed September 2022.
5. See "McDonald's USA Launches Ritmo y Color with Manuel Turizo, Latino Music Stars and Pop-Up Art Installations to Elevate the Stories of Latinidad," December 20, 2021, https://gonzo247.com/ritmo-y-color-mcdonalds/, accessed September 2022.
6. See Ilyse Liffreing, "Inside Twitter's Push to Connect Advertisers with Its Hispanic Audience," *Digiday,* October 12, 2018, https://digiday.com/marketing/inside-twitters-push-connect-advertisers-hispanic-audience/; and "How to Connect with the Hispanic Auto-Buying Marketing on Twitter," https://marketing.twitter.com/en/insights/how-to-connect-with-the-hispanic-auto-buying-market-on-twitter, accessed June 2021.
7. Betsy Kim, "Vicks Vaporub Shines as a Cultural Staple during Hispanic Heritage Month," *PRWeek,* October 7, 2021, www.prweek.com/article/1729752/vicks-vaporub-shines-cultural-staple-during-hispanic-heritage-month; Elena Garcia, "9 Tweets That Show Just How Seriously Latin People Take Vicks VapoRub," *BuzzFeed,* October 10, 2019, www.buzzfeed.com/elenamgarcia/vics-appreciation-post; Jeremy Goldman and Daniel Konstantinovic, "Hispanic Consumers Remain an Underserved Demographic for Many Marketers," *eMarketer,* September 25, 2021, www.emarketer.com/content/despite-progress-hispanic-consumers-remain-underserved-demographic-among-many-marketers.
8. See "The Multicultural Economy 2021," Selig Center for Economic Growth, August 11, 2021, https://news.uga.edu/selig-multicultural-economy-report-2021/; and U.S. Census Bureau, "U.S. Population Projections," www.census.gov/topics/population.html, accessed September 2022.
9. See Charlotte McEleny, "P&G's 'The Talk' for My Black Is Beautiful Wins the Outstanding Commercial Emmy Award," *The Drum,* September 28, 2018, www.thedrum.com/news/2018/09/18/pg-s-the-talk-my-black-beautiful-wins-the-outstanding-commercial-emmy-award; Ann-Christine Dias, "P&G's 'The Talk' Wins Film Grand Prix at Cannes," *Advertising Age,* June 22, 2018, https://adage.com/creativity/work/talk-full-length/52300; and www.pgeveryday.com/tag/mbib-all-together-beautiful, www.pgeveryday.com/tag/mbib-about-us, www.facebook.com/mbib/, and www.mbib.com/en-us, accessed April 2022.
10. See "U.S. Census Bureau Unveils 2020 Census Ads," United States Census Bureau, January 14, 2020, www.census.gov/newsroom/press-releases/2020/2020-census-ads-unveiling.html; Rosa Esconda, "Asian American Consumer Market Is Now $1.2 Trillion and What That Means for Digital Brands," *Forbes,* May 22, 2020, www.forbes.com/sites/rosaescandon/2020/05/22/asian-american-consumer-market-is-now-12-trillion-and-what-that-means-for-digital-brands/?sh=7bc5b79f3620.
11. See "State Farm Launches New Asian Creative across Multiple Channels," August 1, 2018, https://newsroom.statefarm.com/new-state-farm-asian-market-commercials/; Shannon Miller, "See a Smart Home Go Rogue in New State Farm Campaign," *Adweek,* August 2, 2018, www.adweek.com/creativity/see-a-smart-home-go-rogue-in-new-state-farm-campaign/; and www.youtube.com/watch?v=MS9Uz5iOkh8 and www.youtube.com/watch?v=8Tgfl2A_42c, accessed September 2021; "Why Savvy Brands Are Targeting Asian Americans & How You Can Too Using Online Platforms: A Webinar by Digital Crew," *Digital Crew*, September 10, 2020, www.digitalcrew.agency/why-savvy-brands-are-targeting-asian-americans-how-you-can-too-using-online-platforms-a-webinar-by-digital-crew/; and www.youtube.com/watch?v=JDGMJGXakLo.
12. See Mary Emily O'Hara, "Band-Aid Adds Non-White Skin Tone Bandages after a Previous Failed Attempt," *Adweek,* June 12, 2020, www.adweek.com/brand-marketing/band-aid-adds-non-white-skin-tone-bandages-after-a-previous-failed-

attempt/; Kelly Tyco, "Eskimo Pie to Become Edy's Pie: Rebranded Ice Cream Bars Expected to Arrive in Early 2021," *USA Today,* October 26, 2020, www.usatoday.com/story/money/2020/10/06/edys-pie-ice-cream-bars-eskimo-pie-rebranding-dreyers/5897024002/; Jessica Wohl, "Uncle Ben's to Be Renamed Ben's Original in a Major Brand Overhaul," *Advertising Age,* September 23, 2020, https://adage.com/article/cmo-strategy/uncle-bens-be-renamed-bens-original-major-brand-overhaul/2283071; Vritti Rashi Goel, "Aunt Jemima Brand's New Name Revealed: Pearl Milling Company," *CBSNews,* February 10, 2021, www.cbsnews.com/news/aunt-jemima-rebranded-pearl-milling-company/; and Nadra Nettle, "Exorcising Aunt Jemima," *Eater,* May 25, 2021, www.eater.com/22450623/racist-brand-mascot-logo-changes-aunt-jemima-uncle-bens-land-o-lakes.

13. See Kurt Badenhausen, "Cristiano Ronaldo Generated $500 Million in Value for Nike in 2016," *Forbes*, February 16, 2017, www.forbes.com/sites/kurtbadenhausen/2017/02/16/cristiano-ronaldo-generated-500-million-in-value-for-nike-in-2016/?sh=4a65d185c3e9; and "Top-10 Most Influential Nike-Sponsored Athletes," SportyTell, March 22, 2021, https://sportytell.com/sports/influential-nike-sponsored-athletes/.

14. See Erika Wheless, "Why TikTok Is Attracting B-to-B Marketers," *Advertising Age,* August 16, 2021, www.adage.com/article/digital-marketing-ad-tech-news/why-tiktok-attracting-b-b-marketers/2357156; Nick Hall, "15 Highest Paid Celebrities on Instagram," *ManofMany,* April 1, 2021, www.manofmany.com/lifestyle/highest-paid-celebrities-instagram; "Micro-Influencer Marketing: 4 Tech Brands with Successful Partnerships," *Zenmedia,* September 16, 2020, www.zenmedia.com/blog/micro-influencer-marketing-4-tech-brands-with-successful-partnerships/; Jackie Chiquoine, "Why Hot Startups Like Pura Vida and Cure Hydration Are Getting Big Results from Micro-Influencers," *CO,* October 4, 2021, www.uschamber.com/co/good-company/launch-pad/big-brands-leverage-micro-influencers; Kelly Ehlers, "Micro-Influencers: When Smaller Is Better," *Forbes,* June 2, 2021, www.forbes.com/sites/forbesagencycouncil/2021/06/02/micro-influencers-when-smaller-is-better/?sh=64cad4ed539b; Sophia Bernazzani, "Micro-Influencer Marketing: A Comprehensive Guide," *HubSpot,* December 2, 2021, www.blog.hubspot.com/marketing/micro-influencer-marketing#; and www.pilotfishmedia.com/celebrity-engagement/ and www.shortyawards.com/7th/nutella-social-media-a-perfect-pairing, accessed April 2022.

15. See Sarah Lemp, "Disney Creator Celebration: What Is It and Who Gets Invited?" *Allthingswithpurpose,* February 27, 2020, www.allthingswithpurpose.com/the-disney-creator-celebration-what-is-it-and-who-gets-invited; https://twitter.com/disneymoms; and www.pinterest.com/mommypalooza/disneysmmoms-every thing-disney-social-media-moms/, accessed April 2022.

16. Adi Robertson, "Why the Metaverse Is More Than Mark Zuckerberg's Dream," *The Verge*, December 2, 2021, www.theverge.com/2021/12/2/22812275/metaverse-meta-facebook-virtual-world-explainer-video; Zoe Weinberg, "The Metaverse Is Coming, and the World Is Not Ready for It," *The New York Times*, December 2, 2021, www.nytimes.com/2021/12/02/opinion/metaverse-politics-disinformation-society.html; and Peter Allen Clark, "The Metaverse Has Already Arrived. Here's What That Actually Means," *Time*, November 15, 2021, http://time.com/6116826/what-is-the-metaverse/and en.wikipedia.org/wiki/Metaverse, accessed April 2022.

17. Irene Waltz-Oppertshäuser, "How Employees Become Brand Ambassadors," *Flockler*, October 25, 2016, https://flockler.com/de/unser-blog/wie-mitarbeiter-zu-markenbotschaftern-werden?utm_source=BT&utm_campaign=DE_BT_NOV&utm_medium=Sponsor&utm_content=3; "The Overlooked Influencers: Employees as Brand Ambassadors," *Basic Thinking*, December 14, 2016, https://www.basicthinking.de/blog/2016/12/14/mitarbeiter-influencer/, accessed October 2021.

18. Nielsen, "Females Are Queens of Clean, but Men Are Sharing Some of the Load," April 5, 2016, www.nielsen.com/us/en/insights/news/2016/females-are-queens-of-clean-but-men-are-sharing-some-of-the-load.html; "American Time Use Survey," December 20, 2016, www.bls.gov/tus/charts/household.htm; Girl Power Marketing, "Statistics on the Purchasing Power of Women," https://girlpowermarketing.com/statistics-purchasing-power-women/, accessed September 2021; and Alan Baldwin, "Hamilton's LGBTQ+ Stance Reflects Big Shift in F1 Attitudes," *Reuters*, December 4, 2021, www.reuters.com/lifestyle/sports/hamiltons-lgbtq-stance-reflects-big-shift-f1-attitudes-2021-12-04/.

19. See Alissa Fleck, "Infographic: What Marketers Should Know about Marketing to Fathers," *Adweek,* June 13, 2018, www.adweek.com/creativity/infographic-fathers-present-unique-targets-for-advertisers/; and www.youtube.com/watch?v=CsroaCfdiCY and www.youtube.com/watch?v=KgDT49BMBvA, accessed September 2022.

20. See "Nearly 9 in 10 Parents Say Their Kids Influence Their Purchase Decisions," *Marketing Charts,* November 1, 2019, www.marketingcharts.com/demographics-and-audiences/teens-and-younger-110809; Nick Richardson, "Don't Forget to Include Kids in Your Marketing Plans," *The Drum,* June 11, 2021, www.thedrum.com/opinion/2021/06/11/don-t-forget-include-kids-your-marketing-plans; "Understanding Children's Influence on Parents' Purchase Decisions," UNGA, March 3, 2021, https://un.ga/reads/understanding-childrens-influence-on-parents-purchase-decisions/.

21. Tanyua Gazdik, "Honda Odyssey Helps 'Keep the Peace,'" *Marketing Daily,* June 13, 2017, www.mediapost.com/publications/article/302750/honda-odyssey-helps-keep-the-peace.html.

22. Curtis Silver, "The CAT S61 Is Bold, Tough Proof That Phones Can Be True Tools of Any Trade," *Forbes*, July 10, 2018, https://www.forbes.com/sites/curtissilver/2018/07/10/cat-s61-review/#5485d6d436d2; additional information from http://www.catphones.com/, http://www.caterpillar.com/ and https://bullitt-group.com/.

23. For more on the Claritas PRIZM, visit https://claritas360.claritas.com/mybestsegments/?ID=0&menuOption=home&pageName=Home# and https://claritas.com/prizm-premier/, accessed September 2022.

24. Daniel B. Kline, "Are Whole Foods' Prices Really Lower under Amazon?" *The Motley Fool,* September 4, 2018, www.fool.com/investing/2018/09/14/are-whole-foods-prices-really-lower-under-amazon.aspx; and www.amazon.com/primesavings, accessed September 2022.

25. Sarah Lyall, "Anita Roddick, Body Shop Founder, Dies at 64," *New York Times*, September 12, 2007, http://www.nytimes.com/2007/09/12/world/europe/12roddick.html; Michael McCarthy, "How Anita Changed the World," *Independent*, September 12, 2007, http://www.independent.co.uk/news/people/profiles/how-anita-changed-theworld-402108.html; The Body Shop website, https://www.thebodyshop.com/en-gb/; Sarah Young, "The Body Shop Buys 250 Tonnes of Recycled Plastic in Bid to Tackle Pollution," *Independent*, May 10, 2019, https://www.independent.co.uk/life-style/body-shop-plastic-pollutionrecycling-waste-india-a8907811.html.

26. See Jennifer Aaker, "Dimensions of Measuring Brand Personality," *Journal of Marketing Research,* August 1997, pp. 347–356; and Philip Kotler, Kevin Lane Keller, and Alexander Chernev, *Marketing Management*, 16th ed. (Hoboken, NJ: Pearson Education, 2022), p. 56.

27. See Cory Barkley, "The Origin of Ford's 'Built Ford Tough' Slogan," *Hotcars,* July 30, 2020, www.hotcars.com/origin-fords-built-ford-tough/.

28. Deborah Malone, *The Reinvention of Marketing* (New York: The Internationalist Press, 2014), Kindle location 142; "Which Mini Cooper Persona Are You?" June 9, 2016, www.schompmini.com/mini-cooper-persona/; and Jimmy Disnmore, "Mini Clubman

Cooper S Provides Plenty of Distinction, Personality," Dayton Daily News, May 29, 2020, www.daytondailynews.com/classifieds/cars/mini-clubman-cooper-provides-plenty-distinction-personality/GWSY6LC91BuYeOAQ8SOrAI/.

29. See Abraham H. Maslow, "A Theory of Human Motivation," *Psychological Review, 50* (1943), pp. 370–396. Also see Maslow, *Motivation and Personality*, 3rd ed. (New York: HarperCollins Publishers, 1987); and Michael R. Solomon, *Consumer Behavior*, 13th ed. (Hoboken, NJ: Pearson Publishing, 2020), Chapter 5.

30. See Jon Simpson, "Finding Brand Success in the Digital World," *Forbes,* August 25, 2017, www.forbes.com/sites/forbesagencycouncil/2017/08/25/finding-brand-success-in-the-digital-world/#40ecfced626e; and Joshua Saxon, "Why Your Customers' Attention Is the Scarcest Resource in 2017," www.ama.org/partners/content/Pages/why-customers-attention-scarcest-resources-2017.aspx, accessed November 2017.

31. See Ian Zimmerman, "Subliminal Ads, Unconscious Influence, and Consumption," *Psychology Today,* June 2014, www.psychologytoday.com/blog/sold/201406/subliminal-ads-unconscious-influence-and-consumption; "Does Subliminal Advertising Actually Work?" *BBC,* January 20, 2015, www.bbc.com/news/magazine-30878843; and Samantha R. Debes, "How Subliminal Images Impact Your Brain and Behavior," *Technology Networks,* January 26, 2021, www.technologynetworks.com/neuroscience/articles/how-subliminal-images-impact-your-brain-and-behavior-344858.

32. See Craig S. Smith, "Alexa and Siri Can Hear This Hidden Command. You Can't.," *New York Times,* May 10, 2018, www.nytimes.com/2018/05/10/technology/alexa-siri-hidden-command-audio-attacks.html.

33. Taylor Locke, "Spanx Founder Sara Blakely: The Two Fears 'I'm Constantly Working On' to Be Successful," CNBC, Oct. 21, 2020, www.cnbc.com/2020/10/21/spanx-ceo-sara-blakely-on-fear-and-success.html; Danielle Wiener-Bronne, "She Was Too Short to Play Goofy. Then She Invented SPANX. Now She's a Billionaire," CNN Money, April 2, 2018, http://money.cnn.com/2018/04/02/news/companies/sara-blakely-rebound/index.html; Guy Raz, "SPANX: Sara Blakely," NPR, *How I Built This*, September 11, 2016, https://one.npr.org/?sharedMediaId=493169696:493311384; Lynn Yaeger, "The Bottom Line: A Profile on SPANX Founder Sara Blakely," Vogue, March 19, 2012, www.vogue.com/article/the-bottom-line-spanx-founder-sara-blakely; Ali Montag, "How an Embarrassing Moment Led to SPANX Billionaire Sara Blakely's Huge Success," CNBC, August 15, 2017, www.cnbc.com/2017/08/15/billionaire-sarah-blakelys-embarrassing-moment-led-to-spanx-success.html; Alex Warner, "Oprah Named These Spanx Pants One of Her Favorite Things — and They're Still on Sale after Black Friday," *People,* November 27, 2021, https://people.com/style/spanx-black-friday-deals-2021/; and www.spanx.com, accessed September 2022.

34. See Iva Marinova, "25+ Groundbreaking Yelp Statistics to Make 2021 Count," *Review 42,* November 17, 2021, https://review42.com/yelp-statistics/; and www.yelp.com, www.yelp.com/about, www.yelp.com/factsheet, and www.yelp-press.com/company/fast-facts/default.aspx, accessed September 2022.

35. See "King Arthur Flour, Now King Arthur Baking Company, Rebrands to Celebrate Commitment to Baking," King Arthur Newsroom, July 20, 2020, www.kingarthurbaking.com/newsroom/2020/07/20/king-arthur-flour-now-king-arthur-baking-company-rebrands-to-celebrate; and www.kingarthurbaking.com/about/our-products and www.kingarthurbaking.com/about, accessed September 2022.

36. Stuart Hogg, "Customer Journey Mapping: The Path to Loyalty," *Think with Google,* February 2018, www.thinkwithgoogle.com/marketing-resources/experience-design/customer-journey-mapping/. For more on the customer journey, see Adam Richardson, "Using Customer Journey Maps to Improve Customer Experience," *Harvard Business Review,* November 15, 2010, https://hbr.org/2010/11/using-customer-journey-maps-to; "Customer Journey Analysis," Bain & Company, April 2, 2018, www.bain.com/insights/management-tools-customer-journey-analysis/; and Paul Talbot, "Deciphering the Customer Journey," *Forbes,* July 30, 2018, www.forbes.com/sites/paultalbot/2018/07/30/deciphering-the-customer-journey/.

37. The following discussion draws from the work of Everett M. Rogers. See his *Diffusion of Innovations*, 5th ed. (New York: Free Press, 2003).

38. See "Industry 4.0 at L'Oréal: The Beauty Industry Is Gaining Momentum," www.loreal.com/en/news/group/industry-40-at-loreal-the-beauty-industry-is-gaining-momentum/, L'Oréal News, accessed April 2022; Jack Neff, "L'Oréal Proves Its Worth As It Bounces Back from the Pandemic," *Adage,* December 13, 2021, www.adage.com/article/special-report-marketers-year/ad-age-2021-best-marketers-loreal/2384011; Sarah Mitroff, "CES 2021: Custom Mix Your Own Lipstick with This Gadget," *CNet,* January 12, 2021, www.cnet.com/health/personal-care/ces-2021-custom-mix-your-own-lipstick-with-this-gadget/; Kristina Monllos, "L'Oreal Is Bringing the Makeup Counter Experience into Your Home with AR and Livestreaming" *Adweek,* June 18, 2018, www.adweek.com/brand-marketing/loreal-is-bringing-the-makeup-counter-experience-into-your-home-with-ar-and-livestreaming/; John Moulding, "How L'Oréal's Customer Experience Tech Transformed Its Brand," Mediatel, March 7, 2019,www.mediatel.co.uk/news/2019/03/07/how-loreals-customer-experience-tech-transformed-its-brand/; "L'Oréal Leans into Livestream Shopping Experiences," Brainstation, July 6, 2020, www.brainstation.io/magazine/loreal-leans-into-livestream-shopping-experiences; "Unveil Perso, the World's First AI-Powered Device for Skincare and Cosmetics," January 9, 2020, www.loreal.com/en/news/science-and-technology/research-innovation/2020/01/09/00/00/unveil-perso-the-worlds-first-aipowered-device-for-skincare-and-cosmetics/; and www.youtube.com/watch?v=R5OnjiDa71s and www.youtube.com/watch?v=kfRGxkllF5M, accessed September 2022.

39. Based on Everett M. Rogers, *Diffusion of Innovations*, p. 281. For more discussion, see http://en.wikipedia.org/wiki/Everett_Rogers, accessed September 2022.

40. See Oliver Milmann, "U.S. Lages in Electric Vehicle Sales Despite Biden Administration's Push," *The Guardian,* December 3, 2021, www.theguardian.com/us-news/2021/dec/03/us-electric-vehicle-car-sales-biden; and Scott Case, "Top Electric Car Predictions For 2022," *InsideEvs,* December 29, 2021, https://insideevs.com/news/556197/ev-predictions-2022/.

41. Everett M. Rogers, *Diffusion of Innovations,* 5th ed. (New York, NY: Free Press, 2003).

42. See Corrine Hess, "Harley-Davidson Will Celebrate Its 120th Anniversary July 13–16, 2023, Company Launching Annual Homecoming Party," *Milwaukee Journal Sentinel*, April 25, 2022, www.jsonline.com/story/money/2022/04/25/harley-davidson-120th-anniversary-celebration-july-13-16-2023-mke/7440545001/; Parker Herren, "These Are the Most Tattooed Brands," *Advertising Age*, March 11, 2022, www.adage.com/article/marketing-news-strategy/most-tattooed-brands-and-logos-ranked/2405371; Steve Cameron and Irene Anna Kim, "The Rise and Fall of Harley-Davidson," *Business Insider*, February 27, 2020, www.businessinsider.com/the-rise-and-fall-of-harley-davidson-motorcycle-company-2020-2; Susanna Hamner, "Harley, You're Not Getting Any Younger," *New York Times*, March 22, 2009, p. BU1; "Thousands of Thundering Motorcycles Rumble through Milwaukee for Harley-Davidson 110th Anniversary Parade," *PRNewswire*, August 31, 2013, www.prnewswire.com/news-releases/thousands-of-thundering-motorcycles-rumble-through-milwaukee-for-harley-davidson-110th-anniversary-parade-221946591.html; and information from www.macrotrends.com, www.statista.com, and various pages at www.harley-davidson.com, accessed September 2022.

Chapter 6

1. Mansoor Iqbal, "LinkedIn Usage and Revenue Statistics," Business of Apps, November 12, 2021, www.businessofapps.com/data/linkedin-statistics/; "81 LinkedIn Statistics You Need to Know," Omnicore, January 3, 2021, www.omnicoreagency.com/linkedin-statistics/; Todd Bishop, "LinkedIn Posts First $10 Billion Year, 5 Years after Microsoft Deal, but Profits Remain a Mystery," Geek Wire, July 27, 2021, www.geekwire.com/2021/linkedin-posts-first-10-billion-year-5-years-microsoft-deal-profits-remain-mystery/; "Utah State University Attracts Quality Graduate Students with Targeted LinkedIn Campaign," https://business.linkedin.com/marketing-solutions/case-studies/utah-state, accessed March 2022; "Rethink the Customer Journey: Small to Medium Size Business Owners," https://business.linkedin.com/content/dam/me/business/en-us/marketing-solutions/case-studies/pdfs/american-express-small-business-owner-case-study-aus.pdf, accessed May 2022; and https://about.linkedin.com/, https://business.linkedin.com, and https://business.linkedin.com/marketing-solutions, accessed May 2022.
2. See www.gore-tex.com, accessed September 2022.
3. This classic categorization was first introduced in Patrick J. Robinson, Charles W. Faris, and Yoram Wind, *Industrial Buying Behavior and Creative Marketing* (Boston: Allyn & Bacon, 1967). Also see Philip Kotler, Kevin Lane Keller, and Alexander Chernev, *Marketing Management*, 16th ed. (Hoboken, NJ: Pearson Education, 2022), Chapter 4.
4. See www.chemstation.com, accessed September 2022.
5. See www.chemstation.com, accessed September 2022.
6. See Frederick E. Webster Jr. and Yoram Wind, *Organizational Buying Behavior* (Upper Saddle River, NJ: Prentice Hall, 1972), pp. 78–80. Also see Samuel Thimothy, "B2B Buying Process Explained: How to Help Your Customers Make Buying Decisions," *Forbes*, September 13, 2021, www.forbes.com/sites/theyec/2021/09/13/b2b-buying-process-explained-how-to-help-your-customers-make-buying-decisions/?sh=67b2116a6233; and Philip Kotler, Kevin Lane Keller, and Alexander Chernev, *Marketing Management*, 16th ed. (Hoboken, NJ: Pearson Education, 2022), Chapter 4.
7. See "Peterbilt Reintroduces Model 389 Pride & Class Package," May 12, 2020, www.peterbilt.com/about/news-events/news-releases/peterbilt-reintroduces-model-389-pride-class-package; and www.peterbilt.com/about, accessed September 2022.
8. See Arnau Bages-Amat, Liz Harrison, Dennis Spillecke, and Jennifer Stanley, "These Eight Charts Show How COVID-19 Has Changed B2B Sales Forever," McKinsey & Company, October 14, 2020, www.mckinsey.com/business-functions/marketing-and-sales/our-insights/these-eight-charts-show-how-covid-19-has-changed-b2b-sales-forever#; and Michael Feeley, "B2B Worldfest: Why Covid-19 Has Transformed B2B Marketing Forever," *The Drum*, February 4, 2021, https://www.thedrum.com/news/2021/02/04/b2b-worldfest-why-covid-19-has-transformed-b2b-marketing-forever.
9. H. Diba, J.M. Vella, and R. Abratt, "Social Media Influence on the B2B Buying Process," *Journal of Business & Industrial Marketing*, Vol. 34, No. 7, 2019, pp. 1482–1496, https://www.emerald.com/insight/content/doi/10.1108/JBIM-12-2018-0403/full/html, https://doi.org/10.1108/JBIM-12-2018-0403; Carey Finn, "Cavities, Crowns and More: Going to the Dentist in Japan," *Tokyo Cheapo*, January 12, 2022, https://tokyocheapo.com/living/dentist-japan/; Neda B.Marvasti et al., "Is This Company a Lead Customer? Estimating Stages of B2B Buying Journey," *Industrial Marketing Management*, Vol. 97, August 2021, pp. 26–33, https://www.sciencedirect.com/science/article/pii/S001985012100105X, https://doi.org/10.1016/j.indmarman.2021.06.003; Jamie Peters "Biting the Bullet: Going to the Dentist in China," eChinacities.com, May 8, 2017, https://www.echinacities.com/expat-corner/Biting-the-Bullet-Going-to-the-Dentist-in-China; Takashi Zaitsu, Tomoya Saito, and Yoko Kawaguchi, "The Oral Healthcare System in Japan," *Healthcare*, Vol. 6, No. 3, July 2018, p. 79, https://www.researchgate.net/publication/326311957_The_Oral_Healthcare_System_in_Japan, DOI:10.3390/healthcare6030079; "BAUSCH: Digital Strategy for Brand Awareness & Market Expansion," Mondo Marketing, https://mondo.marketing/bausch-case-study/; "EU Business in Japan: B2B," August 2022, https://www.eubusinessinjapan.eu/about-japan/know-your-clients/b2b; "How to Succeed with B2B Marketing in Japan," DMFA, https://www.digitalmarketingforasia.com/how-to-succeed-with-b2b-marketing-in-japan/; "Japan: Distribution & Sales Channels," International Trade Administration, U.S. Department of Commerce, November 28, 2022, https://www.trade.gov/country-commercial-guides/japan-distribution-sales-channels.
10. Robinson, Faris, and Wind, *Industrial Buying Behavior*, p. 14. Also see Kotler, Keller, and Chernev, *Marketing Management*, Chapter 4.
11. See Simon Mulcahy, "Behind the Scenes: The Making of Salesforce's New Ad Campaign," *Salesforce Blog*, March 23, 2017, www.salesforce.com/blog/2017/05/behind-the-scenes-salesforce-new-ad-campaign; and www.salesforce.com/campaign/blaze-your-trail/, accessed September 2022.
12. For more discussion, see "E-procurement Helps Online Information Exchange between Buyers, Suppliers," Michigan State University, February 2, 2021, www.michiganstateuniversityonline.com/resources/supply-chain/e-procurement-helps-online-information-exchange-between-buyers-suppliers/.
13. See David Moth, "Q&A: How Maersk Line Created a Brilliant B2B Social Media Strategy," September 9, 2015, https://econsultancy.com/blog/66901-q-a-how-maersk-line-created-a-brilliant-b2b-social-media-strategy; Zsolt Katona and Miklos Katona Sarvary, "Maersk Line: B2B Social Media—It's Communication, Not Marketing," University of California Berkeley, Spring 2014; www.maerskline.com/ar-sa/social/our-social-media, accessed September 2019; and www.facebook.com/Maersk/, www.instagram.com/maersk_official/?hl=en, www.tiktok.com/tag/maersk?enter_from=pc&source=h5_m, and https://twitter.com/maersk?lang=en, accessed September 2022.
14. See Jolie Giancona, "How B2B Brands Can Use TikTok without Ruining It," *The Content Strategist*, April 19, 2021, www.contently.com/2021/04/19/how-b2b-brands-use-tiktok-without-ruining/; Lisa Marinelli and Frank Emanuele, "How 4 B2B Brands Are Clocking-In on TikTok," *Wistia*, May 14, 2021, www.wistia.com/learn/marketing/b2b-brands-on-tiktok; Tom Wilton, "TikTok Somehow Ended 2021 with More Internet Traffic than Google," *ScreenRant*, December 23, 2021, www.screenrant.com/tiktok-popularity-traffic-record-google/; "TikTok by the Numbers: Stats, Demographics, and Fun Facts," *Omnicore*, January 4, 2022, www.omnicoreagency.com/tiktok-statistics/; Mansoor Iqbal, "TikTok Revenue and Usage Statistics," *Business of Apps*, January 11, 2022, www.businessofapps.com/data/tik-tok-statistics/; "Best Brands on TikTok: 12 Examples to Inspire 2021 Strategy," https://mediakix.com/blog/brands-on-tiktok-best/#:~:text=Flighthouse%20is%20the%20most%20followed,with%20nearly%2030%20million%20followers; accessed May 2022; and www.tiktok.com/@adobe, www.tiktok.com/@shopify, www.tiktok.com/@square, and www.tiktok.com/@flighthouse, accessed May 2022.
15. Information from www.shrinershospitalsforchildren.org and www.chs.net/investor-relations/annual-reports/, accessed September 2022.
16. See "Annual Prison Costs a Huge Part of Federal and State Budgets," Interrogating Justice, https://interrogatingjustice.org/prisons/annual-prison-costs-budgets/, accessed September 2022; and "List of Countries by GDP," *Wikipedia*, https://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal), accessed September 2022.

17. National Center for Education Statistics, https://nces.ed.gov/fastfacts/, accessed September 2022.
18. See www.pgpro.com and www.kraftheinz-foodservice.com/, accessed September 2022.
19. Niraj Chokshi, "There's about One 'Government Unit' for Every 3,566 People in the U.S.," *Washington Post*, September 4, 2013, www.washingtonpost.com/blogs/govbeat/wp/2013/09/04/theres-about-one-governmental-unit-for-every-3566-people-in-the-u-s/; and "State & Local Government Finances," www.census.gov/programs-surveys/gov-finances.html, accessed September 2022.
20. See Lockheed Martin annual reports at www.lockheedmartin.com/en-us/news/annual-reports.html?_ga=2.5297339.963821565.1530553440-464839600.1498153874, accessed September 2022.
21. See "GSA Organization Overview," www.gsa.gov/portal/content/104438, accessed September 2022; "Defense Logistics Agency: Medical Supply Chain," www.dscp.dla.mil/sbo/medical.asp, accessed September 2019; and Department of Veterans Affairs Office of Acquisition & Material Management, www.va.gov/oal/business/dbwva.asp, accessed September 2022.
22. See Martin Placek, "Construction Equipment Manufacturers Worldwide by Market Share 2020," *Statista*, April 13, 2022, www.statista.com/statistics/258589/leading-construction-equipment-manufacturers-based-on-market-share/; "Global Heavy Construction Equipment Market Is Expected to Reach $273.5 Billion by 2030," *Global Newswire*, March 9, 2022, www.globenewswire.com/news-release/2022/03/09/2399932/0/en/Global-Heavy-Construction-Equipment-Market-Is-Expected-to-Reach-273-5-Billion-by-2030-Says-AMR.html; "Caterpillar Looks to 'Rewrite the Rules,'" *Demolition and Recycling International*, February 5, 2019, www.khl.com/demolition-and-recycling-international/caterpillar-looks-to-rewrite-the-rules/136845.article; "Caterpillar Grows Service and Repair Choices," *Lift and Access*, December 12, 2017, www.liftandaccess.com/article/caterpillar-grows-service-and-repair-choices-including-launch-yellowmark%E2%84%A2-parts; Donald V. Fites, "Make Your Dealers Your Partners," *Harvard Business Review*, March–April 1996, pp. 84–95; and www.statista.com, www.macrotrends.net, www.caterpillar.com, and www.cat.com/en_US/by-industry/electric-power/Articles/Testimonials/peace-of-mind-hemingway-fertilizer.html, accessed September 2022.

Chapter 7

1. See "Report: By 2026, It's Predicted 25% of People Will Spend an Hour per Day in the Metaverse," *Venture Beat*, February 11, 2022, www.venturebeat.com/2022/02/11/report-by-2026-its-predicted-25-of-people-will-spend-an-hour-per-day-in-the-metaverse/; Sarah Needleman, "What the Metaverse Has to Do with Microsoft's Deal for Activision Blizzard," *Wall Street Journal*, January 20, 2022, www.wsj.com/articles/what-the-metaverse-has-to-do-with-microsofts-deal-for-activision-11642674603; Jason Wise, "Meta Platforms Inc Statistics 2022," *Earthweb*, January 14, 2022, www.earthweb.com/meta-statistics/; Mansoor Iqbal, "Facebook Revenue and Usage Statistics," *BusinessofApps*, January 19, 2022, www.businessofapps.com/data/facebook-statistics/; Brian Dean, "Facebook Demographic Statistics: How Many People Use Facebook in 2022," *Backlinko*, January 5, 2022, https://backlinko.com/facebook-users; "Instagram by the Numbers: Stats, Demographics & Fun Facts," *Omnicore*, January 4, 2022, www.omnicoreagency.com/instagram-statistics/; "Introducing Meta: A Social Technology Company," October 28, 2021, accessed at www.about.fb.com/news/2021/10/facebook-company-is-now-meta/; Carmen Ang, "Ranked: The World's Most Popular Social Networks, and Who Owns Them," *Visual Capitalist*, December 8, 2021, www.visualcapitalist.com/ranked-social-networks-worldwide-by-users/; and www.about.facebook.com, accessed May 2022.
2. See "2020 Will Be Biggest Year Yet for Target's Small-Format Expansion," Convenience Store News," March 4, 2020, https://csnews.com/2020-will-be-biggest-year-yet-targets-small-format-expansion; "New First-of-Its-Kind Target Store to Open in Chapel Hill," 11abc Eyewitness News, July 18, 2017, abc11.com/news/new-first-of-its-kind-target-store-to-open-in-chapel-hill/2231261/, and Jennifer Strailey, "Are Small-Format Stores the Future of Target?" Winsight Grocery Business, November 13, 2020, www.winsightgrocerybusiness.com/retailers/are-small-format-stores-future-target#page=0/.
3. "Mazda Digital Certified Program," http://mazdadigitalcertified.com/DealerWebsite/DealerOn; Ben Grubb, "Geo-targeting: Hyundai Case Study of Targeted Advertising," Crikey, July 9, 2018, https://www.crikey.com.au/2018/07/09/youre-never-alone-no-matter-where-you-goor-what-you-do-there/; Mazda Marketing Targeting Maps, December 27, 2009, https://de.slideshare.net/CardinaleMazda/mazda-marketing-targeting-maps; Johnathan Dane, "7 Retargeting Case Studies That'll BoostYour Current Campaigns," CXL, February 7, 2019, https://conversionxl.com/blog/ppc-retargeting-case-studies/; Tracy Vides, "How Geographical Targeting Can Supercharge Your Marketing," UserTesting Blog, December 22, 2015, https://www.usertesting.com/blog/geographical-targeting/.
4. See https://crest.com/en-us/products/kids and https://crest.com/en-us/products/crest-3d-white-brilliance-toothpaste, accessed September 2022.
5. See Ron Shevlin, "The Four Things Women Want (from Financial Services)," *Forbes*, June 1, 2020, www.forbes.com/sites/ronshevlin/2020/06/01/the-four-things-women-want-from-financial-services/?sh=18d347cb71d2; "Bustle and Visa Kick Off Conversation about Women and Money," The State of Women, https://thestateofwomen.com/bustle-and-visa-kick-off-conversation-about-women-and-money/, accessed February, 2021; "Money Is Changing," https://shortyawards.com/11th/visa-money-is-changing, accessed February 2021; "Money Is Changing. So Let's Talk about It," https://usa.visa.com/dam/VCOM/regional/na/us/about-visa/documents/money-is-changing-so-lets-talk-about-it-visa.pdf, accessed February 2022; https://usa.visa.com/about-visa/money-is-changing.html, accessed May 2022.
6. Katie Powers, "Shattering Gendered Marketing," Marketing News, September 2019, pp. 37–43; and Rachael Treisman, "Lego Says It Will Work to Rid Its Toys of Harmful Gender Bias," NPR, October 12, 2021, www.npr.org/2021/10/12/1045244110/lego-toys-survey-gender-bias-stereotypes.
7. Helen Carefoot, "Why Beauty Brands Are Removing Gender from Their Marketing," *The Washington Post*, March 3, 2020, www.washingtonpost.com/lifestyle/wellness/hello-coverboy-cosmetics-and-skin-care-brands-turn-to-gender-neutral-packaging/2020/03/02/2c30f49e-54d4-11ea-9e47-59804be1dcfb_story.html.
8. See Dia Adams, "American Express Centurion Black Card 2022 Review," *Forbes*, December 22, 2021, www.forbes.com/advisor/credit-cards/reviews/centurion-from-american-express/.
9. Nathaniel Meyersohn, "Why Dollar Tree's Price Hike to $1.25 Could Be One of the Worst Decisions in Retail History," CNN Business, December 5, 2021, www.cnn.com/2021/12/08/business/dollar-tree-1-dollar-price-dollar-stores/index.html.
10. Lauren M. Boeckermann, Andrew T. Kaczynski and Sarah B. King, "Dreaming Big and Living Small: Examining Motivations and Satisfaction in Tiny House Living," *Journal of Housing and the Built Environment*, 2019, pp. 61–71; Greg Parham, "Shakalo 20´ Tiny House," Rocky Mountain Tiny Houses, July 9, 2021, rockymountaintinyhouses.com/shakalo-20-tiny-house/; "Tiny Home Quotes: 12 Inspiring Tiny Home Quotes," March 7, 2017, www.theplaidzebra.com/

tiny-home-quotes-12-inspiring-tiny-house-quotes/; www.statista.com/statistics/456925/median-size-of-single-family-home-usa/, accessed January 2022; and www.rockymountaintinyhouses.com, accessed September 2022.

11. "Loews, Elicit, Spotify Win People-Based Marketing Awards," *Media Daily News*, September 25, 2017, www.mediapost.com/publications/article/307818/loews-elicit-spotify-win-people-based-marketing.html.

12. "The Return Date of Pumpkin at Starbucks Has Officially Fall-In," Starbucks, August 23, 2021, https://stories.starbucks.com/press/2021/tgif-thank-goodness-its-fall-at-starbucks-with-the-return-of-pumpkin/.

13. Kashmeera Sambamurthy, "How Maggi Noodles Revolutionised Snacking in Two Minutes," *ET Brand Equity*, December 18, 2021, https://brandequity.economictimes.indiatimes.com/news/advertising/how-maggi-noodles-revolutionised-snacking-in-two-minutes/88352107.

14. See www.schwinnbikes.com/pages/schwinn-all-bikes, accessed September 2022.

15. See www.pampers.com/en-us/diapers-wipes/pampers-swaddlers-diapers, accessed September 2022.

16. "Motel One Opens Second Hotel in Manchester," *Convention International*, June 23, 2017, https://www.convention-net.de/motel-one-eroeffnet-zweites-hotel-in-manchester/; Motel One, https://www.motel-one.com/de/corporate/company/; Melanie Staudinger, "How the Cheap Hotel Principle Works," *Süddeutsche Zeitung*, March 6, 2012, https://www.sueddeutsche.de/muenchen/motel-one-wie-das-prinzip-billig-hotel-funktioniert-1.1300813; Katharina Heigl, "Vergleich von Marken- und Individualhotellerie - strategische Verhaltensweisen im Wettbewerb anhand der Beispiele 'Motel One München City-Süd' und 'Hotel Heigl' in München/Solln," 2014, https://monami.hs-mittweida.de/frontdoor/deliver/index/docId/3923/file/Bacherlorarbeit_Fertig.pdf, accessed October 2021.

17. Lindsay Kimble, "Colleen Quigley on Becoming a Lululemon Ambassador and How She's Grown Since Her First Olympics," *People*, May 19, 2021, www.people.com/sports/tokyo-olympics-colleen-quigley-lululemon-ambassador-grown-first-games/; and www.shop.lululemon.com/ambassadors, accessed September 2022.

18. VOX Cinema, https://uae.voxcinemas.com/; Varun Godinho, "UAE's VOX Cinemas Inks Deal with Odex to Distribute Japanese Anime Titles," *Gulf Business*, March 11, 2021, https://gulfbusiness.com/uaes-vox-cinemas-inks-deal-with-odex-to-distribute-japanese-anime-titles/; Daniel Loria, "CinemaCon 2017: Majid Al Futtaim's VOX Cinemas – Global Achievement in Exhibition," *Box office Pro*, March 27, 2017, https://www.boxofficepro.com/cinemacon-2017-majid-al-futtaims-vox-cinemas-globalachievement-exhibition/, accessed October 2021.

19. See https://isapps.acxiom.com/personicx/personicx.aspx and www.acxiom.com/customer-data/consumer-segmentation-personicx, accessed September 2022.

20. See www.yumpu.com/en/document/read/33147272/personicx-binder and https://isapps.acxiom.com/personicx/personicx.aspx, accessed September 2021.

21. See https://commercial.keurig.com/content/hotels-hospitality, accessed May 2022.

22. "Digital Mining Market to Witness Huge Growth by 2029," Industrial IT, January 6, 2022, www.industrialit.com.au/digital-mining-market-to-witness-huge-growth-by-2029-caterpillar-sandvik-ab-sap/. Also see www.caterpillar.com/en/company/working-together/caterpillar-at-a-glance.html, www.caterpillar.com/en/brands/cat/products.html, and www.investors.caterpillar.com/overview/default.aspx, accessed May 2022.

23. See Pamela N. Danziger, "Why Zara Succeeds: It Focuses on Pulling People In, Not Pushing Product Out," *Forbes*, April 23, 2018, www.forbes.com/sites/pamdanziger/2018/04/23/zaras-difference-pull-people-in-not-push-product-out/#30b78b1723cb; www.zara.com, www.inditex.com/en/about-us/inditex-around-the-world#continent/000; www.instagram.com/zara, and www.facebook.com/Zara, accessed September 2022.

24. See Michael Porter, *Competitive Advantage* (New York: Free Press, 1985), pp. 4–8, 234–236. For a more recent discussion, see Philip Kotler and Kevin Lane Keller, *Marketing Management*, 15th ed. (Hoboken, NJ: Pearson, 2016), pp. 263–264.

25. Pat Hyland, "Top 10 Hotel Groups of the World," TourismReview News, November 2, 2021, www.tourism-review.com/top-10-world-largest-hotel-groups-news1988; and www.ihgplc.com/en/our-brands, accessed September 2022.

26. See Dorothy Crouch, "American Giant Enters the Made-in-America Denim Segment," *Apparel News*, September 13, 2018, www.apparelnews.net/news/2018/sep/13/american-giant-enters-made-america-denim-segment/; Robert Klara, "American Giant, Maker of the Famous Hoodie, Is Getting into the Jeans Business," *Adweek*, September 6, 2018, www.adweek.com/brand-marketing/american-giant-maker-of-the-famous-hoodie-is-getting-into-the-jeans-business/; Elizabeth Segran, "American Giant Doubled Down on Local Manufacturing during the Pandemic. It Paid Off," *Fast Company*, January 7, 2022, www.fastcompany.com/90710988/american-giant-doubled-down-on-local-manufacturing-during-the-pandemic-it-paid-off; and www.american-giant.com, accessed September 2022.

27. "Wie drei Schweden mit digitalem Rechnungswesen den Onlinehandel erobern," Impulse Netzwerk und Know-how für Unternehmer, https://www.impulse.de/management/wie-drei-schweden-mit-digitalem-rechnungswesen-den-online-handel-erobern/2007787.html "Klarna sitzt Paypal im Nacken," FAZ, https://www.faz.net/aktuell/finanzen/digital-bezahlen/klarna-steigt-zum-zweitgroessten-paypal-konkurrenten-auf-17383141.html, accessed; Porsche Holdings, https://www.porsche-holding.com/de; "Was ist eine Nischenstrategie?," Studienretter, https://studienretter.de/nischenstrategie/; "Die Alibaba-Story," starting up, https://www.starting-up.de/geschaeftsideen/unternehmer-typen/die-alibaba-story.html, accessed October 2021.

28. See Journey Staff, "10 Years Strong. Coca-Cola's Venturing & Emerging Brands Takes on New Territory," February 23, 2017, www.coca-colacompany.com/au/news/10-years-strong-coca-colas-venturing-emerging-brands-takes-on-new-territory; "New Beverage Showdown 22: Meet the Semifinalists and Judges," BevNET, December 1, 2021, www.bevnet.com/news/events/bevnetlivewinter21/new-beverage-showdown-22-meet-the-semifinalists-and-judges/; and www.vebatcoke.com/, accessed September 2022.

29. See https://renaissance-hotels.marriott.com/ and https://renaissance-hotels.marriott.com/navigators, accessed January 2022.

30. David Turner, "How Fila Sneaked Back into Favor," *New Yorker*, October 8, 2018, https://www.newyorker.com/culture/on-and-off-theavenue/how-fila-snuck-back-into-favor; Brett Hershman, "How Changing Trends Resurrected FILA as a Fashion Brand," *Benzinga*, November 24, 2017, https://www.benzinga.com/news/17/11/10813099/how-changing-trendsresurrected-fila-as-a-fashion-brand; Jon Keehn, "Athletic Wear Is Leading the Pack in the Apparel Industry," *Quarterly Insights*, Spring 2017, https://www.capitalgroup.com/pcs/latest-perspectives/athletic-wear-leading-pack.html; Cam Wolf, "The Fila Disruptor 2 Is a Chunky High-Fashion Shoe for Everybody," *GQ*, November 14, 2018, https://www.gq.com/story/fila-disruptor-2-sneaker-of-the-week; Alexandra Mondalek, "Nike Ranks as Most Valuable Apparel Brand While Fila Is the Fastest-Growing," *The Business of Fashion*, April 8, 2021, accessed January 2022.

31. For these and other examples, see Aviva Freudmann, "Customers Want Customization, and Companies Are Giving It to Them," *New York Times*, March 18, 2020, www.nytimes.com/2020/03/18/business/customization-personalized-products.html; and https://iloveskininc.us/ and https://fitmyfoot.com/?ref=wft, accessed September 2022.

32. Alanis King, "This Oddball Rolls-Royce Could Be the Most Expensive Ever," Jalopnik, May 27, 2017, https://jalopnik.com/this-oddball-rolls-royce-could-be-the-new-most-expensiv-1795605881; Harvey Briggs, "For Rolls-Royce the Future Is Bespoke," Purist, www.pursuitist.com/for-rolls-royce-the-future-is-bespoke/, accessed September 2018; Nargess Banks, "Rolls-Royce Bespoke Presents an Imaginative Collection of Unique Luxury Cars in 2021," *Forbes*, January 14, 2022, www.forbes.com/sites/nargessbanks/2022/01/14/rolls-royce-bespoke-presents-an-imaginative-collection-of-unique-luxury-cars-in-2021/?sh=3fb69b2fdc84; and www.rolls-roycemotorcars.com/en-US/bespoke.html, accessed September 2022.

33. See "YouTube Targets Young Kids with Ads, Say Privacy Advocates, Urging FTC to Investigate," *Los Angeles Times*, April 9, 2018, www.latimes.com/business/hollywood/la-fi-tn-youtube-kids-privacy-20180409-story.html; and Todd Spangler, "YouTube Will Make Video Uploads Private by Default for Kids under 18," *Variety*, August 10, 2021, https://variety.com/2021/digital/news/youtube-google-child-safety-private-uploads-1235038219/.

34. Ferris Jabr, "Can You Really Be Addicted to Video Games?" *New York Times*, October 23, 2019, www.nytimes.com/2019/10/22/magazine/can-you-really-be-addicted-to-video-games.html; and "Study Identifies the Personality Traits of Teenagers Addicted to Video Games," MedicalXpress, December 10, 2021, www.medicalxpress.com/news/2021-12-personality-traits-teenagers-addicted-video.html.

35. See "FBI Releases the Internet Crime Complaint Center 2020 Internet Crime Report, Including COVID-19 Scam Statistics," March 17, 2021, www.fbi.gov/news/pressrel/press-releases/fbi-releases-the-internet-crime-complaint-center-2020-internet-crime-report-including-covid-19-scam-statistics.

36. SUV sales data furnished by www.WardsAuto.com, accessed September 2021. Price data from www.edmunds.com, accessed September 2021.

37. See www.fcb.com/our-work/the-toughest-bag and www.youtube.com/watch?v=cHlOtiJnFsI, accessed September 2021.

38. John Pearley Huffman, "How Lexus Changed the Dealership Experience," *Car and Driver*, May 9, 2020, www.caranddriver.com/features/a32050906/how-lexus-changed-the-dealership-experience/; "Superior Service," Lexus, September 26, 2021, www.drivers.lexus.com/lexusdrivers/benefits/experiences/experiences-details/ART5800; and www.lexus.com/guest-experience, accessed September 2022.

39. "Apply Now: Wegmans Begins Hiring and Training Full-Time Employees for First North Carolina Store," Wegmans News & Media, January 8, 2019, www.wegmans.com/news-media/press-releases/apply-now-wegmans-begins-hiring-and-training-full-time-employees-for-first-north-carolina-store/; Marian Zboraj, "Who Tops Fortune's Best Workplaces in Retail 2021 List?" Progressive Grocer, November 5, 2021, https://progressivegrocer.com/who-tops-fortunes-best-workplaces-retail-2021-list; and www.wegmans.com and https://jobs.wegmans.com/diversity, accessed May 2022.

40. Marco Annunziata, "Over 30 Years and 20 Adventures in Africa, This Explorer Has Trusted His Land Rover Defender 110 to Get It Done," Petrolicious, April 5, 2021, petrolicious.com/articles/over-30-years-and-20-adventures-in-africa-this-explorer-has-trusted-his-land-rover-defender-110-to-get-it-done; Drew Dorian, "2022 Land Rover Defender," *Car and Driver*, www.caranddriver.com/land-rover/defender, accessed May 2022; and www.landroverusa.com/vehicles/defender/index.html, accessed September 2022.

41. See www.heartsonfire.com/education, accessed May 2022.

42. See "Impact of COVID-19 on the Global Personal Luxury Goods Market Based on Year-on-Year Change in Market Size in 2019/2020, by Category," Statista, November 1, 2021, www.statista.com/statistics/1257250/impact-of-covid-on-personal-goods-market/.

43. See Josh Slone, "Brand Positioning Statement: A Guide to Creating and Owning Yours," Business2Community, October 11, 2017, www.business2community.com/branding/brand-positioning-statement-guide-creating-owning-01934374; and "Geoffrey Moore Positioning Statement," GRIN tech, https://the.gt/geoffrey-moore-positioning-statement/, accessed May 2022.

44. See Erin Schulte, "How Outschool Won the Pandemic," *Fast Company*, March 11, 2022, www.fastcompany.com/90729413/how-outschool-won-the-pandemic; Rick Hess, "Outschool CEO on How to Engage Half a Million Virtual Learners," *Education Next*, February 11, 2021, www.edweek.org/technology/opinion-outschool-ceo-on-how-to-engage-half-a-million-virtual-learners/2021/02; Susan Adams, "How Online Education Startup Outschool Raised $45 Million During the Pandemic," *Forbes*, September 18, 2020, www.forbes.com/sites/susanadams/2020/09/18/how-online-education-startup-outschool-raised-45-million-during-the-pandemic/?sh=34624af239e0; and information from www.outschool.com, accessed July 2022.

Chapter 8

1. FiLLi Cafe Home, 2021 https://FiLLicafe.com/; https://FiLLicafe.com/wp-content/uploads/2021/06/FiLLi_Brand_Profile_2020_low.pdf; and "Filli Cafe – A Saffron Scented Tale of Success," Emirates PR, January 25, 2018, https://emiratespr.com/FiLLi-cafe-saffron-scented-talesuccess/, accessed October 2021.

2. David Kaplan, "When Travel Stalled, Airbnb Rewound, Leaned Local and Remained Relevant against All Odds," *Adweek*, June 6, 2021, www.adweek.com/performance-marketing/when-travel-stalled-airbnb-rewound-leaned-local-and-remained-relevant-against-all-odds/?itm_source=related_articles&itm_medium=position2; and www.adweek.com/performance-marketing/when-travel-stalled-airbnb-rewound-leaned-local-and-remained-relevant-against-all-odds/?itm_source=related_articles&itm_medium=position2; accessed June 2022.

3. Nina Ruggiero, "Stay in an Adorable Airstream Decked Out by Pottery Barn in One of California's Favorite Small Cities," *Travel+Leisure*, December 18, 2021, www.travelandleisure.com/trip-ideas/airstream-pottery-barn-caravan-outpost-ojai-california; Thomas Wachtel, "4 of the Best Lifestyle Brands—and How They Got There," *ElementThree*, June 16, 2020, https://elementthree.com/blog/the-best-lifestyle-brands-and-how-they-got-there/; Jo Borras, "Airstream Parent Company Thor Signs MOU with ZF to Build Electric RV," electrek, January 10, 2022, https://electrek.co/2022/01/10/airstream-parent-company-thor-signs-mou-with-zf-to-build-electric-rv/; and www.airstream.com/heritage/why-airstream/, accessed September 2022.

4. See Charlotte Rogers, "Patagonia on Why Brands Can't Reverse into Purpose through Marketing," *Marketing Week*, July 18, 2018, www.marketingweek.com/2018/07/18/patagonia-you-cant-reverse-into-values-through-marketing; and www.patagonia.com/environmentalism.html, accessed September 2022.

5. See Kurt Badenhausen, "Inside Serena Williams' Plan to Ace Venture Investing," *Forbes*, June 30, 2019, www.forbes.com/sites/kurtbadenhausen/2019/06/03/inside-serena-williams-plan-to-ace-venture-investing/?sh=5035e4297787; and "#2 Serena Williams," *Forbes*, January 12, 2022, www.forbes.com/profile/serena-williams/?sh=c2d29db4e48f.

6. See "The Best Jobs in the World," Tourism Australia, www.tourism.australia.com/en/about/our-campaigns/past-campaigns/best-jobs.html, accessed May 2022; and www.visitdetroit.com, www.ireland.com/en-us/, and www.idaireland.com, accessed September 2022.

7. See Lindsey Stein, "Microsoft's New 'Make What's Next' Ad Shows Girls How to Pursue STEM Careers," *Advertising Age*, March 7, 2017, www.adage.com/article/cmo-strategy/microsoft-s-make-ad-shows-pursue-stem/308189/; and www.microsoft.com/en-us/philanthropies/make-whats-next, accessed September 2022.

8. Rubia Moghees, "She Is Not a Burden," *The News International*, https://www.thenews.com.pk/magazine/you/129285-She-is-not-a-burden; "MoltyFoam Takes It up a Notch with Its All-New _Neckup by MoltyOrtho App," Brandsynario, February 12, 2020, https://www.brandsynario.com/moltyfoam-takes-it-up-a-notch-with-its-all-new-neckup-by-moltyortho-app/.

9. For more on social marketing, see Nancy Lee and Philip Kotler, *Social Marketing: Changing Behaviors for Good*, 5th ed. (Thousand Oaks, CA: SAGE Publications, 2015); and www.adcouncil.org and www.i-socialmarketing.org, accessed September 2022.

10. Quotes and definitions from Philip Kotler, *Marketing Insights from A to Z* (Hoboken, NJ: Wiley, 2003), p. 148; and www.asq.org/glossary/q.html, accessed September 2022.

11. "A Guest at B&B Hotels Germany," B&B Hotels, https://www.hotel-bb.com/de/services/deutschland; "Another Award for B&B HOTELS: The Popular Budget Hotel Chain Enjoys the Highest Levels of Trust among Guests," *Wilde & Partner*, March 19, 2019, https://www.wilde.de/erneute-auszeichnung-fuer-bb-hotels-die-beliebte-budget-hotelkette-geniesst-bei-den-gaesten-hoechstes-vertrauen/; "Germany Test: About Us," *Deutschland Test*, https://www.deutschlandtest.de/ueber-uns/, accessed October 2021.

12. See Christine Lagorio-Chafkin, "This Philosophy Professor Turned the Answer to One of Life's Big Questions into a \$169 Million Business," *Inc.,* August 2018, www.inc.com/christine-lagorio/2018-inc5000-how-popsockets-became-a-169-million-dollar-business.html; Amit Chowdhry, "PopSockets: The Story behind How It Went from a Simple Concept to Selling Tens of Millions of Units," *Forbes,* February 14, 2018, www.forbes.com/sites/amitchowdhry/2018/02/14/popsockets/; "16 Best PopSockets of Year 2021," The Device Store, January 16, 2021, www.thedevicestore.com/best-popsockets-of-year-2020/; Firdosh Ara, "What Are PopSockets? Why Should You Consider Buying One?" *Social Telecast,* January 4, 2022, www.socialtelecast.com/what-are-pop-sockets-why-should-you-consider-buying-one/; and www.popsockets.com, accessed May 2022.

13. See Megan Cerullo, "Payless Sold Discount Shoes at Luxury Prices—and It Worked," *CBS News,* November 29, 2018, www.cbsnews.com/news/payless-sold-discount-shoes-at-luxury-prices-and-it-worked/; and T. L. Stanley, "Payless Opened a Fake Luxury Store, 'Palessi,' to See How Much People Would Pay for \$20 Shoes," *Adweek,* November 28, 2018, www.adweek.com/brand-marketing/payless-opened-a-fake-luxury-store-palessi-to-see-how-much-people-would-pay-for-20-shoes/.

14. See "The Ten Most Innovative Branding Companies of 2021," *Fast Company,* March 9, 2021, www.fastcompany.com/90600144/branding-most-innovative-companies-2021; and https://avocados frommexico.com/, accessed September 2022.

15. See "FMI—Supermarket Facts," www.fmi.org/our-research/supermarket-facts, accessed May 2022; Christina Ng, "The Drivers behind Shoppers' Purchasing Decisions," *Project Nosh*, April 30, 2015, www.projectnosh.com/news/2015/the-drivers-behind-shoppers-purchasing-decisions; and "Our Retail Divisions," www.corporate.walmart.com/newsroom/2005/01/06/our-retail-divisions, accessed May 2022.

16. Jason Kane, "Pringles," *Snack History*, August 20, 2021, www.snackhistory.com/pringles/; and www.pringles.com/us/home.html, accessed September 2022.

17. See Imogen Watson, "Is It Time for Brands to Get Connected? Why Smart Packaging Is Having a Moment," *The Drum,* October 20, 2020, www.thedrum.com/news/2020/10/20/it-time-brands-get-connected-why-smart-packaging-having-moment; Gabby Fernie, "75 Percent of Consumers Want Connected Packaging to Help Them Recycle," *Mobile Marketing Magazine,* July 26, 2021, https://mobilemarketingmagazine.com/75-per-cent-of-consumers-want-connected-packaging-to-help-them-recycle-; and www.yeovalley.co.uk/, accessed May 2022.

18. Michael Beausoleil, "How Tide Survived the Tide Pods Fiasco and Kept Them on Shelves," *Medium*, November 6, 2021, www.marker.medium.com/how-tide-survived-the-tide-pods-fiasco-and-kept-them-on-shelves-d5496d1f835e; "Keep Your Home and Loved Ones Safe," P&G, www.tide.com/en-us/our-commitment/ingredients-and-safety/home-safety-tips, accessed September 2022.

19. Elizabeth Wellington, "8 Companies with Exceptional Customer Service + Helpful Tips," *Help Scout*, www.helpscout.com/helpu/exceptional-customer-service-companies/, accessed May 2022; Sam Ingalls, "Top Cloud Managed Service Providers & Leaders of 2021," *Channel Insider*, October 12, 2021, www.channelinsider.com/managed-services/cloud-managed-service-providers/; and www.rackspace.com/services/fanatical-experience, accessed May 2022.

20. Information on the Colgate-Palmolive product mix is from www.colgatepalmolive.com/en-us/brands, accessed September 2022.

21. See Roberto Baldwin, "GM Will Have 12 Electric Vehicles Soon, Releases Details on Them," July 17, 2020, www.caranddriver.com/news/a33352012/gm-electric-cars-cadillac-chevy-buick-hummer-specs/; Jody Freeman, "General Motors Is Counting on Your Loving Electric Cars," *New York Times,* February 2, 2021, www.nytimes.com/2021/02/02/opinion/GM-electric-cars.html; and www.volvocars.com/us/v/sustainability/highlights, accessed September 2022.

22. See "Changing the Lens: GDP from the Industry Viewpoint," Deloitte Insights, July 24, 2019, www2.deloitte.com/us/en/insights/economy/spotlight/economics-insights-analysis-07-2019.html; and "List of Countries by GDP Sector Composition," https://en.wikipedia.org/wiki/List_of_countries_by_GDP_sector_composition, accessed September 2022.

23. For more discussion, see David Breshears, "What Is Service Marketing Mix?," *bizfluent*, August 2, 2019, www.bizfluent.com/info-8583690-theory-human-service-delivery.html; Neil Kokemuller, "What Is Service Marketing Mix," *azcentral,* www.yourbusiness.azcentral.com/marketing-service-strategy-24949.html, accessed May 2022; "Service Mix (7Ps)," MBA Skool, December 27, 2020, www.mbaskool.com/business-concepts/marketing-and-strategy-terms/1870-service-marketing-mix-7-ps.html.

24. Jennifer Polland, "What's It Like to Stay in the World's Best Hotel, Where Guests Are Treated Like Indian Royalty," *Business Insider*, September 4, 2014, www.businessinsider.com/oberoi-udaivilas-best-hotel-in-the-world-2014-8; "Tripadvisor: The Oberoi Udaivilas, Udaipur," TripAdvisor, accessed May 2022; "The Oberoi Udaivilas, Udaipur," *Conde Nast Traveler*, www.cntraveler.com/hotels/india/india/udaipur/oberoi-udaivilas-udaipur, accessed May 2022; and www.oberoihotels.com/hotels-in-udaipur-udaivilas-resort/, accessed September 2022.

25. See James L. Heskett, W. Earl Sasser Jr., and Leonard A. Schlesinger, *The Service Profit Chain: How Leading Companies Link Profit and Growth to Loyalty, Satisfaction, and Value* (New York: Free Press, 1997); and Heskett, Sasser, and Schlesinger, *The Value Profit Chain: Treat Employees Like Customers and Customers Like Employees* (New York: Free Press, 2003). Also see Jay Doerksen, "How Employee Satisfaction Drives the Service-Profit Chain and Improves the Customer Experience," *Vision Critical,* May 11, 2017, www.visioncritical.com/employee-satisfaction-service-profit-chain/; and The Service-Profit Chain Institute, www.serviceprofitchain.com/, accessed September 2022.

26. Robert Clara, "'Great at a Lot of Things': The Secret to Wegmans' Success," *Adweek,* October 4, 2021, www.adweek.com/brand-marketing/great-at-a-lot-of-things-the-secret-to-wegmans-success/; "Wegmans Food Markets, Inc. Again Ranked #1 on List of 2021 Best Workplaces in Retail by Great Place to Work® and FORTUNE," Wegmans, November 4, 2021, www.wegmans.com/news-media/press-releases/wegmans-food-markets-inc-again-ranked-1-on-list-of-2021-best-workplaces-in-retail-by-great-place-to-work-and-fortune/; Pamela N. Danziger, "Why Wegmans Food Markets Gets the Love of Customers," *Forbes,* March 3, 2018, www.forbes.com/sites/pamdanziger/

2018/03/03/why-wegmans-food-markets-gets-the-love-of-customers/?sh=15fab7224ce5; Susan Hogan and Meredith Royster, "Grocery Wars: It's Not Just about Selling Food Anymore," *NBC Washington*, December 7, 2020, www.nbcwashington.com/news/consumer/grocery-wars-its-not-just-about-selling-food-anymore/2499819/; "Here's Why Wegmans Employees Love What They Do," www.jobs.wegmans.com/employee-satisfaction-at-wegmans, accessed May 2022; and "100 Best Companies to Work For," *Fortune*, fortune.com/best-companies/2021/, accessed May 2022.

27. "Meet Modesh and DFana," *Visit Dubai*, https://www.visitdubai.com/en/modesh; "Dubai's Summer Mascot Modhesh Makes a Welcome Return," *The First Group*, https://www.thefirstgroup.com/en/news/dubai-s-summer-mascot-modhesh-makes-a-welcome-return/.

28. See "United States: Prescription Drugs," www.kff.org, accessed May 2022; and "Postal Facts," www.about.usps.com/who-we-are/postal-facts/welcome.htm, accessed September 2022.

29. Ira Kalb, "Corporate Image: The Foundation for Your Brand's Success," *Huffington Post*, September 3, 2017, www.huffingtonpost.com/entry/corporate-image-the-foundation-for-your-brands-success_us_59ab8e09e4b0c50640cd600c.

30. See Micah Solomon, "Thanks a Latte: How to Fix a Customer Service Failure, per Starbucks, Marriott, and Me," *Forbes*, November 29, 2017, www.forbes.com/sites/micahsolomon/2017/11/19/thanks-a-latte-how-to-fix-a-customer-service-failure-per-starbucks-marriott-and-me/#4a1a1873462a.

31. See Martha White, "Lost Bags, at 140 Characters, and Airlines Respond," *New York Times*, October 20, 2015, p. B6; Leslie Josephs, "Between Five Minutes and Five Hours: How Long Airlines Take to Respond to Your Complaint on Twitter," *CNBC*, January 9, 2018, www.cnbc.com/2018/01/09/how-long-airlines-take-to-respond-to-your-complaints-on-twitter.html; "Customer Recovery: Turn Bad Experiences into Unforgettable Good Moments," *GetFeedback*, July 31, 2018, www.getfeedback.com/resources/ux/customer-recovery-turn-bad-experiences-unforgettable-good-moments/; and Greg Keraghosian, "She Answers Up to 100 Tweets a Day for Southwest Airlines," *SFGate*, February 24, 2020, www.sfgate.com/travel/article/She-answers-up-to-100-tweets-a-day-for-Southwest-15068189.php#photo-19056812.

32. Lulu Garcia-Navarro, "The Robots Are Coming to Las Vegas," *NPR*, October 7, 2018, www.npr.org/2018/10/07/652363255/the-robots-are-coming-to-las-vegas; Sabina Osario; "Self-Service Innovation Summit Reveals Unattended Technologies Gaining Traction," *Vending Times*, December 28, 2021, www.vendingtimes.com/blogs/self-service-innovation-summit-reveals-unattended-technologies-gaining-traction/; and "Grocers Tap Self-Service to Save Labor across Supply Chain," *PYMNTS.com*, December 21, 2021, www.pymnts.com/unattended-retail/2021/grocers-tap-self-service-to-save-labor-across-supply-chain/.

33. Garcia-Navarro, "The Robots Are Coming to Las Vegas," *NPR*.

34. Kristin Stoller, "America's Best Large Employers," *Forbes*, February 9, 2021, www.forbes.com/best-large-employers/#1f76ce4afb3e; Mark Reilly, "Mayo Clinic Ranks No. 3 on Forbes List of Best Big Employers," *Business Journals*, February 17, 2021, www.bizjournals.com/twincities/news/2021/02/17/mayo-clinic-forbes-best-employers.html; "How the Mayo Clinic Built Its Reputation as a Top Hospital," Knowledge@Wharton, August 28, 2018, https://knowledge.wharton.upenn.edu/article/mayo-clinics-secret-success/; Max Nisen, "Mayo Clinic CEO: Here's Why We've Been the Leading Brand in Medicine for 100 Years," *Business Insider*, February 23, 2013, www.businessinsider.com/how-mayo-clinic-became-the-best-brand-in-medicine-2013-2; Leonard L. Berry and Neeli Bendapudi, "Clueing in Customers," *Harvard Business Review*, February, 2003, 2, pp. 100–106; "Under One Roof: What Can We Learn from the Mayo Clinic?" https://fs.blog/under-one-roof-what-can-we-learn-from-the-mayo-clinic/, accessed February 2022; "World's Best Hospitals 2021," www.newsweek.com/best-hospitals-2021/united-states, accessed February 2022; and https://health.usnews.com/best-hospitals and www.mayoclinic.org/about-mayo-clinic, accessed September 2022.

35. See "McAtlas Shrugged," *Foreign Policy*, May–June 2001, pp. 26–37; and Philip Kotler, Kevin Lane Keller, and Alexander Chernev, *Marketing Management*, 16th ed. (Upper Saddle River, NJ: Pearson Publishing, 2021), Chapter 10.

36. See "Walter Landor," *Wikipedia*, https://en.wikipedia.org/wiki/Walter_Landor, accessed September 2022.

37. See Salvador Rodriguez, "Instagram Surpasses 2 Billion Monthly Users while Powering through a Year of Turmoil," CNBC, December 14, 2021, www.cnbc.com/2021/12/14/instagram-surpasses-2-billion-monthly-users.html; Stacey McLachlan, "35 Instagram Stats That Matter to Marketers in 2022," *Hootsuite*, January 18, 2022, blog.hootsuite.com/instagram-statistics/; and www.instagram.com/about/us/, accessed September 2022.

38. For more on BrandAsset Valuator, see Kotler, Keller, and Chernev, *Marketing Management*, Chapter 10; and "BrandAsset Valuator," www.bavgroup.com/about-bav/brandasset-valuatorr, accessed September 2022.

39. See "Kantar BrandZ 2021 Top 100 Most Valuable Global Brands," *Kantar*, www.kantar.com/campaigns/brandz/global, accessed September 2022.

40. See Scott Davis, *Brand Asset Management*, 2nd ed. (San Francisco: Jossey-Bass, 2002). For more on brand positioning, see Kotler, Keller, and Chernev, *Marketing Management*, Chapter 10.

41. See Avi Dan, "FedEx's New Campaign Delivers," *Forbes*, November 5, 2018, www.forbes.com/sites/avidan/2018/11/05/fedex-new-campaign-delivers/; Katie Baron, "Rewiring Storytelling," *Forbes*, October 22, 2018, www.forbes.com/sites/katiebaron/2018/10/22/rewiring-storytelling-neuro-brand-boosting-from-the-startup-that-predicted-the-trump-win/; and "Connecting People & Possibilities," www.fedex.com/en-us/about.html, accessed May 2022.

42. "Why I Love Walt Disney World," www.ithoughtyouwereshorter.wordpress.com/2012/11/15/why-i-love-walt-disney-world/, accessed May 2022.

43. Dominic Reuter, "How Rolex Became the Top Luxury Watch Brand in the World From Its Humble Origins as a Tool for Professionals," *INSIDER*, August 18, 2021, www.businessinsider.com/how-rolex-became-worlds-top-luxury-watch-brand-2021-8; Rob Carder, "Rolex and Cartier Tipped for Best Investment Watches in 2022," WATCHPRO, December 21, 2021, www.usa.watchpro.com/rolex-and-cartier-tipped-for-best-investment-watches-in-2022/; and www.rolex.com/en-us, accessed September 2022.

44. Leslie Scism, "Travelers Doesn't Want to Share Its Umbrella Logo," *Wall Street Journal*, May 25, 2015, www.wsj.com/articles/travelers-doesnt-want-to-share-its-umbrella-logo-1432598794. Also see Judith Soto, "9 More Nasty Trademark Infringement Cases—and How to Avoid Them," *TrademarkNow*, June 13, 2019, www.trademarknow.com/blog/9-more-nasty-trademark-infringement-cases.

45. Annie Palmer, "Amazon Unseats Walmart to Become the No. 1 Apparel Retailer in the U.S.," *CNBC*, March 17, 2021, www.cnbc.com/2021/03/17/amazon-unseats-walmart-to-become-the-no-1-apparel-retailer-in-the-us.html; Kevin Lamb, "All You Need to Know about Amazon's Private Label Brands," *Accelerate*, July 2, 2021, https://pattern.com/blog/all-you-need-to-know-about-amazons-private-label-brands/; Don Davis, "Amazon Triples Its Private-Label Product Offerings in 2 Years," *DigitalCommerce360*, May 20, 2020, www.digitalcommerce360.com/2020/05/20/amazon-triples-its-private%e2%80%91label-product-offerings-in-2-years/; Serah Louis, "These Are the Big Brands behind Your Favorite Trader Joe's Snacks," *Moneywise*, December 23, 2020, https://moneywise.

com/life/lifestyle/these-are-the-big-brands-behind-your-favorite-trader-joes-snacks; Matthew Boyle, "No-Name Clothes Are Tearing Up Retail," *AP,* December 12, 2017, https://apnews.com/article/business-amazoncom-inc-fashion-design-archive-ec34f1bacc254ba3ab5549e1e6d46a69; Phil Wahba, "Target's Newish Athletic Line Is Now Its 10th Billion-Dollar Store Brand," *Fortune,* February 8, 2021, www.fortune.com/2021/02/08/target-athletic-all-in-motion-billion-dollar-store-brand/; Elizabeth Segran, "Some Companies Rip Off Products. Target Imitates Entire Brands," *Fast Company,* August 12, 2021, www.fastcompany.com/90661935/retail-thrives-on-copying-trends-heres-how-target-won-the-imitation-game; "Why Customers Love Store Brands Like Amazon Basics," June 17, 2020, www.aboutamazon.com/news/how-amazon-works/why-customers-love-store-brands-like-amazonbasics; and https://corporate.target.com/about/products-services/Target-Brands and www.amazon.com/b?ie=UTF8&node=17602470011, accessed September 2022.

46. "Top 150 Leading Licensors," *LicenseGlobal*, June 22, 2021, www.licenseglobal.com/rankings-and-lists/top-150-leading-licensors; and "Global Brand Licensing Market Size, Status and Forecast 2021-2027," MarketResearch.com, www.marketresearch.com/QYResearch-Group-v3531/Global-Brand-Licensing-Size-Status-14261053/; accessed September 2022.

47. See www.skechers.com/collections/mens/skechers-gomeb-speed-6-cloak-hyper/220235_BKBL.html, accessed May 2022.

48. See Madison Lennon, "10 Awesome Dorito Flavors You Can Only Get in Japan," *The Travel,* July 15, 2019, www.thetravel.com/doritos-flavors-only-available-japan/; and www.doritos.com/products, accessed September 2022.

49. Danielle Wiener-Bronner, "Why Brands Like Oreo and Frito-Lay Are Cutting Back on Wacky Flavors Right Now," *Lincoln Journal Star,* June 8, 2020, https://journalstar.com/news/national/why-brands-like-oreo-and-frito-lay-are-cutting-back-on-wacky-flavors-right-now/article_0a3b058a-1486-5516-8713-2b73a42b4ad2.html; and Dan Ariely, "When Too Many Choices Lead to None," *Wall Street Journal*, December 17, 2021, www.wsj.com/articles/when-too-many-choices-lead-to-none-11639688099.

50. See Lauren Steele, "Dyson's Lightcycle Morph Is the World's Smartest Lamp—and One of the Best Work-from-Home Investments You Can Make," *Fast Company,* July 17, 2020, www.fastcompany.com/90528109/dysons-lightcyle-morph-smart-lamp-will-help-you-work-and-sleep-better; Antony Maina, "Best Desk Lamps for Your Office Space," *Small Business Trends*, January 17, 2022, www.smallbiztrends.com/2022/01/best-desk-lamps.html; and www.dyson.com/lighting/task-lighting/dyson-lightcycle/dyson-lightcycle-desk-light-cd04-white-silver, accessed September 2022.

51. See Andy Brownfield, "A Look at Procter & Gamble's Billion-Dollar Brands, including Some Made in Triad," *Triad Business Journal,* October 18, 2020, www.bizjournals.com/triad/news/2020/10/17/these-are-p-gs-billion-dollar-brands.html;and www.us.pg.com/brands/, accessed September 2022.

52. Bradley Johnson, "Ad Age World's Largest Advertisers Pump Up Spending," *AdAge*, December 14, 2021, www.adage.com/article/datacenter/worlds-top-advertisers-pump-spending/2379416.

53. See Tim LeRoy, "The Product of a Thousand Small Gestures," *Medium.com,* https://timleroyis.medium.com/the-product-of-a-thousand-small-gestures-d49db06bc531. Also see Blake Morgan, "5 Lessons from Disney's Magical Customer Experience," *Forbes,* January 23, 2020, www.forbes.com/sites/blakemorgan/2020/01/23/5-lessons-from-disneys-magical-customer-experience/?sh=3c349b977555; and www.thewaltdisneycompany.com/social-responsibility/, accessed September 2022.

54. See Eduardo Medina, "U.S. Lifts Temporary Ban on Avocados From Mexico," *New York Times,* February 19, 2022, www.theconversation.com/how-mexicos-lucrative-avocado-industry-found-itself-smack-in-the-middle-of-gangland-177406; Asa Hiken, "How Avocados from Mexico Is Using the Super Bowl to Acquire First-Party Data," *Ad Age*, January 13, 2022, www.adage.com/article/digital-marketing-ad-tech-news/avocados-mexico-uses-super-bowl-acquire-first-party-data/2392801; Robert Williams, "Avocados From Mexico Launches AI-Powered Website Merging Entertainment and Rewards," *Marketing Dive,* March 8, 2021, www.marketingdive.com/news/avocados-from-mexico-launches-ai-powered-website-merging-entertainment-and/596256/; Alvaro Luque, "Avocados From Mexico Recognized as a Top International Representative of Mexico," *The Produce News*, December 16, 2020, www.theproducenews.com/headlines/avocados-mexico-recognized-top-international-representative-mexico; and information from www.ers.usda.gov/data-products/chart-gallery/gallery/chart-detail/?chartId=103810 and www.avocadosfrommexico.com, accessed July 2022.

Chapter 9

1. See Jacob Carpenter, "Can Anything Slow Down Big Tech's Big 4," *Fortune,* February 2, 2022, fortune.com/2022/02/02/apple-amazon-alphabet-microsoft-earnings-most-admired/;Kim Lyons, "Google Parent Company Alphabet Broke $200 Billion in Annual Revenue for the First Time," *The Verge*, February 1, 2022, www.theverge.com/2022/2/1/22912196/google-alphabet-200-billion-annual-revenue-youtube-pixel-search; Oliver Franklin-Wallis, "Inside X, Google's Top-Secret Moonshot Factory," *Wired,* February 17, 2020, www.wired.co.uk/article/ten-years-of-google-x; David Pierce, "One Man's Quest to Make Google's Gadgets Great," *Wired,* February 8, 2018, www.wired.com/story/one-mans-quest-to-make-googles-gadgets-great/; Chuck Salter, "Google: The Faces and Voices of the World's Most Innovative Company," *Fast Company,* March 2008, pp. 74–88; "Mobile Search Engine Market Share Worldwide," Statcounter, https://gs.statcounter.com/search-engine-market-share/mobile/worldwide, accessed June 2022; "Worldwide Desktop Market Share of Leading Search Engines from January 2010 to December 2021," Statista, www.statista.com/statistics/216573/worldwide-market-share-of-search-engines/, accessed June 2022; and https://x.company/ and https://abc.xyz/, accessed September 2022.

2. Michelle Toh, "Apple Is Back on Top in Smartphone Sales World-wide after a Record Win in China," *CNN Business,* January 27, 2022, www.cnn.com/2022/01/27/tech/apple-samsung-smartphone-sales-intl-hnk/index.html; and "Apple 2022 10-K Filing," https://s2.q4cdn.com/470004039/files/doc_financials/2021/q4/_10-K-2021-(As-Filed).pdf, accessed September 2022.

3. Marc Emmer, "95 Percent of the New Products Fail," *Inc.*, July 6, 2018, www.inc.com/marc-emmer/95-percent-of-new-products-fail-here-are-6-steps-to-make-sure-yours-dont.html; and Andy Nairn, "7 Ways to Improve Your New Product Development Success," *Advertising Age,* July 15, 2021, https://adage.com/article/opinion/7-ways-improve-your-new-product-development-success-rate-opinion/2350576.

4. See https://medium.com/dford/about, https://corporate.ford.com/operations/locations/silicon-valley.html, and https://d.ford.com/, accessed September 2022.

5. See Michael Martinez, "Ford Opens Silicon Valley Innovation Center," *The Detroit News,* January 22, 2015, www.detroitnews.com/story/-/business/autos/ford/2015/01/22/ford-silicon-valley/22165837/; "Chick-fil-A Goes High Tech at Tech Square," March 8, 2017, https://thechickenwire.chick-fil-a.com/News/Chick-fil-A-Goes-High-Tech-at-Tech-Square; and https://corporate.ford.com/operations/locations/silicon-valley.html, accessed June 2022.

6. See Harry McCracken, "Google's 100% Solution," *Fast Company*, December 2018/January 2019, pp. 22–26; and https://area120.google.com/, accessed September 2022.
7. See "Dominic Powell, "Want to Run Your First Hackathon? Here Are Some Tips from KPMG," *Smart Company*, August 15, 2017, www.smartcompany.com.au/startupsmart/advice/want-run-first-internal-hackathon-tips-kpmg/; Matt Weinberger, "'There Are Only Two Rules'—Facebook Explains How 'Hackathons,' One of Its Oldest Traditions, Is Also One of Its Most Important," *Business Insider*, January 11, 2017, www.businessinsider.com/facebook-hackathons-2017-6; and www.facebook.com/hackathon/, accessed September 2022.
8. See Scottie Andrew, "Spencer Silver, the Chemist Who Gave Post-it Notes Their Signature Stick, Dies at 80," CNN, May 14, 2021, www.cnn.com/2021/05/14/us/post-it-note-spencer-silver-death-trnd/index.html, and www.post-it.com/3M/en_US/post-it/contact-us/about-us/, accessed June 2022
9. See www.autodesk.com/customer-stories/delfast and https://us.delfastbikes.com/, accessed June 2022.
10. See www.thecloroxcompany.com/company/our-story/timeline/, accessed September 2022.
11. Alex Short, "Supplier Innovation Case Studies," *Vizibl*, November 4, 2014, https://blog.vizibl.co/supplier-innovation-case-studies/; and Heike Blank, "3 Innovative Distribution Models: Lifeline & Disruptor," *Brand Experts*, March 4, 2021, www.brand-experts.com/brand-distribution/distribution-innovation/.
12. "Vans 'Foot the Bill' Customization Program Returns to Support Small Business Partners," *Cision PR Network*, January 26, 2021, www.prnewswire.com/news-releases/vans-foot-the-bill-customization-program-returns-to-support-small-business-partners-301215386.html; and www.vans.com/footthebill.html, accessed September 2022.
13. Jason Aten, "Instagram Reels Copies TikTok, and Is an Example of Everything Wrong with Facebook," Inc., August 6, 2020, www.inc.com/jason-aten/instagram-reels-is-a-copy-of-tiktok-an-example-of-everything-wrong-with-facebook.html; and https://about.instagram.com/features/reels, accessed September 2022.
14. See www.disneyinstitute.com/solutions-for-executives/, accessed September 2022.
15. David Burrows, "How to Use Ethnography for In-Depth Consumer Insight," *MarketingWeek*, May 9, 2014, www.marketingweek.com/how-to-use-ethnography-for-in-depth-consumer-insight/; Brian X. Chen, "OMG, You'll Never Believe What the Laser Vacuum Revealed," *The New York Times*, February 2, 2022, www.nytimes.com/2022/02/02/technology/personaltech/laser-vacuum-robot-mop.html; and www.dyson.com/newsroom/overview/news/march-2021/v15-detect-launch, accessed June 2022.
16. See Bonnie Cad, "Ben & Jerry's Taste for Crowdsourcing," *Digital Initiative*, December 29, 2018, https://digital.hbs.edu/platforms-crowds/ben-jerrys-taste-crowdsourcing/; Jeff Beer, "Why Under Armour's Future Show Is Key to Its Brand Innovation Strategy," *Fast Company*, October 14, 2015, www.fastcocreate.com/3052298/why-under-armours-future-show-is-key-to-its-brand-innovation-strategy#13; Michael Wolf, "With New Contest, Tupperware Looks to Discover the Future of Food Containers," *The Spoon*, December 7, 2018, https://thespoon.tech/with-new-contest-tupperware-looks-to-discover-the-future-of-food-containers/; Beau Muniz, "The Tupperware Clever Container Challenge," *Giddy Blog*, December 6, 2018, https://blog.giddy.io/2018/12/06/the-tupperware-clever-container-challenge/; and https://uaideas.force.com/, accessed September 2022.
17. See George S. Day, "Is It Real? Can We Win? Is It Worth Doing?" *Harvard Business Review*, December 2007, pp. 110–120.
18. This example is based on Tesla Motors and information obtained from www.teslamotors.com and www.tesla.com/model3, accessed September 2018; and "Electric Car," *Wikipedia*, http://en.wikipedia.org/wiki/Electric_car, accessed September 2019.
19. See www.carhartt.com/groundbreakers-loyalty and www.carharttgroundbreakers.com/v2/login, accessed June 2022.
20. See Amelia Lucas, "McDonald's Expands Test of McPlant Burger Created with Beyond Meat," *CNBC*, January 20, 2022, www.cnbc.com/2022/01/20/mcdonalds-expands-test-of-mcplant-burger-created-with-beyond-meat.html; and Ben Coley, "Burger King to Test Plant-Based Nuggets in the U.S.," *QSR*, October 6, 2021, www.qsrmagazine.com/fast-food/burger-king-test-plant-based-nuggets-us.
21. See Taylor Soper, "More Than a Quarter of All Starbucks Orders in the U.S. Are Now Paid for with a Smartphone," *Geek Wire*, April 28, 2021, www.geekwire.com/2021/quarter-starbucks-orders-u-s-now-paid-smartphone/; Austin Carr, "Starbucks Leap of Faith," *Fast Company*, June 2013, pp. 46–48; and www.starbucks.com/coffeehouse/mobile-apps, accessed September 2022.
22. Astha Khandelwal, "7 A/B Testing Examples to Bookmark," *VWO*, February 4, 2022, https://vwo.com/blog/ab-testing-examples/; and www.workzone.com, accessed February 2022.
23. See Jack Neff, "P&G Reinvents Laundry with $150 Million Tide Pods Launch," *Advertising Age*, April 26, 2011, www.adage.com/print/227208/; Sheila Shayon, "Microsoft Unleashes Global Marketing Blitz for Windows 8, New Devices," *BrandChannel*, October 25, 2012, www.brandchannel.com/home/post/2012/10/25/Microsoft-Global-Windows-8-Launch-102512.aspx; and Eleanor Semeraro, "Sony Doubled TV Ad Spend for PlayStation 5 Launch," *Venture Beat*," December 6, 2020, https://venturebeat.com/2020/12/06/sony-doubled-tv-ad-spend-for-playstation-5-launch.
24. "iPhone 12 Pro Max, iPhone 12 Mini, and HomePod Mini Available to Order Friday," Apple press release, November 5, 2020, www.apple.com/newsroom/2020/11/iphone-12-pro-max-iphone-12-mini-and-homepod-mini-available-to-order-friday/.
25. Nikole Wintermeier, "Customer-Centric Mindset: How ASICS Combines Psychology & Neuroscience," Crobox, December 1, 2020, https://blog.crobox.com/article/the-customer-centric-mindset; Nikole Wintermeier, "11 Customer-Centricity Examples for Online Retailers," Crobox, June 8, 2020, https://blog.crobox.com/article/customer-centricity-examples; Nikole Wintermeier, "How ASICS Is Creating Product-Driven Customer Experiences with Crobox," Crobox, April 22, 2020, https://blog.crobox.com/article/asics-case-study, accessed October 2021.
26. Tim Mullaney, "How Apple Earnings Can Grow Even If iPhone Growth Goes to Zero," CNBC, February 2, 2022, www.cnbc.com/2022/02/02/how-apple-earnings-can-grow-even-if-iphone-growth-goes-to-zero-.html; Tim Higgins, "Apple Takes Smartphone Lead in China, Helping Drive Record Profit," *Wall Street Journal*, January 28, 2022, www.wsj.com /articles/apple-takes-smartphone-lead-in-china-helping-drive-record-profit-11643371201; Allison Murray, "Apple Takes Back Top Spot in Smartphone Market Thanks to iPhone 13," ZDNet, January 18, 2002, www.zdnet.com /article/apple-takes-back-top-spot-in-smartphone-market-thanks-to-iphone-13/; Joel M. Podolny and Morten T. Hansen, "How Apple Is Organized for Innovation," *Harvard Business Review*, November/December 2020, pp. 86–95; Greg Petro, "At Its Core, Apple Is No Longer Innovative," Forbes, June 7, 2019, www.forbes.com/sites/gregpetro/2019/06/07/at-its-core-apple-is-no-longer-innovative/?sh=492eff3a196d; "World Top 1000 Companies List and World Ranks as of January 7th 2022," Value Today, January 7, 2022, www.value.today/; "Best Global Brands," Interbrand, https://interbrand.com/best-global-brands/, accessed June 2022; and www.apple.com, accessed September 2022.
27. See Lisa Fu, "The Fidget Spinner Trend Is Ending and You Missed It," *Fortune*, June 13, 2017, http://fortune.com/2017/06/13/the-fidget-spinner-trend-is-ending-and-you-missed-it/; Katherine Isbister, "Popping Toys, the Latest Fidget Craze, Might Reduce Stress for Adults and Children Alike," *Medical Press*, May 10, 2021, https://medicalxpress.com/news/2021-05-toys-latest-fidget-

craze-stress.html; and www.crazyfads.com, accessed September 2022.

28. "Intuit's Ecosystem: A Compounding Machine," *Seeking Alpha,* January 10, 2021, https://seekingalpha.com/article/4398163-intuits-ecosystem-compounding-machine; Geoff Colvin, "How Intuit Reinvents Itself," *Fortune*, November 1, 2017, pp. 76–82; Thomas Lockwood and Edgar Papke, "How Intuit Used Design Thinking to Boost Sales by $10 Million in a Year," *Fast Company,* October 31, 2017, www.fastcodesign.com/90147434/how-intuitused-design-thinking-to-boost-sales-by-10m-in-a-year; "Intuit Reports Strong Full Year Results and Sets Fiscal 2022 Guidance," Intuit, August 24, 2021, https://investors.intuit.com/news/news-details/2021/Intuit-Reports-Strong-Full-Year-Results-and-Sets-Fiscal-2022-Guidance/default.aspx; and information from www.intuit.com and www.statista.com, accessed June 2022.

29. See www.lorealparisusa.com/products/skin-care/brand/men-expert.aspx, accessed September 2022.

30. See Erin DeJesus, "CES's Kitchen of the Future Is Sort of a Nightmare," *Eater,* January 8, 2019, www.eater.com/2019/1/8/18173843/ces-2019-kitchen-tech-ge-samsung-whirlpool; and www.samsung.com/us/explore/chef-collection/, accessed February 2022.

31. See Andrew Vanpel, "Hallmark Cards Reveals Lower Revenue Figure, Shrunken Workforce," *Biz Journals*, July 21, 2021, www.bizjournals.com/bizwomen/news/latest-news/2021/07/hallmark-cards-2020-revenue-figure-employee-count.html?page=all; "Hallmark Launches All New Way for People to Send Greeting Cards with Personalized Videos," Hallmark, November 2, 2021, https://corporate.hallmark.com/news-article/hallmark-launches-all-new-way-for-people-to-send-greeting-cards-with-personalized-videos/; and www.hall mark.com/card/about-sign-and-send, accessed June 2022.

32. For more discussion of marketing strategies over the course of the PLC, see Philip Kotler, Kevin Lane Keller, and Alexander Chernev, *Marketing Management*, 16th ed. (Hoboken, NJ: Pearson Education, 2022), Chapter 17.

33. See Fotis Georgiadis, "Robert Pasin of Radio Flyer: Five Things You Need to Build a Trusted and Beloved Brand," *Authority Magazine,* December 12, 2021, https://medium.com/authority-magazine/robert-pasin-of-radio-flyer-five-things-you-need-to-build-a-trusted-and-beloved-brand-ec1a5245fbcf; Andrea Darlas, "A Look Inside Radio Flyer's Chicago Headquarters," *WGN TV,* November 17, 2018, https://wgntv.com/2018/11/17/a-look-inside-radio-flyers-chicago-headquarters/; Kelly Gilblom, "How a Barbie Makeover Led to a Pandemic Sales Boom," *Bloomberg,* February 24, 2021, www.bloomberg.com/news/articles/2021-02-24/barbie-s-pandemic-sales-boom-followed-yearslong-revamp-at-mattel; D. Tighe, "Revenue of Mattel's Barbie Brand Worldwide from 2012 to 2020," *Statista,* January 14, 2022, www.statista.com/statistics/370361/gross-sales-of-mattel-s-barbie-brand/; Tom May, "5 Times Classic Brands Were Revived Successfully," *Creativebloq,* November 11, 2019, www.creativebloq.com/features/5-times-classic-brands-were-revived-successfully-and-2-when-it-was-a-disaster; Ian Leslie, "How Marvel Conquered Culture," *The New Statesman,* July 28, 2021, www.newstatesman.com/culture/2021/07/marvel-studios-bankruptcy-box-office-kevin-feige; "Film Series," *Wikipedia,* https://en.wikipedia.org/wiki/Film_series, accessed June 2022; and www.radioflyer.com/heritage, www.radioflyer.com/, https://shop.mattel.com/pages/barbie, and www.marvel.com/movies, accessed September 2022.

34. See Andrew J. Hawkins, "Volkswagen Settles Diesel Emissions Lawsuit Right before Trial Set to Begin," *The Verge,* February 26, 2018, www.theverge.com/2018/2/26/17053928/volkswagen-diesel-emissions-lawsuit-settled; "$10.4-Billion Lawsuit over Diesel Emissions Scandal Opens against Volkswagen," *Los Angeles Times,* September 10, 2018, www.latimes.com/business/la-fi-volkswagen-trial-20180910-story.html; and Neal E. Boudette, "Fiat Chrysler Is Expected to Pay Nearly $650 Million in Emissions Case," *New York Times,* January 9, 2019, www.nytimes.com/2019/01/09/business/fiat-chrysler-justice-settlement-emissions.html.

35. See Andrew J. Hawkins, "Volkswagen Settles Diesel Emissions Lawsuit Right before Trial Set to Begin," *The Verge,* February 26, 2018, www.theverge.com/2018/2/26/17053928/volkswagen-diesel-emissions-lawsuit-settled; "$10.4-Billion Lawsuit over Diesel Emissions Scandal Opens against Volkswagen," *Los Angeles Times,* September 10, 2018, www.latimes.com/business/la-fi-volkswagen-trial-20180910-story.html; and Neal E. Boudette, "Fiat Chrysler Is Expected to Pay Nearly $650 Million in Emissions Case," *New York Times,* January 9, 2019, www.nytimes.com/2019/01/09/business/fiat-chrysler-justice-settlement-emissions.html.

36. See "McDonald's Food You Can't Get Here," *Chicago Tribune,* www.chicagotribune.com/business/ct-biz-mcdonalds-food-around-the-world,0,5168632.photogallery, accessed February 2022.

37. Marie Telling, "Here's How French McDonald's Are Different from American Ones," *BuzzFeed,* July 29, 2020, www.buzzfeed.com/marietelling/mcdonalds-france-menu; Henry Samuel, "French Island Loses High 'Steaks' Fight to Keep McDonald's Off Its Shores," *The Telegraph,* October 12, 2018, www.telegraph.co.uk/news/2018/10/12/french-island-loses-high-steaks-fight-keep-mcdonalds-shores/; Katie Machado, "China's New McDonald's Burger Is Topped with Oreos (And That's Not All)," *The Travel,* December 26, 2020, www.thetravel.com/spam-and-oreo-burger-mcdonalds-china/; and www.mcdonalds.fr, accessed September 2022.

38. Information from www.jpmorganchase.com, accessed June 2022.

39. See "The 50 Global Retailers 2021," *NRF,* https://nrf.com/resources/top-retailers/top-50-global-retailers/top-50-global-retailers-2021; "Walmart Corporate International," http://corporate.walmart.com/our-story/locations, accessed June 2022; and information from www.walmart.com and www.carrefour.com, accessed September 2022.

40. N.E. Boudette, "Can Prius Set the Pace Again?," *Automotive News*, September 21, 2014, https://www.autonews.com/article/20140921/RETAIL03/309229993/can-prius-set-the-pace-again; Campaign, "A Collection of Toyota's Best Ads," https://www.campaignlive.co.uk/the-work/advertiser/toyota/7997; Rudi Halbright, "Case Study: The Toyota Prius Lessons in Marketing Eco-Friendly Products," Max Dunn's website, March 3, 2010, https://www.maxdunn.com/storage/www.maxdunn.com/PMBA:%20Presidio%20MBA%20Home/Prius_Marketing_Case_Study.pdf; Zack Hicks, "Steal This Idea: Toyota's Secret to Innovation," *CIO*, February 8, 2016, https://www.cio.com/article/3030990/steal-this-idea-toyota-s-secret-to-innovation.html; Fred Lambert, "Toyota Unveils Images of Upcoming All-electric Cars, Accelerates EV Plans by 5 Years," June 7, 2019, https://electrek.co/2019/06/07/toyota-electric-car-images-accelerate-plan/; M. May, *The Elegant Solution. Toyota's Formula for Mastering Innovation* (New York: The Free Press, 2007); James Morgan and Jeffrey K. Liker, *The Toyota Product Development System: Integrating People, Process and Technology* (New York: Productivity Press, 2006); James M. Morgan and Jeffrey K. Liker, "The Toyota Product Development System: Integrating People, Process and Technology" *Journal of Product Innovation Management*, Vol. 24, No. 3, 2007, pp. 276–278, https://doi-org.nlhhg.idm.oclc.org/10.1111/j.1540-5885.2007.00250_1.x; Anmol Rajpurohit, "Interview: Brian Kursar, Toyota on Big Data & Advanced Analytics—Cornerstones of Innovation," https://www.kdnuggets.com/2015/07/interview-brian-kursar-toyota-big-data-advancedanalytics.html; Shmula.com, "The Toyota Product Development System Principles," 2007, https://www.shmula.com/the-toyota-product-development-system/344/; "History of the Toyota Prius," The Official Blog of Toyota GB, February 10, 2015, https://blog.toyota.co.uk/

history-toyota-prius; The Official Blog of Toyota GB, "The Five Processes of Toyota Design," May 7, 2014, https://blog.toyota.co.uk/history-toyota-prius; Toyota Europe, "An Electrified Route to Cleaner City Mobility," 2019, https://www.toyota-europe.com/world-of-toyota/feel/environment/better-air/electric-vehicle; Toyota Global, "Toyota Develops New Magnet for Electric Motors Aiming to Reduce Use of Critical Rare-Earth Element by up to 50%," https://global.toyota/en/newsroom/corporate/21139684.html; Toyota Press Room, "2010 Third-Generation Prius Marketing Campaign," https://pressroom.toyota.com/album/2010-third-generation-prius-marketingcampaign/; "Toyota's Mobility Arm to Ease Bengaluru's Traffic Woes," *The Hindu Business Line*, January 16, 2018, https://www.thehindubusinessline.com/specials/auto-focus/toyotas-mobility-arm-to-ease-bengalurus-traffic-woes/article9440679.ece; J. Voelker, "Toyota Prius Hybrid Sales Have Tanked: Here Are 4 Reasons Why," Green Car Reports, February 9, 2018, https://www.greencarreports.com/news/1115184_toyota-prius-hybrid-sales-have-tanked-here-are-4-reasons-why; Durward K. Sobek, IIJeffrey Liker, and Allen C. Ward, "Another Look at How Toyota Integrates Product Development," *Harvard Business Review*, July–August 1998, https://hbr.org/1998/07/another-look-at-how-toyota-integrates-product-development.

Chapter 10

1. See Emily Stewart, "Peloton's Big Whoops," Vox, January 24, 2022, www.vox.com/the-goods/22895463/peloton-stock-price-bike-cost-production; "Peloton's Wild Ride," *Wall Street Journal*, January 25, 2022, www.wsj.com/podcasts/the-journal/peloton-wild-ride/6e8a5063-b73b-4bdb-ae8a-f6ee6bf0d887; Sara Ivry, "The Cult of Peloton," *Adweek*, May 28, 2018, www.adweek.com/brand-marketing/peloton/; JP Mangalindan, "Peloton CEO: Sales Increased after We Raised Prices to $2,245 per Bike," *Yahoo! Finance*, September 12, 2018, https://finance.yahoo.com/news/peloton-ceo-says-sales-increased-raised-prices-2245-exercise-bike-132256225.html?guccounter=1; Alexandra Bruell, "How Peloton Is Marketing a $2,000 Bike beyond the Rich," *Wall Street Journal*, January 19, 2019, www.wsj.com/articles/peloton-shifts-gears-withmore-attainable-marketing-plan-1508959554; David Curry, "Peloton Revenue and Usage Statistics (2022)," *Business of Apps*, January 11, 2022, www.businessofapps.com/data/peloton-statistics/; and www.onepeloton.com and https://investor.onepeloton.com/financial-information/annual-reports, accessed September 2022.
2. For more on the importance of sound pricing strategy, see Thomas T. Nagle and Georg Muller, *The Strategy and Tactics of Pricing: A Guide to Growing More Profitably*, 6th ed. (New York: Routledge, 2018), Chapter 1.
3. See "A Legacy of Innovation," www.steinway.com/pianos/steinway/todays-steinway, accessed June 2022; "How Much Does a Steinway Grand Piano Cost?" *Piano Reviewer*, November 12, 2021, https://pianoreviewer.com/steinway-grand-piano; and www.steinway.com/about and www.steinway.com/music-and-artists/solo, accessed September 2022.
4. "The People Who Pushed the 3 Month Salary Lie," *SuperJeweler*, February 17, 2022, www.superjeweler.com/blog/amp/the-people-who-pushed-the-3-month-salary-lie/; and www.rogueterritory.com/, https://denimhunters.com/denim-wiki/denim-explained/selvedge/, www.hendrickporsche.com/how-much-does-a-porsche-cost/#, and www.porsche.com/usa/accessoriesandservices/porschedrive/subscription/, accessed September 2022.
5. Seewww.mbusa.com/mercedes/vehicles/class/class-CLA/bodystyle-CPE, accessed June 2022.
6. See Dani Reiss, "The CEO of Canada Goose on Creating a Homegrown Luxury Brand," *Harvard Business Review*, September–October 2019, https://hbr.org/2019/09/the-ceo-of-canada-goose-on-creating-a-homegrown-luxury-brand#; Steve Cameron, "Why Canada Goose Jackets Are So Expensive," *Insider*, January 19, 2021, www.businessinsider.com/canada-goose-jackets-expensive-2019-2; Pamela Danzinger, "Canada Goose Projects Nearly $900 Million in 2022 and Advances as an All-Seasons Global Brand," *Forbes*, February 11, 2022, www.forbes.com/sites/pamdanziger/2022/02/11/canada-goose-projects-c1-billion-in-2022-and-advances-as-an-all-seasons-global-brand/?sh=57f21967165f; and www.canadagoose.com, accessed September 2022.
7. Accumulated production is drawn on a semilog scale so that equal distances represent the same percentage increase in output.
8. The arithmetic of markups and margins is discussed in Appendix 2: Marketing by the Numbers.
9. Marielle Descalsota, "Take a Look at Tesla's 4 Biggest Rivals in China's Booming, $124 Billion Electric-Vehicle Market," *Business Insider*, July 6, 2022, https://www.businessinsider.com/tesla-china-electric-vehicle-market-share-competitors-byd-wuling-gac-2022-7?r=US&IR=T; Yujun Qiu, "Understanding Chinese Consumers," *China Business Review*, July 1, 2011, https://www.chinabusinessreview.com/understanding-chinese-consumers/; Sebastian Schneider, "Price-Related Consumer Discussions in China and the United States: A Cross-Cultural Study Investigating Price Perceptions and Word-of-Mouth Transmission," *Journal of Revenue and Pricing Management* Vol. 21, 2022, pp. 274–290, https://doi.org/10.1057/s41272-021-00337-8; Zachary Shahan, "Tesla BEV Market Share Dropped from 25.1% in Q2 2020 to 15.6% in Q2 2022—While Sales Grew 180.2%," CleanTechnica, September 24, 2022, https://cleantechnica.com/2022/09/24/tesla-bev-market-share-dropped-from-25-1-in-q2-2020-to-15-6-in-q2-2022-while-sales-grew-180-2/; Kimberly A. Whitler, "What Western Marketers Can Learn from China," *Harvard Business Publishing*, May–June 2019, https://hbr.org/2019/05/what-western-marketers-can-learn-from-china; Gemma A. Williams, "Why Muji Fell out of Favor in China," *Jing Daily*, August 24, 2022, https://jingdaily.com/muji-japanese-retailer-trending-hashtag/; Zhao H., Yao X., Liu Z., and Yang Q., "Impact of Pricing and Product Information on Consumer Buying Behavior with Customer Satisfaction in a Mediating Role," *Frontiers of Psychology* Vol. 12, No. 720151, 2021, doi: 10.3389/fpsyg.2021.720151; "Pricing Consulting Services for Profitable Pricing Strategies," Simon-Kucher, https://www.simon-kucher.com/en-ch/blog/pricing-strategies-what-west-can-learn-chinese-car-manufacturers; "Pricing Strategies: How to Win over the New Chinese Consumer," Simon-Kucher, https://www.simon-kucher.com/en-ch/blog/pricing-strategies-how-win-over-new-chinese-consumer; "Pricing Strategy in China," Daxue Consulting China, https://daxueconsulting.com/pricing-strategy-china/.
10. See "YETI," Scales, www.scalesadvertising.com/work.html, accessed September 2022; and https://stories.yeti.com/story/our-story and www.yeti.com/en_US/hard-coolers#, accessed September 2022.
11. See www.bose.com, accessed September 2022.
12. Michael Wayland and Thomas Frank, "Soaring Used Car Prices Are Pushing Inflation Higher, and There's Not Much the U.S. Can Do about It," *CNBC*, January 13, 2022, www.cnbc.com/2022/01/13/why-used-car-prices-are-pushing-inflation-higher.html; and Megan Henney, "Inflation Accelerates 7.5% in January, Hitting a Fresh 40-Year High," *FOXBusiness*, February 10, 2022, www.foxbusiness.com/economy/consumer-price-index-inflation-january-2022.
13. Rachel Liu, "Providing One More Reliable Choice for Customers with Private Label Brands," *JD.com*, corporate blog, January 5, 2021, https://jdcorporateblog.com/providing-one-more-reliable-choice-for-customers-with-private-label-brands/; Dan Ochwat, "JD.com Is Expanding Private Brands in Home Goods, Pet," *StoreBrands*, July 7, 2021, https://storebrands.com/jdcom-expanding-private-brands-home-goods-pet, accessed October 2021.

14. See Geoff Colvin, "Why Slashing Product Prices Is Usually a Terrible Idea," *Fortune,* July 13, 2020, https://fortune.com/2020/07/13/price-cuts-products-coronavirus-economy-downturn-risky/.
15. See Charlotte Rogers, "Inside Gillette's Bid to Build a Billion-Dollar Franchise," *Marketing Week,* February 23, 2022, www.marketingweek.com/gillette-billion-dollar-franchise/; Scott Kramer, "Gillette Brings Joy to Shaving," Forbes, January 28, 2022, www.forbes.com/sites/scottkramer/2022/01/28/gillette-brings-joy-to-shaving/?sh=5156066669a4; Nathaniel Meyersohn, "Gillette Is Selling a $200 Luxury Razor That Heats Up to 122 Degrees," *CNN,* May 2, 2019, www.cnn.com/2019/05/02/tech/gillette-heated-razor/index.html; Tiffany Kary, "Edgewell Deal for Harry's Razors Will Only Nick Gillette—At First," *Bloomberg,* May 9, 2019, www.bloomberg.com/news/articles/2019-05-09/edgewell-and-harry-s-deal-will-only-nick-gillette-at-first; Barrett Brunsman, "Should P&G Exit the Shaving Business?," *Cincinnati Business Courier,* April 23, 2019, www.bizjournals.com/cincinnati/news/2019/04/23/should-p-g-exit-the-shaving-business.html; and information from www.gillette.com/en-us/our-history, accessed September 2022.

Chapter 11

1. See Dan Avery, "Supermarket Chain Aldi Opens First Cashier-Free Store," *CNet,* January 19, 2022, www.cnet.com/tech/services-and-software/supermarket-chain-aldi-opens-first-cashier-free-store/; Russell Redman, "Aldi Pushes Ahead with U.S. Expansion," *Supermarket News,* February 8, 2022, www.supermarketnews.com/retail-financial/aldi-pushes-ahead-us-expansion; Mark Faithfull, "Instacart, Curbside, and Aldi's Quest to Become #3 U.S. Grocery by Stores," *Forbes,* February 16, 2021, www.forbes.com/sites/markfaithfull/2021/02/16/instacart-curbside-and-aldis-quest-to-become-3-us-grocer-by-stores/?sh=53866f106e6d; Denise Leathers, "Is Aldi about More Than Just Low Prices?" *RetailWire,* January 3, 2022, https://retailwire.com/discussion/is-aldi-about-more-than-just-low-prices/; Nathaniel Meyersohn, "How a Cheap, Brutally Efficient Grocery Chain Is Upending America's Supermarkets," *CNN,* May 17, 2019, www.cnn.com/interactive/2019/05/business/aldi-walmart-low-food-prices/index.html; "Global Powers of Retailing 2022," Deloitte, p. 10, www2.deloitte.com/global/en/pages/consumer-business/articles/global-powers-of-retailing.html; and www.aldi.us/en/ and www.aldi.us/en/weekly-specials/our-weekly-ads/, accessed April 2022.
2. See Ben Lovejoy, "Apple Continues to Take Home Most of the Global Smartphone Profits," *9TO5Mac*, October 14, 2021, https://9to5mac.com/2021/10/14/global-smartphone-profits/.
3. See Macy Meyer, "The Real Cost of Setting Up an Amazon Alexa Smart Home," *c/net*, March 12, 2022, www.cnet.com/home/smart-home/alexa-pricing-the-real-cost-of-setting-up-an-amazon-alexa-smart-home/; Millie Davis-Williams, "Score! Purchase an Amazon Fire TV, Get an Echo Show for Just $10, " *tom's guide*, March 11, 2022, www.tomsguide.com/deals/score-purchase-an-amazon-fire-tv-get-an-echo-show-for-just-dollar10.
4. Barclay Palmer, "Defining the Razor Blade Business Model," *Investopedia,* January 30, 2020, www.investopedia.com/ask/answers/08/razor-blade-model.asp; and https://gillette.com/en-us/products, accessed September 2022.
5. See www.microsoft.com/en-us/surface, accessed June 2022.
6. See www.cvs.com/content/veterans-advantage-NONmember, accessed April 2022.
7. See Anne-Marcelle Ngabirano, "'Pink Tax' Forces Women to Pay More Than Men," *USA Today*, March 27, 2017, www.usatoday.com/story/money/business/2017/03/27/pink-tax-forces-women-pay-more-than-men/99462846/; Karen Duffin, "The Problem with the Pink Tax," NPR, November 13, 2018, www.npr.org/sections/money/2018/11/13/667539767/the-problem-with-the-pink-tax; and Larry Light, "There's a Pink Tax on Women," *Forbes,* February 12, 2022, www.forbes.com/sites/lawrencelight/2022/02/12/theres-a-pink-tax-on-women/?sh=58756f2e7318.
8. See Alexandra Jardin, "Dunkin' Fooled Portland Foodies with an Espresso Pop-Up," Advertising Age, December 6, 2018, https://adage.com/creativity/work/dunkin-espresso-popup/962656; "How We Fooled Portland Foodies into Trying a New Espresso," Dunkin' *Newsroom*, December 4, 2018, https://news.dunkindonuts.com/blog/how-we-fooled-portland-foodies-into-trying-a-new-espresso; and Dunkin, "With Just One Sip" post, www.facebook.com/DunkinUS/posts/10157821290463238?comment_id=10157822013738238, accessed September 2021.
9. See Thomas Buckley, "How Nerds Take Their Coffee," *BusinessWeek*, October 5, 2020, pp. 19–21.
10. See Tatiana Sokolova, Satheesh Seenivasan, and Manoj Thomas, "The Left-Digit Bias: When and Why Are Consumers Penny Wise and Pound Foolish?" *Journal of Marketing Research,* June 17, 2020, https://journals.sagepub.com/doi/full/10.1177/0022243720932532; Anthony Allred, E. K. Valentin, and Goutam Chakraborty, "Pricing Risky Services: Preference and Quality Considerations," *Journal of Product and Brand Management*, Vol. 19, No. 1, 2010, p. 54; Kenneth C. Manning and David E. Sprott, "Price Endings, Left-Digit Effects, and Choice," *Journal of Consumer Research,* August 2009, pp. 328–336; Darian Kovacs, "4 Psychological Techniques That Can Improve Your Product Pricing," *Entrepreneur,* November 15, 2017, www.entrepreneur.com/article/304687; and Julian Zeng, "Digits to the Left," *Marketing News,* Summer 2020, pp. 30–31.
11. See Sarah Halzack, "The Trouble with Those 20 Percent Off-Coupons from Bed Bath & Beyond," *Washington Post,* September 30, 2015, www.washingtonpost.com/news/business/wp/2015/09/30/the-trouble-with-those-20-percent-off-coupons-from-bed-bath-beyond/; and Ron Lieber, "An Oral History of the World's Biggest Coupon," *New York Times,* December 19, 2020, www.nytimes.com/2020/12/19/business/bed-bath-and-beyond-coupon.html; and Lauren Thomas, "Bed Bath & Beyond Plans to Scale Back on Coupons in Bid to Boost Profits," *CNBC,* October 28, 2020, www.cnbc.com/2020/10/28/bed-bath-beyond-plans-to-scale-back-coupons-to-boost-profitability.html.
12. See TexPress, "How Pricing Is Determined," www.texpresslanes.com/pricing/how-pricing, accessed September 2021; Jerry Useem, "How Online Shopping Makes Suckers of Us All," *The Atlantic*, May 2017, www.theatlantic.com/magazine/archive/2017/05/how-online-shopping-makes-suckers-of-us-all/521448/; https://onemotoring.lta.gov.sg/content/onemotoring/home/driving/ERP/ERP.html, accessed June 2022.
13. See Daisuke Wakabayashi, "Does Anyone Know What Paper Towels Should Cost," *New York Times*, February 26, 2022, www.nytimes.com/2022/02/26/technology/amazon-price-swings-shopping.html.
14. See Daisuke Wakabayashi, "Does Anyone Know What Paper Towels Should Cost," *New York Times,* February 26, 2022, www.nytimes.com/2022/02/26/technology/amazon-price-swings-shopping.html; Dennis Green, "Target Changed Its App after an Investigation Found Prices Went Up for Shoppers Using It in Stores—but It Hasn't Changed the Practice," *Business Insider,* February 9, 2019, www.businessinsider.com/target-app-prices-different-in-stores-2019-2; Chris Hrapsky, "Target Changes App after KARE 11 Investigation," KARE11, February 7, 2019, www.kare11.com/article/money/consumer/target-changes-app-after-kare-11-investigation/89-40ee0e76-9a0f-425d-93b0-b0eb89150f6c; Casey Bond, "Target Is Tracking You and Changing Prices Based on Your Location," *Huffington Post,* March 3, 2021, www.huffpost.com/entry/target-tracking-location-changing-prices_l_603fd12bc5b6ff75ac410a38; and Annie Palmer, "Amazon Touts Record Post-Thanksgiving Sales amid Lackluster Black Friday, Cyber Monday for Retailers," *CNBC,* November 30, 2021, www.cnbc.com/2021/11/30/amazon-touts-record-sales-amid-weak-start-to-holiday-shopping-season.html.

15. Qi Xijia, "Prices Plunge in China for Apple's Latest iPhone 12," *Global Times,* October 29, 2020, www.globaltimes.cn/content/1205088.shtml; and William Gallagher, "Apple's iPhone 13 is China's Most Popular Smartphone Six Weeks Running," *Apple Insider,* January 13, 2022, https://appleinsider.com/articles/22/01/13/apples-iphone-13-is-chinas-most-popular-smartphone-six-weeks-running.

16. See USDA Foreign Agricultural Service, "India Wine Production and Trade Update," GAIN Report Number IN9073, August 7, 2019, https://apps.fas.usda.gov/newgainapi/api/report/downloadreportbyfilename?filename=Wine%20Production%20and%20Trade%20Update_New%20Delhi_India_8-7-2019.pdf.

17. See David Sax, "Hang $99.99," *Bloomberg Businessweek*, November 2–8, 2015, pp. 43–44; Chris Ahrens, "The Advantage of a Custom Board," *San Diego Reader*, January 2, 2018, www.sandiegoreader.com/news/2018/jan/02/waterfront-advantage-custom-board/#; "Costco Wavestorm Surfboard Review," *Varial*, https://varialsurfboards.com/best-foam-surfboard/costco-wavestorm-review/, accessed June 2021; "Wavestorm: The Story of the People's Surfboard," *SURFERTODAY,* March 2, 2022, www.surfertoday.com/surfing/the-story-of-the-wavestorm-surf board;https://shop.agit-global.com/shop-brand/Wavestorm-6/, accessed June 2022; and www.costco.com/wavestorm-5'8"-retro-fish-surfboard.product.100737072.html, accessed June 2022.

18. See Katy Allen, "Shrinking Sweets? 'You're Not Imagining It,' ONS Tells Shopper," *The Guardian*, July 24, 2017, www.theguardian.com/business/2017/jul/24/sweets-are-shrinking-youre-not-imagining-it-ons-tells-shoppers; and "Cadbury Accused of 'Shrinkflation' as Packs Get Smaller," *BBC News,* July 17, 2020, www.bbc.com/news/business-53442884.

19. For discussions of these issues, see Dhruv Grewal and Larry D. Compeau, "Pricing and Public Policy: A Research Agenda and Overview of the Special Issue," *Journal of Public Policy and Marketing*, Spring 1999, pp. 3–10; Walter L. Baker, Michael V. Marn, and Craig C. Zawada, *The Price Advantage* (Hoboken, NJ: John Wiley & Sons, 2010), Appendix 2; Thomas T. Nagle and Georg Muller, *The Strategy and Tactics of Pricing: A Guide to Growing More Profitably*, 6th ed. (New York: Routledge, 2018).

20. See "Visa and Mastercard Will Pay $6 Billion to End a Massive Price-Fixing Lawsuit," *Fortune*, September 18, 2018; http://fortune.com/2018/09/18/visa-mastercard-6-billion-price-fixing-lawsuit/; Russel Lee, "Southwest, American Agree to Pay $60M in Price-Fixing Lawsuit," *Aerotime News*, October 24, 2018, www.aerotime.aero/ruta.burbaite/22016-southwest-american-agree-to-pay-60m-in-price-fixing-lawsuit; Josh Funk, "Beef Giant JBS to Pay $52.5 Million to Settle Price-Fixing Lawsuit," *Lincoln Journal Star,* February 3, 2022, https://journalstar.com/agriculture/beef-giant-jbs-to-pay-52-5m-to-settle-price-fixing-lawsuit/article_802db3ca-d60f-58aa-a9b4-0c85e3e05399.html#; and David Coldewey, "Amazon Must Pay $2M and End Program after Price-Fixing Investigation by Washington AG," *TechCrunch,* January 27, 2022, https://techcrunch.com/2022/01/27/amazon-antitrust-lawsuit-washington/.

21. Adam Fein, "Tales of the Unsurprised: Brand-Name Drug Prices Fell for the Fourth Consecutive Year," *Drug Channels,* January 4, 2022, www.drugchannels.net /2022/01/tales-of-unsurprised-brand-name-drug.html; Hannah Kuchler and Leila Abboud, "Why the Three Biggest Vaccine Makers Failed on COVID-19," *Financial Times,* February 15, 2021, www.ft.com/content/657b123a-78ba-4fba-b18e-23c07e313331; Mark Terry, "Comparing COVID-19 Vaccines: Timelines, Types and Prices," *BioSpace,* December 14, 2021, www.biospace.com/article/comparing-covid-19-vaccines-pfizer-biontech-moderna-astrazeneca-oxford-j-and-j-russia-s-sputnik-v/; "Trends in Retail Prices of Brand Name Prescription Drugs," *AARP Bulletin,* September 2018, www.aarp.org/content/dam/aarp/ppi/2018/09/trends-in-retail-prices-of-brand-name-prescription-drugs-year-end-update.pdf; Joyce Frieden, "Senator's Probe 'Enormous' Insulin Price Spikes," *MedPage Today,* May 8, 2018, www.medpagetoday.com/endocrinology/type1diabetes/72771; Tori Marsh, "Generic EpiPen Is Still Expensive," *GoodRx,* December 13, 2018, www.goodrx.com/blog/generic-epipen-is-still-expensive-heres-how-you-can-save/; Joshua Cohen, "The Curious Case of Gleevec Pricing," *Forbes,* September 12, 2018, www.forbes.com/sites/joshuacohen/2018/09/12/the-curious-case-of-gleevec-pricing/#4bcd73b254a3; Jonathan Gardner, "After Years of Decline, Drugmakers' Price Hikes May Have Bottomed Out," *HealthcareDive,* January 5, 2022, www.healthcaredive.com/news/pharma-drug-price-increase-2022/616700/; facts and statistics from www.statista.com, accessed June 2022; and www.gsk.com/en-gb/about-us/, accessed September 2022.

22. Roger Lowenstein, "Why Amazon Monopoly Accusations Deserve a Closer Look," *Fortune*, July 23, 2015, http://fortune.com/2015/07/23/why-amazon-monopoly-accusations-deserve-a-closer-look/; and Emily Stewart, "Happy Prime Day! Experts Worry Amazon Is Building a Dangerous Monopoly," *Vox*, July 17, 2018, www.vox.com/2018/7/17/17583070/amazon-prime-day-monopoly-antitrust; Michael Kozlowski, "Amazon Is under Fire from Various Publisher Associations," *GoodEReader,* August 19, 2020, https://goodereader.com/blog/kindle/amazon-is-under-fire-from-various-publisher-associations; and Annie Palmer and Jordan Novet, "Amazon Bullies Partners and Vendors, Says Antitrust Subcommittee," *CNBC,* October 6, 2020, www.cnbc.com/2020/10/06/amazon-bullies-partners-and-vendors-says-antitrust-subcommittee.html.

23. Jonathan Stempel, "Michael Kors Settles U.S. Lawsuit Alleging Deceptive Price Tags," *Reuters*, June 12, 2015, www.reuters.com/article/us-michaelkors-settlement-idUSKBN0OS2AU20150612; and Daphne Howland, "Ross to Settle $4.9 Million Lawsuit over 'Deceptive' Price Tags," Retail Dive, October 3, 2018, www.retaildive.com/news/ross-to-settle-49m-lawsuit-over-deceptive-price-tags/538768/.

24. "FTC Guides against Deceptive Pricing," www.ecfr.gov/current/title-16/part-233, accessed September 2022.

25. "Competitive Landscape for Mattress Companies," *Wonder,* April 6, 2022, https://askwonder.com/research/competitive-landscape-mattress-companies-5zvrwnfzk; Caroline Jansen, "Casper Revenue Up Nearly 40 Percent as Mattress Sales Remain Strong," *Retail Dive,* August 10, 2021, www.retaildive.com/news/casper-revenue-up-nearly-40-as-mattress-sales-remain-strong/604737/; Mara Leighton, "We Tested And Compared 9 Popular Online Mattress Companies—Here's What to Know before You Buy," *Business Insider,* March 15, 2021, www.businessinsider.com/best-online-mattress-companies-startups; Andria Chang, "Casper, with Competition Growing, Wants to Be More Than a Mattress Company," *Forbes,* May 7, 2019, www.forbes.com/sites/andriacheng/2019/05/07/casper-facing-growing-competition-wants-to-take-care-of-your-entire-sleep-business/#4050129afb11; Jonathan Ringen, "Why Casper Is the $750 Million Startup That Just Can't Rest," *Fast Company,* August 7, 2017, www.fastcompany.com/40438355/why-casper-is-the-750-million-startup-that-just-cant-rest; Tom Huddleston Jr., "How Casper's Founders Built a Billion-Dollar Mattress Start-Up," *CNBC,* April 5, 2019, www.cnbc.com/2019/04/05/how-caspers-founders-built-a-billion-dollar-mattress-start-up.html; and https://mattressesinboxes.com/shop-by-brand and www.casper.com/, accessed September 2022.

Chapter 12

1. Steve Deane, "2022 Airbnb Statistics: Usage, Demographics, and Revenue Growth," *Stratos Jets Blog,* January 4, 2022, www.stratosjets.com/blog/airbnb-statistics/; Alexa Lardieri, "Coronavirus

Pandemic Sets Hotel Industry Back 10 Years, Report Finds," *USNews,* January 27, 2021, www.usnews.com/news/national-news/articles/2021-01-27/coronavirus-pandemic-sets-hotel-industry-back-10-years-report-finds; Leigh Gallagher, "How Airbnb Found a Mission and a Brand," *Fortune,* January 1, 2017, pp. 56–62; Max Chafkin, "Airbnb Opens Up the World?" *Fast Company,* February 2016, pp. 76–95; Denise Lee Yohn, "How Airbnb Survived the Pandemic—and How You Can Too" *Forbes,* November 10, 2020, www.forbes.com/sites/deniselyohn/2020/11/10/howairbnb-survived-the-pandemic-and-how-you-can-too/?sh=49add32f9384; and additional information from www.airbnb.com and news.airbnb.com/, accessed April 2022.

2. See Mura Dominko, "Turmoil at Subway Continues as Company Ignores Franchisees," *Eat This, Not That*, April 22, 2021, www.eatthis.com/news-subway-ignores-franchisees-open-letter/; "Subway Franchise Costs & Fees," *Franchise Direct*, accessed March 2022, www.franchisedirect.com/directory/subway/ufoc/915/; Lydia Greene, "Whatever Happened to the 5 Dollar Footlong?" *Wide Open Eats*, April 12, 2021, www.wideopeneats.com/5-dollar-footlong/; and www.subway.com/en-US/About Us/History, accessed September 2022.

3. See Sam Knight, "The Spectacular Power of Big Lens," *Guardian,* May 10, 2018, www.theguardian.com/news/2018/may/10/the-invisible-power-of-big-glasses-eyewear-industry-essilor-luxottica; and www.luxottica.com/en/about-us/company-profile, accessed September 2022.

4. See Fred Lambert, "Tesla Introduces Several New Car Delivery Options," *electrek*, March 24, 2020, https://electrek.co/2020/03/24/tesla-introduces-new-car-delivery-options/; Blake Morgan, "10 Customer Experience Lessons from Tesla," *Forbes*, February 6, 2019, www.forbes.com/sites/blakemorgan/2019/02/06/10-customer-experience-lessons-from-tesla/?sh=4decc9d66347; Fred Lambert, "Tesla Launches Major Shift in Retail Strategy: Cheaper Locations, Remote Working, and More," *electrek,* July 28, 2021, https://electrek.co/2021/07/28/tesla-tsla-major-shift-retail-strategy-cheaper-locations-remote-working/; and www.tesla.com/support/ordering and www.tesla.com/service, accessed September 2022.

5. "2022 Franchise 500 Ranking," *Entrepreneur,* www.entrepreneur.com/franchise500/2022, accessed March 2022; and "Franchising in the U.S.—Statistics & Facts," *statista*, February 7, 2022, www.statista.com/topics/5048/franchising-in-the-us/.

6. Arthur Robert, "Planet Fitness CEO Talks Life after IPO, Pandemic," *Franchise Times*, August 16, 2021, www.franchisetimes.com/franchise_news/planet-fitness-ceo-talks-life-after-ipo-pandemic/article_90e7d6c4-fc43-11eb-b2e8-abb573641f50.html; and www.planetfitness.com/about-planet-fitness and https://investor.planetfitness.com/investors/financial-information/sec-filings/default.aspx, accessed September 2022.

7. See National Retail Federation, "Top 100 Retailers 2021 List," https://nrf.com/resources/top-retailers/top-100-retailers/top-100-retailers-2021-list; and www.rpminc.com/reports-financials and http://ir.homedepot.com/financial-reports/annual-reports/recent, accessed March 2022.

8. "CVS Health Completes Acquisition of Target's Pharmacy and Clinic Businesses," January 31, 2020, www.theshelbyreport.com/2020/01/31/cvs-health-acquisition-targets-pharmacy-clinic-businesses/; Beth Owens, "Store within a Store (SWAS): The Next Stage of Physical Retail," *Whiplash*, October 5, 2021, https://whiplash.com/blog/store-within-a-store-retail/; and Winnie Hu, Kellen Browning, and Karen Zraick, "Call for an Uber, Get a Yellow Taxi," *New York Times,* March 24, 2022, www.nytimes.com/2022/03/24/business/uber-new-york-taxis.html.

9. "Flexibler Reisen mit American Airlines, British Airways," STA Travel, https://www.statravel.de/american-british-finnair-iberia.htm; "Award Flights with Partner Airlines," Finnair website, https://www.finnair.com/de/gb/finnair-plus/use-points/oneworld-and-other-partner-airlines.

10. Dani Deahl, "Music Revenue Saw Big Growth Last Year, Thanks to a Jump in Paid Streaming Subscribers," *Verge*, February 26, 2020, www.theverge.com/2020/2/26/21154504/riaa-report-paid-subscriptions-93-percent-streaming-revenue-growth-2019; and Shira Ovide, "Music's Messy Digital Revolution," *The New York Times*, March 15, 2022, www.nytimes.com/2022/03/15/technology/music-industy-digital-revolution.html.

11. "Anghami Reports Preliminary Q3 2022 Unaudited Results with 29% Y-o-Y Revenue Growth and Gross Profit Increase," *Zawya*, November 16, 2022, https://www.zawya.com/en/press-release/companies-news/anghami-reports-preliminary-q3-2022-unaudited-results-with-29-y-o-y-revenue-growth-and-gross-profit-increase-biv2szeq; "Anghami," *Music Business Worldwide*, https://www.musicbusinessworldwide.com/companies/anghami/; Triska Hamid, "Anghami: Success Built on Localization," *Wamda*, February 10, 2022, https://www.wamda.com/2022/02/anghami-success-built-localisation.

12. See Dennis Green and Mike Nudelman, "Why Amazon Is Still Such a Threat to Toys R Us, in One Chart," *Business Insider,* September 20, 2017, www.businessinsider.com/amazon-beat-toys-r-us-online-sales-2017-9; Anna Rahmanan, "A Gigantic Toys "R" US Flagship Is Opening Right Outside NYC This Month," *TimeOut*, December 3, 2021, www.timeout.com/newyork/news/a-gigantic-toys-r-us-flagship-is-opening-right-outside-nyc-this-month-120321; Conor McGlade, "The Rise, Fall, and Potential Comeback of Toys "R" Us," *Thomas Net*, March 3, 2022, www.thomasnet.com/insights/the-rise-fall-and-potential-comeback-of-toys-r-us/; and www.toysrus.com/about-toysrus/about-us.html, accessed April 2022.

13. Preetam Kaushik, "How Vietnam's Ride-Hailing Apps Are Challenging Grab's Local Monopoly," *ASEAN Today*, April 22, 2019, https://www.aseantoday.com/2019/04/how-vietnams-ride-hailing-apps-are-challenging-grabs-local-monopoly/; Doreen Lee, "How Ojek Became Go-Jek: Disruptive Technologies and the Infrastructure of Urban Citizenship in Indonesia," *International Journal of Urban and Regional Research*, 2018, https://www.ijurr.org/spotlight-on/disruptive-urban-technologies/how-ojek-became-go-jek-disruptive-technologies-and-the-infrastructure-of-urban-citizenship-in-indonesia/; Shawn Lim, "How Singapore Transport Firm ComfortDelGro Is Planning to Overtake Grab and Go-Jek," *The Drum*, https://www.thedrum.com/news/2021/03/24/how-singapore-transport-firm-comfortdelgro-planning-overtake-against-grab-and-go-jek; Michael Petraeus, "How Grab Took Advantage of COVID-19 to Launch New Services & Achieved Record-Breaking Revenue," *Vulcan Post*, September 16, 2021, https://vulcanpost.com/760782/covid-19-grab-new-services-record-revenues/; Siddharth Philip, "Harvard Inspires Man to Ditch Family Riches for Taxis," *Bloomberg*, June 10, 2014, https://www.bloomberg.com/news/articles/2014-06-10/harvard-inspires-man-to-ditch-family-riches-for-taxis; Charlie Sheng, "Ride-Hailing Race in Indonesia: Gojek versus Grab," *Measurable AI*, January 18, 2022, https://blog.measurable.ai/2022/01/18/ride-hailing-marketshare-in-southeastasia-indonesia-gojek-versus-grab/; Catherine Shu, "Ride-Hailing Was Hit Hard by COVID-19—Grab's Russell Cohen on How the Company Adapted," *TechCrunch*, September 18, 2020, https://techcrunch.com/2020/09/17/ride-hailing-was-hit-hard-by-covid-19-grabs-russell-cohen-on-how-the-company-adapted/; "Grab Could Disrupt Multiple Businesses in ASEAN Region," *ASEAN Today*, May 3, 2017, https://www.aseantoday.com/2017/05/grab-could-disrupt-multiple-businesses-in-asean-region/; "Singapore Food Delivery Firms Join Up to Draft Worker Welfare Guidelines," Reuters, August 18, 2022, https://www.reuters.com/markets/asia/singapore-food-delivery-firms-join-up-draft-worker-welfare-guidelines-2022-08-18/.

14. Matthew Boyle, "Walmart's Supermarket Rivals Are Eating into Its Grocery Share," *Bloomberg*, August 25, 2020, www.bloombergquint.com/global-economics/walmart-s-supermarket-rivals-are-eating-into-its-grocery-share; and "Benchmarks by Industry: Supermarkets," *ACSI,* www.theacsi.org, accessed September 2022.

15. "Four Seasons Hotels and Resorts Receives Record Number of Forbes Travel Guide Five-Star Awards for Fourth Year Running," Four Seasons Press Room, February 20, 2019, https://press.fourseasons.com/news-releases/2019/record-number-of-forbes-five-star-hotels/; Jeffrey O'Brien, "A Perfect Season," *Fortune,* February 1, 2008; "Awards and Accolades for Four Seasons Hotels and Resorts," Four Seasons Press Room, January 1, 2022, https://press.fourseasons.com/news-releases/awards-and-accolades-for-four-seasons-hotels-and-resorts/; and www.fourseasons.com/about_us/, accessed September 2022.

16. "Inside the Middle East's Rising D2C Revolution," *RetailME*, September 16, 2021, https://www.imagesretailme.com/regional-news/inside-the-middle-easts-rising-d2c-revolution/; TradeArabia, "Loral ME Online Sales Soar 750% via D2C E-commerce," *Zawya*, August 23, 2021, https://www.zawya.com/en/business/loral-me-online-sales-soar-750-via-d2c-e-commerce-d2kvg9h9; Louise Prance-Miles, "L'Oréal Middle East Online Sales Grow 750 Percent since 2018," *Global Cosmetics News*, August 27, 2021, https://www.globalcosmeticsnews.com/loreal-middle-east-online-sales-grow-750-percent-since-2018/; Zaira Lakhpatwala, "L'Oréal Middle East Moving toward Digital and Data-Driven Marketing," *Arab News*, November 16, 2021, https://www.arabnews.com/node/1969281/media.

17. Zubair Naeem Paracha, "Pakistan's Conatural Raises $825,000 to Grow Its Natural Beauty Brand," *MENAbytes*, November 10, 2020, https://www.menabytes.com/conatural-pre-series-a/; "MENA-Based Angel Investors Invest in Pakistan's Conatural," Wamda website, November 11, 2020, https://www.wamda.com/2020/11/mena-based-angel-investors-invest-pakistans-conatural.

18. See "Subway Franchise Cost & Fees," www.franchisedirect.com/directory/subway/ufoc/915/, accessed April 2022.

19. Anita Chang Beattie, "Catching the Eye of a Chinese Shopper," *Advertising Age,* December 10, 2012, pp. 20–21.

20. Drew Hinshaw, "Burgers Face a Tough Slog in Africa," *Wall Street Journal,* December 10, 2013, www.wsj.com/articles/SB10014240527023046071045792141334985855 94.

21. See Leanna Garfield, "Nestle Sponsored a River Barge to Create a 'Floating Supermarket' That Sold Candy and Chocolate Pudding to the Backwoods of Brazil," *Business Insider,* September 17, 2017, www.businessinsider.com/nestl-expands-brazil-river-barge-2017-9; and Andrea Reindl, "Nestlé Created a 'Floating Supermarket' Boat That Sold Junk Food to Brazilians Living in Remote Areas," *Mitu*, May 26, 2021, https://wearemitu.com/wearemitu/things-that-matter/nestle-floating-supermarket-brazil-junk-food/.

22. See Lou Whiteman, "FedEx Opens New Front in War with Amazon," The Motley Fool, December 2, 2020, www.fool.com/investing/2020/12/02/fedex-opens-new-front-in-war-with-amazon/; and "Amazon Set to Become Largest U.S. Delivery Service by Early 2022, Surpassing FedEx and UPS—Exec," November 20, 2021, https://seekingalpha.com/news/3775016-amazon-set-to-become-largest-us-delivery-service-by-early-2022-surpassing-fedex-and-ups-exec.

23. "Toyota Sweeps Supplier Relations Rankings in Study," *PRNewswire*, June 22, 2020, www.prnewswire.com/news-releases/toyota-sweeps-supplier-relations-rankings-in-study-is-most-preferred-customer-301080323.html; "Auto Supplier–OEM Working Relations: Insights from the 2021 WRI® Study," May 17, 2021, www.plantemoran.com/explore-our-thinking/insight/2021/05/auto-supplier-oem-working-relations-insights-from-the-2021-wri-study; and www.toyotasupplier.com and https://onetoyotasupplierdiversity.com/, accessed September 2022.

24. See Marcus Williams, "Cutting Logistics Costs Key to GM Profit Targets," *Automotive Logistics,* October 2014, http://automotivelogistics.media/news/cutting-logistics-costs-key-to-gm-profit-targets; and "CSCMP State of Logistics Report," *PENSKE*, www.penskelogistics.com/insights/industry-reports/state-of-logistics-report, accessed March 2022.

25. Matt Leonard, "UPS Adds Dynamic Routing to ORION, Saving 2–4 Miles Per Driver," *SupplyChainDive*, June 11, 2021, www.supplychaindive.com/news/ups-orion-route-planning-analytics-data-logistics/601673/; Dursun Delen, "Analytics Success Story: UPS's Orion Project," in *Introduction to Business Analytics and Decision-Making*, accessed January 2022 at www.informit.com/articles/article.aspx?p=2992600&seqNum=6; and UPS Fact Sheet, https://about.ups.com/content/dam/upsstories/assets/fact-sheets/ups-global/UPS_Fact_Sheet.pdf, accessed September 2022.

26. Emily Dayton, "Amazon Statistics You Should Know: Opportunities to Make the Most of America's Top Online Marketplace," *BigCommerce*, www.bigcommerce.com/blog/amazon-statistics/#battle-of-the-brands, accessed March 2022; and Tatiana Walk-Morris, "Walmart's Marketplace Doubles in a Year: Report," *RetailDive*, July 30, 2020, www.retaildive.com/news/walmarts-marketplace-doubles-in-a-year-report/582599/. "How Many Products Does Amazon Carry?" *Retail Touch Points,* www.retailtouchpoints.com/resources/type/infographics/how-many-products-does-amazon-carry, accessed March 2022; and information from https://corporate.walmart.com/about, accessed September 2022.

27. "The Famous 'Last Mile' Problem Explained," *MoreThanDigital,* January 26, 2021, https://morethandigital.info/en/the-famous-last-mile-problem-explained/; Sean Hollister, "Walmart Is Now Delivering Diapers and Food by Drone," *The Verge,* November 21, 2021, www.theverge.com/2021/11/22/22797025/walmart-droneup-arkansas-delivery-food-baby-essentials; Dalia Ramirez, "Self-Checkouts: Pros, Cons and How Businesses Can Use Them," *NerdWallet,* February 9, 2022, www.nerdwallet.com/article/small-business/self-checkouts; Maggie Tillman, "Amazon Go and Amazon Fresh: How the 'Just Walk Out' Tech Works," *PocketLint,* March 11, 2022, www.pocket-lint.com/gadgets/news/amazon/139650-what-is-amazon-go-where-is-it-and-how-does-it-work; Walter Loeb, "Shopic Joins the Race to Develop Smart Shopping Carts," *Forbes,* December 5, 2021, www.forbes.com/sites/walterloeb/2021/12/05/shopic-joins-the-race-to-develop-smart-shopping-carts/?sh=2f0d6c6d3bf5; "New Study Finds Self-Service Checkout Options Gaining Favor Across Demographic Groups," *PYMNTS,* September 23, 2021, www.pymnts.com/news/retail/2021/new-study-finds-self-service-checkout-options-gaining-favor/; "Why Amazon, UPS and Even Domino's Is Investing in Drone Delivery Services," *Business Insider,* January 6, 2022, www.businessinsider.com/drone-delivery-services; Kristin Schwab, "Why Superfast Grocery Delivery Is Coming," *Marketplace,* December 7, 2021, www.marketplace.org/2021/12/07/why-superfast-grocery-delivery-is-coming/; David Curry, "Food Delivery App Revenue and Usage Statistics," *Business of Apps,* January 11, 2022, www.businessofapps.com/data/food-delivery-app-market/; Bernard Marr, "The Future of Delivery Robots," *Forbes,* November 5, 2021, www.forbes.com/sites/bernardmarr/2021/11/05/the-future-of-delivery-robots/?sh=5bfbc4227337; Adam Hardy, "Which Delivery Gig Is Right for You? We Compare 10 Top Apps," *The Penny Hoarder,* December 7, 2021, www.thepennyhoarder.com/make-money/side-gigs/delivery-app-jobs/; and www.starship.xyz/company/, accessed September 2022.

28. See Dinara Bekmagambetova, "Two-Thirds of North Americans Prefer Eco-Friendly Brands, Study Finds," Barron's, January 10, 2020, www.barrons.com/articles/two-thirds-of-north-americans-prefer-eco-friendly-brands-study-finds-51578661728.

29. "Levi's How Can 'Clean' Begin with 'Design?'" IPE, August 16, 2017, http://wwwen.ipe.org.cn/GreenSupplyChain/BrandStoryDetail.aspx?id=20; Gaylen Davenport, "Levi's Water Conservation Efforts Actually Save the Company Money," *Worldwide Energy*, February 24, 2015, www.worldwideenergy.com/levis-water-conservation-efforts-actually-save-company-money/; Anna Sanina, "Levi's Asks People Not to Wash Their Jeans," *Popsop,* March 22, 2012, http://popsop.com/2012/03/levis-asks-people-not-to-wash-their-jeans/; and www.levi.com/US/en_US/features/sustainability#process, accessed September 2022.

30. Lydia DePillis, "Watch How Amazon Spread across the US," *CNN,* October 4, 2018, www.cnn.com/interactive/2018/10/business/amazon-distribution-map/index.html; "Inside a Tracy Amazon Fulfillment Center on Cyber Monday," *KCRA3*, November 26, 2018, www.kcra.com/article/inside-a-tracy-amazon-fulfillment-center-on-cyber-monday/25312342; "Amazon Delivers Record-Breaking 1.5 Billion Holiday 2020 Packages," *PYMNTs,* December 29, 2020, www.pymnts.com/amazon/2020/amazon-delivers-record-breaking-1-5-billion-holiday-2020-packages/; Alan Ashworth, "5,000 Employees, 10,000 Robots and 2.5 Million Square Feet: Life at Amazon in Akron," *Akron Beacon Journal*, March 11, 2022, www.yahoo.com/now/5-000-employees-10-000-110106203.html; and "Tour an Amazon Fulfillment Center," http://amazonfctours.com/, accessed September 2022.
31. See Nick Wingfield, "As Amazon Pushes Forward with Robots, Workers Find New Roles," *New York Times,* September 10, 2017, www.nytimes.com/2017/09/10/technology/amazon-robots-workers.html; Christoph Roser, "The Amazon Robotics Family: Kiva, Pegasus, Xanthus, and More…," *AllAboutLean,* March 31, 2020, www.allaboutlean.com/amazon-robotics-family/; and "Amazon Robotics Uses Amazon SageMaker to Enable ML Inferencing at Scale," https://aws.amazon.com/solutions/case-studies/amazon-robotics-case-study/, accessed September 2022.
32. Matthew Boyle, "Walmart Cracks the Whip on Suppliers," *Bloomberg Businessweek,* July 24, 2017, pp. 14–15; Steve Banker, "Is Walmart's On-Time In Full Program Fair?" *Forbes,* October 15, 2020, www.forbes.com/sites/stevebanker/2020/10/15/is-walmarts-on-time-in-full-program-fair/?sh=3ce6c78e2645; and "Walmart OTIF: A Supplier's Guide to On-Time In-Full," February 15, 2021, www.8thandwalton.com/blog/walmart-otif/#.
33. Bureau of Transportation Statistics, "Pocket Guide to Transportation," https://s3-us-west-2.amazonaws.com/dot-concept-menus/menu/accordion.html, accessed March 2022.
34. Marc Levinson, "The Box: How the Shipping Container Made the World Smaller and the World Economy Bigger," *Foreign Affairs,* September/October 2006, www.foreignaffairs.com/reviews/capsule-review/2006-09-01/box-how-shipping-container-made-world-smaller-and-world-economy; and Nicolás Rivero. "A Shipping Container Shortage is Snarling Global Trade," *QUARTZ*, June 30, 2021, https://qz.com/2027205/a-shipping-container-shortage-is-snarling-global-trade/.
35. See Walmart's supplier requirements at http://corporate.walmart.com/suppliers, accessed September 2022.
36. www.oracle.com/webfolder/s/delivery_production/docs/FY15h1/doc7/Oracle-ValueChain.pdf, accessed April 2022.
37. See "Top 50 Logistics: 2021 Essential Financial and Operating Information for the 50 Largest Logistics Companies in North America," *Transport Topics,* www.ttnews.com/top50/logistics/2021, accessed April 2022.
38. See www.ups.com/us/en/supplychain/insights/customer-stories.page?, www.ups-scs.com/solutions/, and www.ups.com/us/en/supplychain/solutions.page, accessed April 2022.
39. Jennifer McKevitt, "Fortune 500 Companies Are Using 3PLs More, Study Finds," *Supply Chain Dive*, May 30, 2017, www.supplychaindive.com/news/third-party-logistics-3pl-increase-large-companies-2017/443710/; and "Third-Party Logistics (3PL) Market Size to Reach USD 1,789.94 Billion by 2027—Valuates Reports," *PR Newswire*, May 11, 2020, www.prnewswire.com/in/news-releases/third-party-logistics-3pl-market-size-to-reach-usd-1-789-94-billion-by-2027-valuates-reports-858956963.html.
40. See Virginia McDaniel, "How the Pandemic Drove Up the Cost of Wood Products," USDA Forest Service, May 13, 2022, www.fs.usda.gov/features/how-pandemic-drove-cost-wood-products; "Weyerhaeuser to Thrive in Continuing Inflationary Times," *Seeking Alpha,* April 25, 2022, www.seekingalpha.com/article/4503238-weyerhaeuser-thrive-inflationary-times; "Weyerhaeuser Reports First Quarter Results," *PR Newswire,* April 29, 2022, www.prnewswire.com/news-releases/weyerhaeuser-reports-first-quarter-results-301536038.html; Emily Stewart, "Why Are Lumber Prices Skyrocketing? The Lumber Shortage and Housing Boom, Explained," *Vox,* May 3, 2021, www.vox.com/22410713/lumber-prices-shortage; Andrew Muhammad, "American Timber Industry Crippled by Double-Whammy of Trade War and COVID-19," *The Conversation,* www.theconversation.com/american-timber-industry-crippled-by-double-whammy-of-trade-war-and-covid-19-147720; and information from www.weyerhaeuser.com/, accessed September 2022.

Chapter 13

1. See Michael Browne, "Walmart Launches Drone Deliveries with DroneUp," *Supermarket News,* November 22, 2021, www.supermarketnews.com/technology/walmart-launches-drone-deliveries-droneup; Michael Browne, "Walmart Goes Fully Driverless in Delivery Pilot in Bentonville," *Supermarket News,* November 8, 2021, www.supermarketnews.com/technology/walmart-goes-fully-driverless-delivery-pilot-bentonville; Tricia McKinnon, "5 Reasons Walmart's Ecommerce Strategy Is Winning," Indigo Digital, November 27, 2020, www.indigo9digital.com/blog/4-secrets-to-walmarts-ecommerce-sucess; and information from www.statista.com/statistics/1109330/walmart-ecommerce-sales-by-division-worldwide/#, www.statista.com/statistics/274255/market-share-of-the-leading-retailers-in-us-e-commerce/, www.worldometers.info/gdp/gdp-by-country/, www.statista.com/statistics/818929/number-of-weekly-customer-visits-to-walmart-stores-worldwide/, https://ir.aboutamazon.com/annual-reports-proxies-and-shareholder-letters/default.aspx, https://stock.walmart.com/investors/financial-information/comparable-store-sales/default.aspx, and https://corporate.walmart.com/, accessed September 2022.
2. See "Monthly and Annual Retail Trade," U.S. Census Bureau, www.census.gov/retail/, accessed September 2021; and United States Census Bureau, "U.S. Retail Sales Top $5.570 Billion," January 13, 2022, www.census.gov/newsroom/press-releases/2022/annual-retail-trade-survey.html#.
3. See Rachel Vandernick, "What Is Always-On Marketing? Everything You Need to Know," *SEJ Search Engine* Journal, November 12, 2021, www.searchenginejournal.com/always-on-marketing/426483/#close; Chris Chang, "5 Reasons We're Seeing a Resurgence of Google's Zero Moment of Truth," *Adweek,* February 6, 2019, www.adweek.com/digital/5-reasons-were-seeing-a-resurgence-of-googles-zero-moment-of-truth/; and *Think with Google,* www.thinkwithgoogle.com/marketing-resources/micro-moments/zero-moment-truth/, and www.thinkwithgoogle.com/marketing-resources/micro-moments/, accessed September 2022.
4. Stephanie Chevalier, "Retail e-Commerce Sales Worldwide from 2014 to 2025," *Statista*, February 4, 2022, www.statista.com/statistics/379046/worldwide-retail-e-commerce-sales/.
5. See "Marketing in the Time of COVID-19," *Advertising Age* insert, October 19, 2020, p. 16, https://info.kantarmedia.com/hubfs/Kantar_AdAge_MktgDuringCOVID.pdf; Diana Pearl, "The Future Was Closer Than Anyone Could Have Known a Year Ago," *Adweek,* January 18, 2021, p. 26; Phil Hiebert, "Will It Stay or Will It Go?" *Adweek,* January 18, 2021, p. 6; and "Stats Roundup: The Impact of Covid-19 on Ecommerce," *Econsultancy*, March 4, 2022, https://econsultancy.com/stats-roundup-the-impact-of-covid-19-on-ecommerce/.

6. Phil Wahba, "Everything Must Go," *Fortune,* March 1, 2017, pp. 95–100; Andrew Martins, "The Future of Retail: Trends for 2021," *Business News Daily*, January 4, 2021, www.businessnewsdaily.com/9836-future-of-retail.html; and "2022 Retail Industry Outlook," *Deloitte*, https://www2.deloitte.com/us/en/pages/consumer-business/articles/retail-distribution-industry-outlook.html, accessed September 2022.
7. Russell Redman, "E-commerce to Account for 20% of U.S. Grocery Market by 2026," *Supermarket News*, October 22, 2021, www.supermarketnews.com/online-retail/e-commerce-account-20-us-grocery-market-2026; and Russell Redman, "Online Channel Builds Share of U.S. Grocery Market in 2021," *Supermarket News,* January 11, 2022, www.supermarketnews.com/online-retail/online-channel-builds-share-us-grocery-market-2021.
8. Catherine Douglas Moran, "Publix Rolls Out 'Quick Picks' Online Convenience Store," *GroceryDive*, November 4, 2021, www.grocerydive.com/news/publix-rolls-out-quick-picks-online-convenience-store/609466/; Julia Roberts, "Publix Offers Grocery Delivery through Business Partnerships, Powered by Instacart," *GeorgiaTrend*, September 30, 2021, www.georgiatrend.com/2021/09/30/publix-offers-grocery-delivery-through-business-partnerships-powered-by-instacart/; and www.publix.com/shop-online, accessed September 2022.
9. Cassidy Ritter, "Everything You Need to Know about the New Choice Market," *5280,* September 14, 2020, www.5280.com/2020/09/everything-you-need-to-know-about-the-new-choice-market/; Lily O'Neill, "Local Convenience Store Chain Going 24/7 with New Location Near DU," *The Denver Post,* April 28, 2022, www.denverpost.com/2022/04/28/local-convenience-store-chain-going-24-7-with-new-location-near-du/; and "The Next Generation of C-Stores: eGrocery, Electric Charging Stations, and Made-to-Order Meals," www.locaisolutions.com/blog/the-next-generation-of-convenience-stores, accessed September 2022.
10. Rachel Askinasi, "We Compared Walmart's Supercenters to Its Discount Stores, and the Former Is Light Years Better When It Comes to Food Options," *Business Insider*, June 15, 2019, www.businessinsider.com/photos-store-tour-shopping-review-walmart-discount-store-supercenter-2019-5.
11. See Russell Redman, "More Food in Mix at Dollar General," *Supermarket News,* December 5, 2018, www.supermarketnews.com/retail-financial/more-food-mix-dollar-general; Russell Redman, "Dollar General, Dollar Tree Stay on Expansion Track," *Supermarket News,* August 28, 2020, www.supermarketnews.com/retail-financial/dollar-general-dollar-tree-stay-expansion-track; and https://investor.dollargeneral.com/websites/dollargeneral/English/3200/annual-reports.html, accessed September 2022.
12. See Nathaniel Mayersohn, "Why Dollar Tree's Price Hike to $1.25 Could Be 'One of the Worst Decisions in Retail History,'" *CNN Business*, December 8, 2021, www.cnn.com/2021/12/08/business/dollar-tree-1-dollar-price-dollar-stores/index.html; and Brian Vines, "Is It Still Worth Shopping at Dollar Tree?" *Consumer Reports*, April 29, 2022, www.consumerreports.org/dollar-stores/is-it-still-worth-shopping-at-dollar-tree-a9503406606/.
13. Irene Jiang, "Costco's Founder Once Told the Company's Current CEO, 'If You Raise the [Price of the] Effing Hot Dog, I Will Kill You,'" *Business Insider*, September 21, 2020, www.businessinsider.com/costco-founder-warned-ceo-not-to-raise-hot-dog-price-2020-9?utm_source=copy-link&utm_medium=referral&utm_content=topbar; "A Look at the 2022 Top 50 Retailers," *NFR,* March 23, 2022, https://nrf.com/blog/look-2022-top-50-global-retailers; and information from www.costco.com, accessed September 2022.
14. See "Restore Hyper Wellness Announces Record $32M Revenue and Expansion," *Businesswire*, February 11, 2021, www.businesswire.com/news/home/20210211005158/en/Restore-Hyper-Wellness-Announces-Record-32M-Revenue-and-Expansion; "Restore Hyper Wellness," *Entrepreneur,* www.entrepreneur.com/franchises/restorehyperwellnesscryotherapy/335630, accessed July 2022; and franchise.restore.com, accessed July 2022.
15. See "McDonald's Reports Increase in 2021 Systemwide Sales," *Verdict Food Service,* January 28, 2022, www.verdictfoodservice.com/news/mcdonalds-systemwide-sales/; and "Franchising Overview," https://corporate.mcdonalds.com/corpmcd/franchising-overview.html, accessed September 2022.
16. See Joy Gendusa, "How Trigger-Based Direct Mail Will Supercharge Marketing in 2021," *Forbes,* January 13, 2021, www.forbes.com/sites/forbesagencycouncil/2021/01/13/how-trigger-based-direct-mailwill-supercharge-marketing-in-2021/?sh=e7f2f3ea9dc2; Steve Olenski, "An Appreciation for an Old Friend: Direct Mail," *Forbes*, August 17, 2018, www.forbes.com/sites/steveolenski/2018/08/17/an-appreciation-for-an-old-friend-direct-mail/#267212322c94; and Christine Moorman, Megan Ryan, and Nader Tavassoli, "Why Marketers Are Returning to Traditional Advertising," *Harvard Business Review*, April 29, 2022, https://hbr.org/2022/04/why-marketers-are-returning-to-traditional-advertising.
17. See Ben Unglesbee, "Why Paper Catalogs Still Matter," *Retail Dive,* October 6, 2017, www.retaildive.com/news/why-paper-catalogs-still-matter/506298/; and "Ikea and What Comes Next for Printed Catalogs," *PYMNTS.com,* December 7, 2020, www.pymnts.com/news/retail/2020/ikea-and-what-comes-next-for-printed-catalogs/.
18. Joseph Myers, "Amazon Is Mailing a Print Catalog—Are You?" *Promo Magazine,* November 8, 2018, http://magazine.promomarketing.com/article/amazon-is-mailing-a-print-catalog-are-you/; Rob Delory, "The Much Anticipated 2020 Christmas Catalogs Have Been Mailed," Quicksilver, seortp.com/amazon-christmas-catalog/; "Catalogue Model—Amazon Release Their First Ever Printed Catalogue," *Two Sides,* January 15, 2019, www.twosides.info/UK/amazon-release-printed-catalogue/; and Brian Straight, "Brands Turn the Page Back to Catalogs as Powerful DTC Marketing Tool," *Modern Shipper*, May 24, 2021, www.freightwaves.com/news/brands-turn-the-page-back-to-catalogs-as-powerful-dtc-marketing-tool.
19. Bill Cogar, "Why Direct Response TV Marketing Is Still Effective," *Smart Brief,* October 23, 2018, www.smartbrief.com/original/2018/10/why-direct-response-tv-marketing-still-effective; Dick Wechsler, "Facts versus Fiction: Debunking the Myths around DRTV and Performance Marketing," *MediaPost,* September 3, 2020, www.mediapost.com/publications/article/355368/facts-versus-fiction-debunking-the-myths-around-d.html; and Russell Fisher and Matt Lord, "Good Ideas Are the Heart of Good Advertising—Direct Response Shouldn't Be an Exception," *The Drum*, December 1, 2021, www.thedrum.com/opinion/2021/12/01/good-ideas-are-the-heart-good-advertising-direct-response-shouldn-t-be-exception.
20. "Ecommerce Share of Retail Sales (2020-2025)," Oberlo, www.oberlo.com/statistics/ecommerce-share-of-retail-sales#, accessed September 2022.
21. See "US Ecommerce Growth Jumps to More Than 30%, Accelerating Online Shopping Shift by Nearly 2 Years," *eMarketer*, October 12, 2020, www.emarketer.com/content/us-ecommerce-growth-jumps-more-than-30-accelerating-online-shopping-shift-by-nearly-2-years; and Andrew Lipsman, "Future of Retail 2021," *emarketer*, December 18, 2021, www.emarketer.com/content/future-of-retail-2021.
22. See Christina Vail, "'Digitally Influenced Sales'—The Phrase That Unlocks More Buy-In and Budget for eCommerce Leaders," *Profitero*, July 20, 2021, www.profitero.com/blog/digitally-influenced-sales-phrase-that-unlocks-buyin-budget-for-ecommerce-leader.
23. See Titiana Walk-Morris, "Walmart to Use AR, Shoppable Content to Connect Brands with Consumers," *Retail Dive,* November 2, 2021, www.retaildive.com/news/walmart-to-use-ar-shoppable-content-to-connect-brands-with-consumers/609222/#; and Lisa Lacy, "Exclusive: Walmart's 'Joy. Fully' Campaign Is a Glimpse at Our Connected Commerce Future," *Adweek,* October 29, 2021, www.adweek.com/commerce/exclusive-walmarts-joy-fully-campaign-is-a-glimpse-at-our-connected-commerce-future/.

24. See Dan Tynan, "Meet the New Chief Collaboration Officer: The CMO," *Adweek*, October 7, 2018, www.adweek.com/digital/meet-the-new-chief-collaboration-officer-the-cmo/; www.carmax.comandhttp://investors.carmax.com/financial-reports/annual-reports-and-other-financial-information/default.aspx, accessed July 2022; and "CarMax Celebrates 18 Years as One of Fortune Magazine's 100 Best Companies to Work For," *GlobeNewswire*, April 11, 2022,.www.globenewswire.com/news-release/2022/04/11/2420470/0/en/CarMax-Celebrates-18-Years-As-One-Of-Fortune-Magazine-s-100-Best-Companies-To-Work-For.html.

25. See www.hioscar.com/, https://ir.hioscar.com/overview/, and https://ir.hioscar.com/news-events-presentations/news-press-releases/news-details/2022/Oscar-Health-Announces-Results-for-Fourth-Quarter-and-Full-Year-2021/default.aspx, accessed September 2022.

26. Akshaya Devi, "10 Best Companies in Customer Service & What You Can Learn from Them," *Happyfoxblog*, https://blog.happyfox.com/10-best-companies-customer-service/, accessed September 2022.

27. See Jean E. Palmieri, "Adidas Fifth Avenue Flagship Centered Around Experiences," *WWD,* November 30, 2016, https://wwd.com/business-news/retail/adidas-fifth-avenue-flagship-claire-midwood-10714929/; Corinne Ruff and Cara Salpini, "22 Experiential Stores NYC Has to Offer," *Retail Dive,* June 21, 2018, www.retaildive.com/news/22-experiential-stores-nyc-has-to-offer/525669/; and "The Adidas Store," www.nycgo.com/shopping/the-adidas-store, accessed September 2022.

28. Janice Tan, "Singapore Airlines Concocts Signature Scent Inspired by Flowers on Batik Motif," *Marketing-Interactive*, August 16, 2021, https://www.marketing-interactive.com/singapore-airlines-concocts-signature-scent-inspired-by-flowers-on-batik-motif; "Shop: Singapore Airlines," Krisshop, https://www.krisshop.com/en/brands/SIA; Singapore Airlines, "Batik Flora by Singapore Airlines," *Facebook*, March 7, 2022, https://m.facebook.com/singaporeair/videos/batik-flora-by-singapore-airlines/466762355002526/?__so__=permalink&__rv__=related_videos&locale=ms_MY&_rdr.

29. See Irene Jiang, "I Just Went to Wegmans for the First Time, and Now I See Why the Grocery Chain Has Such a Massive Cult Following," *Business Insider,* November 4, 2019, www.businessinsider.com/wegmans-grocery-store-first-time-review-2019-11; Nick Williams, "Do the In-Store Meal Options at the Beloved Wegmans Live Up to the Hype?" *Indy Week,* March 11, 2020, https://indyweek.com/food-and-drink/features/in-store-options-wegmans/; Pamela N. Danziger, "Why Wegmans Food Markets Gets the Love of Customers," *Forbes,* March 3, 2018, www.forbes.com / sites/pamdanziger/2018/03/03/why-wegmans-food-markets-gets-the-love-of-customers/; and www.wegmans.com/about-us/company-overview/; www.wegmans.com/news-media/photo-logo-gallery/; www.wegmans.com/about-us/for-the-love-of-cheese/.

30. See "How We Do It," http://tjmaxx.tjx.com/store/jump/topic/how-we-do-it/, accessed July 2022.

31. Elyse Dupre, "Personalization at the Heart of CVS's ExtraCare Loyalty Program," *DMN,* May 9, 2017, www.dmnews.com/multichannel-marketing/personalization-is-at-the-heart-of-cvss-extracare-loyalty-program/article/656057/; and www.cvs.com, accessed September 2022.

32. For definitions of these and other types of shopping centers, see https://marketing-dictionary.org/ accessed May 2022.

33. Kate Taylor, "These Haunting Photos of the Retail Apocalypse Reveal a New Normal in America as Sears Clings On after Closing Hundreds of Stores," *Business Insider,* January 16, 2019, www.businessinsider.com/the-american-retail-apocalypse-in-photos-2017-3; Sarah Mulholland, "Why Some Shopping Malls May Be in Deeper Trouble Than You Think," *Bloomberg,* January 8, 2018, www.bloomberg.com/news/articles/2018-01-08/why-some-shopping-malls-may-be-in-deeper-trouble-than-you-think; and Jason Del Rey, "The Death of the Department Store and the American Middle Class," *Vox Recode*, November 30, 2020, www.vox.com/recode/21717536/department-store-middle-class-amazon-online-shopping-covid-19.

34. Jason Goldberg, "The Impact of Covid-19 on U.S. Brands and Retailers," *Forbes*, March 29, 2020, www.forbes.com/sites/jasongoldberg/2020/03/29/the-impact-of-covid-19-on-us-brands-and-retailers/; Jordan Valinsky, "The 30 Retailers and Restaurant Chains That Filed for Bankruptcy in 2020," *CNN Business,* December 30, 2020, www.cnn.com/2020/12/12/business/retailers-restaurants-bankrupt-2020/index.html; "The Running List of 2020 Retail Bankruptcies," *Retail Dive,* February 5, 2021, www.retaildive.com/news/the-running-list-of-2020-retail-bankruptcies/571159/; and www.statista.com/statistics/1104316/coronavirus-month-over-month-retail-sales-development-by-sector-us/, accessed July 2022.

35. See "Marketing in the Time of COVID-19," *Advertising Age* insert, October 19, 2020, p. 16, https://info.kantarmedia.com/hubfs/Kantar_AdAge_MktgDuringCOVID.pdf.

36. Jennifer Reingold and Phil Wahba, "Where Have All the Shoppers Gone?" *Fortune,* September 3, 2014, http://fortune.com/2014/09/03/where-have-all-the-shoppers-gone/; and Jessica Paige, "The Decline of Retail Empires and the Future of Retail: Cognizant Q&A," *Retail Insight Network*, February 26, 2021, www.retail-insight-network.com/features/the-decline-of-retail-empires-and-the-future-of-retail-cognizant-qa/.

37. See Mary Hanbury, "Macy's Is Closing Eight Stores Early This Years—Here's a Full List," *Business Insider,* January 10, 2019, www.businessinsider.com/macys-stores-closing-list-2019-1; Kelly Tyko, "Macy's Is Closing More Stores in 2022. Will Your Location Close? See the List," *USA Today*, January 5, 2022, www.usatoday.com/story/money/shopping/2022/01/05/macys-store-closing-list-2022/9077212002/.

38. See Laia Garcia, "The Edit at Roosevelt Field Mall Brings Your URL Favs IRL," *Refinery,* November 30, 2017, www.refinery29.com/the-edit-store-experience-roosevelt-field-mall;DanielKeyes, "Malls Look to Pop-Up Shops to Boost Their Appeal," *Business Insider*, December 1, 2017, www.businessinsider.com/malls-look-to-pop-up-shops-to-boost-their-appeal-2017-12; and www.simon.com/the-edit, accessed September 2022.

39. See www.gilt.com, www.zulily.com, www.target.com, and www.amazon.com/gp/help/customer/display.html?nodeId=20113 4080, accessed September 2022.

40. See Barrett J. Brunsman, "P&G Brand Director of Walmart Joins C-Suite of E-commerce Strategy Firm," *Cincinnati Business Courier,* January 3, 2019, www.bizjournals.com/cincinnati/news/2019/01/03/p-g-brand-director-for-walmart-joins-c-suite-of-e.html; Kellogg Annual Reports, investor.kelloggs.com/financials/annual-reports/, J. M. Smucker Company Annual Reports, www.annualreports.com/Company/the-j-m-smucker-company; and Procter & Gamble Annual Reports, http://us.pg.com, accessed September 2022.

41. Amit Garg, "Supermarket 7Fresh's Autonomous Shopping Carts," *Retail Hub,* June 10, 2020, reachretail.wordpress.com/2020/06/10/ai-driven-autonomous-shopping-carts-at-7fresh-supermarket/; and Yuchuan Wang, "Store Innovation: 7Fresh's Jonathan Wang's Path to Triumphal Arch," *JD In-Depth,* April 24, 2020, jdcorporateblog.com/store-innovation-7freshs-jonathan-wangs-path-to-triumphal-arch/.

42. See Ben Lang, "Audi Has Deployed 1,000 VR Showrooms in Dealerships Worldwide," *Road to VR,* December 9, 2018, www.roadtovr.com/audi-has-deployed-1000-vr-showrooms-in-dealerships-worldwide/; "How Virtual Reality Is Impacting Audi Showrooms," http://relaycars.com, September 30, 2020, www.relaycars.com/blog/virtually-tour-audi-cars; and "Holoride: Virtual Reality Meets the Real World," *Audi.com,* March 12, 2022, www.audi.com/en/innovation/development/holoride-virtual-reality-meets-the-real-world.html.

43. See Jeremy White, "IKEA's Revamped AR App Lets You Design Entire Rooms," *Wired,* April 20, 2021, www.wired.com/story/ikea-

revampedar-app-design-entire-rooms/; Russell Redman, "Amazon Go Draws High Interest from U.S. Shoppers," *Supermarket News,* February 24, 2021, www.supermarketnews.com/retail-financial/amazon-go-draws-high-interest-us-shoppers; Megan Murphy, "Tim Cook on Donald Trump, the HomePod, and the Legacy of Steve Jobs," *Bloomberg Businessweek,* June 15, 2017, www.bloomberg.com/news/features/2017-06-15/apple-s-tim-cook-on-donald-trump-the-homepod-and-the-legacyof-steve-jobs; Hazal Simsek, "Top 7 Checkout Free Stores and Solution Providers for 2022," *AI Multiple,* February 14, 2022, https://research.aimultiple.com/checkout-free-stores/; Maggie Tillman, "Amazon Go and Amazon Fresh: How the 'Just Walk Out' Tech Works," *Pocket-Lint,* March 11, 2022, https://www.pocket-lint.com/gadgets/news/amazon/139650-what-is-amazon-go-where-is-it-and-how-does-it-work; Bernard Marr, "10 Best Examples of Augmented and Virtual Reality in Retail," *Forbes,* September 12, 2021; Veonika Petrenko, "The Ultimate Guide to Augmented Reality (AR) in Retail," Wear-Studio, January 12, 2022, https://wear-studio.com/the-ultimate-guide-to-augmented-reality-ar-in-retail/; and www.sephora.my/pages/virtual-artist, accessed September 2022.

44. See Dan Tyan, "The Coming Convergence of VR and AI Gives Brands Big Opportunities (and Potential Pitfalls)," *Adweek,* December 4, 2017, www.adweek.com/performance-marketing/the-coming-convergence-of-vr-and-ai-offers-big-opportunities-and-potential-pitfalls-for-marketers/; Sarah Perez, "Walmart Tech Incubator Store No. 8 Launches VR Startup Spatial&," *Tech Crunch,* February 14, 2019, https://techcrunch.com/2019/02/14/walmart-tech-incubator-store-no-8-launches-vr-startup-spatial/; and Melissa Repko, "Walmart Rolls Out a Tech Tool to Help Shoppers Try On Clothes without Actually Trying Them On," *CNBC,* March 2, 2022, www.cnbc.com/2022/03/02/walmart-rolls-out-virtual-fitting-room-to-help-shoppers-find-clothes.html.

45. "Green MashUP: 7 Trends Transforming Retail Sustainability," *The Fifth Estate,* February 17, 2015, https://thefifthestate.com.au/articles/green-mashup-7-trends-transforming-retail-sustainability/; "The "FY21: IKEA Grows Again," http://about.ikea.com/en/about-us/year-in-review, accessed July 2022; https://about.ikea.com/en/sustainability and https://gbl-sc9u2-prd-cdn.azureedge.net/-/media/aboutikea/newsroom/documents/ikea-sustainability-strategy-people-planet-positive-2020-511938_v3.pdf, accessed September 2022.

46. See www.staples.com/sbd/cre/marketing/sustainability-center/?icid=SustainabilityCenter:topnav:1:home:20170901, accessed September 2022.

47. See www.walmartsustainabilityhub.com/sustainability-index and https://sustainabilityconsortium.org/thesis/, accessed May 2022.

48. See "Global Powers of Retailing 2022," *Deloitte,* www2.deloitte.com/global/en/pages/consumer-business/articles/global-powers-of-retailing.html, accessed September 2022.

49. Grainger facts and other information are from the http://pressroom.grainger.com/phoenix.zhtml?c=194987&p=irolmediakit, https://s23.q4cdn.com/963347031/files/doc_downloads/factbook/2022/05/2022-Grainger-Snapshot.pdf, and www.grainger.com, accessed September 2022.

50. "Company Snapshot," https://s23.q4cdn.com/963347031/files/doc_downloads/factbook/2022/05/2022-Grainger-Snapshot.pdf, accessed September 2022.

51. See https://investors.sysco.com/~/media/Files/S/Sysco-IR/documents/annual-reports/Sysco_2021-Annual-Report_Web_FINAL.pdf and www.sysco.com/, accessed September 2022.

52. See Patrick McKeever, "U.S. Retailers Announced Twice as Many Store Openings as Closings in 2021," National Retail Federation, January 28, 2022; Remi Rosmarin, "Sephora Vs. Ulta: We Compared the Perks of Each Store's Membership Programs and More," *Business Insider,* May 17, 2021, www.businessinsider.com/sephora-vs-ulta; Jennifer Braunschweiger, "How Mary Dillon Turned Ulta Beauty into the Leading Cosmetics Retailer," *Fast Company,* March 20, 2017, www.fastcompany.com/3068653/how-mary-dillon-turned-ulta-beauty-into-the-leading-cosmetics-retailer; Pamela Danziger, "In the Battle for Beauty Shoppers, Ulta Is Pulling Ahead of Sephora and Amazon," *Forbes,* March 19, 2019, www.forbes.com/sites/pamdanziger/2019/03/19/ulta-puts-more-distance-from-sephora-and-amazon-in-the-number-of-people-who-prefer-to-shop-there/#4aabe2836f45; and information from www.macrotrends.net, www.statista.com, and www.ulta.com/company/about-us, accessed September 2022.

Chapter 14

1. Sarah Berger, "Why Everyone Is Obsessed with Jollibee Fast Food—from Its Sweet Spaghetti to the Fried Chicken Better Than KFC," *CNBC*, April 3, 2019, https://www.cnbc.com/2019/04/03/why-everyone-isobsessed-with-filipino-fast-food-chain-jollibee.html; Jollibee Buzz Room, 2021, https://ca.jollibeefoods.com/blogs/buzz-room/tagged/fun-extras; Jollibee Promos, 2021, https://www.jollibee.com.ph/promos/, "WATCH: Kwentong Jollibee 'Garapon' Celebrates Grandparents' Selflessness," *Mixofeverything*, September 6, 2019, https://www.mixofeverything.net/2019/09/kwentong-jollibee-garapon-for-grandparents-day.html; "'Kwentong Jollibee' Campaign Sets Bar for Digital Marketing," *Manila Times,* February 1, 2018, https://www.manilatimes.net/2018/02/11/business/kwentong-jollibee-campaign-sets-bar-digital-marketing/379510; and "Jollibee Announces the Launch of New 'Jollibee Ordering' App," *Cision PR Newswire*, June 8, 2021, https://www.prnewswire.com/news-releases/jollibee-announces-the-launch-of-new-jollibee-ordering-app-301321038.html, accessed October 2021.

2. For other definitions, see https://marketing-dictionary.org, accessed June 2022.

3. See Nicole Perrin, "U.S. Digital Ad Spending 2021," *eMarketer Insider Intelligence,* April 14, 2021, www.emarketer.com/content/us-digital-ad-spending-2021; and "Marketing Fact Pack 2021," December 21, 2020, p. 6.

4. Todd Krizelman, "What 2021's CPG Ad Trends Tell Us about the 2022 Forecast," *DCN,* January 24, 2022, https://digitalcontentnext.org/blog/2022/01/24/what-2021s-cpg-ad-trends-tell-us-about-the-2022-forecast/; "CPG Sector Spends over $30 Billion on Digital Advertising, 70% Devoted to Mobile," *eMarketer,* December 15, www.emarketer.com/content/cpg-sector-spends-over-30-billion-on-digital-advertising-70-devoted-mobile; "CPG Digital Marketing Market to Reach US$ 60.6 Billion by 2027, Globally," *Cision,* March 15, 2021, www.prnewswire.com/in/news-releases/cpg-digital-marketing-market-to-reach-us-60-6-billion-by-2027-globally-cagr-7-8-univdatos-market-insights-846414215.html; and Richa Naidu, "From 'Animal Crossing' to Netflix: Unilever and P&G Search for Young Consumers," *Reuters,* October 4, 2021, www.reuters.com/business/animal-crossing-netflix-unilever-pg-search-young-consumers-pandemic-2021-10-04/.

5. See Lesley Bielby, "The 'A' Word—Does Advertising Still Exist?" *Advertising Age,* April 22, 2016, www.adage.com/print/303678; Michael Strober, "We Interrupt This Interruption for an Important Message," *Advertising Age,* September 25, 2018, pp. 62–63; Kirsty Daniel, "The State of Content Marketing in 2022 [Stats & Trends to Watch]," *HubSpot*, March 29, 2022, https://blog.hubspot.com/marketing/state-of-content-marketing-infographic; and Kristen Baker, "The Ultimate Guide to Content Marketing in 2021," *HubSpot,* updated May 25, 2022, https://blog.hubspot.com/marketing/content-marketing.

6. See Paul Hiebert, "Tide Wants Everyone to Wash Their Laundry in Cold Water," *Adweek,* March 29, 2021, www.adweek.com/brand-marketing/tide-wants-everyone-to-wash-their-laundry-in-cold-water/; Charles Taylor, "Why the Tide and NFL #TurnToCold Collaboration Is a Winner," *Forbes,* August 31, 2021, www.forbes.

com/sites/charlesrtaylor/2021/08/31/why-the-tide-and-nfl-turntocold-collaboration-is-a-winner/?sh=6fc78f08a6ec; Randall Rothenberg, "What Is Advertising Anyway?" *Adweek*, September 16, 2013, p. 15; Laura Entis, "Tide's Lates Campaign Proves Even the Dirtiest Uniforms Can Be Cleaned with Cold Water," *PR Week*, September 29, 2021, www.prweek.com/article/1729016/tide-inspires-16-nfl-teams-turntocold; Douglas Karr, "What Is POE? Paid, Owned, Earned … And Shared … and Converged Media," *Martech* Zone, January 13, 2021, https://martech.zone/infographic-what-is-poe/; and quotes and information from https://tide.com/en-us/our-commitment/turn-to-cold and www.youtube.com/watch?v=S2noJ5Z0ns0, accessed September 2022.

7. See "The NewsCred Top 50 Awards," *NewsCred*, https://insights.newscred.com/best-content-marketing-brands/#about, accessed October 2018; and www.landroverusa.com/experiences/stories/index.html, www.instagram.com/landrover/, www.youtube.com/user/landrover, www.facebook.com/landrover/, and https://twitter.com/LandRover?ref_src=twsrc%5Egoogle%7Ctwcamp%5Eserp%7Ctwgr%5Eauthor, accessed October 2022.

8. See Philip Kotler, Hermawan Kartajaya, and Iwan Setiawan, *Marketing 4.0: Moving from Traditional to Digital* ((Hoboken, NJ: Wiley, 2016); Michael Krauss, "Marketing 4.0 Argues the Marketplace Has Changed, and the Customer Is in Control," *Marketing News*, April/May 2017, pp. 26–27; and "Kotler's 5 A's of Sales Marketing: Definition and Tips," *Indeed*, November 25, 2021, www.indeed.com/career-advice/career-development/kotler-5-as-of-customer-path#.

9. See Jason Notte, "Ty Burrell Spends Big in Greenlight Super Bowl Ad," *Adweek*, February 8, 2022, https://www.adweek.com/brand-marketing/ty-burrell-spends-big-in-greenlight-super-bowl-ad/; and https://greenlight.com/mission/, accessed September 2022.

10. See www.aleve.com/the-aleve-difference, accessed May 2022; and Amy Saunders, "The 11 Most Believable Marketing Claims," *Keap*, April 21, 2022, https://keap.com/business-success-blog/marketing/digital-marketing/the-11-most-believable-marketing-claims.

11. See Emilie Le Beau Lucchesi, "The Complex Ways Humans Empathize with Other Animals," *Discover*, May 20, 2022, www.discovermagazine.com/mind/the-complex-ways-humans-empathize-with-other-animals; and www.aspca.org/, accessed September 2022.

12. See Michael Glover, "Word of Mouth Marketing in 2022: How to Create a Strategy for Social Media Buzz & Skyrocket Referral Sales," *Big Commerce*, www.bigcommerce.com/blog/word-of-mouth-marketing/#, accessed September 2022.

13. See https://jobs.redbull.com/us-en/microsite/student-marketeer, accessed September 2022.

14. Sabrina Weiss, "Kim Kardashian Teams Up with Beyond Meat to Offer Her 'Greatest Asset,'" *People*, May 24, 2022, https://people.com/food/kim-kardashian-teams-up-with-beyond-meat-to-offer-her-greatest-asset/.

15. See Chris Isidore, "Lance Armstrong: How He'll Make Money Now," *CNNMoney*, January 18, 2013, http://money.cnn.com/2013/01/16/news/companies/armstrong-endorsements/; Alissa Fleck, "8 High-Profile Celebrity Endorsements That Backfired," *Adweek*, August 23, 2018, www.adweek.com/brand-marketing/8-high-profile-celebrity-endorsements-that-backfired/; Tim Gallagher, "Kim Kardashian Becomes the Face of 'Beyond Meat.' But Will This Offset Her High Carbon Lifestyle?" *Euronews.green*, May 26, 2022, www.euronews.com/green/2022/05/26/kim-kardashian-becomes-the-face-of-beyond-meat-but-will-this-offset-her-high-carbon-lifest.

16. Ethan Cramer-Flood, "Worldwide Ad Spending 2021: A Year for the Record Books," *eMarketer*, November 30, 2021, www.emarketer.com/content/worldwide-ad-spending-2021-year-record-books; Bradley Johnson, "Ad Age World's Largest Advertisers Pump Up Spending," *AdAge*, December 14, 2021, https://adage.com/article/datacenter/worlds-top-advertisers-pump-spending/2379416; and Bradley Johnson, "Top Marketers, Brands and Agencies, Ranked—The Big List," *AdAge*, May 2, 2022, https://adage.com/article/datacenter/top-marketers-brands-and-agencies-ranked-big-list/2383356.

17. "Super Bowl LVI Total Viewing Audience Estimated at over 208 Million," *NFL*, March 1, 2022, www.nfl.com/news/super-bowl-lvi-total-viewing-audience-estimated-at-over-208-million; and Jennifer Maas, "Oscars Draw 16.6 Million Viewers, Soaring 58% from Last Year's Historic Low," *Variety*, March 29, 2022, https://variety.com/2022/tv/ratings/oscars-ratings-2022-academy-awards-1235210795/.

18. Todd Spangler, "Super Bowl 2022 Ads: Most-Viewed Commercials on YouTube," *Variety*, February 14, 2022, variety.com/2022/digital/news/super-bowl-2022-ads-most-viewed-youtube-1235181085/; Grace Kay, "The Top 10 Super Bowl Commercials That Have Already Generated the Most Buzz Online This Year," *Insider*, February 13, 2022, www.businessinsider.com/top-trending-super-bowl-2022-commercials-ads-2022-2; "How the Super Bowl Became the Championship of Advertising," *Waterbear Marketing*, https://waterbearmarketing.com/how-the-super-bowl-became-the-championship-of-advertising/, accessed May 2022; Sadie Thoma, "Get Pumped for the Super Bowl with YouTube AdBlitz," *YouTube Official Blog*, January 31, 2022, https://blog.youtube/news-and-events/get-pumped-super-bowl-youtube-adblitz/; and www.youtube.com/c/superbowl/featured, accessed September 2022.

19. See "By the Numbers: Super Bowl LVI," *MarketingDive*, February 14, 2022, www.marketingdive.com/news/by-the-numbers-super-bowl-lvi-2022/618696/.

20. Bradley Johnson, "Top Marketers, Brands and Agencies, Ranked—The Big List," *Ad Age*, May 2, 2022, https://adage.com/article/datacenter/top-marketers-brands-and-agencies-ranked-big-list/2383356.

21. See E.J. Schultz, "Marketers of the Year 2021: No. 1 NFL," *Advertising Age*, December 13, 2021, 92 (18), p. 7; Shauna Lewis, "Dove Launches '#DetoxYourFeed' Campaign to Demonstrate Harm of Toxic Beauty Advice," *PR Week*, April 28, 2022, www.prweek.com/article/1754376/dove-launches-detoxyourfeed-campaign-demonstrate-harm-toxic-beauty-advice; Sara Century, "Dove Ad Reminds All that Discrimination Against Black Hair Starts 'As Early As Five,'" *Adweek*, February 11, 2022, www.adweek.com/brand-marketing/dove-ad-reminds-all-that-discrimination-against-black-hair-starts-as-early-as-five/; "Red Nose Day Campaign Returns to NBC on May 23, 2019," December 13, 2018, http://rednoseday.org/news/red-nose-day-campaign-returns-nbc-on-may-23-2019; and https://news.walgreens.com/press-center/the-iconic-red-nose-is-back-exclusively-at-walgreens-to-support-healthy-communities-and-help-end-child-poverty.htm, and www.dove.com/us/en/stories/campaigns.html, accessed September 2022.

22. Adsoftheworld, "Kit Kat: Free No-WiFi Zone," December 1, 2012, https://www.adsoftheworld.com/media/ambient/kit_kat_free_nowifi_zone; Blue Star Direct, "10 Awesome Direct Marketing Examples," August 7, 2019, https://www.bluestardirect.com.au/10-awesome-direct-marketing-examples/; H. Bhasin, "Marketing Mix of Nestlé—4 Ps of Nestlé—Nestlé Product Marketing Mix," August 1, 2019, https://www.marketing91.com/marketing-mix-nestle/; Ellen Milligan, "Nestle's Japanese Green Tea KitKats Are Finally Coming to Europe," *Bloomberg*, February 19, 2019, https://www.bloomberg.com/news/articles/2019-02-19/nestle-s-taste-of-japan-is-coming-to-europe-with-kitkat-launch; M. Adelere, "Planning Process of Nestle PLC as a Tool for Strategic Decision Making," https://www.academia.edu/28789815/PLANNING_PROCESS_OF_NESTLE_PLC_AS_A_TOOL_FOR_STATEGIC_DECISION_MAKING; N. Cameron, "CMO Interview: 5 Learnings from Nestlé on Modern Marketing and Communications," CMO, September 5, 2016, https://www.cmo.com.au/article/606255/

cmo-interview-how-marketing-communications-changing-Nestlé/?pp=2; Ricki Green, "KitKat Launches New 'Snap Out of It' Creative Campaign via J. Walter Thompson, Sydney," *Campaign Brief*, August 1, 2019, https://campaignbrief.com/kitkat-launches-new-snap-out-o/?fbclid=IwAR33avFb0aKxjm1l94dU6TFEA9C49eSHfHoqSjLp_whVlD2NwVLIbz4Rl4; Consumer Goods, "Nestlé Brand Launches Integrated Marketing Campaign," May 18, 2017, https://consumergoods.com/Nestle-brand-launches-integrated-marketing-campaign; Curve Interactive, "Kit-Kat's Latest Integrated Marketing Campaign," November 2, 2012, http://curve-interactive.com/kit-kats-latest-integrated-marketing-campaign/; A.C. Diaz, "These KitKat Billboards Will Give You a Massage," October 27, 2015, https://adage.com/creativity/work/massage-billboard/43936; Digital Training Academy (n.d.), "Kitkat Boosts Local Audience in India with Instagram Campaign," http://www.digitaltrainingacademy.com/casestudies/2016/09/kitkat_boosts_local_audience_in_india_with_instagram_campaign.php; "Digital Acceleration Team | The European Commission's Digital Cities Challenge," August 1, 2019, https://www.digitallytransformyourregion.eu/good-practices/digital-acceleration-team; Douglas Yu, "Nestlé Brings Green Tea-Flavored KitKat to Europe," February 25, 2019, https://www.forbes.com/sites/douglasyu/2019/02/25/nestle-brings-green-tea-flavored-kitkat-to-europe/?fbclid=IwAR0TV0j7Z4oEbw7MsxuKjUzW9B4DaabsqjoOoxzvLaALqfg53Wn9J_cTBqw#6997f2ab692f; "Häagen-Dazs® Brand Captures the Essence of 'La Dolce Vita' with Integrated Marketing Campaign for New Häagen-Dazs Gelato," April 18, 2013, https://www.nestleusa.com/media/pressreleases/hdladolcevita; Leonie Roderick, "KitKat Talks Up 'Moment Marketing' Drive as It Celebrates Growing Sales," *Marketing Week*, December 2, 2015, https://www.marketingweek.com/kit-kat-talks-up-moment-marketing-drive-as-it-celebrates-growing-sales/; Ellen Milligan, "Nestle's Japanese Green Tea KitKats Are Finally Coming to Europe," February 19, 2019, https://www.bloomberg.com/news/articles/2019-02-19/nestle-s-taste-of-japan-is-coming-to-europe-with-kitkat-launch; "Nestlé Digital and Social Media Marketing Strategies—Branding & Targeting Strategy, May 2015, https://www.marketresearch.com/Socintel360-v4016/Nestl%C3%A9-Digital-Social-Media-Strategies-9013827/; "Nestlé Deals with Public Concerns Using Effective Social Media Engagement—Social Media for Business Performance," October 24, 2014, http://smbp.uwaterloo.ca/2014/10/Nestle-deals-with-public-concerns-using-effective-social-mediaengagement/; Tim Nudd, "KitKat's Christmas Commercial Is 30 Seconds of Blankness, the Ultimate Ad Break," *Adweek*, December 4, 2015, https://www.adweek.com/creativity/kitkats-christmas-commercial-30-seconds-blankness-ultimate-ad-break-168459/; Tejal Rao, "In Japan, the Kit Kat Isn't Just a Chocolate. It's an Obsession," *New York Times*, October 24, 2018, https://www.nytimes.com/interactive/2018/10/24/magazine/candy-kit-kat-japan.html; David Court, Dave Elzinga, Susan Mulder, and Ole Jørgen Vetvik, "The Consumer Decision Journey," *McKinsey Quarterly*, June 2009, https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/the-consumer-decision-journey; D. Seifert, "Nestle and Google Rebrand KitKat to YouTube Break in the UK Because Everything Is Terrible," *The Verge*, May 12, 2015, https://www.theverge.com/2015/5/12/8592067/nestle-google-kitkat-youtube-break-packaging-rebrand-uk.

Chapter 15

1. "Iceland's Icelandverse Beats Zuck to the Punch," *More About Advertising*, November 16, 2021, https://www.moreaboutadvertising.com/2021/11/icelands-icelandverse-beats-zuck-to-the-punch/; Wayne M. Gore, "Tourism Promo Campaign Helped the Industry," *Tourism Review*, December 27, 2010, https://www.tourism-review.com/travel-tourism-magazine-inspired-by-iceland-successful-tourism-promotion-campaign-article1399; Tyler Moss, "How Iceland Went from Astronaut Training Site to Tourist Destination," *Condé Nast Traveler*, November 9, 2017, https://www.cntraveler.com/story/how-iceland-went-from-astronaut-training-site-to-tourist-destination; Monica Pitrelli, "Iceland Takes a Swipe at Zuckerberg's 'Meta' Announcement in New Viral Tourism Video," *CNBC*, November 12 2021, https://www.cnbc.com/2021/11/12/iceland-parodies-zuckerberg-meta-announcement-in-viral-tourism-video-.html; Andrew Sheivachman, "The Rise and Fall of Iceland's Tourism Miracle," *Skift*, September 11, 2019, https://skift.com/2019/09/11/the-rise-and-fall-of-icelands-tourism-miracle/; Matt Springate, "Promote Iceland: Inspired by Iceland," *Institute of Practitioners in Advertising*, Silver, IPA Effectiveness Awards, 2011, https://adfx.ie/upload/files/1386593033_Promote_Iceland_Inspired_by_Iceland_2.pdf; Emma Tucker, "Iceland Is Inviting the World to Scream Out Its Lockdown Stress," *Creative Review*, July 17, 2020, https://www.creativereview.co.uk/iceland-scream-lockdown-stress/; SS+K, "Inspired By Iceland | Let It Out," https://www.ssk.com/case-study/case-study_looks-like-you-need-iceland.html; "Travel PR Report: How Iceland Hooks Visitors with Social Media," *Clarity Comms*, October 29, 2014, https://clarity-comms.co.uk/travel-pr-report-how-iceland-hooks-visitors-with-social-media-and-online-marketing/.
2. "Data Center: Leading National Advertisers 2022," June 27, 2022, p. 15; A. Guttmann, "Advertising Industry Worldwide—Statistics & Facts," *Statista*, February 22, 2022, www.statista.com/topics/990/global-advertising-market/#dossierKeyfigures; and A. Guttmann, "U.S. Advertising Industry—Statistics & Facts," *Statista*, February 25, 2022, www.statista.com/topics/979/advertising-in-the-us.
3. See "Leading National Advertisers 2020 Fact Pack," *Advertising Age*, July 13 2020, p. 8; Patrick Coffee, "Esports, Comic-Con, and Momfluencers: How the US Army Is Revamping Its Multi-Billion-Dollar Marketing Plan," *Business Insider*, October 12, 2019, www.businessinsider.com/us-army-marketing-esports-comiccon-momfluencers-2019-10.
4. See www.youtube.com/watch?v=jYWxxtvIaccm, accessed October 2022.
5. See Jean Halliday, "Thinking Big Takes Audi from Obscure to Awesome," *Advertising Age*, February 2, 2009, http://adage.com/print/134234; and "Selected Luxury Car Brands: Global Sales in 2021," www.statista.com/statistics/262921/global-production-of-luxury-cars-by-make/, accessed June 2022.
6. Elie Ofek, "The World Cup Brand Winner: Adidas or Nike?," *Harvard Business Review*, July 9, 2010, https://hbr.org/2010/07/the-world-cup-winner-adidas-or; "Inside the Greatest ad EVER: Nike's Brilliant 1998 Brazil Airport Commercial—by Those Who Made It," *FourFourTwo*, June 7, 2018, https://www.fourfourtwo.com/features/inside-greatest-ad-ever-nikes-brilliant-1998-brazil-airport-commercial-those-who-made-it; "Ambush Marketing: World Cup as Case Study," *Criterion Global*, https://criterionglobal.com/world-cup-ambush-marketing/; Stephen Lepitak and Rebecca Stewart, "How Brands Are Marketing around the 2022 FIFA World Cup," Adweek, September 27, 2022, https://www.adweek.com/brand-marketing/how-brands-are-marketing-2022-fifa-world-cup/; Jessica Phelan, "These Ads Will Terrify You into Cheering for Chile at the 2014 World Cup," *The World*, June 5, 2014, https://theworld.org/stories/2014-06-05/these-ads-will-terrify-you-cheering-chile-2014-world-cup; Alison Millington, "Coca-Cola Reports Double-Digit Increases in Media Spend as Sales Improve," *MarketingWeek*, February 10, 2015, https://www.marketingweek.com/coca-cola-reports-double-digit-increases-in-media-spend-as-sales-improve/; Michael Long, "New Fifa Sponsorship Keeps Hyundai in the Family," *SportsPro*, November 24, 2010; https://www.sportspromedia.com/news/new_fifa_sponsorship_keeps_hyundai_in_the_family/; ICMR India, "Ambushing Adidas: Nike's 'Write the

Future' Campaign," Case Studies Collection, 2011, https://www.icmrindia.org/casestudies/catalogue/Marketing/Ambushing%20Adidas2.htm; The Coca-Cola Company, "How Coca-Cola Will Show Football Fans That Believing Is Magic with FIFA World Cup 2022 Campaign," August 31, 2022, https://www.coca-colacompany.com/news/coca-cola-believing-is-magic-with-fifa-world-cup-2022-campaign; Lucio Dalla Gasperina, "The Story behind adidas' FIFA World Cup 2022™ Marketing Campaign," GamePlan A, November 17, 2022, https://www.gameplan-a.com/2022/11/the-story-behind-adidas-fifa-world-cup-2022-marketing-campaign/; "Own Goal," *Good Business*, November 11, 2022, https://good.business/thinking/weekly-shorts/own-goal/.

7. Bobby Chernev, "27 of the Most Incredible Cable TV Subscribers Statistics for 2022," *Techjury,* April 27, 2022, https://techjury.net/blog/cable-tv-subscribers-statistics/; Amy Watson, "Number of Print Magazines in the United States from 2002 to 2020," *Statista*, September 22, 2021, www.statista.com/statistics/238589/number-of-magazines-in-the-united-states/; and data from YouTube, Facebook, Instagram, and Twitter, accessed October 2022.
8. Maria Roberta Benitez, "Everything You Need to Know about TV Advertising Costs," *Fit Small Business,* January 31, 2022, https://fitsmallbusiness.com/tv-advertising/; and Andrew Buller-Russ, "Super Bowl LVI Commercials Cost $6.5 Million per Ad," *Sportsnaut*, February 13, 2022, https://sportsnaut.com/super-bowl-lvi-commercials-cost-6-5-million-per-ad/.
9. Nathan Rubbelke, "How Many People Watch the Super Bowl Just for the Ads?" *BizJournals,* February 10, 2022, www.bizjournals.com/stlouis/inno/stories/profiles/2022/02/10/startup-details-viewership-trends.html#.
10. See "Brand Film Awards US 2022: Industry Sectors Categories," *MM+M*, May 25, 2022, www.mmm-online.com/home/channel/mmm/brand-film-awards-us-2022-industry-sectors-categories/; "Leading the Change," https://about.google/stories/jason-barnes-accessibility-tools/, accessed June 2022; and www.youtube.com/watch?v=o623TB-mY6A, accessed October 2022.
11. See Lindsay Kolowich, "Funny Tweets and Social Media Examples from 17 Real Brands," *HubSpot*, February 4, 2016, http://blog.hubspot.com/blog/tabid/6307/bid/33488/14-Funny-Brands-You-Can-t-Help-But-Follow-in-Social-Media.aspx; and Olessa Hanzlik, "8 Funniest Tweets of All Time from Popular Brands," *UrbanMatter*, https://urbanmatter.com/8-funniest-tweets-of-all-time-from-popular-brands/, accessed May 2022.
12. "Why *The Lego Movie* Is the Perfect Piece of Product Placement," *A.V. Club*, February 11, 2014, www.avclub.com/article/why-the-lego-movie-is-the-perfect-piece-of-product-201102; Katarina Gustafsson, "LEGO Movie Helps Full-Year Revenue Growth Beat Rivals," *Bloomberg Business*, February 25, 2015, www.bloomberg.com/news/articles/2015-02-25/lego-movie-helps-toymaker-s-full-year-sales-growth-beat-rivals; and E. J. Schultz, "Chevy Has Product Placement Deal with New LEGO Movie," *Advertising Age,* January 28, 2019, https://adage.com/article/cmo-strategy/chevy-product-placement-deal-lego-movie/316402.
13. See Kelly Gilblom, "Product Placement, Now Starring in the Streaming Era," July 21, 2021, www.bloomberg.com/news/articles/2021-07-21/marketers-embrace-product-placement-in-streaming-tv-shows#xj4y7vzkg; and Ryan Barwick, "Product Placement Is Going to Take Over Your Favorite Show," *Marketing Brew,* May 13, 2022, https://www.marketing-brew.com/stories/2022/05/13/product-placement-is-going-to-take-over-your-favorite-show.
14. See Iryna Sieliutina, "Native Advertising Industry Trends and Spending," *SmartyAds*, November 16, 2021, https://smartyads.com/blog/native-advertising-news-and-trends/.
15. See Tim Nudd, "Tesla Crowned This Commercial as the Winner of Its Fan-Made Ad Contest," *Adweek*, July 31, 2017, www.adweek.com/brand-marketing/tesla-crowned-this-commercial-as-the-winner-of-its-fan-made-ad-contest/; Darrell Etherington, "Tesla's Top 10 Project Loveday Videos Reveal Truly Dedicated Fans," *Tech Crunch,* July 26, 2017, https://techcrunch.com/2017/07/26/teslas-top-10-project-loveday-videos-reveal-truly-dedicated-fans/; "Elon Musk Approves of This Outstanding Tesla Commercial," *INSIDEEVs,* June 7, 2021, https://insideevs.com/news/512428/musk-approves-tesla-fan-commercial/; "Watch the Exciting 'Tesla—Better, Faster, Stronger' Fan-Made Spec Ad," *teslaoracle,* May 31, 2021, https://www.teslaoracle.com/2021/05/31/watch-the-exciting-tesla-better-faster-stronger-fan-made-spec-ad/; and www.youtube.com/watch?v=oSnoYEzZnUg, accessed October 2022.
16. See Peter Adams, "Technology of the Year: Adidas' 'Here to Create Legend,'" *Marketing Dive,* December 3, 2018, www.marketingdive.com/news/technology-of-the-year-adidas-here-to-create-legend/541534/; and "Here to Create a Legend," https://clios.com/sports/winner/direct/adidas-running/here-to-create-legend-58122, accessed May 2022.
17. "Netflix: Stranger Things," Ads of the World™, https://www.adsoftheworld.com/campaigns/stranger-things-2a4f26c2-8282-4d59-b20d-4e4814076bba.
18. See "Multitasking Is Changing Media Consumption Habits," *Screen Media Daily,* April 8, 2016, http://screenmediadaily.com/multitasking-is-changing-media-consumption-habits; "Juggling Act: Audiences Have More Media at Their Disposal and Are Using Them Simultaneously," *Nielsen,* December 12, 2018, www.nielsen.com/us/en/insights/news/2018/juggling-act-audiences-have-more-media-at-their-disposal-and-are-using-them-simultaneously.html; and Agnieszka Popławska, Ewa Szumowska, and Jakub Kuś, "Why Do We Need Media Multitasking? A Self-Regulatory Perspective," *Frontiers in Psychology,* February 11, 2021, www.frontiersin.org/articles/10.3389/fpsyg.2021.624649/full.
19. *Forbes* and *People* cost and circulation data found online at www.forbes.com/connect/media-kit/ and www.meredith.com/PEOPLE-Media-Kit.pdf, accessed May 2022.
20. Sarah Mahoney, "Teleflora's Holiday Ads Spotlight Lonely Shut-Ins," *MediaPost,* December 1, 2020, www.mediapost.com/publications/article/358254/telefloras-holiday-ads-spotlight-lonely-shut-ins.html.
21. "Marketing in the Moments, to Reach Customers Online," *New York Times,* January 18, 2016, p. B5; Eyal Katz, "5 Strategies for Success with Real Time Marketing," *Oktopost*, March 5, 2019, www.oktopost.com/blog/5-strategies-real-time-marketing/; and Andrew LeClair, "Why Real-Time Really Matters," *Martech*, https://event.on24.com/wcc/r/2293079/C59152B14029B91088-C8DF37ED4ABEDB, accessed May 2022.
22. See "Top 10 Ad Agencies Leading the Advertising Industry in 2022," *Insider Intelligence,* January 7, 2022, www.insiderintelligence.com/insights/advertising-companies/.
23. See Ramona Sukhra, "15 Stunning Examples of Inclusive Marketing to Inspire You," *Impact Plus*, www.impactplus.com/blog/inclusive-marketing-examples, accessed June 2022.
24. Christina Brodzik et. al., "Authentically Inclusive Marketing," Deloitte Insights, October 19, 2021, https://www2.deloitte.com/us/en/insights/topics/marketing-and-sales-operations/global-marketing-trends/2022/diversity-and-inclusion-in-marketing.html.
25. See Jason Daily, "How to Build a More Inclusive World through Advertising," Advertising Age, July 26, 2021, https://adage.com/article/facebooky/how-build-more-inclusive-world-through-advertising/2352996; Christina Brodzik et. al., "Authentically Inclusive Marketing," Deloitte Insights, October 19, 2021, https://www2.deloitte.com/us/en/insights/topics/marketing-and-sales-operations/global-marketing-trends/2022/diversity-and-inclusion-in-marketing.html.
26. Based on Glen Broom and Bey-Ling Sha, *Cutlip & Center's Effective Public Relations*, 11th ed. (Upper Saddle River, NJ: Prentice Hall, 2013), Chapter 1.
27. "The Ad Council and Amazon Aim to Inspire Acts of Love and Create a More Inclusive World in New Love Has No

Labels Campaign," *PR Newswire,* February 1, 2022, www.prnewswire.com/news-releases/the-ad-council-and-amazon-aim-to-inspire-acts-of-love-and-create-a-more-inclusive-world-in-new-love-has-no-labels-campaign-301471624.html; Christina Brodzik, Sarah Cuthill, Nathan Young, and Nikki Drake, "Authentically Inclusive Marketing," Deloitte, October 18, 2021, https://www2.deloitte.com/us/en/insights/topics/marketing-and-sales-operations/global-marketing-trends/2022/diversity-and-inclusion-in-marketing.html; Matt Miller, "The Power of Diversity, Equity, and Inclusion in Advertising," *Adweek,* March 24, 2022, www.adweek.com/partner-articles/the-power-of-diversity-equity-and-inclusion-in-advertising/; Robert Williams, "Oreo Supports LGBTQ Pride with Social Giveaway of Rainbow Cookies," *Marketing Dive,* October 9, 2020, www.marketingdive.com/news/oreo-supports-lgbtq-pride-with-social-giveaway-of-rainbow-cookies/586722/; Nina Greimel, "Oreo's #Proudparent Campaign Is Not Like Other Pride Promotions," *Better Marketing,* July 8, 2021, https://bettermarketing.pub/oreos-proudparent-campaign-is-not-like-other-pride-promotions-1f4ca971da6f; and www.pgeveryday.com/tag/mbib-all-together-beautiful, www.pgeveryday.com/tag/mbib-about-us, www.facebook.com/mbib/, and www.mbib.com/en-us; www.amazon.com/adlp/lovehasnolabels?ref_=a20m_us_blg_lvnlbl_lp, and https://shortyawards.com/13th/proud-parent, accessed October 2022.

28. See "Healthcare Campaign of the Year 2015," *PR Week,* March 20, 2015, www.prweek.com/article/1337832; "CVS Health: CVS Quits for Good Campaign," *(add)ventures,* www.addventures.com/cvs-quits-good-campaign, accessed May 2022; and www.cvs.com/shop/content/stop-smoking-resources?icid=shop-stop-smoking-banner-nrt-resources, accessed May 2022.

29. See "Fearless Girl," *State Street Global Advisors,* March 6, 2019, www.ssga.com/content/ssga/pages/en/articles/investment-topics/environmental-social-governance/2018/03/wall-street-meet-fearless-girl.html; "PRWeek U.S. Awards 2018: The Winners," *PRWEEK,* March 16, 2019, www.prweek.com/article/1458806/prweek-us-awards-2018-winners; and www.ssga.com/lobal/en/about-us/who-we-are/fearless-girl.html, accessed October 2022.

30. Quotes from Sarah Skerik, "An Emerging PR Trend: Content PR Strategy and Tactics," January 15, 2013, http://blog.prnewswire.com/2013/01/15/an-emerging-pr-trend-content-pr-strategy-tactics/; Mary Teresa Bitti, "The New Mad Men: How Publics Relations Firms Have Emerged from the Shadows," *Financial Post,* December 28, 2014, http://business.financialpost.com/entrepreneur/the-changing-role-of-public-relations-firms; Nelson Granados, "How Public Relations Agencies Are Becoming Top Creators of Digital Video Content," *Forbes,* January 9, 2018, www.forbes.com/sites/nelsongranados/2018/01/09/how-public-relations-agencies-are-becoming-top-creators-of-digital-video-content/#540e1b986626; and Saurav Chaudhary, "How Digitization Has Leveraged the PR Industry," *The Times of India,* May 22, 2022, https://timesofindia.indiatimes.com/blogs/voices/how-digitisation-has-leveraged-the-pr-industry/.

31. See Vince Bond Jr., "Hyundai Rides with Fake Super Bowl Ad," *AdAge,* January 31, 2022, www.adage.com/article/special-report-super-bowl/hyundai-rides-fake-super-bowl-ad-black-ish-integration/2396106; Doug Zanger, "It's as If John Krasinski, Rachel Dratch, and Chris Evans Never Left Boston in Hyundai's Wicked Funny Super Bowl Ad," *Adweek,* January 27, 2020, www.adweek.com/agencies/its-as-if-john-krasinski-rachel-dratch-and-chris-evans-never-left-boston-in-hyundais-hilarious-super-bowl-ad/; Elaine Underwood, "Boston-Connected Celebs Play with Hyundai Sonata's 'Smaht Pahk' Feature," *CampaignUS,* January 27, 2020, www.campaignlive.com/article/boston-connected-celebs-play-hyundai-sonatas-smaht-pahk-feature/1671936; and information from www.shortyawards.com/13th/smaht-park-super-bowl-integrated-campaign and www.innoceanusa.com/, and www.hyundainews.com/en-us/, accessed October 2022.

Chapter 16

1. See "Salesforce Announces Record Fourth Quarter and Full Year Fiscal 2022 Results," Salesforce, March 1, 2022, https://investor.salesforce.com/press-releases/press-release-details/2022/Salesforce-Announces-Record-Fourth-Quarter-and-Full-Year-Fiscal-2022-Results/default.aspx#; Leo Sun, "Where Will Salesforce Be in 5 Years?" *Motley Fool,* January 12, 2021, www.fool.com/investing/2021/01/12/where-will-salesforce-be-in-5-years/; David Whitford, "Salesforce.com: The Software and the Story," *Inc.,* September 2014, pp. 113–117; David Whitford, "Selling, the Story: Four Strategies Salesforce.com Uses to Stay on Top," *Inc.,* September 2014, p. 116; "The World's Most Innovative Companies," *Forbes,* www.forbes.com/special-features/innovative-companies.html, accessed June 2022; "Salesforce, Inc Revenue 2006-2021," *Macrotrends,* www.macrotrends.net/stocks/charts/CRM/salesforce,-inc/revenue, accessed June 2021; "Customer Relationship Management (CRM) Market," *Fortune Business Insights,* www.fortunebusinessinsights.com/customer-relationship-management-crm-market-103418, accessed June 2022; and information from https://investor.salesforce.com/financials/ and www.salesforce.com, accessed October 2022.

2. See https://thermomix.vorwerk.com/about-us/careers/; https://www.career-vorwerkgroups.com/eng.

3. "Selling Power 500 Largest Sales Forces (2021)," *Selling Power,* https://www.sellingpower.com/lists/2021/selling-power-500, accessed June 2022.

4. See Gabe Larsen, "Inside vs. Outside Sales: How to Structure a Sales Team for Success," *HubSpot,* March 21, 2018, https://blog.hubspot.com/sales/inside-vs-outside-sales; Dan McDade, "How Much Leads Cost," *Pointclear,* January 4, 2018, www.pointclear.com/blog/how-much-leads-cost; and "What Is the Real Cost of a B2B Sales Call?," www.marketing-playbook.com/sales-marketing-strategy/what-is-the-real-cost-of-a-b2b-sales-call, accessed October 2021.

5. See "Newsletter 16: 5 Reasons Why Virtual Selling Should Be Part of Your Lead Generation Strategy in 2022," *LinkedIn,* December 2, 2021, www.linkedin.com/pulse/newsletter-15-5-reasons-why-virtual-selling-should-van-der-blom; and "Be Successful at Virtual Selling," Gartner, www.gartner.com/en/sales/insights/virtual-selling, accessed April 2022; and "State of Sales," LinkedIn, accessed April 2022.

6. James Meincke, "The True Cost of a Bad Sales Hire and How to Avoid It," *CloserIQ,* February 13, 2019, https://blog.closeriq.com/2019/02/cost-bad-sales-hire/; and Devin Friesen, "The Real Cost of a Bad Sales Hire and How to Prevent Them," June 22, 2021, www.devfriesen.com/the-real-cost-of-a-bad-sales-hire-and-how-to-prevent-them.

7. For this and more information and discussion, see www.gallupaustralia.com.au/consulting/118729/sales-force-effectiveness.aspx, accessed October 2012; Erika Giles, "What Makes a Great Salesperson? 20 Qualities for Crushing 2021 Revenue Goals," *Business2Community,* October 8, 2020, www.business2community.com/sales-management/what-makes-a-great-salesperson-20-qualities-for-crushing-2021-revenue-goals-02352472; Aja Frost, "26 Habits of Incredibly Successful Salespeople," *HubSpot,* May 12, 2021, https://blog.hubspot.com/sales/habits-to-become-a-more-effective-salesperson#; and "11 Essential Tips for the Modern Salesperson in 2022," *Forbes,* January 14, 2022, www.forbes.com/sites/forbescoachescouncil/2022/01/14/11-essential-tips-for-the-modern-salesperson-in-2022/?sh=4b042bd2cc9a.

8. See Steve Denning, "The One Thing the Greatest Salespeople All Have," *Forbes,* November 29, 2012, www.forbes.com/sites/stevedenning/2012/11/29/the-one-thing-the-greatest-salespeople-all-have/; and Mark Thacker, "What Makes a Great Salesperson? Key Personality Traits of Top Sales Performers," *Forbes,* July 15, 2020, www.forbes.com/sites/forbescoachescouncil/2020/07/15/what-makes-a-great-salesperson-key-personality-traits-of-top-sales-performers/?sh=7f58273659b5.

9. See "The LinkedIn State of Sales Report 2020," LinkedIn, https://business.linkedin.com/content/dam/me/business/en-us/sales-solutions/resources/pdfs/state-of-sales_pocketguide_r11_v2.pdf, accessed October 2021.

10. See Charles H. Schwepker, Jr., "Sales Training," American Marketing Association, April 26, 2020, www.ama.org/listings/2020/04/26/sales-training-2/; and Jeff Loechner, "$800 Billion for Sales Training," *MediaPost,* October 18, 2018, www.mediapost.com/publications/article/326525/800-billion-for-sales-training.html; and Alex Moore, "ATD's New State of Sales Training Shows Trends in Learning Spending, Hours for Salespeople," *ATD*, March 2, 2021, www.td.org/atd-blog/atds-new-state-of-sales-training-shows-trends-in-learning-spending-hours-for-salespeople.

11. See "The LinkedIn State of Sales Report 2020," LinkedIn, https://business.linkedin.com/content/dam/me/business/en-us/sales-solutions/resources/pdfs/state-of-sales_pocketguide_r11_v2.pdf, accessed October 2021.

12. See "The LinkedIn State of Sales Report 2020," LinkedIn, https://business.linkedin.com/content/dam/me/business/en-us/sales-solutions/resources/pdfs/state-of-sales_pocketguide_r11_v2.pdf, accessed October 2021.

13. Clint Boulton, "New IBM Sales Strategy Catches CIOs' Attention," *CIO,* March 2, 2021, www.cio.com/article/3609871/ibms-new-sales-strategy-has-caught-cios-attention.html?upd=1621292682205; "The Fourth State of Sales Report Shows How Teams Adapt to a New Selling Landscape," Salesforce.com, September 22, 2020, www.salesforce.com/news/stories/the-fourth-state-of-sales-report-shows-how-teams-adapt-to-a-new-selling-landscape/; Lain Chroust Ehmann, "Sales Up!" *SellingPower,* January/February 2011, p. 40; Shep Hykin, "57% of Sales Reps Missed Their Quotas Last Year," *Forbes,* September 2, 2019, www.forbes. com/sites/shephyken/2018/09/02/77-of-sales-reps-missed-their-quotas-last-year/#5fe3705952e4; "The LinkedIn State of Sales Report 2020," LinkedIn, accessed at https://business.linkedin.com/content/dam/me/business/en-us/sales-solutions/resources/pdfs/state-of-sales_pocketguide_r11_v2.pdf, October 2021; Kevin Fagan, "How COVID-19 Has Changed B2B Sales," *SourceToday,* January 29, 2021, www.sourcetoday.com/news/article/21153588/how-covid19-has-changed-b2b-sales; and "State of Sales," LinkedIn, accessed April 2022.

14. See Lori Wizdo, "The Ways and Means of B2B Buyer Journey Maps," Forrester, August 21, 2017, https://go.forrester.com/blogs/the-ways-and-means-of-b2b-buyer-journey-maps-were-going-deep-at-forresters-b2b-forum/; and "State of Sales," LinkedIn, accessed April 2022.

15. "The Health Bank," *Dubai Healthcare Guide*, https://www.dubaihealthcareguide.com/item/the-health-bank/; "The Health Bank," *DXH*, https://dxh.ae/en-US/The-Health-Bank; The Health Bank website, https://www.thbglobal.com/.

16. See Ron Miller, "AI Has Become Table Stakes in Sales, Customer Service, and Marketing," *Tech Crunch,* March 19, 2019, https://techcrunch.com/2019/03/19/ai-has-become-table-stakes-in-sales-customer-service-and-marketing-software/; Ariana Shannon, "Preparing to Prospect in 2021: What You Should Know," *SalesIntel*, December 23, 2020, https://salesintel.io/blog/how-to-improve-prospecting-strategy/; and Mike Kaput, "AI for Sales: What You Need to Know," *Marketing AI Institute*, March 3, 2022, www.marketingaiinstitute.com/blog/ai-in-sales.

17. See "The LinkedIn State of Sales Report 2020," LinkedIn, https://business.linkedin.com/content/dam/me/business/en-us/sales-solutions/resources/pdfs/state-of-sales_pocketguide_r11_v2.pdf, accessed October 2021

18. Example based on information from James C. Anderson, Nirmalya Kumar, and James A. Narus, "Become a Value Merchant," *Sales & Marketing Management*, May 6, 2008, pp. 20–23; and "Business Market Value Merchants," *Marketing Management*, March/April 2008, pp. 31+. For more discussion and examples, Larry Myler, "B2B Sales Insights for Commoditized Markets," *Forbes,* November 7, 2017, www.forbes.com/sites/larrymyler/2017/11/07/b2b-sales-insights-for-commoditized-markets/#7d74b1d8b63d; and Eric Almquist, Jamie Cleghorn, and Lori Sherer, "The B2B Elements of Value," *Harvard Business Review,* April 2018, https://hbr.org/2018/03/the-b2b-elements-of-value.

19. Seed and "State of Sales," LinkedIn, p. 17, accessed April 2022; and "Win When Buyers Win," LinkedIn, https://business.linkedin.com/sales-solutions/buyer-first, accessed April 2022.

20. "Marketing Fact Pack 2021," *Advertising Age*, December 2020, p. 5, https://s3-prod.adage.com/2020-12/aa_20201221supp_marketingfactpack2021_masterfinal-locked.pdf.

21. For more on the Uber and Nordstrom loyalty programs, see Tim Peckover, "Top 10 Customer Loyalty Programs of 2018," *smile.io,* December 27, 2018, https://blog.smile.io/top-10-customer-loyalty-programs-of-2018; Meredith Carey, "Uber's New Rewards Program Offers Priority Airport Pick-Up, Locked-In Pricing," *Conde Nast Traveler,* November 14, 2018, www.cntraveler.com/story/uber-rewards-program, "Welcome to the Nordy Club," *PR Newswire,* September 13, 2018, www.prnewswire.com/news-releases/welcome-to-the-nordy-club-300712142.html; and www.uber.com/ca/en/u/rewards/and https://shop.nordstrom.com/content/nordy-club, accessed September 2022.

22. See Paul Herbert, "Product Sampling Remix," *Adweek,* May 17, 2021, p. 9.

23. "Fewer Coupons Available, Right When We Need Them Most," *Coupons in the News*, March 10, 2022, https://couponsinthenews.com/2022/03/10/fewer-coupons-available-right-when-we-need-them-most/.

24. See www.happymeal.com, accessed October 2022.

25. Rafael Canton, "Lyft Promotion Targets Drivers' Parking Ticket Regrets," *Adweek,* August 12, 2021, www.adweek.com/performance-marketing/lyft-promotion-drivers-parking-ticket-regrets/#.

26. Casey Fitzgerald, "The 5 Big Raffles Worth Entering in Dubai This Summer," *Lovin*, August 8, 2022, https://lovin.co/dubai/en/sponsored/raffle-dss; "Dubai Summer Surprises Weekly Mercedes Mega Raffle Announced," *Khaleej Times*, July 12, 2021, https://www.khaleejtimes.com/uae/dubai-summer-surprises-weekly-mercedes-mega-raffle-announced; "DSS in Full Swing with Idealz; Full of Grand Prizes to Make This Summer Unforgettable," *Dubai Chronicle*, July 31, 2021, https://www.dubaichronicle.com/2021/07/31/dss-idealz-full-of-grand-prizes/.

27. See "Vans Announces House of Vans 2021, an Interactive Digital Pop-Up Experience," *Skateboard,* March 15, 2021, https://sbcskateboard.com/vans-announces-house-of-vans-2021-an-interactive-digital-pop-up-experience/; and "The Future of Events: B2B Marketers Weigh In-Person vs. Virtual Attendance," *Smart Brief,* October 13, 2021, https://corp.smartbrief.com/original/2021/09/future-events-b2b-marketers-weigh-person-vs-virtual-attendance.

28. Cadent Consulting Group, "2020 Marketing Spending Industry Study," https://cadentcg.com/wp-content/uploads/2020-Marketing-Spending-Industry-Study-UPDATE-120720.pdf, accessed October 2021.

29. Anna Martynova, "Red Bull's YouTube Strategy: Learning from the Best," *Tubics,* February 25, 2021, www.tubics.com/blog/red-bulls-youtube-strategy/; Greg Jarboe, "How Red Bull Quietly Changed Its Video Marketing Strategy," *Tubular Insights,* January 13, 2017, http://tubularinsights.com/red-bull-video-marketing-strategy/; Sean Cole, "Three Hallmarks of Red Bull's Social Media Content Strategy," *Econsultancy,* February 19, 2020, https://econsultancy.com/three-hallmarks-of-red-bulls-social-media-content-strategy/; James Ayles, "From Cliff Diving to Formula One and Football: How Red Bull Built a World-Class Sporting Empire," *Forbes,* January 14, 2020, www.forbes.com/sites/jamesayles/2020/01/14/from-cliff-diving-to-formula-one-and-football-how-red-bull-built-a-world-class-sporting-empire/?sh=1e6fbbdde1c1; Richard Parket, "Storytelling Is So Passé—Welcome to the Age of Story-Making," *B&T Magazine,* March 15, 2017, www.bandt.com.au/opinion/storytelling-passe-welcome-age-story-making; and www.coca-colacompany.com/investors, www.pepsico.com/investors, www.redbullmediahouse.com, and www.redbull.com, accessed October 2022.

30. See "CES Attendee Audit Summary," https://cdn.ces.tech/ces/media/pdfs/2020-ces-attendance-audit-summary.pdf, accessed October 2021; "The Global Impact of CES 2021," https://cdn.ces.tech/ces/media/pdfs/2021/ces-2021_by-the-numbers.pdf, accessed October 2021; and "Facts and Figures about Bauma," www.bauma.de/en/trade-fair/trade-fair-profile/facts-figures/, accessed October 2022.

31. See Elsie Boskamp, "Is the New Urban Outfitters Rewards Program Worth It?" *USA Today,* February 14, 2022, www.usatoday.com/story/money/reviewed/2022/02/14/urban-outfitters-sign-up-membership-get-freebies-and-savings/6776763001/; Jamie Grill-Goodman, "Urban Outfitters Pilots Paid Membership Program," *Retail Info Systems,* March 15, 2021, https://www.risnews.com/urban-outfitters-pilots-paid-membership-program; Robert Williams, "Urban Outfitters Tests Paid Membership Program to Boost Loyalty," *Marketing Dive,* March 2, 2021, www.marketingdive.com/news/urban-outfitters-tests-paid-membership-program-to-boost-loyalty/596109/; Warren Shoulberg, "Best Buy, Urban Outfitters Latest to Discover Membership Has Its Privileges—and Its Profits, Too," *Forbes,* April 9, 2021, www.forbes.com/sites/warrenshoulberg/2021/04/09/best-buy-urban-outfitters-latest-to-discover-membership-has-its-privilegesand-its-profits-too/?sh=b9e0abe189da; and information from www.macrotrends.net/, www.urbn.com/who-we-are/history, www.urbanoutfitters.com/uo-rewards, and www.urbanoutfitters.com/help/membership-faqs, accessed October 2022.

Chapter 17

1. Alistair Charlton, "The MoonSwatch Is Going on Tour—and Here's How You Can Buy One," *T3*, July 13, 2022, https://www.t3.com/news/moonswatch-tour; Nick Foulkes "Omega and Swatch Surprise the Market with a £207 MoonSwatch," *Financial Times*, March 24, 2022, https://www.ft.com/content/7ca0dac6-48ea-4ccf-af36-468a9cac3558; Andy Hoffman, "Omega Moonwatch Surges after Cheap Swatch Version Goes Wild," *Bloomberg*, July 8, 2022, https://www.bloomberg.com/news/articles/2022-07-08/omega-moonwatch-sales-surge-after-cheap-swatch-version-goes-wild?leadSource=uverify%20wall; Oliver R. Müller, "Editorial: MoonSwatch, the Magnificent Publicity Stunt that Saved Swatch," *SJX Watches*, July 8, 2022, https://watchesbysjx.com/2022/07/magnificent-publicity-stunt-moonswatch.html; Robin Swithinbank, "MoonSwatch: Has the Frenzy Changed the Future?," *The New York Times*, August 10, 2022, https://www.nytimes.com/2022/08/10/fashion/watches-moonswatch-omega.html; Joe Thompson, "Four Revolutions Part 2: A Concise History Of The Fashion Watch Revolution," *Hodinkee*, October 24, 2017, https://www.hodinkee.com/articles/four-revolutions-fashion-watches; "The MoonSwatch Craze Is an Omega Ad Campaign," *Financial Times*, April 1, 2022, https://www.ft.com/content/37deb2c5-d257-49dc-a8c6-67a0ad0f0deb.

2. See Jessica Young, "US eCommerce Grows 14.2% in 2021," *DigitalCommerce360*, February 18, 2022, www.digitalcommerce360.com/article/us-ecommerce-sales/; Dave Chaffey, "Digital Marketing Statistics Sources to Inform Your Marketing Strategy," *Smart Insights,* March 31, 2022, www.smartinsights.com/marketplace-analysis/customer-analysis/digital-marketing-statistics-sources/; and www.statista.com/statistics/242552/digital-advertising-spending-in-the-us/, accessed October 2022.

3. Jessica Young, "U.S. eCommerce Grows 14.2% in 2021," DigitalCommerce360, February 18, 2022, and www.digitalcommerce360.com/article/us-ecommerce-sales; "U.S. Digital Advertising Industry—Statistics & Facts," *Statista,* May 4, 2022, www.statista.com/topics/1176/online-advertising/#dossierContents__outerWrapper

4. See Nicole Perrin, "US Digital Ad Spending 2021," *eMarketer,* April 14, 2021, www.emarketer.com/content/us-digital-ad-spending-2021; Bradley Johnson, "Global Advertising Forecast to Set a New Record in 2021," *Advertising Age,* December 21, 2020, https://adage.com/article/datacenter/global-advertising-forecast-set-new-record-2021/2302256; and "U.S. Digital Advertising Industry—Statistics and Facts," *Statista,* March 25, 2021, www.statista.com/topics/1176/online-advertising/.

5. See David Gianatasio, "Travelocity's Gnome Is Off on More Adventures, and Wants You to Join," *Muse by Clio*, March 3, 2020, https://musebycl.io/advertising/travelocitys-gnome-more-adventures-and-wants-you-join; www.expediagroup.com, www.expediagroup.com/about, www.expediagroup.com/travel-with-us/default.aspx, and www.travelocity.com/inspire/the-roaming-gnomes-favorite-sweet-treats-across-the-u-s/, accessed October 2022.

6. See Roberta Holland, "Why the Fed Needs to Pay Attention to the 'Amazon Effect' on Online Pricing," *Forbes*, May 20, 2019, www.forbes.com/sites/hbsworkingknowledge/2019/05/20/why-the-fed-needs-to-pay-attention-to-the-amazon-effect-on-online-pricing/.

7. Katie McCall, "What You Can Learn from Wendy's Social Media Strategy," *RivalIQ*, February 12, 2022, www.rivaliq.com/blog/wendys-social-media-strategy/; and www.twitter.com/Wendys and www.wendys.com/daves-legacy, accessed October 2022.

8. See "Facebook Trends and Statistics," *datareportal,* May 11, 2022, https://datareportal.com/essential-facebook-stats#; and http://revealbot.com/blog/facebook-advertising-costs/, accessed June 2022.

9. See "It's All A/Bout Testing: The Netflix Experimentation Platform," *Netflix Tech Blog*, April 29, 2016, http://netflixtechblog.com/its-all-a-bout-testing-the-netflix-experimentation-platform-4e1ca458c15; and "A Survey of Causal Inference Applications at Netflix," *Netflix Tech Blog,* May 21, 2022, https://netflixtechblog.com/a-survey-of-causal-inference-applications-at-netflix-b62d25175e6f.

10. "SHEIN's Market Strategy: How the Chinese Fashion Brand Is Conquering the West," daxueconsulting, July 26, 2021, https://daxueconsulting.com/shein-market-strategy/; and Clemens Wagner, "SHEIN: The Four Pillars of the Currently Most Successful Shopping App and What German Brands Can Learn from It," *Online Marketing.de*, May 8, 2021, https://onlinemarketing.de/e-commerce/shei-erfolgreichste-shopping-app-marken-lernen, accessed October 2021.

11. See Peter Barzilai, "Working Out from Home during the Coronavirus Crisis: How Peloton Brings the Community to You," *USA Today,* April 3, 2020, www.usatoday.com/story/sports/2020/04/03/peloton-brings-community-those-home-during-coronavirus-pandemic/5112879002/; Diana Bradley, "Building a Community, Not a Cult: How Peloton Shapes Its Storytelling Efforts," *PR Week,* March 28, 2018, www.prweek.com/article/1460509/building-community-not-cult-peloton-shapes-its-storytelling-efforts; Barry W. Enderwick, "Peloton Proves the Value of Building Community," *Medium,* June 30, 2020, https://medium.com/swlh/peloton-proves-the-value-of-building-community-169a4d969aee; and https://blog.onepeloton.com/peloton-community-features/, accessed October 2022.

12. See Meaghan Yuyen, "Programmatic Digital Display Advertising in 2022: Ad Spend, Formats, and Forecast," May 23, 2022, www.insiderintelligence.com/insights/programmatic-digital-display-ad-spending/.

13. See Nicole Perrin, "US Programmatic Digital Display Advertising Outlook 2021," *Insider Intelligence,* January 11. 2021, www.

emarketer.com/content/us-programmatic-digital-display-advertising-outlook-2021.

14. See https://ads.google.com/intl/en_id/home/resources/reach-larger-new-audiences/, accessed June 2022.

15. Dan Shewan, "How Much Does Google Ads Cost [2021]," *Word Stream,* January 21, 2021, www.wordstream.com/blog/ws/2015/05/21/how-much-does-adwords-cost; and Hephzy Asaolu, "Online Ads Cost: Everything You Need to Know in 2022," *Leadsbridge*, March 7, 2022, https://leadsbridge.com/blog/ads-cost/#7-google-paid-ads-cost.

16. See Nicole Perrin, "Search Marketing 2020," *eMarketer,* November 2, 2020, www.emarketer.com/content/search-marketing-2020; Perrin, "Search Advertising Is Resilient Thanks to Ecommerce Channel," *eMarketer,* April 18, 2021, www.emarketer.com/content/search-advertising-resilient-thanks-ecommerce-channel; and Sara Lebow, "Google Collects More Than Half of All U.S. Search Ad Revenue," *eMarketer,* April 12, 2021, www.emarketer.com/content/google-collects-more-than-half-of-all-us-search-ad-revenue.

17. Allen Finn, "35 Face-Melting Email Marketing Stats," *WordStream,* November 1, 2020, www.wordstream.com/blog/ws/2017/06/29/email-marketing-statistics; Steven Macdonald, "The Science behind Email Open Rates," March 24, 2021, www.superoffice.com/blog/email-open-rates/; and Maryam Mohsin," 10 Email Marketing Stats You Need to Know in 2022," *Oberlo*, December 11, 2021, www.oberlo.com/blog/email-marketing-statistics.

18. See Lindsay Kolovich Cox, "26 Examples of Brilliant Email Marketing Campaigns," *HubSpot*, May 6, 2022, https://blog.hubspot.com/marketing/email-marketing-examples-list; and www.charitywater.org, accessed October 2022.

19. Mick G., "How Many Emails Are Sent Per Day in 2021?" *Review42.com*, March 15, 2021, http://review42.com/resources/how-many-emails-are-sent-per-day/; and www.statista.com/statistics/420391/spam-email-traffic-share/ and www.superoffice.com/blog/email-open-rates/, accessed October 2022.

20. "The Ultimate Guide to Video Marketing," *HubSpot*, May 11, 2022, https://blog.hubspot.com/marketing/video-marketing; Maryam Mohsin, "10 Video Marketing Statistics That You Need to Know in 2022," *Oberlo*, December 15, 2021, www.oberlo.com/blog/video-marketing-statistics; and "Hours of Video Uploaded to YouTube Every Minute as of February 2020," *Statista*, April 4, 2022, www.statista.com/statistics/259477/hours-of-video-uploaded-to-youtube-every-minute/.

21. Emmet McGonagle, "Kick Off: The Best Ads of Uefa Euro 2020," *Campaign*, June 10, 2021, https://www.campaignlive.co.uk/article/kick-off-best-ads-uefa-euro-2020/1718754, accessed October 2021.

22. Troy Dreier, "The Force Was Strong with This One," *Streaming Media Magazine*, April/May 2011, pp. 66–68; Christine DesMarais, "Want Your Video to Go Viral? The Rules Have All Changed," *Inc,* February 5, 2018, www.inc.com/christina-desmarais/5-steps-to-a-viral-video-according-to-a-guy-behind-youtubes-number-one-ad-of-decade.html; and John Brackett, "Four Ways to Improve Your Video Marketing Strategy," *Forbes*, May 12, 2022, www.forbes.com/sites/theyec/2022/05/12/four-ways-to-improve-your-video-marketing-strategy/.

23. For these and other examples, see Michael Brenner, "10 Amazing Large Company Blogs to Inspire Your Content Marketing," *Marketing Insider Group,* September 23, 2020, http://marketinginsidergroup.com/content-marketing/the-10-best-large-company-blogs-in-the-world/; and https://ohmy.disney.com/, www.patagonia.com/stories/, and http://blog.rosettastone.com, accessed October 2022.

24. Claire Coghlan, "How 'We Wore What' Blogger Danielle Bernstein Went from Sophomore to Seven Figures in Under 6 Years," *Forbes,* August 23, 2017, www.forbes.com/sites/clairecoghlan/2017/08/23/how-we-wore-what-blogger-danielle-bernstein-went-from-sophomore-to-seven-figures-in-under-6-years/#415d42275843; Eddie Roche, "Danielle Bernstein Gets Real about Money and the Power of Influence," *The Daily Front Row,"* February 11, 2019, https://fashionweekdaily.com/danielle-bernstein-fashion-influencer/; and http://weworewhat.com/, accessed June 2022.

25. "A Deep Dive into the Social Media Habits and Performance of Nike," *Unmetric,* https://unmetric.com/brands/nike, accessed June 2022.

26. See "Number of Active Etsy Sellers from 2012 to 2021," *Statista*, April 29, 2022, www.statista.com/statistics/409374/etsy-active-sellers/; www.instagram.com/etsy/, www.pinterest.com/etsy/, https://investors.etsy.com/financials/annual-reports-and-proxy/default.aspx, and www.etsy.com/about, accessed October 2022.

27. See Carmen Ang, "Ranked: The World's Most Popular Social Networks, and Who Owns Them," *Visual Capitalist*, December 6, 2021, www.visualcapitalist.com/ranked-social-networks-worldwide-by-users/.

28. For these and other examples, see www.farmersonly.com and www.cafemom.com, accessed October 2022.

29. See "Measuring Snapchat ROI: Taco Bell's Record-Breaking Snapchat Filter," Bell Communication, https://bellecommunication.com/measuring-snapchat-roi-taco-bells-record-breaking-snapchat-filter/, accessed June 2022.

30. Seb Joseph, "How Adidas Is Using WhatsApp as a Direct Marketing Channel," *Digiday,* February 17, 2020, https://digiday.com/marketing/adidas-using-whatsapp-direct-marketing-channel/.

31. Matt Miller, "Beyond Gaming: How Sports Brands Are Marketing on Twitch," *Amazon Ads,* October 26, 2021, https://advertising.amazon.com/blog/twitch-sports-advertising; and Mara Kottke, "Keep on Streaming—How Twitch Can Find Its Place in Sports Marketing," *Beyond the Match,* November 15, 2021, https://beyond-the-match.com/en/insights/keep-on-streaming-how-twitch-can-find-its-place-in-sports-marketing/.

32. For these and other figures in this paragraph, see https://nwn.blogs.com/nwn/2022/01/nic-miltham-metaverse-monthly-active-users-q1-2022.html,www.globenewswire.com/news-release/2022/04/11/2419827/0/en/Metaverse-Market-Size-2022-2029-Worth-USD-1527-55-Billion-Exhibiting-a-CAGR-of-47-6.html, and www.gartner.com/en/newsroom/press-releases/2022-02-07-gartner-predicts-25-percent-of-people-will-spend-at-least-one-hour-per-day-in-the-metaverse-by-2026, accessed June 2022.

33. See Mary Blackston, "Why JetBlue Is the Best Example of Customer Service," *Success Agency Growth HQ Blog,* October 18, 2017, www.successagency.com/growth/2017/10/18/jetblue-best-customer-service/; and Lindsay Kolowich, "Delighting People in 140 Characters: An Inside Look at JetBlue's Customer Service Success," *HubSpot,* http://blog.hubspot.com/marketing/jetblue-customer-service-twitter, accessed June 2022.

34. See Mary Meisenzahl, "Inside the Virtual Worlds Created by Wendy's, Chipotle, and McDonald's as the Metaverse Becomes the Latest Battleground for Fast Food," *Business Insider,* April 9, 2022, www.businessinsider.com/chipotle-mcdonalds-wendys-metaverse-virtual-worlds-photos-2022-4; Sig Ueland, "12 Examples of Brands in the Metaverse," *Practical Ecommerce,* January 25, 2022, www.practicalecommerce.com/12-examples-of-brands-in-the-metaverse; Geri Mileva, "50+ Metaverse Statistics—Market Size & Growth (2022)," *Influencer Marketing Hub,* April 26, 2022, https://influencermarketinghub.com/metaverse-marketing/; Hannah Mayer, "The Future of the Metaverse: What 2022 Has In Store for the Immersive Digital World," Forbes, January 24, 2022, www.forbes.com/sites/hannahmayer/2022/01/24/the-future-of-the-metaverse-what-2022-has-in-store-for-the-immersive-digital-world/?sh=5190b118335a; Alexandra Bruell, "Brands No Longer See Metaverse-Like Worlds As Abstract Gimmicks," *Wall Street Journal,* November 29, 2021, www.wsj.com/articles/brands-no-longer-see-metaverse-like-worlds-as-abstract-gimmicks-11638190802; "Metaverse Market

Size [2022-2029] Worth USD 1527.55 Billion," *Global Newswire*, April 11, 2022, www.globenewswire.com/news-release/2022/04/11/2419827/0/en/Metaverse-Market-Size-2022-2029-Worth-USD-1527-55-Billion-Exhibiting-a-CAGR-of-47-6.html; Jade Chan, "Jimmy John's Metaverse Move Involves Real-life Sandwiches," *Advertising Age*, May 20, 2022, https://adage.com/creativity/work/jimmy-johns-metaverse-move-involves-real-life-sandwiches/2417911; and "Marketing in the Metaverse: An Opportunity for Innovation and Experimentation," *McKinsey Quarterly*, May 24, 2022, www.mckinsey.com/business-functions/growth-marketing-and-sales/our-insights/marketing-in-the-metaverse-an-opportunity-for-innovation-and-experimentation.

35. Ying Lin, "10 Mobile Usage Statistics Every Marketer Should Know in 2021," *Oberlo*, April 22, 2020, www.oberlo.com/blog/mobile-usage-statistics; and Deyan Georgiev, "39+ Smartphone Statistics You Should Know in 2022," March 7, 2022, https://review42.com/resources/smartphone-statistics/.

36. See "Insights from Trending mCommerce Statistics," *SimiCart Blog*, February 23, 2021, www.simicart.com/blog/m-commerce-statistics/.

37. See http://tripadvisor.mediaroom.com/us-about-us, accessed June 2022.

38. See John Koetsier, "Top Apps of 2022 by Installs, Spend, and Active Users," *Forbes*, March 23, 2022, www.forbes.com/sites/johnkoetsier/2022/03/23/top-apps-of-2022-by-installs-spend-and-active-users-report/?sh=2fc79ee1d3ac; Joe Hindy, "The Best Running Apps for Android," *AndroidAuthority*, April 19, 2022, www.androidauthority.com/best-running-apps-android-657641/; Jessica Jones, "Adidas Runtastic App Review," *Fit Rated*, January 12, 2022, www.fitrated.com/gear/workout-apps/adidas-runtastic-app-review/; "Arby's Escape Room," www.shortyawards.com/12th/arbys-escape-room, accessed June 2022; "Quick Reactions for Infinity Global," www.shortyawards.com/12th/quick-reactions-for-infiniti-global, accessed June 2022; and www.sephora.com/beauty/mobile, www.adforum.com/creative-work/ad/player/34616010/quick-reactions-for-infiniti-global/infiniti; www.target.com/c/target-app/-/N-4th2r, www.chick-fil-a.com/appdownload, accessed June 2022.

39. See Sarah Perez, "U.S. E-Commerce on Track for Its First $1 Trillion Year by 2022 due to Lasting Pandemic Impacts," *TechCrunch*, March 15, 2021, https://techcrunch.com/2021/03/15/u-s-e-commerce-on-track-for-its-first-1-trillion-year-by-2022-due-to-lasting-pandemic-impacts/; and www.digitalcommerce360.com/article/quarterly-online-sales/#, accessed June 2022.

40. See Pamela N. Danziger, "Home Depot's Transformation to a Fully Interconnected Retailer Shows Record-Breaking Results," *Forbes*, ebruary 26, 2020, www.forbes.com/sites/pamdanziger/2020/02/26/home-depots-transformation-to-a-fully-interconnected-retailer-shows-record-breaking-results/?sh=72418b517330; Home Depot annual reports and other information found at https://ir.homedepot.com/ and http://ir.homedepot.com/financial-reports/annual-reports/recent, accessed June 2022.

41. See "How Much in Online Revenue Can Walmart Generate in 2020?," *Trefis: Collaborative on Forecasts*, February 28, 2020, www.trefis.com/stock/wmt/articles/483135/how-much-in-online-revenue-can-walmart-generate-in-2020/2020-02-28; www.zdnet.com/article/walmart-ceo-outlines-omnichannel-retail-strategy-to-shareholders-associates/ and www.statista.com/statistics/1109330/walmart-ecommerce-sales-by-division-worldwide/, accessed June 2022.

42. Jonathan Z. Zhang, "Why Catalogs Are Making a Comeback," *Harvard Business Review*, February 11, 2020, http://hbr.org/2020/02/why-catalogs-are-making-a-comeback.

43. Clint Fontanella, "15 Examples of Brands with Brilliant Omni-Channel Experiences," http://blog.hubspot.com/service/omni-channel-experience, accessed October 2022.

44. See Alberto Cavallo, "Are Online and Offline Prices Similar? Evidence from Large Multi-Channel Retailers," *American Economic Review*, 107(1), January 2017, p. 283–303; and www.natlawreview.com/article/does-french-lego-case-threaten-building-blocks-your-pricing-policy-online-sellers, accessed June 2022.

45. See "Consumer Privacy Survey Shows 70% Want Personal Data to Stay on Mobile Phones," *BusinessWire*, November 13, 2018, www.businesswire.com/news/home/20181113005171/en/Consumer-Privacy-Survey-Shows-70-Personal-Data; "SAS Survey: 67 Percent of US Consumers Think Government Should Do More to Protect Data Privacy," December 10, 2018, www.sas.com/en_us/news/press-releases/2018/december/data-management-data-privacy-survey.html; Sam Sabin, "As Senate Preps for Latest Privacy Hearing, Stakeholders Look to Next Congress for Legislation," *Morning Consult*, September 22, 2020, "How Americans See Digital Privacy Issues amid the COVID-19 Outbreak," May 4, 2020, http://morningconsult.com/2020/09/22/congress-data-privacy-bill-future/, and www.pewresearch.org/fact-tank/2020/05/04/how-americans-see-digital-privacy-issues-amid-the-covid-19-outbreak, accessed June 2022.

46. Dylan Currin, "Are You Ready? Here Is All the Data Facebook and Google Have on You," *The Guardian*, March 28, 2018, www.theguardian.com/commentisfree/2018/mar/28/all-the-data-facebook-google-has-on-you-privacy; and Ben Popken, "Google Sells the Future, Powered by Your Personal Data," *NBC News*, May 10, 2018, www.nbcnews.com/tech/tech-news/google-sells-future-powered-your-personal-data-n870501.

47. See www.hsdl.org/c/2021-internet-crime-report/, accessed June 2022.

48. See Terry Collins, "Advocacy Groups Urge FTC to Be Tougher on Google with Protecting Kids Privacy on Apps," *USA Today*, March 31, 2021, www.usatoday.com/story/tech/2021/03/31/ftc-google-tougher-protecting-kids-privacy-apps/4809416001/; Lynda Lin Grigsby, "Social Media's Effect on Kids' Well-Being Is a Public Health Emergency," *Romper*, May 17, 2022, www.romper.com/parenting/social-medias-effect-on-kids-wellbeing-is-a-public-health-emergency; and "21 Completely Insane Social Media Statistics," *Content Factory*, www.contentfac.com/more-people-own-cell-phone-than-toothbrush-10-crazy-social-media-statistics/, accessed October 2022.

49. Maggie Miller, "Swiss Authorities Raid Home of Hacker Potentially Responsible for Breaching Surveillance Cameras," *The Hill*, March 15, 2021, http://thehill.com/policy/cybersecurity/543255-swiss-authorities-raid-home-of-hacker-potentially-responsible-for; and "Hack of '150,000 Cameras' Investigated by Camera Firm," *BBC News*, March 10, 2020, www.bbc.com/news/technology-56342525.

50. See www.webimax.com/digital-marketing-services/reputation-management, accessed October 2022.

51. See "Three-Quarters of Americans Concerned about Identity Theft during Holiday Shopping Season," *Generali Global Assistance*, November 28, 2018, www.prnewswire.com/news-releases/nearly-three-quarters-of-americans-concerned-about-identity-theft-during-holiday-shopping-season-300756518.html; Joseph Johnson, "Annual Number of Data Breaches and Exposed Records in the United States from 2005 to 2020," *Statista*, March 3, 2021, www.statista.com/statistics/273550/data-breaches-recorded-in-the-united-states-by-number-of-breaches-and-records-exposed; and "2021 Annual Date Breach Report," *Identity Theft Resource Center*, www.idtheftcenter.org/publication/2021-annual-data-breach-report-2/, accessed June 2022.

52. Emily Birnbaum, "Meet the App Developers Battling Apple and Google," *Politico*, April 20, 2021, www.politico.com/newsletters/morning-tech/2021/04/20/meet-the-app-developers-battling-apple-and-google-794769; Ian Sherr, "Apple's 'Walled Garden' Walls Will Get Even Higher with iOS 14, iPadOS 14, and MacOS Big Sur," *C/Net*, July 2, 2020, www.cnet.com/news/

apple-walled-garden-walls-will-get-even-higher-with-ios-14-ipados-14-macos-big-sur/.

53. See Saryu Nayyar, "Is It Time for a U.S. Version of GDPR?," *Forbes*, February 1, 2022, www.forbes.com/sites/forbestechcouncil/2022/02/01/is-it-time-for-a-us-version-of-gdpr/; and "Complete Guide to GDPR Compliance," https://gdpr.eu/, accessed October 2022.

54. Thompson Hine, "Connecticut Enacts New Consumer Data Privacy Law," *Lexology*, May 12, 2022, www.lexology.com/library/detail.aspx?g=8d33e152-b34c-4210-965b-8304556352e2; and Kelsey Sutton, "The Age of Consent," *Adweek*, January 7, 2019, p. 8; http://gdpr-info.eu, accessed October 2022.

55. See "FTC to Discuss Children's Privacy, Endorsement Guides at Next (Virtual) Open Commission Meeting: May 19, 2022, 1PM ET," *The National Law Review*, May 16, 2022, www.natlawreview.com/article/ftc-to-discuss-children-s-privacy-endorsement-guides-next-virtual-open-commission; and www.ftc.gov/business-guidance/privacy-security/childrens-privacy, accessed October 2022.

56. Information on TrustArc and TRUSTe at http://trustarc.com/truste-certifications/enterprise-privacy-certification/, accessed June 2022.

57. Nate Lord, "An Expert Guide to Securing Sensitive Data: 34 Experts Reveal the Biggest Mistakes Companies Make with Data Security," *DataInsider*, February 7, 2021, http://digitalguardian.com/blog/expert-guide-securing-sensitive-data-34-experts-reveal-biggest-mistakes-companies-make-data.

58. "TikTok Ad Revenues to Surpass Twitter and Snapchat Combined," *Insider Intelligence*, April 11, 2022, www.emarketer.com/newsroom/index.php/tiktok-ad-revenues-to-surpass-twitter-and-snapchat-combined/; Kevin Systrom, "Instagram by the Numbers: Stats, Demographics & Fun Facts," *Omnicore*, February 27, 2022, www.omnicoreagency.com/instagram-statistics/; Jairene Cruz-Eusebio, "The Different Types of Instagram Ads and When to Use Them," *Brax*, January 7, 2022, www.brax.io/blog/the-different-types-of-instagram-ads-and-when-to-use-them; "Instagram vs. Facebook vs. Twitter vs. Snapchat: Which Is the Most Suitable for Business Marketing?" *LinkedIn*, November 11, 2021, www.linkedin.com/pulse/instagram-vs-facebook-twitter-snapchat-which-most-/; Ryan Holmes, "As Facebook Shifts, Instagram Emerges as a New Home for Brands," *Forbes*, February 1, 2018, www.forbes.com/sites/ryanholmes/2018/02/01/as-facebook-shifts-instagram-emerges-as-a-new-home-for-brands/#567780a37834; and information from www.businessofapps.com, www.business.instagram.com/advertising and www.business.instagram.com/shopping/, accessed October 2022.

Chapter 18

1. See Adele Peters et al., "The World's 50 Most Innovative Companies 2022," *Fast Company*, March/April 2022, pp. 28–97; Felix Richter, "Amazon Leads $180-Billion Cloud Market," Statista, February 8, 2022, www.statista.com/chart/18819/worldwide-market-share-of-leading-cloud-infrastructure-service-providers/; Matt Weinberger, "Microsoft CEO Satya Nadella's Genius Plan: To Swap One Monopoly for Another," *Business Insider*, August 29, 2015, www.businessinsider.com/microsoft-ceo-satya-nadella-focus-on-office-2015-8; Tom Vander Ark, "Hit Refresh: How a Growth Mindset Culture Tripled Microsoft's Value," *Forbes*, April 18, 2018, www.forbes.com/sites/tomvanderark/2018/04/18/hit-refresh-how-a-growth-mindset-culture-tripled-microsofts-value/#4904470652ad; Jon Markman, "How Old-Man Microsoft Grew Like a Kid Last Year," *Forbes*, January 26, 2022, www.forbes.com/sites/jonmarkman/2022/01/26/how-old-man-microsoft-grew-like-a-kid-last-year/?sh=5350286361b4; Sean Endicott, "Microsoft Teams Now Has More Than 270 Million Monthly Active Users," *Windows Central*, January 26, 2022, www.windowscentral.com/microsoft-teams-now-has-more-270-million-monthly-active-users; and www.microsoft.com and www.microsoft.com/en-us/investor, accessed October 2022.

2. S. Almeida, A. C. Campos, C. Costa, and J. M. Simões, "Competing through Coopetition: A Strategy for Success in Hotel Marketing Consortia," *Journal of Mediterranean Tourism Research*, Vol. 1, No. 1, 2021, pp. 39–52, https://www.doi.org/10.5038/2770-7555.1.1.1004; Ryan Bohl, "Saudi Arabia & UAE: Competition among Allies," *New Lines Institute*, April 29, 2021, https://newlinesinstitute.org/saudi-arabia/saudi-arabia-uae-competition-among-allies/; Ministry of Environment, "Tourism Sector Green Growth National Action Plan 2021–2025," 2020, Amman, The Hashemite Kingdom of Jordan; Vinod Nair, "Oman's Tourism Strategy to Focus on Luxury, Nature, Adventure," *Oman Observer*, March 29, 2022, https://www.omanobserver.om/article/1116878/oman/tourism/omans-tourism-strategy-to-focus-on-luxury-nature-adventure; Tomasz Napierała and Kemal Birdir, "Competition in Hotel Industry: Theory, Evidence and Business Practice," *European Journal of Tourism Hospitality and Recreation* (December 2020), https://doi.org/10.2478/ejthr-2020-0017; Dallen J. Timothy, "Tourism Trends in the MENA Region," *IEMed Mediterranean Yearbook 2019*, https://www.iemed.org/publication/tourism-trends-in-the-mena-region/; World Tourism Organization, "Middle East Members Focus on Tourism's Sustainable Recovery," March 28, 2022, https://www.unwto.org/new/middle-east-members-focus-on-tourism-sustainable-recovery; G. Yap, S. Saha, and S. S. Alsowaidi, "The Competitiveness of Qatari Tourism: A Comparative and SWOT Analysis," *Advances in Social Sciences Research Journal* Vol. 9, No. 7, 2022, pp. 187–210; "Development Efforts Focus on 14 Tourism Clusters in Oman," Oxford Business Group, https://oxfordbusinessgroup.com/analysis/key-growth-areas-development-efforts-focus-14-tourism-clusters; "Jordan Tourism Board Launches 'Breathe' Marketing Campaign to Promote Jordan as a Tourism Destination in the GCC," *Visit Jordan*, June 15, 2021, https://international.visitjordan.com/MediaCenter/ShowNews/25; "Jordan's Tourism Revenue Triples," *Al-Monitor*, August 17, 2022, https://www.al-monitor.com/originals/2022/08/jordans-tourism-revenue-triples; "Qatar's $220 Billion Tourism Boost, Will It Pay Off?," *Euronews*, November 24, 2022, https://www.euronews.com/next/2022/11/23/qatars-220-billion-tourism-boost-will-it-pay-off; "Qatar Tourism and Rehlat enter a partnership to boost tourism," *Zawya*, press release, October 17, 2022, https://www.zawya.com/en/press-release/companies-news/qatar-tourism-and-rehlat-enter-a-partnership-to-boost-tourism-qvxbel8r; "Tourism," Government Communications Office, State of Qatar, https://www.gco.gov.qa/en/focus/tourism/.

3. See www.masterchefappliancecenter.com/manufacturers/viking/, accessed October 2022.

4. See www.lg.com/us/lg-signature/about-us#ABOUTUS-BRAND_THEME, accessed October 2022.

5. See Minda Smiley, "Wendy's Calls Out McDonald's Frozen Beef in Super Bowl Ad," *The Drum*, January 31, 2018, www.thedrum.com/news/2018/01/31/wendy-s-calls-out-mcdonald-s-frozen-beef-super-bowl-ad; Jessica Wohl, "Why Wendy's Is Lovin' Its Attack Ads on McDonald's," *Advertising Age*, September 10, 2018, p. 5; Kristina Monllos, "How Wendy's Cooked Up Its Killer Frozen Beef Tweet to McDonald's," *Adweek*, March 31, 2017, www.adweek.com/brand-marketing/how-wendys-cooked-up-its-killer-frozen-beef-tweet-to-mcdonalds/; Kyle O'Brian, "Ads We Like: Wendy's Trolls McDonald's While Launching Its Breakfast Assault," *The Drum*, March 2, 2020, www.thedrum.com/news/2020/03/02/ads-we-wendy-s-trolls-mcdonald-s-while-launching-its-breakfast-assault; Jessica Wohl, "Wendy's

Blasts McDonald's and Offers a Guarantee for Its New Fries," *Advertising Age*, October 14, 2021, https://adage.com/article/marketing-news-strategy/wendys-blasts-mcdonalds-ads-its-new-fries/2373336; and www.nfl.com/videos/nfl-super-bowl-commercials/0ap3000000913990/Wendy-s-fresh-beef-burgers, accessed September 2022.

6. See Jill Kransy, "Why Competition May Be the Best Thing for Your Business," *Inc.*, November 13, 2013, www.inc.com/magazine/201311/jill-krasny/more-competition-is-better-for-start-ups.html; Charles Riley, "Volkswagen Is Betting Its Future on Electric Cars," *CNN Business*, March 12, 2019, www.cnn.com/2019/03/12/business/volkswagen-electric-cars/index.html; and Volkswagen's Future in Electric Cars," *GreenCars*, March 12, 2021, www.greencars.com/post/volkswagens-future-in-electric-cars.

7. Adapted from information found in W. Chan Kim and Renée Mauborgne, *Blue Ocean Strategy, Expanded Edition: How to Create Uncontested Market Space and Make Competition Irrelevant* (Boston: Harvard Business Press, 2015). For other discussion, see Kim and Mauborgne, "Red Ocean Traps," *Harvard Business Review*, March 2015, pp. 68–73; and "Blue Ocean Strategy," www.blueoceanstrategy.com, accessed October 2022.

8. For these and other examples, see "Blue Ocean Strategy: Grow Your Business without Having to Compete," *eleken*, April 14, 2021, www.eleken.co/blog-posts/blue-ocean-strategy-grow-your-business-without-having-to-compete; and Amanda Atrash, "The Blue Ocean Strategy Summary (With 4 Examples)," ClearPoint Strategy, www.clearpointstrategy.com/blue-ocean-strategy/, accessed October 2022.

9. See Tomio Geron, "Block Says It Will Keep Growing, and Wall Street Loved to See It," *Protocol*, February 24, 2022, www.protocol.com/bulletins/block-earnings-q4-2021; Matthew Johnston, "Block (Square) Q4 2021 Earnings Report Recap," *Investopedia*, February 25, 2022, www.investopedia.com/block-q4-fy2021-earnings-report-recap-5220203; Steven Levy, "Jack Dorsey Becomes a Block Head," *Wired*, December 1, 2021, www.wired.com/story/square-block-new-name/;"Squaring the Circle That Is Square," *PYMNTS*, April 17, 2017, www.pymnts.com/mpos-tracker/2017/square-jack-dorsey-cash-capital-first-data-vantiv-paypal-uk-apple-pay-debit-pymnts-mpos-tracker-mobile-payments-mobile-point-of-sale/; Harry McCracken, "Square Takes on the Clunky Old-School Payment Terminal," *Fast Company*, October 18, 2018, www.fastcompany.com/90253151/square-takes-on-the-clunky-old-school-payment-terminal; and information from www.squareup.com/us/en and https://block.xyz/, accessed October 2022.

10. See "Brewers Association Releases the Top 50 Brewing Companies by Sales Volume for 2020," March 30, 2021, www.brewersassociation.org/press-releases/brewers-association-releases-the-top-50-brewing-companies-by-sales-volume-for-2020/; Dinah Eng, "Samuel Adams's Beer Revolution," *Fortune*, April 8, 2013, pp. 23–26; Justin Kendall, "Boston Beer Revenue Tops $2 Billion in 2021; Hard Seltzer Slowdown Drags Q4 Earnings," *Brewbound*, February 16, 2022, www.brewbound.com/news/boston-beer-revenue-tops-2-billion-in-2021-hard-seltzer-slowdown-drags-q4-earnings#; and www.bostonbeer.com/overview and www.bostonbeer.com/investor-relations/earnings-releases, accessed October 2022.

11. For these and other examples, see Harry McCracken, "Google's 100% Solution," *Fast Company*, December 2018/January 2019, pp. 22–26; Laura Angelica, "What Exactly Is Facebook Hackathon?" *Mockitt*, September 9, 2020, https://mockitt.wondershare.com/hackathon/facebook-hackathons.html; and https://area120.google.com/ and www.facebook.com/hackathon/, accessed October 2022.

12. Michael E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York: Free Press, 1980), Chapter 2; and Porter, "What Is Strategy?" *Harvard Business Review*, November–December 1996, pp. 61–78. Also see "Porter's Generic Strategies," www.quickmba.com/strategy/generic.shtml, accessed October 2022.

13. See Michael Treacy and Fred Wiersema, "Customer Intimacy and Other Value Disciplines," *Harvard Business Review*, January–February 1993, pp. 84–93; Treacy and Wiersema, *The Discipline of Market Leaders: Choose Your Customers, Narrow Your Focus, Dominate Your Market* (New York: Perseus Press, 1997); and Wiersema, *Double-Digit Growth: How Great Companies Achieve It—No Matter What* (New York: Portfolio, 2003). Also see Elaine Cascio, "Fast, Cheap, or Good—Pick Two," *Inter@ction Solutions*, January/February 2012, p. 8; Joe Weinman, "How Customer Intimacy Is Evolving to Collective Intimacy, Thanks to Big Data," *Forbes*, June 4, 2013, www.forbes.com/sites/joeweinman/2013/06/04/how-customer-intimacy-is-evolving-to-collective-intimacy-thanks-to-big-data/; and "Value Disciplines: Customer Intimacy, Product Leadership and Operational Excellence," *Business-to-You*, October 23, 2018, www.business-to-you.com/value-disciplines-customer-intimacy/.

14. Katie Jackson, "What is Lidl? Why This Discount Grocery Store is Giving Aldi a Run for Its Money," *Today*, June 18, 2020, www.today.com/food/what-lidl-discount-grocery-store-giving-aldi-run-its-money-t182688; "Lidl Breaks New Ground on the East Coast," *The Produce News*, January 12, 2022, theproducenews.com/headlines/lidl-breaks-new-ground-east-coast; and www.lidl.com/about-us, accessed October 2022.

15. For more discussion, see Philip Kotler, Kevin Lane Keller, and Alexander Chernev, *Marketing Management*, 16th ed. (Hoboken, NJ: Pearson Education, 2022), Chapter 17.

16. See "How the Food Network Went from Bust to Big Time," *GBH News*, July 23, 2018, www.wgbh.org/news/lifestyle/2018/07/23/how-the-food-network-went-from-bust-to-big-time; and www.foodnetwork.com/, www.foodnetwork.com/site/about-foodnetwork-com, and https://kitchen.foodnetwork.com/#/get-cooking, accessed October 2022.

17. Tamara Pupic, "Fighting the Forces of Gravity: Bounce Interview," *Arabian Business*, March 10, 2015, https://www.arabianbusiness.com/startup/fighting-forces-of-gravity-bounce-interview-585017; "Bounce's Aggressive Growth Plan Continues across MENA," *Zawya*, press release, January 22, 2019, https://www.zawya.com/en/press-release/bounces-aggressive-growth-plan-continues-across-mena-o5ybua7q; "BOUNCE on an Aggressive Growth Path in MENA," *RetailME*, January 22, 2019, https://www.imagesretailme.com/latest-news/bounce-on-an-aggressive-growth-path-in-mena/.

18. Tamara Walsh, "Is This Procter & Gamble's Secret Weapon?" *The Motley Fool*, July 7, 2015, www.fool.com/investing/general/2015/07/07/is-this-procter-gambles-secret-weapon.aspx; "Race to Win Over a New Generation of Consumers in Asia," *Nonwoven Industries*, February 18, 2016, www.nonwovens-industry.com/issues/2016-02-08/view_features/race-to-win-over-a-new-generation-of-consumers-in-asia; Lauren Coleman-Lochner, "P&G Studies 'Pee Points' to Maintain Edge in Diaper Wars," *Bloomberg*, March 24, 2014, www.bloomberg.com/news/articles/2014-03-04/p-g-studies-pee-points-to-maintain-edge-in-diaper-wars; "Pampers vs Huggies: Innovations in Diaper Technology Creates Fierce Competition," *Technavio*, March 5, 2018, www.technavio.com/blog/pampers-or-huggies-innovations-in-diaper-technology-creates-fierce-competition; and "Diaper Market: Global Industry Trends, Share, Size, Growth, Opportunity and Forecast 2022–2027," imarc, www.imarcgroup.com/prefeasibility-report-diaper-manufacturing-plant-2#, accessed April 2022.

19. See "Hair Care—United States," *Statista*, www.statista.com/outlook/cmo/beauty-personal-care/personal-care/hair-care/united-states#, accessed October 2022; and "Soft Drinks Market Size in 2022 By Fastest Growing Companies," *MarketWatch*, February 23, 2022, www.marketwatch.com/press-release/soft-drinks-market-size-in-2022-by-fastest-growing-companies-coca-cola-pepsico-nestle-with-top-countries-data-new-report-spreads-in-137-pages-2022-02-23.

20. See "Energy Drink Market Trends, Growth and Growth Rate in 2022," *Green Seed*, https://greenseedgroup.com/energy-drink-market-trends-growth/#, accessed April, 2022; and www.redbull.com/int-en/energydrink/company-profile#, accessed April 2022.

21. "Two More Kmarts Close, Leaving Just Four Left in the Entire US," *MassLive*, February 22, 2022, www.masslive.com/news/2022/02/two-more-kmarts-close-leaving-just-four-left-in-the-entire-us.html#.

22. See "DuckDuckGo Statistics," *99 Firms*, https://99firms.com/blog/duckduckgo-statistics/#gref; accessed April 2022; Meg Prater, "25 Google Search Statistics to Bookmark ASAP," *HubSpot*, https://blog.hubspot.com/marketing/google-search-statistics#, accessed April 2022; and https://duckduckgo.com, accessed October 2022.

23. See www.wolverineworldwide.com, www.wolverineworldwide.com/about-us/, and wolverineworldwide.gcs-web.com/, accessed October 2022.

24. Dominic Chopping, "Nokia 1Q Sales, Profit Rose on Continued Mobile Networks Demand," *Market Watch*, April 28, 2022, www.marketwatch.com/story/nokia-1q-sales-profit-rose-on-continued-mobile-networks-demand-earnings-review-271651150759; David Trainer, "The Good and Bad: Nokia Corporation & Dycom Industries," *Forbes*, April 18, 2022, www.forbes.com/sites/greatspeculations/2022/04/18/the-good-and-bad-nokia-corporation—dycom-industries/; Richard Milne, "The Rise, Fall, and Rise Again of Nokia," *Financial Times*, April 17, 2015, www.ft.com/content/f0920c3e-e4da-11e4-8b61-00144feab7de; Michael Krigsman, "Nokia Reinvented: Decline, Resurrection, and How CEOs Get Trapped," *ZDNet*, November 26, 2018, www.zdnet.com/article/nokia-reinvented-decline-resurrection-and-how-ceos-get-trapped/; and information from www.interbrand.com/, www.nokia.com/about-us/what-we-do/our-history/, and www.macrotrends.net/stocks/charts/NOK/nokia/revenue, accessed August 2022.

Chapter 19

1. Greg Lindenberg, "A New Global 7-Eleven Emerges on the International Stage," *CSP Daily News*, www.cspdailynews.com/company-news/new-global-7-eleven-emerges-international-stage; "Drone Trial Taking Place at 7-Elevens in Japan's Fukuoka City," PYMNTS.com, January 11, 2022, www.pymnts.com/news/delivery/2022/drone-trial-taking-place-at-7-eleven-in-japans-fukuoka-city/; Beth Ewen, "7-Eleven Grows Sales to $91.8 Billion in New Franchise Times Top 400," *Franchise Times*, October 1, 2021, www.franchisetimes.com/franchise_news/7-eleven-grows-sales-to-91-8b-in-new-franchise-times-top-400/article_a3a590c2-2208-11ec-aa67-574e9a7318ac.html; Justin Moyer, "In Honor of 7/11: How Japan Slurped Up 7-Eleven," *Washington Post*, July 11, 2014, www.washingtonpost.com/news/morning-mix/wp/2014/07/11/in-honor-of-711-how-japan-slurped-up-7-eleven/; Matt Stopera, "I Just Really Need a Safe Place to Talk about Japanese 7-Elevens," *BuzzFeed*, July 23, 2021; "Around the World in Seven 7-Elevens," *Klook*, March 14, 2020, www.klook.com/blog/around-the-world-in-seven-7-elevens/; David Wharton, "Tokyo's 7-Eleven and Convenience Stores, or Konbini, Are Magical," *Los Angeles Times*, August 7, 2021, www.latimes.com/sports/olympics/story/2021-08-07/7-elevens-convenience-stores-tokyo-japan-olympics; and http://corp.7-eleven.com/corp/7-eleven-profile and http://franchise.7-eleven.com/franchise/our-iconic-brand, accessed October 2022.

2. See Caleb Silver, "The Top 25 Economies in the World," *Investopedia*, February 3, 2022, www.investopedia.com/insights/worlds-top-economies/; "Global Trade in Goods and Services Hits All-Time Quarterly High of $5.6 Trillion," UNCTAD, November 30, 2021, https://unctad.org/news/global-trade-goods-hits-all-time-quarterly-high-56-trillion; and www.walmart.com, accessed March 2022.

3. Information from www.jnj.com, www.coca-colacompany.com, www.corporate.mcdonald's.com, and www.caterpillar.com/en/investors/reports.html, accessed October 2022.

4. See www.otis.com/en/us/our-company/about-us and Otis Fact Sheet, www.otis.com/documents/256045/0/Otis+FACT SHEET+Final.pdf/4880a64d-02c4-e4ab-7bf6-8e97a4d964ce?t=1644426360468, accessed October 2022.

5. Vodafone v. India—End of a Saga?" *The Wire*, September 26, 2020, https://thewire.in/business/vodafone-india-end-of-a-saga-investment-treaty-arbitration; and Gagandeep Kaur, "After a Turbulent 2021, Vodafone Idea Faces Uncertain 2022, *lightreading.com*, December 21, 2021, www.lightreading.com/asia/after-a-turbulent-2021-vodafone-idea-faces-uncertain-2022/d/d-id/774201.

6. See C. K. Prahalad, *The Fortune at the Bottom of the Pyramid* (Upper Saddle River, NJ: Prentice Hall, 2006).

7. For these and other examples, see Emma Hall, "Do You Know Your Rites? BBDO Does," *Advertising Age*, May 21, 2007, p. 22; Michael R. Czinkota and Ilkka A. Ronkainen, *International Marketing* (Cincinnati, OH: South-Western College Publishing, 2013), Chapter 3; "13 Unusual International Customs You Never Knew Existed," *Reader's Digest*, www.readersdigest.ca/travel/travel-tips/13-unusual-international-customs-you-never-knew-existed/, accessed October 2019; Raynor de Best, "Share of Individuals with Credit Cards in 144 Different Countries in the World," *Statista*, February, 2022, www.statista.com/statistics/675371/ownership-of-credit-cards-globally-by-country/; and "Saudi Arabia," Paymentwall, www.paymentwall.com/en/payment-methods/saudi-arabia, accessed March 2022.

8. Euromonitor, "Top 5 Bottom of the Pyramid Markets: Diverse Spending Patterns and Future Potential," https://blog.euromonitor.com/top-5-bottom-pyramid-markets-diversespending-patterns-future-potential/; Kimberly Freeman, Suresh Gopalan, and Jessica Bailey, "Achieving Global Growth through Acquisition: Tata's Takeover of Corus," *Journal of Case Research in Business and Economics*, https://www.aabri.com/manuscripts/09198.pdf; Prashant Kale, Harbir Singh, and Anand Raman, "Don't Integrate Your Acquisitions, Partner with Them," *Harvard Business Review*, December 2009, https://hbr.org/2009/12/dont-integrateyour-acquisitions-partner-withthem; P.R. Sanjai, "Tata Steel to Further Expand Kalinganagar Steel Plant in Odisha," *Mint*, July 13, 2016, https://www.livemint.com/Industry/H4LsIlKuXXaIM0qFF2fHAL/Tata-Steel-to-further-expand-Kalinganagar-steel-plant-in-Odi.html; Valentina Pop, "EU Blocks Merger of Steelmaking Units of Tata, Thyssenkrupp," *Wall Street Journal*, June 11, 2019, https://www.wsj.com/articles/eu-blocksmerger-of-steelmaking-unitsof-tata-thyssenkrupp-11560251203; "Tata Steel Business Model & Corporate Strategy for Business Growth," https://www.tatasteel.com/corporate/our-value-chain/business-modelstrategy/; "Tata Steel—Financial Capital," August 2, 2019, https://www.tatasteel.com/investors/integrated-report-2018-19/financialcapital.html; Tata Steel Europe, "Our Strategy," https://www.tatasteeleurope.com/en/about%E2%80%93us/strategy; Tata Steel Europe, "Markets," https://www.tatasteeleurope.com/en/markets; Tata Steel, "Our Work Culture | Tata Steel Careers," https://www.tatasteel.com/careers/culture-at-tatasteel/culture-tata/; "Tata Steel to Focus on India as Global Markets Face Headwinds," *The Hindu Business Line*, July 29, 2017, https:// www.thehindubusinessline.com/companies/tata-steel-to-focuson-india-asglobal-markets-face-headwinds/article9793630.ece; TNN, "Tata Steel to Adopt Corus Technology for New Units," *The Economic Times*, September 8, 2007, https://m.economictimes.com/industry/indl-goods/svs/steel/tatasteel-to-adopt-corustechnology-for-new-units/

articleshow/2349060.cms; PTI, "Tata Steel to Focus on Turning around European Operations and Not to Raise More Debt This Fiscal," *The Economic Times*, July 19, 2019, https://economictimes.indiatimes.com/industry/indl-goods/svs/steel/tata-steel-to-focus-on-turning-aroundeuropean-operations-and-not-toraise-more-debt-this-fiscal/articleshow/70297685.cms; PTI Washington, "Tata Steel, Shining Example of Job Creation in USA through FDI," *The Hindu Business Line*, November 12, 2017, from https://www.thehindubusinessline.com/companies/%60Tata-Steel-shiningexample-ofjob-creation-in-USA-through-FDI%E2%80%99/article20327774.ece; D.V.R. Seshadri and Arabinda Tripathy, "Reinventing a Giant Corporation: The Case of Tata Steel," *Vikalpa: The Journal for Decision Makers*, Vol. 31, No. 3, 2006, pp. 131–146, https://doi.org/10.1177/0256090920060309; UNCTAD, "The International Trading System and Trade Negotiations," https://unctad.org/en/Pages/DITC/TNCD/International-trading-system.aspx; and Tata Steel, "Tata Steel Reports Consolidated Financial Results for the Quarter and Full Year Ended March 31, 2020," press release, June 29, 2020, https://www.tatasteel.com/media/newsroom/press-releases/india/2020/tata-steel-reports-consolidated-financial-results-for-thequarter-and-full-year-ended-march-31-2020/, accessed October 2021.

9. See "Racist D&G Ad: Chinese Model Says Campaign Almost Ruined Career," *BBC*, January 23, 2019, www.bbc.com/news/world-asia-china-46968750; Yuhan Xu, "Dolce & Gabbana Ad (with Chopsticks) Provokes Public Outrage in China," *NPR*, December 1, 2018, www.npr.org/sections/goatsandsoda/2018/12/01/671891818/dolce-gabbana-ad-with-chopsticks-provokes-public-outrage-in-china; and Wil Hart, "5 Big Brands That Got Multicultural Marketing Wrong," Smart Simple Marketing, https://smartsimplemarketing.com/learn-from-multicultural-marketing-wrong/, accessed October 2022.

10. Mason Hinsdale, "Marriott's Big China Blunder a Lesson for International Brands," *Jing Daily*, January 13, 2018, https://jingdaily.com/marriotts-blunder-a-warning-in-dealing-with-beijings-understanding-of-history/; Jamie Bryan, "The Mintz Dynasty," *Fast Company*, April 2006, pp. 56–61; Sui-Lee Wee, "Marriott to China: We Do Not Support Separatists," *New York Times*, January 11, 2018, www.nytimes.com/2018/01/11/business/china-marriott-tibet-taiwan.html, and Britt Morse, "The 7 Most Embarrassing Branding Mistakes of 2018," *Inc.*, January 9, 2019, www.inc.com/brit-morse/2018-biggest-marketing-branding-fails.html, and Cameron Sperance, "Why Marriott Sees a Full Hotels Recovery in China in 2021," September 11, 2020, https://skift.com/2020/09/11/why-marriott-sees-a-full-hotels-recovery-in-china-in-2021/.

11. For these and other examples, see Bill Chappell, "Bill Gates' Handshake with South Korea's Park Sparks Debate," NPR, April 23, 2013, www.npr.org/blogs/thetwo-way/2013/04/23/178650537/bill-gates-handshake-with-south-koreas-park-sparks-debate; "Worst Mistakes You Can Make during Overseas Business Meeting," http://smallbusiness.co.uk, October 5, 2017, https://smallbusiness.co.uk/worst-mistakes-overseas-business-meeting-2540989/, "Follow These 10 Tips to Avoid Cultural Faux Pas in Your Global Business Relationships," *Forbes*, May 22, 2019, www.forbes.com/sites/theyec/2019/05/22/follow-these-10-tips-to-avoid-cultural-faux-pas-in-your-global-business-relationships/?sh=185155961803; Fardad Zebetian, "Connecting Abroad: The Cultural Etiquette of International Business," *Forbes*, June 10, 2021, www.forbes.com/sites/forbestechcouncil/2021/06/10/connecting-abroad-the-cultural-etiquette-of-international-business/?sh=14e2759d2050.

12. See Rory Jones, "Foreign Retailers Bend to Conform to Saudi Religious Rules," *Wall Street Journal*, June 16, 2015, www.wsj.com/articles/foreign-retailers-bend-to-conform-to-saudi-religious-rules-1434421369; and www.marksandspencer.com, October 2022.

13. For a full discussion of Hofstede framework, see Hofstede Insights, https://hi.hofstede-insights.com/national-culture, accessed October 2022.

14. Hofstede's framework labels this dimension as "masculinity versus femininity."

15. Hofstede's Insights offers a country comparison tool at www.hofstede-insights.com/country-comparison/ that lets you compare how countries score on the six cultural dimensions. You can also download the "Hofstede Insights" mobile app from the Apple App Store or from Google Play to use the tool.

16. For this and other examples in this section, see "5 Cross-Cultural Marketing Examples We Love," June 20, 2020, www.findabledigitalmarketing.com/blog/cross-cultural-marketing-examples/.

17. See "Cross-Cultural Marketing and Hofstede's Model," StudyCorgi, February 10, 2021, https://studycorgi.com/cross-cultural-marketing-and-hofstedes-model/; and "NCB, Samba Complete Final Phase of Merger Creating Saudi Arabia's Largest Bank," *Arab News*, January 9, 2022, www.arabnews.com/node/2000791/business-economy.

18. Andres Martinez, "The Next American Century," *Time*, March 22, 2010, p. 1.

19. Clarissa Wei, "Why China Loves American Chain Restaurants So Much," *Eater*, March 20, 2018, www.eater.com/2018/3/20/16973532/mcdonalds-starbucks-kfc-china-pizza-hut-growth-sales; "McDonald's Targets 4,000 McCafé Sites in China by 2023," *World Coffee Portal*, November 19, 2020, www.worldcoffeeportal.com/Latest/News/2020/November/McDonald-s-targets-4,000-McCafe-sites-in-China-by; and "Is McDonald's in China? (Locations, Menu + More)," *QuerySprout*, https://querysprout.com/is-mcdonalds-in-china/, accessed March 2022.

20. See Adam Chandler, "How McDonald's Became a Target for Protest," *The Atlantic*, April 16, 2015, www.theatlantic.com/business/archive/2015/04/setting-the-symbolic-golden-arches-aflame/390708/; and Lauren Hirsch, "After 32 Years, McDonald's Plans to Sell Its Russia Business," *New York Times*, May 16, 2022, www.nytimes.com/2022/05/16/business/mcdonalds-russia.html.

21. See Rachael Tepper, "Yum! Brands' International Product Strategy: How the Double Down Went Global," *Huffington Post*, March 11, 2013, www.huffingtonpost.com/2013/03/11/yum-brands-international-product-strategy_n_2814360.html; Molly Osberg, "How Colonel Sanders Became Father Christmas in Japan," *TPM*, December 23, 2014, http://talkingpointsmemo.com/theslice/kfc-christmas-in-japan-colonel-sanders-history-12-23-2014; Kate Taylor, "How KFC Made Christmas All about Fried Chicken—in Japan," *Business Insider*, December 25, 2017, www.businessinsider.com/how-kfc-became-a-christmas-tradition-in-japan-2016-12?r=UK&IR=T; and "Episode 19: Kentucky Fried Christmas," *Household Name*, December 19, 2018 https://podcasts.apple.com/us/podcast/19-kentucky-fried-christmas/id1413374332?i=1000426105857.

22. BrandZ Top 100 Most Valuable Global Brands 2021," Millward Brown, www.rankingthebrands.com/The-Brand-Rankings.aspx?rankingID=6.

23. See "Mobile Phone Internet User Penetration in India from 2015 to 2018 with a Forecast until 2023," *Statista*, www.statista.com/statistics/309019/india-mobile-phone-internet-user-penetration/, accessed February 2021. Also see "The Mobile Economy—Sub-Saharan Africa," GDMA, www.gsma.com/mobileeconomy/sub-saharan-africa/, accessed October 2022.

24. See Dana Mattioli, "How Amazon Wins: By Steamrolling Rivals and Partners," *Wall Street Journal*, December 22, 2020, www.wsj.com/articles/amazon-competition-shopify-wayfair-allbirds-antitrust-11608235127. Also see Cory Mitchell, "Amazon Effect," *Investopedia*, www.investopedia.com/terms/a/amazon-effect.asp, accessed October 2022.

25. See: "A Quick Guide to the US-China Trade War," *BBC News,* January 16, 2020, www.bbc.com/news/business-45899310: Max Bouchet and Joseph Parilla, "How Trump's Steel and Aluminum Tariffs Could Affect State Economies," *Brookings,* March 6, 2018, www.brookings.edu/blog/the-avenue/2018/03/06/how-trumps-steel-and-aluminum-tariffs-could-affect-state-economies/; Natashe Bach, "Trump's Plan to Reduce Trade Deficit Falters as It Hits an All-Time High Instead," *Fortune,* March 6, 2019, http://fortune.com/2019/03/06/us-trade-deficit-record-high/; and David Lawder and Andrea Shalal, "U.S. Trade Official Says China Failed to Meet 'Phase 1' Commitments," *Reuters,* February 1, 2022, www.reuters.com/world/us/us-trade-official-says-china-failed-meet-phase-1-commitments-2022-02-01/.

26. See James McBride, "What's Next for the WTO?," Council on Foreign Relations, March 23, 2018, www.cfr.org/backgrounder/whats-next-wto; and "About WTO," www.wto.org/english/thewto_e/whatis_e/whatis_e.htm, accessed October 2022.

27. See "The EU Position in World Trade," https://ec.europa.eu/trade/policy/eu-position-in-world-trade/, accessed October 2022.

28. See Alan Crawford, "The EU and Euro Keep Defying the Doomsayers," *Bloomberg Businessweek,* January 3, 2019, www.bloomberg.com/news/articles/2019-01-03/the-eu-and-euro-keep-defying-the-doomsayers; Lionel Laurent, "Lionel Laurent's View to 2022: An Awkward Birthday for the Euro," *Washington Post,* January 2, 2022, www.washingtonpost.com/business/lionel-laurents-view-to-2022-an-awkward-birthday-for-the-euro/2021/12/30/ea6cbad0-693e-11ec-9390-eae241f4c8b1_story.html; and "European Union: The Euro," https://european-union.europa.eu/institutions-law-budget/euro_en, accessed October 2022.

29. "European Union: Gross Domestic Product (GDP) from 2016 to 2026," *Statista,* www.statista.com/statistics/527869/european-union-gross-domestic-product-forecast/, accessed September 2022.

30. Statistics and other information from "How NAFTA Changed U.S. Trade with Canada and Mexico," *New York Times,* August 15, 2017, www.nytimes.com/interactive/2017/business/nafta-canada-mexico.html; and "NAFTA's Economic Impact," www.cfr.org/backgrounder/naftas-economic-impact, July 1, 2020.

31. See: The United States–Mexico–Canada Agreement, Office of the United States Trade Representative, https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement, accessed March 2022.

32. "Eleven Asia-Pacific Countries Signed a Trans-Pacific Partnership in Chile," *Merco Press,* March 9, 2018, http://en.mercopress.com/2018/03/09/eleven-asia-pacific-countries-signed-a-trans-pacific-partnership-in-chile; "Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)," Institute for Government (UK), www.instituteforgovernment.org.uk/explainers/trade-cptpp, accessed October 2022.

33. See "Indonesia Barters Coffee and Palm Oil for Russian Fighter Jets," *Bloomberg,* August 7, 2017, www.bloomberg.com/news/articles/2017-08-07/indonesia-barters-coffee-palm-oil-for-russian-fighter-jets; "South Korean Organization Proposes Coffee-Barter Trade with Vietnam," *International Comunicaffe,* March 14, 2018, www.comunicaffe.com/south-korean-organisation-proposes-coffee-barter-trade-with-vietnam/; and Nick Fouriezos, "To Avoid Trump's Sanctions, Countries Turn to Stone Age Bartering," *Ozy,* January 9, 2019, www.ozy.com/politics-and-power/to-avoid-trumps-sanctions-countries-turn-to-stone-age-bartering/91467.

34. See Ana Maria Vargas, "Applying Labour Law to Micro, Small, and Medium-Sized Enterprises: A Comparative Study of 16 Countries," ILO Working Paper 9, October 2020, www.ilo.org/wcmsp5/groups/public/—ed_emp/—emp_ent/—ifp_seed/documents/publication/wcms_757271.pdf.

35. "Retail Industry in India," India Brand Equity Foundation, www.ibef.org/industry/retail-india.aspx, accessed March 2022.

36. See Saritha Rai, "India's E-commerce Crackdown," *Bloomberg Businessweek*, February 11, 2019, pp. 17–19; Saheli Roy Choudhury, "If You Own Amazon Shares, Here's What You Need to Know about India's E-commerce Law," *CNBC,* February 4, 2019, www.cnbc.com/2019/02/05/amazon-how-india-ecommerce-law-will-affect-the-retailer.html; and Aditya Kalra, "Analysis: India E-Commerce Rules Cast Cloud over Amazon, Walmart, and Local Rivals," Reuters, June 22, 2021, www.reuters.com/world/india/india-e-commerce-rules-cast-cloud-over-amazon-walmart-local-rivals-2021-06-22/.

37. See "Corporate Social Responsibility in India," Dezan Shira & Associates, March 23, 2020, www.india-briefing.com/news/corporate-social-responsibility-india-5511.html/; and Jeff St. John, "California to Ban All Internal Combustion Engine Vehicles by 2035," September 23, 2020, www.greentechmedia.com/articles/read/california-to-ban-all-internal-combustion-engine-vehicles-by-2035; and "India Substantially Revamps CSR Requirements—The Impact on Compliance at Indian Subsidiaries of U.S.-Based Multinationals," Ropes & Gray, July 26, 2021, www.ropesgray.com/en/newsroom/alerts/2021/July/India-Substantially-Revamps-CSR-Requirements-The-Impact-on-Compliance-at-Indian-Subsidiaries.

38. See annual reports and other financial and review data from www.coca-colacompany.com/our-company/ and www.coca-colacompany.com/our-company/infographic-coca-cola-at-a-glance/, accessed October 2022.

39. For this and other information in this section on Netflix in India, see Kathy Gibson, "New Indian Netflix Original Shows and Movies Coming in 2022," *What's on Netflix,* December 22, 2021, www.whats-on-netflix.com/coming-soon/new-indian-netflix-original-shows-and-movies-coming-in-2022/; Vidhi Choudhary, "Netflix, Amazon Take Their Rivalry to India. A Lucrative Market," *TheStreet,* January 26, 2022, www.thestreet.com/technology/netflix-amazon-take-their-rivalry-to-india-a-lucrative-market; Vidhi Choudhary, "Disney and Netflix Struggle Getting India to Subscribe," *TheStreet,* February 27, 2022, www.thestreet.com/investing/netflix-only-costs-2-65-a-month-if-you-live-in-this-country; and https://ir.netflix.net/ir-overview/profile/default.aspx, accessed October 2022.

40. See https://coca-colahellenic.com/en/about-us/coca-cola-hbc-at-a-glance/, accessed October 2022.

41. See "Volkswagen Group Rus and GAZ Group Extend Their Cooperation in Russia," June 15, 2017, www.volkswagen-media-services.com/en/detailpage/-/detail/Volkswagen-Group-Rus-and-GAZ-Group-extend-their-cooperation-in-Russia/view/5145928/7a5bbec13158edd433c6630f5ac445da?p_p_auth=kiEFZdL3; and "Apple iPhone's 2nd-Largest Contract Manufacturer Pegatron Approves Rs1,100 cr Investment under Make in India," *India TV News,* November 24, 2020, www.indiatvnews.com/business/news-apple-iphone-pegatron-second-largest-contract-manufacturer-approves-investment-make-in-india-667122.

42. See Manish Singh, "Apple Begins Assembling iPhone 11 in India," July 24, 2020, https://techcrunch.com/2020/07/24/apple-begins-assembling-iphone-11-in-india/.

43. See http://en.wikipedia.org/wiki/Doubletree and https://managementservices.hilton.com/en/who-we-are/, accessed October 2022.

44. See "Hong Kong Government Ends Disney's Option for Expanding Theme Park," *Reuters,* September 23, 2020, www.reuters.com/article/us-hongkong-disney/hong-kong-government-ends-disneys-option-for-expanding-theme-park-idUSKCN26E1XP; and www.shanghaidisneyresort.com/en/, accessed September 2022.

45. See "Walmart Raises Stake in Flipkart to 81.3%," *Hindu BusinessLine,* November 20, 2018, www.thehindubusinessline.com/companies/walmart-raises-stake-in-flipkart-to-813/

article25550934.ece; Gabriela Barkho, "How the Pandemic Strengthened Walmart-Owned Flipkart's Marketshare," *Global Retail*, May 13, 2021, www.modernretail.co/platforms/how-the-pandemic-strengthened-walmart-owned-flipkarts-marketshare/; "Kellogg Tops Profit Estimates, Makes West Africa Investment," *Reuters*, May 3, 2018, www.reuters.com/article/us-kellogg-results/kellogg-tops-profit-estimates-makes-west-africa-investment-idUSKBN1I41E9; and Steve Symington, "Why Kellogg Just Sold a Smorgasbord of Beloved Brands," *The Motley Fool*, April 3, 2019, www.fool.com/investing/2019/04/03/why-kellogg-just-sold-a-smorgasbord-of-beloved-bra.aspx.

46. See Tova Cohen and Steven Scheer, "Exclusive: Israel's Chip Sales to China Jump as Intel Expands," *Reuters*, March 19, 2019, www.reuters.com/article/us-israel-china-tech-exclusive/exclusive-israels-chip-sales-to-china-jump-as-intel-expands-idUSKCN1R00DF; "Intel Israel's Exports Up 70% in 2019 to $6.6b," *Globes*," February 2, 2020, https://en.globes.co.il/en/article-intel-israels-exports-up-70-in-2019-to-66b-1001316993; and www.intel.com/content/www/us/en/corporate-responsibility/intel-in-israel.html, accessed October 2022.

47. Cathy Jacobs, "What Is a Starbucks Menu Like Around the World?" *The Spruce Eats*, September 17, 2020, www.thespruceeats.com/starbucks-menu-guide-766068; "A Tale of Two Countries: Starbucks in India and China," Starbucks Newsroom, March 27, 2014, http://news.starbucks.com/news/a-tale-of-two-countries-starbucks-growth-in-india-and-china; Haley Peterson, "5 Ways Starbucks Is Different in China," *Insider*, August 8, 2014. www.businessinsider.com/how-starbucks-is-different-in-china-2014-8; Michelle Toh, "Starbucks Teams Up with Meituan Coffee Delivery in China," *CNN Business*, January 18, 2022, www.cnn.com/2022/01/18/business/starbucks-china-meituan-alibaba-delivery-intl-hnk/index.html; Tony Owusu, "What Happens if Starbucks China Problem Gets Bigger?" *TheStreet*, February 16, 2022, www.thestreet.com/investing/starbucks-struggles-in-china#; and www.starbucks.com.cn/en/, accessed October 2022.

48. See Warren J. Keegan and Mark C. Green, *Global Marketing*, 9th ed. (Hoboken, NJ: Pearson, 2017), pp. 322–329.

49. See Saritha Rai, "Amazon Teaches Alexa to Speak Hinglish. Apple's Siri Is Next," *Bloomberg Businessweek*, October 30, 2017, www.bloomberg.com/news/articles/2017-10-30/amazon-teaches-alexa-to-speak-hinglish-apple-s-siri-is-next; J. Vignesh, "Amazon Intent on Making Alexa 'As Indian as It Gets,'" *The Economic Times*, March 29, 2018, https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/for-amazon-alexa-shines-new-light-on-india/articleshow/63525866.cms; Astha Viaywargiya, "Smart-Speaker Must Get the Local Tongue," *Hindu BusinessLine*, April 21, 2019, www.thehindubusinessline.com/news/smart-speakers-must-get-the-local-tongue/article26904627.ece; and "Smart Speaker Shipments in India Crossed 1mn Mark First Time in 2020, Amazon Leads Market with 80% Share," *News18*, February 17, 2021, www.news18.com/news/tech/smart-speaker-shipments-in-india-crossed-1mn-mark-first-time-in-2020-amazon-leads-market-with-80-share-3443258.html.

50. See "L'Oréal Unveils Hair Coloration Beauty Tech Innovations Ahead of CES 2022," *Beauty Packaging*, January 3, 2022, www.beautypackaging.com/contents/view_breakingnews/2022-01-03/loreal-unveils-hair-coloration-beauty-tech-innovations-ahead-of-ces-2022/; Ann-Marie Alcántara, "L'Oréal Debuts a Personalized Direct-to-Consumer Hair Color Brand," *Adweek*, May 8, 2019, www.adweek.com/brand-marketing/loreal-debuts-a-personalized-direct-to-consumer-hair-color-brand; "Our Mission Is 'Beauty for All,' Says L'Oréal Global CEO Jean-Paul," *The Economic Times*, January 30, 2015, www.articles.economictimes.indiatimes.com/2015-01-30/news/58625572_1_l-oreal-loreal-jean-paul-agon; Hae-Jung Hong and Yves Doz, "L'Oréal Masters Multiculturalism," *Harvard Business Review*, June, 2013, pp. 114–119; "A Worldwide Approach to Beauty Rituals," www.loreal.com/research-innovation/when-the-diversity-of-types-of-beauty-inspires-science/a-world-wide-approach-to-beauty-rituals.aspx, accessed October 2022; and www.loreal.com/group/who-we-are/our-mission, www.lorealusa.com/research-and-innovation/when-the-diversity-of-types-of-beauty-inspires-science/stories-of-multicultural-innovations, www.lorealusa.com/group/who-we-are/our-ambition, and www.loreal-finance.com/eng/annual-report, accessed October 2022.

51. See www.dlight.com/and www.dlight.com/about-us, accessed October 2022.

52. See Arnold Ma, "The Importance of Having a Chinese Version of Your Brand: It's Much More Than Just a Name," *The Drum*, October 11, 2018, www.thedrum.com/opinion/2018/10/11/the-importance-having-chinese-version-your-brand-it-s-much-more-just-name; Benjamin Cost, "Lost in Translation? Pick Your Chinese Brand Name Carefully," *Shanghaiist*, May 5, 2018, www.shanghaiist.com/2014/03/28/hutong-school-pick-your-chinese-brand-name-carefully.php; Michael Wines, "Picking Brand Names in China Is a Business Itself," *New York Times*, November 12, 2011, p. A4; Carly Chalmers, "12 Amazing Translations of Chinese Brand Names," *todaytranslations*, August 27, 2013, www.todaytranslations.com/blog/12-amazing-translations-of-chinese-brand-names/; Arnold Ma, Brandy Baker, "China: My Name, My Face, Your Trademark? Protecting Publicity and Image Rights in China, Mondaq.com, January 15, 2021, www.mondaq.com/china/trademark/1024276/my-name-my-face-your-trademark-protecting-publicity-and-image-rights-in-china; and "What's in a Brand Name? Chinese Brand Names of Multinationals," Hutong School, www.hutong-school.com/whats-brand-name-chinese-brand-names-multinationals; accessed October 2022.

53. For these and other examples, see "How Crayola Used WeChat and Alibaba to Grow Sales in China," *Advertising Age*, May 30, 2016, p. 27; Angela Doland, "How to Sell Toys in a Culture Where Play Is Viewed Negatively," *Advertising Age*, March 20, 2017, http://adage.com/article/cmo-strategy/sell-toys-a-culture-parents-playtime/308340/; and "Lego Bets on China's Children with Hundreds of New Stores," December 16, 2020, www.bloomberg.com/news/articles/2020-12-16/lego-plans-physical-store-expansion-in-china.

54. See Warren J. Keegan and Mark C. Green, *Global Marketing*, 9th ed. (Hoboken, NJ: Pearson Publishing, 2017), pp. 423–424.

55. See "iPhone 13 Prices Surge All over the Globe, Indicating Brazil and Turkey to Be the Most Expensive Zones," *Digital Information World*, September 18, 2021, www.digitalinformationworld.com/2021/09/iphone-13-prices-surge-all-over-globe.html; and "Apple Briefly Stopped Selling Its Products Turkey, but Why? *WION*, December 11, 2021, www.wionews.com/world/apple-briefly-stopped-selling-its-products-in-turkey-but-why-436115.

56. See Dan Gilmore, "Logistics Costs as Percent of GDP Fall to 7.4%," *Supply Chain Digest*, June 25, 2021, www.scdigest.com/firstthoughts/21-06-25_State_of_Logistics_Report_Review_Comment.php?cid=18798; and "Logistics and the Economy," *My Educator*, https://app.myeducator.com/reader/web/869a/topic01/j53jl/#, accessed March 2022.

57. See Michelle Cheng, "McDonald's Is Making a Big Bet on Delivery," *Quartz*, October 27, 2021, https://qz.com/2080463/mcdonalds-is-betting-big-on-delivery-to-keep-its-customers-happy/; and http://corporate.mcdonalds.com/mcd/investors/financial-information/annual-report.html, accessed October 2022.

58. Vlad Sayoy, "Huawei's Phone Sales Are Ballooning While Apple and Samsung's Slump," *The Verge*, May 1, 2019, https://www.theverge.com/circuitbreaker/2019/5/1/18525034/huawei-apple-samsung-smartphone-market-share-idc-2019; Lucy Hooker and Danile Palumbo, "Huawei: The Rapid Growth of a Chinese Champion in Five Charts," *BBC News*, May 20, 2019, https://www.bbc.com/news/business-46480208; Martin Roll, "Huawei—Transforming a Chinese Technology Business to a Global Brand," *Business and Brand Leadership*, February 2018, https://martinroll.com/resources/articles/strategy/huawei-transforming-chinese-technology-business-global-brand/;

Christian Edwards, "A Timid Huawei Has Emerged from Its Global PR Storm to See What's Left to Salvage," *Business Insider*, December 18, 2018, https://www.businessinsider.com/huawei-whats-next-after-global-public-relations-storm-us-china-2018-12; "Huawei Is Ready to Meet Challenges Ahead: CEO, *Gulf Times*, May 23, 2019, https://www.gulf-times.com/story/632213/Huawei-is-ready-to-meet-challenges-ahead-CEO; Mathieu Rosemain, "Huawei Targets the European Market with Lower-Priced Smartphone," January 22, 2019, https://www.theglobeandmail.com/business/technology/article-huawei-targets-european-market-with-lower-priced-honor-view2/; David de Cremer, "Lessons from Huawei: When Chinese Companies Go Global," *London Business School*, April 16, 2018, https://www.london.edu/lbsr/lessons-from-huawei-when-chinese-companies-go-global; Ashish Kumar Sen, "The Huawei Challenge," *The Atlantic*, May 1, 2019, https://www.atlanticcouncil.org/blogs/new-atlanticist/huawei-china-technology.

Chapter 20

1. See Ryan Bradley, "The Tao Rose," *Fortune,* September 15, 2015, pp. 155–160; Katherine Ling, "Walking the Talk," *Marketing News,* March 15, 2012, p. 24; Kyle Stock, "Patagonia's 'Buy Less' Plea Spurs More Buying," *Bloomberg Businessweek,* August 28, 2013, www.bloomberg.com/news/articles/2013-08-28/patagonias-buy-less-plea-spurs-more-buying; "How a Clothing Company's Anti-Consumerist Message Boosted Business," *PBS,* August 20, 2015, www.pbs.org/newshour/bb/clothing-companys-anti-consumerist-message-boosted-business/; Elizabeth Segran, "Patagonia Has Had Enormous Success with Upcycled Clothing. Could Other Brands Follow?" *Fast Company,* January 11, 2021, www.fastcompany.com/90592541/patagonia-has-had-enormous-success-with-upcycled-clothing-could-other-brands-follow; Deepthi Nair, "U.S. Retailer Patagonia Donates $10m from Black Friday Sales to Protect the Environment," *InBusiness,* December 6, 2021, www.thenationalnews.com/business/energy/2021/12/06/us-retailer-patagonia-donates-10m-from-black-friday-sales-to-protect-environment/; and http://wornwear.patagonia.com and www.patagonia.com/us/environmentalism, accessed October 2022.
2. See "McDonald's Announces Global Commitment to Support Families with Increased Focus on Happy Meals," February 18, 2018, http://news.mcdonalds.com/news-releases/news-release-details/mcdonalds-announces-global-commitment-support-families-0; and www.mcdonalds.com/us/en-us/about-our-food/quality-food.html, https://corporate.mcdonalds.com/corpmcd/our-purpose-and-impact/food-quality-and-sourcing.html, and www.mcdonalds.com/us/en-us/about-our-food/nutrition-calculator.html, accessed October 2022.
3. See https://corporate.mcdonalds.com/corpmcd/our-purpose-and-impact/our-planet/packaging-and-waste.html and https://corporate.mcdonalds.com/corpmcd/our-purpose-and-impact/our-planet.html, accessed October 2022.
4. See "Old Navy, Consumers Reach Settlement in Deceptive Pricing Suit," *Bloomberg Law,* February 18, 2021, https://news.bloomberglaw.com/class-action/old-navy-consumers-reach-settlement-in-deceptive-pricing-suit; and "Yes, the Old Navy Class Action Settlement Is Real," *wusa9,* January 4, 2022, www.wusa9.com/article/news/verify/money-verify/old-navy-class-action-settlement/536-512cb8f1-7e3f-4332-9e5e-f1070fb9141b.
5. Jonathan Vanian, "LifeLock Pays Big to Settle FTC Suit over Weak Data Security," Fortune, December 17, 2015; "LifeLock to Pay $100 Million in FTC Settlement," Practical Law, January 21, 2016, https://content.next.westlaw.com/Document/I02f47330a46e11e598dc8b09b4f043e0/View/FullText.html?originationContext=document&transitionType=DocumentItem&contextData=(sc.Default); and Federal Trade Commission, "FTC Sends Checks Totaling More Than $31 Million to LifeLock Customers," October 8, 2019, www.ftc.gov/news-events/press-releases/2019/10/ftc-sends-checks-totaling-more-31-million-lifelock-customers; "LifeLock Refunds," FTC, August 2021, www.ftc.gov/enforcement/cases-proceedings/refunds/lifelock-refunds.
6. "Association between Soft-Drink Intake and Obesity, Depression, and Subjective Health Status of Male and Female Adults," *International Journal of Environmental Research and Public Health,* October 3, 2021, www.ncbi.nlm.nih.gov/pmc/articles/PMC8507828/; Mary Kekatos, "Coca-Cola 'Paid Scientists to Downplay How Sugary Beverages Fueled the Obesity Crisis between 2013–2015,' Medical Journal Study Finds," *Daily Mail,* August 3, 2020, www.dailymail.co.uk/health/article-8589497/Coca-Colas-work-scientists-low-point-history-public-health.html; and Center for Science in the Public Interest, "Carbonating the World," www.cspinet.org/eating-healthy/foods-avoid/carbonating-world, accessed October 2022.
7. Linda Simpson, "Is There a Cure for Society's Affluenza?" *Huffington Post*, January 10, 2018, www.huffingtonpost.ca/linda-simpson/is-there-a-cure-for-our-societys-affluenza_a_23329763/; Kate Abnett, "EU Parliament Seeks Binding Targets to Tackle Overconsumption and Waste," Reuters, February 9, 2021, www.reuters.com/article/us-climate-change-eu-circular-idUSKBN2A92O2; Brian Clark Howard, "Planned Obsolescence: 8 Products Designed to Fail," *Popular Mechanics*, www.popularmechanics.com/technology/g202/planned-obsolescence-460210/?slide=1, accessed October 2021; and "Future of Europe: Citizens' Panel Proposals on Climate Change, Environment, and Health," News: European Parliament, January 10, 2022, www.europarl.europa.eu/news/en/headlines/eu-affairs/20220106STO20404/future-of-europe-citizens-panel-plans-for-climate-change-environment-health.
8. Chance Miller, "Apple Filing Shows Company Plans to Pay for iPhone Throttling Issues," 9TO5Mac, February 4, 2019, https://9to5mac.com/2019/02/04/iphone-throttling-lawsuits-apple/; "Apple Will Compensate with 113 Million Dollars to 34 US States Because They Accuse It of Planned Obsolescence," *Entrepreneur,* November 19, 2020, www.entrepreneur.com/article/360029; and Sean Keach, "Planned Obsolescence: Apple Set to 'Kill Off' Older iPhone Models," *New York Post*," December 2, 2021, https://nypost.com/2021/12/02/apple-may-soon-kill-off-older-iphone-models/.
9. See "Food Deserts in the United States," *The Annie E. Casey Foundation*, February 13, 2021, www.aecf.org/blog/exploring-americas-food-deserts; and U.S. Department of Agriculture, "Food Access Research Atlas: Documentation," www.ers.usda.gov/data-products/food-access-research-atlas/documentation/, accessed October 2022.
10. See Joy Dumandan and Anthony Russo, "Helping Hand: How to Use Food Stamp Benefits When Buying Groceries Online," *The U.S. Sun*, January 14, 2022, www.the-sun.com/money/4033202/food-stamps-use-online-how/; and www.cbpp.org/research/topics/snap-basics, accessed October 2022.
11. See https://beacon4sl.com/, accessed October 2022.
12. See "Eric Artz: More Important Than Ever Before, We #OptOutside Again on Black Friday," *REI*, October 1, 2020, www.rei.com/blog/rei-news/eric-artz-more-important-than-ever-before-we-optoutside-on-black-friday; and www.facebook.com/llbean/videos/when-did-disposable-become-our/10153921325967415/ and www.rei.com/opt-outside, accessed October 2022.
13. See "INRIX: Americans Lost 3.4 Billion Hours due to Congestion in 2021, 42% below Pre-COVID," INTRIX, https://inrix.com/press-releases/2021-traffic-scorecard/, accessed March 2022; and http://mobility.tamu.edu/umr/, accessed October 2022.
14. Rachel Holliday Smith, "How Does Congestion Pricing Work? What to Know about the Toll System Taking Manhattan," *The City,*

September 15, 2021, www.thecity.nyc/2021/9/15/22674371/how-does-congestion-pricing-work-toll-system-in-manhattan.

15. Natasha Lomas, "Google Fined $2.7BN for EU Antitrust Violations over Shopping Searches," TechCrunch, June 27, 2017, http://techcrunch.com/2017/06/27/google-fined-e2-42bn-for-eu-antitrust-violations-over-shopping-searches/; and "Lessons for 2022—What to Take Away from the EU's €2.4B Google Antitrust Fine," *JDSUPRA,* January 5, 2022, www.jdsupra.com/legalnews/lessons-for-2022-what-to-take-away-from-8325722/.

16. See Philip Kotler, "Reinventing Marketing to Manage the Environmental Imperative," *Journal of Marketing,* July 2011, pp. 132–135; Kai Ryssdal, "Unilever CEO: For Sustainable Business, Go against 'Mindless Consumption,'" Marketplace, June 11, 2013, www.marketplace.org/topics/sustainability/consumed/unilever-ceo-paul-polman-sustainble-business; and "Unilever: 'We Have an Opportunity to Re-Invent Consumption,'" Artha Impact, December 20, 2018, https://arthaimpact.com/latest_news/unilever-we-have-an-opportunity-to-re-invent-consumption/.

17. See Kenneth P. Pucker, "The Myth of Sustainable Fashion," *Harvard Business Review,* January 13, 2022, https://hbr.org/2022/01/the-myth-of-sustainable-fashion; Elizabeth Segran, "What's the Carbon Footprint of Your Closet? This Handy Tool Will Tell You," *Fast Company,* January 15, 2020, www.fastcompany.com/90451694/whats-the-carbon-footprint-of-your-closet-this-handy-tool-will-tell-you; and www.thredup.com, www.thredup.com/impact, and www.thredup.com/fashionfootprint, accessed October 2022.

18. See Jessican Kirk, "Do You Use Only What You Need Indoors?" February 14, 2019, Denver Water, www.denverwater.org/tap/do-you-use-only-what-you-need-indoors#; and www.denverwater.org, accessed October 2022.

19. See Marianne Wilson, "REI Piloting Used-Gear Buy Back Program as Part of Ambitious Sustainability Move," *CSA,* October 2019, https://chainstoreage.com/rei-piloting-used-gear-buy-back-program-part-ambitious-sustainability-move; "REI Co-op Expands Used Gear Business with Member Gear Trade-In Program and Pilot Trade-In Program of Standalone Used Gear Pop-Up Stores," *REI*, October 15, 2020, and www.rei.com/blog/stewardship/the-opt-to-act-plan, accessed October 2022.

20. See "Indonesia's Move Away from Ocean Mine Waste Dumping Sets Example for Norway, Papua New Guinea," *Earthworks,* February 9, 2021, www.earthworks.org/media-releases/indonesias-move-away-from-ocean-mine-waste-dumping-sets-example-for-norway-papua-new-guinea/; and "Who Is Elon Musk," terrapass, www.terrapass.com/elon-musk, accessed October 2021.

21. "Adidas: In 2021, for the First Time, More than 60 Percent of All Products Will Be Made with Sustainable Materials," adidas, December 28, 2020, www.adidas-group.com/en/media/news-archive/press-releases/2020/adidas-2021-first-time-more-60-percent-all-products-will-be-made/; Sarah Mahoney, "Adidas Steps Up Ocean-Trash Efforts, Aims to Make 22M Shoes," MediaPost, January 22, 2019, www.mediapost.com/publications/article/330911/adidas-steps-up-ocean-trash-efforts-aims-to-make.html; and www.adidas-group.com/en/sustainability/managing-sustainability/general-approach/ and www.adidas-group.com/en/sustainability/products/sustainability-innovation/, accessed October 2022.

22. See www.terrapass.com/product/business-carbon-offset, accessed October 2022.

23. See www.ibm.com/ibm/environment/products/recycling.shtml, accessed October 2022.

24. http://new.siemens.com/global/en/company/sustainability.html and "Green, Greener Kalwa," http://new.siemens.com/global/en/company/about/businesses/real-estate/green-greener-kalwa.html, accessed October 2022.

25. Brad Smith, "Microsoft Will Be Carbon Negative by 2030," January 16, 2020, blogs.microsoft.com/blog/2020/01/16/microsoft-will-be-carbon-negative-by-2030/; Justine Calma, "Microsoft Made a Giant Climate Pledge One Year Ago—Here's Where It's At Now," *The Verge,* January 28, 2021, www.theverge.com/2021/1/28/22254483/microsoft-climate-change-pledge-update-carbon-dioxide-removal; David Roberts, "Microsoft's Astonishing Climate Change Goals, Explained," *Vox,* July 30, 2020, www.vox.com/energy-and-environment/2020/7/30/21336777/microsoft-climate-change-goals-negative-emissions-technologies; and information from www.microsoft.com/en-us/corporate-responsibility/sustainability/report and www.microsoft.com/en-us/corporate-responsibility/sustainability, accessed October 2022.

26. See "Toyota North American Environmental Report," www.toyota.com/usa/environmentreport/; and "Six Challenges: Moving toward a Future Society in Harmony with Automobiles and Nature," https://global.toyota/en/sustainability/esg/challenge2050/, accessed October 2022.

27. See https://paperstoneproducts.com/, accessed October 2022.

28. See www.rainforest-alliance.org/about, www.rainforest-alliance.org/find-certified, and www.rainforest-alliance.org/business/marketing-sustainability/how-to-communicate-your-transition-to-the-new-rainforest-alliance-certification-seal-easily-and-effectively/, accessed October 2022.

29. See https://lastobject.com/pages/purpose, accessed October 2022.

30. See "How Our Oats Provide Power and Purpose," *General Mills*, April 18, 2017, https://blog.generalmills.com/2017/04/how-our-oats-provide-power-and-purpose/; and www.energyjustice.net/map/displayfacility-74311.htm, accessed October 2022.

31. See Madeleine Streets, "These Businesses Are Saving the Planet One Shoebox at a Time," *Footwear News,* July 17, 2019, https://footwearnews.com/2019/business/manufacturing/sustainable-packaging-shoebox-rothys-puma-fuseproject-lumi-1202804511/; "Case Study: Puma Clever Little Bag," The Packaging Cookbook, April 25, 2018, www.packagingcookbook.com/articles/2018/4/25/case-study-puma-clever-little-bag; and www.fuseproject.com/work/puma-clever-little-bag, accessed October 2022.

32. See www.caterpillar.com/en/company/sustainability/remanufacturing.html, accessed October 2021.

33. See Bruce Japsen, "CVS Kicks In Another $50 Million for Anti-Tobacco Push," *Forbes,* March 10, 2016, www.forbes.com/sites/brucejapsen/2016/03/10/cvs-kicks-in-another-50m-to-anti-tobacco-push/#41c6eb5f11f3; Phil Wahba, "She Thanks You for Not Smoking," *Fortune,* September 11, 2015, http://fortune.com/2015/09/11/cvs-health-helena-foulkes/; Kristina Monllos, "CVS Health's Marketing Chief on Turning the Pharmacy Brand into a Healthcare Player," *Adweek,* March 28, 2016, www.adweek.com/print/170437; Tina Reed, CVS Directs Initiative Combating Youth Smoking toward Teen E-cigarette Use," *Fierce Healthcare,* June 17, 2019, www.fiercehealthcare.com/hospitals-health-systems/cvs-aetna-launch-plan-to-combat-youth-e-cigarette-use; and information from www.cvs.com/shop/health-medicine/stop-smoking, www.cvs.com/minuteclinic/resources/smoking-cessation, http://cvshealth.com/about/facts-and-company-information, http://investors.cvshealth.com, http://cvshealth.com/about-cvs-health/our-purpose, and www.cvshealth.com/social-responsibility/be-the-first, accessed October 2022.

34. See Michael Montgomery, "The Cost of Corruption," American RadioWorks, http://americanradioworks.publicradio.org/features/corruption/, accessed October 2021; and Miriam Valverde, "Fact-Check: Does Corruption Cost 5 Percent of the World's GDP?, *Austin-American Statesman,*, May 10, 2021, www.statesman.com/story/news/politics/politifact/2021/05/10/kamala-harris-corruption-gdp-fact-check/4993684001/.

35. See www.ama.org/codes-of-conduct/, accessed October 2022.

36. See "Protect This House: The Under Armour Code of Conduct. Make the Right Call," www.uabiz.com/static-files/fdd4d03e-a31e-49a4-9500-88c4a0abcb80, accessed October 2021; and "The Under Armour Code of Conduct. Make the Right Call," https://about.underarmour.com/sites/default/files/2019-10/UA_CodeofConduct_2019_English.pdf, accessed October 2022.
37. See Dinara Bekmagambetova, "Two-Thirds of North Americans Prefer Eco-Friendly Brands, Study Finds," *Barron's*, January 10, 2020, www.barrons.com/articles/two-thirds-of-north-americans-prefer-eco-friendly-brands-study-finds-51578661728; and Chris Kelly, "'Post-Truth' Climate Impacts Gen Z's Brand Perceptions, Forrester Says," *Marketing Dive*, January 20, 2021, www.marketingdive.com/news/post-truth-climate-impacts-gen-zs-conflicting-brand-perceptions-forrest/593640/.
38. See www.pedigree.com/why-pedigree/about-us and www.pedigreefoundation.org/about-us/, accessed October 2022.
39. Based on information from Lincoln Wilcox, "A Market-Creation Story: Aravind Eye Care," February 6, 2020, www.christenseninstitute.org/blog/a-market-creation-story-aravind-eye-care/; Pavithra K. Mehta and Suchitra Shenoy, Infinite Vision: How Aravind Became the World's Greatest Business Case for Compassion (San Francisco, CA: Berrett-Koehler Publishers, Inc., 2011); "Pioneers of Sustainability," Weinreb Group, September 13, 2018, http://weinrebgroup.com/wp-content/uploads/2018/07/SustainabilityPioneersWeinrebGroup.pdf; "Healing Eyes of the World," December 27, 2016, www.youtube.com/watch?v=Wfsrg7aait8&t=626s&ab_channel=AravindEyeCareSystem; "How McDonald's Inspired an Extraordinary Eye Hospital in India," February 12, 2018, http://didyouknowwebsite.wpcomstaging.com/2018/02/12/how-mcdonalds-inspired-an-extraordinary-eye-hospital-in-india/; and www.benjerry.com/about-us, www.thebodyshop.com/en-us/about-us/our-heritage, www.warbyparker.com/history, and https://aravind.org/, accessed October 2022.
40. See https://methodhome.com/ and https://methodhome.com/about-us/our-story/accessed October 2022.
41. David A. Lubin and Daniel C. Esty, "The Sustainability Imperative," *Harvard Business Review*, May 2010, pp. 41–50; and Roasbeth Moss Kanter, "It's Time to Take Full Responsibility," *Harvard Business Review*, October 2010, p. 42.
42. Better Cotton Initiative, "H&M 'Making Sustainability Fashionable'," April 16, 2015, https://bettercotton.org/hmmaking-sustainability-fashionable/; Nitin Bhalla, "H&M Says Working to Improve Labor Conditions in India, Cambodia Factories," May 21, 2016, https://www.reuters.com/article/us-india-cambodia-hennes-mauritz-idUSKCN0YC0SD; Hayley Peterson, "How H&M Churns Out New Styles in Just 2 Weeks," *Business Insider*, September 13, 2014, https://www.businessinsider.com/hm-produces-newfashions-in-twoweeks-2014-9?international=true&r=US&IR=T; Kelly-Leigh Cooper, "Fast Fashion: Inside the Fight to End the Silence on Waste," *BBC News*, July 31, 2018, https://www.bbc.com/news/world-44968561; Edge, "Fashion Industry Waste Statistics," https://edgexpo.com/fashion-industry-waste-statistics/; Ethisphere, "Ethisphere Recognizes 128 World's Most Ethical Companies for 2019," February 26, 2019, https://ethisphere.com/128-worlds-most-ethical-companies-for-2019/; European Union (2019), Nikolina Šajn, "Environmental Impact of the Textile and Clothing Industry What Consumers Need to Know," European Parliamentary Research Service, https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/633143/EPRS_BRI(2019)633143_EN.pdf; James Hitchings-Hales, "Hundreds of H&M and GAP Factory Workers Abused Daily, Report Says," Global Citizen, https://www.globalcitizen.org/en/content/hm-gap-factory-abuse-fast-fashion-workers/; H&M, The H&M Way, Sustainability Reports (2018), https://sustainability.hm.com/en/sustainability/downloads-resources/reports/sustainability-reports.html; H&M, "How H&M Gives Back to the Community," http://sites.mediaplanet.com/holidayshoppingguide/winterfashion/how-hm-gives-backto-the-communityHitchings-Hales; Human Rights Watch, "'Work Faster or Get Out': Labor Rights Abuses in Cambodia's Garment Industry," August 17, 2018, https://www.hrw.org/report/2015/03/11/work-faster-or-get-out/labor-rightsabusescambodias-garment-industry; J. M. Radparvar and J. M. Radparvar, "Behind the Label: H&M's Conscious Collection," December 7, 2017, https://www.huffpost.com/entry/hand-m-conscious-collection_b_1261082; Reuters, "H&M Says Working to Improve Labor Conditions in India, Cambodia Factories after Reports of Forced Overtime and Loss of Job If Pregnant," *South China Morning Post*, July 20, 2018, https://www.scmp.com/news/asia/southeast-asia/article/1950478/hm-says-working-improve-labour-conditions-india-cambodia; Lara Robertson, "How Ethical Is H&M?," September 4, 2019, https://goodonyou.eco/how-ethical-is-hm/; S. Young, "H&M Launches Conscious Exclusive 2018 Collection," *The Independent*, April 28, 2018, https://www.independent.co.uk/life-style/fashion/hm-conscious-exclusive-2018-collection-sustainable-organic-a8322011.html, accessed January 2020.

Appendix 1

1. Stephanie Cernivec, "Health Appeal Drives Bottled Water Sales," *Beverage Industry*, September 22, 2021, www.bevindustry.com/articles/94443-health-appeal-drives-bottled-water-sales; Barbara Harfmann, "2021 State of the Beverage Industry: CSD's Benefit from Familiarity, Flavor Choices," *Beverage Industry*, July 1, 2021, www.bevindustry.com/articles/94253-state-of-the-beverage-industry-csds-benefit-from-familiarity-flavor-choices; Emily Boes, "Functionality Draws Consumers to Bottled Water, Sports Drinks," *CStore Decisions*, March 15, 2022, www.cstoredecisions.com/2022/03/15/functionality-draws-consumers-to-bottled-water-sports-drinks/; "Enhanced Water Market Is Segmented by Product," *Market Data Forecast*, March 2022, www.marketdataforecast.com/market-reports/enhanced-water-market; and product information obtained from statista.com, vitaminwater.com, propelwater.com, and www.sobe.com/, accessed August 2022.

Appendix 2

1. This is derived by rearranging the following equation and solving for price: Percentage markup = (price − cost)/price.
2. Using the basic profit equation, we set profit equal to ROI × I: ROI × I = (P × Q) − TFC − (Q × UVC). Solving for Q gives Q = (TFC + (ROI × I)/(P − UVC).
3. YCharts (2021), "US Households," available at http://ycharts.com/indicators/us_households; Pew Research Center (2021), "US Households," available at www.pewinternet.org/fact-sheet/internet-broadband/.
4. See Roger J. Best, *Market-Based Management*, 6th ed. (Upper Saddle River, NJ: Prentice Hall, 2013).

Index

Brand, Company, Name, and Organization Index

Subject Index

Note: Page numbers followed by f refer to figures; those followed by t refer to tables.

A

B

E

N