Unit 3

Product, Promotion, Price, and Place

Unit Introduction

In this last unit, we will be exploring next-level marketing concepts. We will look at product marketing, services marketing, pricing, integrated marketing communications, the promotion mix, social media marketing, distribution, retailing and wholesaling, and sustainability.

Enjoy the topics and their corresponding examples!



9

Products: Consumer Offerings

Figure 9.1 Marketing strategies define and support the product life cycle and brand, such as Peloton's approach to bundling fitness products and online classes. (credit: modification of work "Woman Riding Exercise Bike" by onthegosports.com.au/SportsFanaticAustralia/flickr, CC BY 2.0)

Chapter Outline

9.1 Products, Services, and Experiences
9.2 Product Items, Product Lines, and Product Mixes
9.3 The Product Life Cycle
9.4 Marketing Strategies at Each Stage of the Product Life Cycle
9.5 Branding and Brand Development
9.6 Forms of Brand Development, Brand Loyalty, and Brand Metrics
9.7 Creating Value through Packaging and Labeling
9.8 Environmental Concerns Regarding Packaging
9.9 Ethical Issues in Packaging

In the Spotlight

Peloton, producer of high-end home fitness equipment and streaming fitness classes, has taken advantage of the tech boom to bundle its products and service for a recurring revenue source. Peloton is known for its expensive at-home fitness bikes and treadmills aimed at a high-end target audience. Once a customer purchases a bike for $1,500–$2,600 and/or a treadmill for $3,500,[1] most fitness companies would not expect additional revenue from a customer for several years.

But Peloton sees itself as a technology company that facilitates service. Peloton CEO John Foley has said that "we see ourself more akin to an Apple, a Tesla, or a Nest or a GoPro—where it's a consumer product that has a foundation of sexy hardware technology and sexy software technology."[2] In the case of Peloton, that sexy software technology comes in the form of streaming workout classes including cycling, strength, boot camp, yoga, and meditation taught by charismatic instructors who have become social media influencers. The price tag for Peloton customers is a recurring $39 monthly fee for all access on top of the cost of the product.

Peloton customers are purchasing more than a one-time durable good. Instead, they are buying a networked effect in which they are connected to fitness instructors and one another. Hailed the new form of competitive

advantage, networked effects bring customers closer to the brand through personal connections between the brand and customers and between customers. Once a customer is a loyal part of the network, the cost to switch brands in terms of habit and lifestyle is high. As a result, loyal customers are less likely to brand switch and are less price sensitive.

While product bundling isn't a new concept—think about a value meal at a restaurant that includes a sandwich, fries, and a beverage—the product-service bundle is an emerging trend among technology companies. It provides recurring revenue for the brand while bringing the customer into a more intimate customer experience, leading to brand loyalty. Typically, the service fees ultimately provide more revenue per customer than the one-time product purchase in this model. The recurring revenue model makes the product facilitate the service exchange, blurring the traditional product-service lines.

What examples come to mind when you think of product-service bundles? Do you have a prediction for how this trend may shape product development in the future?

9.1 Products, Services, and Experiences

Learning Outcomes

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

- LO 1 Differentiate between products, services, and experiences.
- LO 2 Describe how consumer and business/industrial products are classified.
- LO 3 Identify the four levels of a product.

Products and Services Defined

When a customer makes a purchase, they expect value from that exchange. Think about what you ate for breakfast today. You paid money to receive a product that satisfied your hunger. Is that all the value you received? Perhaps not. If you ate eggs, bacon, and coffee at a restaurant, you had both a product and a service experience. Maybe someone at the restaurant handed you a menu, took your order, brought your food, refilled your coffee, cleaned up dishes, and collected payment for your meal. The eggs, bacon, and coffee were the product, while the acts of the restaurant staff were a service. And the summation of it all was the product–service experience.

Products are tangible items that are part of an exchange between a buyer and seller. Products can be seen, touched, owned, and stored. For example, the computer or tablet you're using to read this textbook is a product. You may have visited a store to see and touch the product before purchasing to ensure it met your needs. Post-purchase, the computer or tablet is yours to own and store for later use as you please. The tangible nature of the product allows the consumer to possess it.

Services are intangible solutions that are also an exchange between buyer and seller. Unlike products, services cannot be touched, owned, or stored for later use. For example, a college course on marketing is a service. Students cannot own the course; they cannot store it for later, nor will they have a tangible object representing the course. Another defining feature of a service is the customer is typically a part of the service experience. Imagine buying tickets to your favorite band in concert. You will have to attend the concert to realize the full benefit of the service experience.

While a computer is a true product and a marketing class is a true service, many exchanges between buyer and seller fall somewhere in the middle of the product–service continuum (see Figure 9.2). Think back to the restaurant breakfast at the top of this section; restaurants are a prime example of an exchange that includes products and services. Marketers are typically working with an offering that falls on the product–service continuum. This means that they need to understand how to influence consumer behavior in the search for products and services.

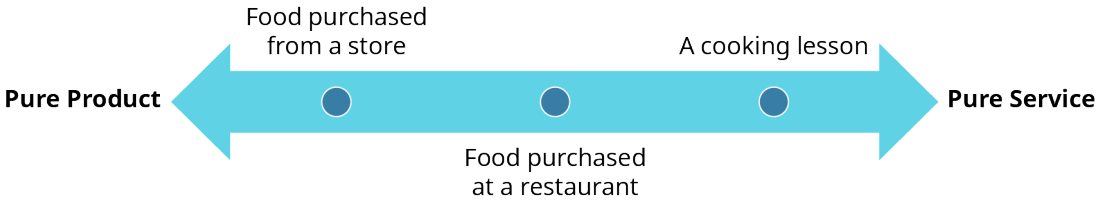


Figure 9.2 The Product–Service Continuum (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Customer Experience

Customer experience (CX) is the overarching impression that customers have of a brand. Therefore, each touchpoint with a product or service becomes a part of the customer experience. A strong customer experience integrates technology, marketing, sales, and customer service to deliver a strong brand perception.

For example, if you have ever visited an Apple Store, you probably have experienced one of the most lauded customer experiences there is. From the moment you walk in, you are surrounded by products and transported into a world of technology. Each touchpoint, from the check-in on an iPad to the latest products that are available for use, reinforces the brand through customer experience. Brands with strong customer experience tend to have more loyal customers who become brand advocates.

MARKETING IN PRACTICE



Netflix

Netflix has perfected the customer experience (see Figure 9.3). Using technology as a driver, Netflix predicts its customers' viewing preferences using an algorithm, removing friction from the user experience and making the brand an essential part of its customers' lives. Netflix's use of personalization is common among companies that excel in customer experience. The customer is at the center of the experience that is entirely tailored to them.



Figure 9.3 The Netflix brand is known for perfecting the streaming business by optimizing usage data to create an individualized and customized user experience. (credit: "Netflix Logo on the PC Monitor, Photographed through a Magnifying Glass" by Marco Verch/flickr, CC BY 2.0)

Once users enter the Netflix website, they see an experience that makes their viewing opportunity seamless and flexible. Netflix lets the user know right away that it streams thousands of movies and television shows on various devices. The sign-up involves three easy steps, and then the customer is brought into a viewing

world built around them.

The Netflix algorithm analyzes viewing habits based on a variety of factors, including:

- Viewing history
- Genre or category
- Time of day watched
- How long the user watched
- Devices currently streaming
- Rating history for similar content
- Other Netflix users with similar preferences on the platform[3]

As the algorithm learns more about the viewer, the customer experience improves, becoming essential to customers' lives and building brand loyalty.

Classifications of Consumer and Business Products

Product managers classify products first by whether they are consumer products or industrial products. This classification is essential because businesses typically make product purchase decisions to create a consumer good. Meanwhile, consumers are buying products for their personal use. Therefore, this distinction impacts how product managers design, market, and sell products.

Consumer products are classified into four main categories (see Table 9.1):

1. **Convenience products** are products that consumers can purchase easily, quickly, and without a lot of thoughtful decision-making. Convenience product purchases may be habitual in that the consumer buys the same brand each time. In addition, they are typically lower-priced and have wide distribution, so they are easily accessible to consumers. Frozen waffles, bar soap, milk, and bathroom cleaners are examples of convenience products.
2. **Shopping products** require more thought from the consumer. Consumers may research and shop around for shopping products, seeking the best quality or price. Shopping products are typically available at a few retail stores and online, and they may be priced higher than convenience products. Exercise equipment, technology, clothing, and airline tickets are shopping products.
3. **Specialty products** have unique qualities that consumers will make an extra effort to seek out. The product's unique nature typically means that the consumer will not comparison shop and will spend a significant amount of time and money to procure the product. Luxury cars, rare breeds of saltwater fish, fine art, and jewelry are examples of specialty products.
4. **Unsought products** are consumer goods that a buyer doesn't anticipate purchasing. As a result, the consumer is often not aware of the product or does not think it is needed. A flat tire that needs repairing, a roof damaged in a storm that needs to be replaced, and funeral services are examples of unsought products.

Type of Product	Price	Consumer Decision-Making Process	Distribution
Convenience	Low	This is a habitual/automatic purchase process that involves little comparison shopping.	Widespread distribution at several retail outlets
Shopping	Low-Mid	There is time spent on the consumer decision-making process and comparison shopping for price and quality.	Selective distribution at retail outlets that match customer and brand type
Specialty	High	Having a specific brand or product in mind means little comparison shopping. Typically, this is a special purchase with a lot of planning.	Exclusive distribution at one or a select few retail outlets
Unsought	Variable	The consumer is unaware or uninterested, so they exert little thought or comparison shopping.	Variable distribution depends on the product

Table 9.1 Types of Products

Classifications of Business and Industrial Products

Businesses purchase products to aid in manufacturing or creating consumer products or services. For example, if you have ever been to a doughnut shop, you might think about how the bakers produce a doughnut. The bakers have probably purchased baking equipment, ingredients for the doughnuts, boxes to package the doughnuts, and a service to make deliveries. Business and industrial products are classified as follows:

1. **Raw materials** are the products that a business needs to purchase in order to make a consumer good, such as flour, sugar, and yeast in our doughnut example.
2. **Manufactured materials and parts** are products used to create the product. For example, large baking sheets are manufactured materials specific to a bakery and purchased to enable product creation.
3. **Capital items** are assets that are valuable to the business and have tangible value. For example, our bakery's large ovens would be considered a capital item.
4. **Supplies and services** are goods and services that are typically disposed of and do not contain a tangible value. For example, the bakery's boxes are part of its supplies to package doughnuts.

The Three Levels of Product

In marketing, we often say that consumers do not make rational decisions—this consumer decision-making process ties directly to how we think about products. Therefore, product marketers should ask themselves, "What's the problem the consumer is trying to solve?" The answer to this question gets to the root of the core product. The **core product** is what your customer is actually buying: convenience, ego, ease, flexibility, etc. For example, if you have ever purchased single-use plastic water bottles, you were likely purchasing a core product of convenience.

The second level of a product is the **actual product**: a toaster, a waffle, or a sports car, for example. The actual product includes the product features, brand, level of quality, packaging, and design.

The third level of a product is the **augmented product**: warranties, customer service, product support, etc. The augmented product is the unseen aspects of the product essential to its service to you. For example, Butterball launches a turkey talk-line that provides tips on cooking the perfect Thanksgiving turkey each Thanksgiving. So if you have turkey roasting questions, the talk-line is ready and waiting to answer your

questions in this augmented product. A hotel might provide concierge services to obtain tickets to events or limousine service, dry cleaning services, recommendations for local restaurants, etc. All of these would be augmented services. (see Figure 9.4).

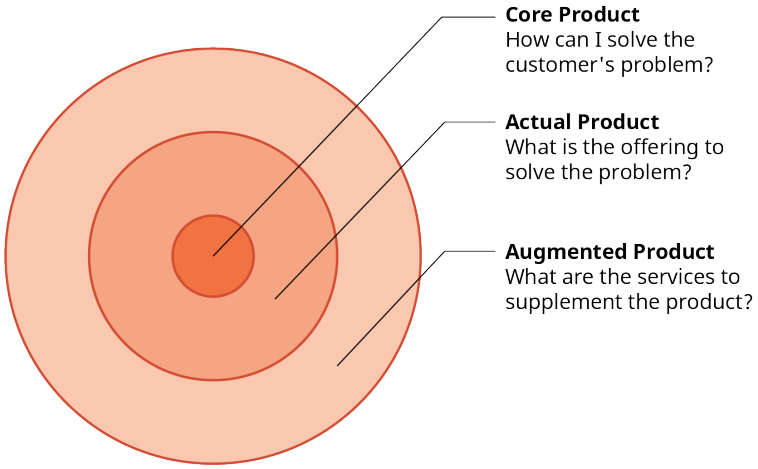
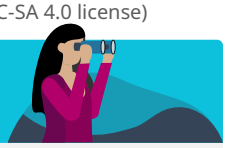


Figure 9.4 Three Levels of a Product (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

CAREERS IN MARKETING



Product Marketer

A product marketer, also sometimes known as a product marketing manager, promotes a product and its features to a target market. Learn more about this job role through this article from HubSpot (https://openstax.org/r/productmarketingmanager), including a job description, necessary qualifications, and job responsibilities. Also, check out this video from a Google employee about being a product marketer.

Product Marketing 101 with Google Product Marketing Manager (https://openstax.org/r/productmarketing101)

If this job interests you, check out this article from Indeed (https://openstax.org/r/whatdoesaproductmarketingmanagerdo) that outlines more details, including the typical salary, necessary skills, and education requirements. Or refer to this guide on how to take the next step and get a job in product marketing (https://openstax.org/r/theultimateguidetogettingajobinproductmarketing).

Lastly, to start preparing for a job in this role, check out this mock interview for the product marketing manager role.

Product Marketing Manager (PMM) Mock Interview (https://openstax.org/r/productmarketinginterview)

Knowledge Check

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

1. Which of the following is the best example of a pure service?
   a. Haircut
   b. Meal at a restaurant
   c. Frozen waffles
   d. Sports car
2. Jorge visited his favorite retailer to find that the store had transformed into a space with product

demonstrations, product trials, and technology, which improved his overall perception of the brand. This is called a(n) _____
a. product
b. service
c. experience
d. advertisement

3. A package of gum at the checkout of a grocery store is considered a(n) _____ product.
a. convenience
b. shopping
c. specialty
d. unsought

4. Potbelly Sandwich Shops use paper bags to hold customers' sandwiches. What type of industrial product is the bag?
a. Raw materials
b. Manufactured materials and parts
c. Capital items
d. Supplies and services

5. At the beginning of this chapter, we learned about the Peloton brand. Peloton users use not only the physical bike also but online classes with an instructor to stay fit within their own homes. This need represents the _____ product.
a. core
b. actual
c. augmented
d. valued

9.2 Product Items, Product Lines, and Product Mixes

Learning Outcomes

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

LO 1 Define product items, product lines, and product mixes.
LO 2 Describe product line length and depth.
LO 3 Discuss product line filling and product line stretching.

Product Line Length and Depth

Companies typically sell many products, some of which are singular and some of which are part of a larger category of offerings. So let's start with a **product item**, a particular good that a company sells. For example, Domino's Pizza sells its original hand-tossed pizza as a product item on its menu.

A company will also sell a product item as a part of a broader **product line**. A product line is a set of products that are similar or complementary. For example, Domino's sells crunchy thin, handmade pan, Brooklyn style, and gluten-free crust along with its hand-tossed pizza crust as a part of a product line.

A **product mix** contains all the products that a company sells. In addition to pizza, Domino's sells salads, sandwiches, appetizers, pasta, desserts, and beverages. These products make up the product mix for Domino's (Figure 9.5).

There are benefits to brands in organizing into product lines and mixes. For example, if you have ever added a chocolate lava cake to your Domino's order, you know firsthand that products within a mix are easily cross-sold. You may have also seen a commercial where Domino's promotes its product mix, creating efficiencies in its media advertising spend. In addition, breadth of products provides some assurance that competitors will

not compete in the same space. Finally, you may have noticed that some appetizers and desserts are packaged in the same box, creating supply efficiencies.

On the flip side, if product offerings are too similar, they may cannibalize (or steal from) the original product, resulting in lower profitability. For example, if Domino's had 30 types of pizzas, the stores might have to stock extra ingredients to make those pizzas, but Domino's might not sell more pizzas as a whole because the product line offerings are too similar.



Figure 9.5 A product item, like a pizza from Domino's Pizza, is part of a company's product mix—all of the products it sells. (credit: "Saki's Pizza" by thepizzareview/flickr, CC BY 2.0; modification of work "Salad" by Jackie L Chan/flickr, CC BY 2.0; "Pasta with Homemade Baguette" by Stacy Spensley/flickr, CC BY 2.0; "Mmm... I Want Everything on Mine" by jeffreyw/flickr, CC BY 2.0; modification of work "Chocolate Fudge Brownies" by startcooking kathy & amandine/flickr, CC BY 2.0; modification of work "Fast Food Chicken Nuggets" by Walt Stoneburner/flickr, CC BY 2.0)

Product Line Depth and Product Mix Width

Product line depth refers to the number of products in the line. Using our previous example, Domino's carries five products in the pizza product line. Meanwhile, the **product mix width** refers to the number of product lines a brand carries. Domino's offers seven product lines within its product mix (pizza, salads, sandwiches, appetizers, pasta, desserts, and beverages).

The product line depth and product mix width allow a company to diversify its offerings to maximize customer loyalty and mitigate risk. For example, if a customer enjoys Domino's Pizza, they may extend their order to include one of the other offerings in the product mix. On the flip side, if a customer has a bad experience with the pizza, they might try chicken or pasta instead next time. However, it is essential to note that too many offerings can cannibalize one another and drive up the cost of goods sold because of the variations that each product requires.

Product Line Filling and Product Line Stretching

One of the reasons for an ample product line is to leave no room for competitors to solve a customer's need. Companies use a **product line filling** strategy when they add products to the product line to ensure that competitors do not enter their market. If you wonder why Domino's has so many pizza toppings, consider that it might be product line filling at work.

On the other hand, it might make more sense for a company to add product lines. The addition of product lines is a practice called **product line stretching**. There are three main ways to stretch a product line:

1. **Stretching Downward.** A brand introduces a product line that is less expensive than its current offering. This may open a new target market or change a brand's positioning in a competitive market. However, it is essential to consider whether stretching down might shift the brand's perception or take share from other

product lines. Tesla introduced its Model 3 following its more expensive Model S, following the stretching downward strategy.[4]

2. **Stretching Upward.** A brand introduces a product line that is more expensive than its current offering. This may increase profitability or reposition the brand. First, however, it is essential to determine whether the brand has equity in the upward market. Godiva introduced its gold collection to stretch its product line upward.
3. **Stretching Up and Down.** A brand can stretch up and down simultaneously. While this has the potential for great rewards, it also introduces a fair amount of risk. Dell utilizes a strategy to stretch up and down with its everyday access laptops, creator laptops, and all the way up to its immersive gaming laptops.

Suppose Domino's wanted to join the wood-fired pizza trend. It could employ an upward product line stretching strategy to introduce Domino's to a more upscale market that appreciates wood-fired pizza.

Knowledge Check

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

1. Oreo's selection of flavors would be considered a _____.
   a. product
   b. product line
   c. product mix
   d. product category

2. A product mix contains _____.
   a. a mix of the company's most popular products
   b. a singular product
   c. all the products that a company sells
   d. a group of similar products

3. If Domino's were to add a Chicago-style stuffed pizza to its menu, this would represent an expansion of the _____ of its pizza offerings.
   a. product line depth
   b. product mix width
   c. product items
   d. product differentiation

4. Product line depth refers to _____.
   a. product characteristics
   b. the number of product lines
   c. product assortment
   d. the number of products in the product line

5. Which of the following is a benefit of product line filling?
   a. Less money spent on research and development
   b. Protection against competitors
   c. Creates a product line assortment
   d. Stretches the product line

9.3 The Product Life Cycle

Learning Outcomes

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

LO 1 Define the product life cycle.

LO 2 List and describe the stages of the product life cycle.

The Product Life Cycle

Have you ever wondered what happens after a new product launch? Is the product successful right away, or does it need a little help from marketing to realize its potential? Then, as the product matures, does it stay on the shelf, or does it have a natural endpoint? The **product life cycle** (see Figure 9.6) maps the stages a product goes through, tracking its sales and profitability.

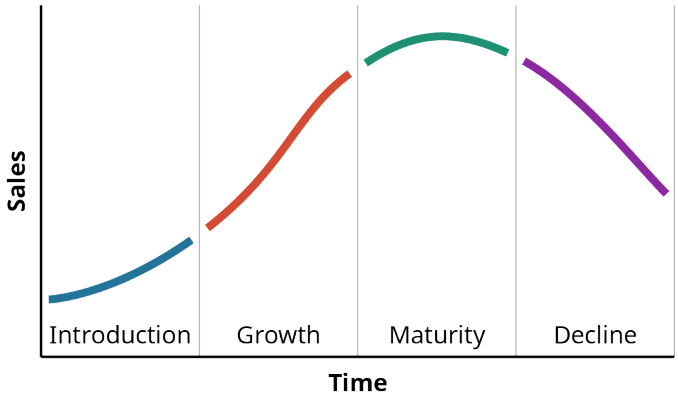


Figure 9.6 The Product Life Cycle (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

The Product Life Cycle Stages

The product life cycle begins in the **introduction stage**. This is when consumer awareness is building and sales are starting to grow. The marketing investment is high as brands invest heavily in advertising and sales promotion to encourage trial. Profitability is low due to costs to launch and scale a new product. What products can you think of that are in the introduction stage of the product life cycle?

Once a product catches on in the marketplace, it enters the **growth stage** of the product life cycle. The growth stage is characterized by increasing sales and the potential for copycat brands to enter the market once they see revenue and profitability. In addition, products require less marketing and distribution investments during the growth stage, making them more profitable. However, a brand can decide to invest in product improvements and distribution, which may decrease profitability in the short term in exchange for long-term gain. When hoverboards were new to the market, they experienced explosive growth that quickly tapered off.

The product enters the **maturity stage** when sales growth slows and profitability levels taper off. The maturity stage is typically the longest stage of the product life cycle, with products remaining in this stage for years or even decades. Profitability may remain if the brand has a solid competitive advantage or decline if too many competitors enter the market. Marketing investment can increase at this stage if the brand has a rival, and product modification can alter the product to meet consumers' needs. Yet often a brand will retain a low level of marketing during the maturity stage to remind consumers of its benefits. Kraft Macaroni & Cheese is an example of a product that has a solid place in the market and has stabilized as a mature product.

Eventually, most products enter the **decline stage**. The decline stage is characterized by a significant decrease in sales and profitability. Sometimes the decline occurs because the market has changed: technology has evolved, consumer tastes have shifted, or the need that the product satisfies is no longer relevant. Other times, the product is pushed out by rising costs or competitors. Many companies report their earnings

quarterly and do not want to keep an unprofitable brand in their portfolio. As a result, companies typically try to divest a product in the decline stage. Another company may pick up the brand, invest in it, and bring the product back to a growth or maturity stage. Apple's iPod entered the decline stage when the popular iPhone was introduced, bringing a host of features plus music.

It is important to note that products do not always travel through the product life cycle at a linear rate, nor do they all travel through all product life cycle stages. For example, a product can be introduced and never gain traction, so it goes directly from introduction to decline. Or a product might gain popularity rapidly during the growth stage and then meet a quick decline. This phenomenon occurs when products are fads.

Knowledge Check

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

1. Which of the following is NOT a stage of the product life cycle?
   a. Introduction
   b. Growth
   c. Maturity
   d. Profitability

2. Which criterion does the product life cycle use?
   a. Sales
   b. Profitability
   c. A and B
   d. None of these are correct.

3. Which stage of the product life cycle is characterized by a rapid increase in sales?
   a. Introduction
   b. Growth
   c. Maturity
   d. Decline

4. Which stage of the product life cycle is characterized by stable sales and profitability?
   a. Introduction
   b. Growth
   c. Maturity
   d. Decline

5. Which of the following is a reason that brands may not follow the product life cycle sequentially?
   a. Brands can grow rapidly.
   b. Brands can skip the product life cycle all together.
   c. Brands can be a fad.
   d. Brands can skip to maturity right away.

9.4 Marketing Strategies at Each Stage of the Product Life Cycle

Learning Outcomes

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

- LO 1 Discuss marketing strategies in the introduction stage of the product life cycle.
- LO 2 Classify marketing strategies used in the growth stage of the product life cycle.
- LO 3 Characterize marketing strategies used in the maturity stage of the product life cycle.
- LO 4 Identify marketing strategies used in the decline stage of the product life cycle.

Marketing Strategies in the Introduction Stage

The introduction stage is characterized by awareness-building to encourage trial. There is a significant investment in marketing activities at this stage to make the shift from early adopters to a broader audience, and pricing is a means of enticing trial.

A **rapid skimming strategy** sets a high price along with extensive advertising and sales promotion to establish the product in the marketplace. This strategy allows a product to gain share quickly and fend off potential competitors. Technology innovations typically use a rapid skimming strategy to attract early adopters who are willing to pay a higher price.

In contrast, a slow skimming strategy may be utilized when there is not an anticipated influx of competitors. The **slow skimming strategy** sets high prices with low advertising and sales promotion investment. For example, we may see a rapid skimming strategy for the new model of a truck or SUV in the automobile market because competition is high and the barrier to entry is low. On the other hand, the Tesla brand used a slow skimming strategy in its initial launch with a high-priced offering making it exclusive.

A **rapid penetration pricing strategy** is appropriate when volume sales will increase market share quickly, and a lower-priced strategy is employed. Rapid penetration pricing strategies encourage customers to try a product and switch to a new brand. This strategy works well with product categories with many competitors and price-sensitive customers. For example, Old Navy used a rapid penetration pricing strategy when it opened its stores in 1994 with an $8 jeans promotion under the assumption that if customers tried its jeans, they would be hooked and become brand advocates.

In contrast, a **slow penetration pricing strategy** establishes low prices and low promotion to capture share more slowly in a market that typically does not readily react to promotion. Products that do not have a lot of brand equity and are necessities do not respond to promotion readily and are appropriate for a slow penetration pricing strategy. For example, if a store brand of butter were to establish an everyday low price without the use of promotion, it would be adopting a slow penetration pricing strategy.

Marketing Strategies in the Growth Stage

The growth stage is characterized by growing sales and increasing competition in the marketplace. Investment in product and place is essential at the growth stage to maximize market share and scale quickly.

Brands may improve product quality or add new features in the growth stage based on early lessons from the introduction stage and to fend off competitors. Products with a first-mover advantage may find competitors who replicate their products entering the market, so product improvement is essential. For example, OXO is a brand that uses universal design to innovate products to make them easier to use. This continuous product improvement makes it a leader in the kitchenware market.

Once a product becomes mainstream in the growth stage, expanding distribution channels can increase market share. While expanded distribution adds expense, it also brings the product to more customers in various settings. For example, Chicago-based Home Run Inn Pizza was so famous in the restaurant format that it expanded to grocery stores to increase share.

Finally, brands use promotion to shift their message from awareness to preference. The shift from a niche market to a mass market typically involves an advertising investment. In 2021, TikTok moved from awareness to preference, and its promotion followed suit, reminding users why they enjoy using the platform.

Marketing Strategies in the Maturity Stage

Stability characterizes the maturity stage: profits, customers, and pricing. While this sounds like good news, brands must defend their market share from increasing product replication and product innovation from competitors.

Products in the maturity stage may engage in **market modification**, an extension of the product to new

customers. For example, Cheerios adopted a market modification strategy when it positioned its cereal to the aging baby boomer demographic as a heart-healthy breakfast. This strategy opened a new market for Cheerios to increase its market share.

Products in the maturity stage may also engage in **product modification**, altering products to fit the market. Modifications may be made to the function of the product, the quality of the product, and/or the style of the product. For example, Chobani modified its yogurt product in 2015 by altering the container, allowing the customer to flip toppings into yogurt, and changing the functionality of the yogurt and topping product.[5]

Marketing Strategies in the Decline Stage

The decline stage of the product life cycle is characterized by declining sales and profitability. The product is at the end of its life cycle and is no longer sustainable or a good investment. Brands reduce to a core set of activities and set out to divest the brand asset.

A brand might **divest** a product to protect the rest of its portfolio, either by selling the brand or discontinuing it. For example, the Coca-Cola brand divested New Coke in 2002 after 17 years on the market in various forms.[6] The product was taken off the shelves because it was unsuccessful in the marketplace.

A brand might also choose to **harvest** an unsuccessful product. Harvesting involves reducing all unnecessary expenses to retain any remaining revenue. In addition, harvesting allows the brand to invest cash in its more profitable products. Typically, products do not reemerge after harvesting and more often are divested over time. Technology products, such as smartphones, are often harvested as their up-to-date replacements hit the market. Refurbished products may be sold at a discount or used for parts for new models.

Knowledge Check

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

1. Mohammad's Shoe Company is expanding distribution for its most popular shoe line. The shoe line is in the _____ stage of the product life cycle.
   a. introduction
   b. growth
   c. maturity
   d. decline

2. Jia has established a rapid skimming strategy for her ice cream shop. The ice cream shop is in the _____ stage of the product life cycle.
   a. introduction
   b. growth
   c. maturity
   d. decline

3. Carlos has ceased all nonessential spending for his computer repair business. The computer repair business is in the _____ stage of the product life cycle.
   a. introduction
   b. growth
   c. maturity
   d. decline

4. LaToya has found a new market for her restaurant by expanding to catering. The restaurant is in the _____ stage of the product life cycle.
   a. introduction
   b. growth
   c. maturity

d. decline

5. Jamie's legal business has had some early success and decided to add estate planning to its business portfolio. The legal business is in the _____ stage of the product life cycle.
   a. introduction
   b. growth
   c. maturity
   d. decline

9.5 Branding and Brand Development

Learning Outcomes

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

LO 1 Define branding and discuss its benefits.
LO 2 Discuss ways in which an organization can build strong brands.

Branding

A **brand** is an intangible asset with tangible value. We cannot see, touch, or put a brand on a balance sheet. Rather, a brand is a feeling that is made up of the organization's promotion efforts along with consumer meaning. The value of a brand is challenging to measure, but it is often the most valuable part of a company.

Think about the Harley-Davidson brand (see Figure 9.7). What images and feelings does it evoke? Those images and feelings are its brand, and companies spend a lot of resources developing and nurturing their brands. The brand is the reason that customers purchase and advocate. A brand is the feeling associated with a product or service that gives it currency in the marketplace. The brand is the essence of the product or service and must be reinforced at every touchpoint. The marketing team at Harley-Davidson knows this all too well. Brand is Harley's business, and the company knows that every product, every promotion, and every event must reinforce the brand, which will build value over time to become a significant asset.



Figure 9.7 A brand like Harley-Davidson is an intangible and valuable asset whose tangible value to a company is created by an organization's promotional efforts. (credit: "Harley Davidson" by informedmag.com/flickr, CC BY 2.0)

Branding is the process of developing a brand. Successful brands engage their customers on a personal level, connecting to their emotions and needs. Some of the assets of a brand, such as the brand name, brand mark, or brand positioning, can be influential in creating a feeling about a brand.

LINK TO LEARNING



Logos

Visit the Harley-Davidson website (https://openstax.org/r/harleydavidson) for more logo examples. While looking at the logos, think about its name. What emotions are associated with the brand name and mark? While marketing teams can influence how a brand is seen in the marketplace, consumers often define the brand.

Did you know that the colors used in logos have meaning? This website shares a handful of stories (https://openstax.org/r/webfxlogocolors) behind the colors of famous logos.

Brands are created experiences that are shared among most loyal customers. Harley-Davidson customers experience the brand together through events and organized rides, creating brand meaning and contributing to the overall feeling.

Benefits of Branding

The central benefit of branding is establishing a connection with customers that encourages them to purchase the brand, creating a financial return. But you may be wondering how companies can measure the impact of their brand. **Brand value** is the financial asset associated with a brand. Brand valuation occurs when a company is sold and becomes a part of the financial transaction, along with the assets and liabilities on the company's financial statements. There is no singular measure of brand value, so the valuation process is subjective and may be based on brand visibility, customer loyalty, and perception of the brand, along with financial measures such as revenue.

Brand equity is the additional value that a brand has over a substitute. If a consumer will pay more for one similar product over another because of the brand, that difference represents its brand equity. For example, Tide, owned by Procter & Gamble, is the market leader in the laundry space.[7] While its product may not differ significantly from its competitors, Tide demands a higher price because of its brand equity. The brand equity measure is the amount that a brand with equity can charge over its counterparts. Take a moment and look up the price of Tide and a few competitors. What does that tell you about Tide's brand equity?

Kevin Lane Keller developed the brand equity model to illustrate how brands can develop equity. He postulated that if a brand could develop positive associations, it could charge more than its competitors. The model begins with defining a brand through its identity. Brands should answer the question, Who are you and how do you solve the consumers' needs? The next level of the model determines a brand's meaning. On one hand, how well does the brand perform, and on the other, how does it meet consumers' social and psychological needs? The third level of the framework is about feelings and thoughts. In other words, What do consumers think of your brand and what judgements do they make about it? Finally, the top of the pyramid examines brand resonance, or how much connection, engagement, or loyalty the brand has with its consumers.[8]

LINK TO LEARNING



Keller's Brand Equity Model

Keller's brand equity model is a prevailing framework that scholars use to think about the concept of brand equity. Check out this article (https://openstax.org/r/kellerbrandequitymodel) to learn more about the model and how you could apply it to a brand.

Building Strong Brands

If a brand is a combination of the efforts made by the marketing team and how consumers think, feel, and act, then there is some room for the marketing team to build a strong brand. A strong brand is resonant in the minds of consumers and solves their problems.

Building a strong brand begins with **brand positioning**, or the way the brand signals emotions in consumers' minds. Brands can position themselves based on an attribute—one aspect of the product or service. For example, Taco Bell has positioned itself as the option for late-night cravings. This singular aspect defines its positioning. The problem with positioning based on an attribute is that it is easily replicable by competitors.

The second method of positioning is benefiting the consumer—how the product or service solves the consumer's problem. For example, the Eggo brand's positioning is convenience. The brand solves the consumer's morning rush issue by providing a convenient breakfast solution. The benefits positioning works well for convenience products.

Lastly, a brand can position itself based on values. Values-based positioning is the most robust brand positioning because it links to a consumer's personal beliefs. For example, Ford uses the language "Built Ford Tough" in its advertising to connect to American values of hard work and determination. Ford's strategy is particularly effective because brands can connect to consumers' sense of self and how they show up to the world.

A product's **brand name** also clues consumers in to feelings, thoughts, and attitudes. Therefore, marketing teams spend a lot of time selecting brand names that evoke a feeling harmonious with the brand. A strong brand name also helps consumers see the benefit of the brand. For example, a favorite of many, Kellogg's Frosted Mini-Wheats, tells the consumer that they are eating something made of wheat with a touch of sugar.

A brand name should also translate effectively into a variety of languages. Finally, a brand name should be unique to that product. For example, we all know that the brand Pop-Tarts is a toaster pastry that pops out of a toaster. This is a distinctive element of the Pop-Tarts brand that is exemplified by its name.

Brands use **trademarks (service marks)** to ensure that they are protected under the law. According to the United States Patent and Trademark Office, a trademark can be any "word, phrase, symbol, design or a combination of these things that identified your goods and services."[9] Brands can trademark their names, logos, packaging, or even specific colors that represent the brand. This ensures that competitors do not replicate a known brand and cause confusion among customers. You will know that a brand is trademarked if you see a "TM" or "R" near the name or logo. Take a peek in your pantry to view trademarks on food packaging.

Brands can be owned in one of four ways: national brand, private brand, licensed brand, or co-brand. Each has its unique set of advantages and disadvantages, which will be discussed in this section.

National brands are the name brands that sell a product or service under its corporate name and identity. Brands like Heinz, Smartwater, and Morton's Salt are examples of name brands. Brand equity commands higher prices, so national brands typically charge higher prices than their private brand counterparts. National brands often pay for premium retail space, making them a convenient choice for shoppers. However, price-sensitive shoppers may be turned off by the higher prices of national brands.

Private-label brands are store brands that are similar products to a national brand and labeled privately. If you have shopped at a Walgreens, you may have seen its private-label brand of products that begin with the prefix *Wal-*. A McKinsey study indicates that price accounted for 45 percent of brand switchers from national to private brands, while lack of availability was a secondary reason.[10] The same study suggests that customers can develop loyalty to private-label brands. However, the private-label brand must create a point of differentiation relevant to the target audience in the same way that a national brand would.

Licensed brands provide the likeness of their brand as a fee for use. If you wear eyeglasses, you likely have a licensed brand name on your eyeglasses frame. Brands like Tiffany & Co., Kate Spade, and Tommy Hilfiger do

not produce eyeglasses frames. Rather, they license their brand to manufacturers like Luxottica, an Italian eyewear company that makes the product with the licensed brand name. Licensing a brand is a quick way to gain recognition and benefit from the brand's equity. On the other hand, licensing fees can be costly and ultimately reduce profitability for manufacturers.

Finally, two or more brands may collaborate to **co-brand**; a product. Co-branding brings the equity of each brand together for greater value. For example, Doritos and Taco Bell developed Doritos Locos Tacos, a co-branded line of tacos that feature Doritos as the shell and Taco Bell ingredients as the toppings. In this case, the two brands had a similar target audience and could benefit from the awareness and equity of the other. However, co-branding necessitates a revenue split, which could impact financial results for each brand. Table 9.2 lists the advantages and

Brand Type	Advantages	Disadvantages
National brands	Well-known by consumers; OK to charge more	Some consumers unwilling to pay more than for private-label brands
Private brands	Attract price-sensitive customers	More difficult to build brand equity
Licensed brands	Gain brand recognition and benefit from brand equity	Expensive licensing fees
Co-brands	Benefit from the equity of both brands	Revenue split between two or more brands

Table 9.2 Types of Brands: Advantages and Disadvantages

MARKETING IN PRACTICE



Trader Joe's

Most of us do not love our weekly grocery shopping trip. Aisles upon aisles of boxes, cans, and cartons lining shelves create monotony in shopping for the food that nourishes us. We have trudged through supermarkets, pilling items into our carts uninspired—until Trader Joe's entered the scene.

Trader Joe's has taken the drudgery of grocery shopping and created a customer experience. Using the tenets of the Blue Ocean Strategy, Trader Joe's removed the costly parts of the traditional grocery store such as a large footprint and overwhelming stock that do not add to the customer experience. And it added Hawaiian shirts, friendly employees, interesting food selections, and a much smaller store. The result is a true neighborhood store that is so popular that Trader Joe's fan groups have popped up all over the Internet, and the cult brand has continued growth since its inception.

So what's the magic in creating an experience out of what used to be a chore? Trader Joe's looked at the customer experience from beginning to end to determine what its shopper values and what can go by the wayside.

Trader Joe's prioritized building its culture through empowering its "crew members." Employees at Trader Joe's are interviewed for enthusiasm and cross-trained throughout the store's operations.[11] Crew members are Trader Joe's fans themselves and are known for giving recommendations to customers and are

empowered to connect with the customers, adding to the neighborhood feel of the store. The food at Trader Joe's is interesting to the shopper, much of it convenient and ready to eat. Trader Joe's leverages social media to put its food front and center with recipes and easy-to-prepare pairings. Trader Joe's thinks about the in-store experience and stocks about 10 percent of the food of a normal supermarket,[12] making choices easier on the customer.

LINK TO LEARNING



Interbrand's Best Global Brands

Interbrand ranks the best global brands annually. Take a look at the Interbrand website to see which brands make the top 100 (https://openstax.org/r/interbrandbestbrands) and consider what attributes led them to the top of the list.

Knowledge Check

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

1. Which of the following is a benefit of a brand?
   a. Consumers always choose name brands.
   b. Brands can command higher prices.
   c. Shareholders demand strong brands.
   d. Every company must have a brand.
2. Which of the following describes the financial asset associated with a brand?
   a. Brand price
   b. Brand name
   c. Brand equity
   d. Brand value
3. Which of the following is NOT a means of brand positioning?
   a. Value
   b. Benefits
   c. Brand equity
   d. Attributes
4. The Whole Foods 365 brand is an example of a _____.
   a. national brand
   b. private brand
   c. licensed brand
   d. co-brand
5. Uber and Spotify teamed up to bring custom playlists to Uber rides. This is an example of a _____.
   a. national brand
   b. private brand
   c. licensed brand
   d. co-brand

9.6 Forms of Brand Development, Brand Loyalty, and Brand Metrics

Learning Outcomes

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

- LO 1 Identify branding strategies.
- LO 2 Describe degrees of brand loyalty.
- LO 3 Discuss metrics that can be used to measure brand strength and value.

Brand Development

New products can be added to a brand at any time. There are a few ways to add products that are classified on two measures: new/existing brand name and new/existing product category (see Figure 9.8).

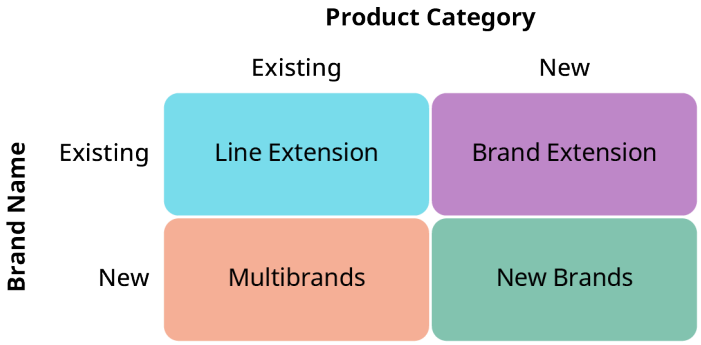


Figure 9.8 Brand Development Matrix (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Line extensions create new opportunities for an existing product and brand to serve customers. For example, the Oreo brand adds flavors to its product line for holidays. These line extensions provide the existing brand with an extension of its current product. As a result, a line extension may sell more products to already-aware and interested customers without many risks. However, sometimes brands may overextend their product lines and products may be too similar, failing to increase sales.

Brand extensions leverage the brand name to new product categories. For example, Starbucks developed a line of bottled coffees under its corporate brand name. A brand extension uses awareness and equity in the brand to gain instant recognition and affinity for the new product, which may increase sales rapidly. However, if the new product is inferior to the brand's known quality, the entire brand portfolio may be at risk.

Multibrands are new brand names within a company's existing product category. For example, Nabisco manufactures various cookies within a product line but is marketed with different brand names. In this case, Chips Ahoy, Oreo, and Teddy Grahams all have brand equity on their own and do not need the benefit of the Nabisco brand. Each of these brands has a significant market share, so there is a benefit to retaining a multibranding approach. However, a multibranding approach does not work when the products have a small market share or fail to gain favorable retail shelf space to encourage sales.

New brands are an entirely different entity from the parent company. A new brand strategy can be effective if the new product or service is markedly different from the existing offering and benefits from its own branding. For example, the Starbucks brand owns Ethos Water. Ethos is in a beverage category other than Starbucks's primary offering and retains its name. A new brand strategy works well when the new brand is distinct from the parent brand and has a defined target market and positioning; however, a marketing strategy for a new brand can be expensive to maintain over time.

Brand Loyalty Levels

As you can see, brands spend time and resources to gain loyal customers. Loyal customers are the holy grail of marketing because they will purchase your brand and advocate for the brand to others. Loyal customers become instant word of mouth, spreading the positive attributes of a brand. However, not all customers are

intensely loyal to one brand. Instead, customers fit into one of four loyalty categories (see Figure 9.9).

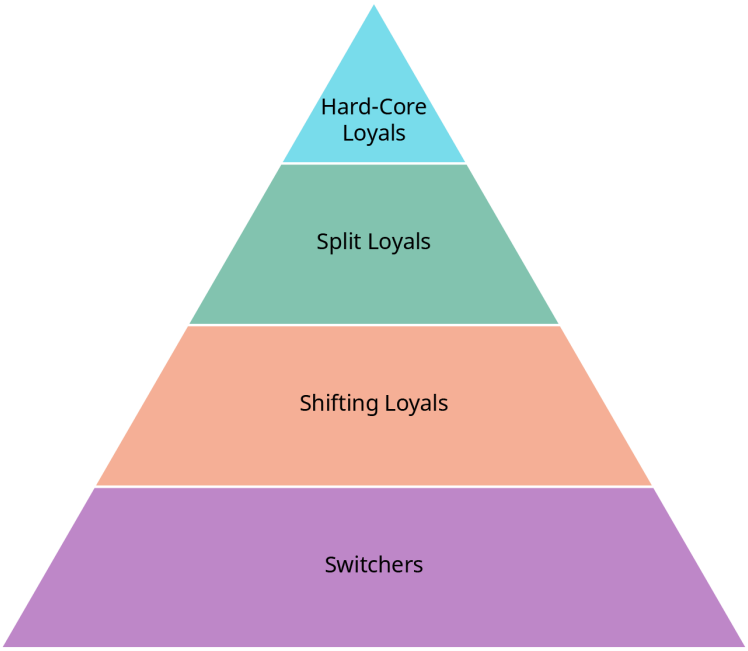


Figure 9.9 Loyalty Categories (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Switchers are customers who continually change their purchasing behaviors. Switchers may be motivated by price, convenience, or innovation. Therefore, it is essential to develop a product or service that meets the switching consumers' needs to retain them as customers. For example, a switcher might purchase the lowest-price laundry detergent each time they are at the store.

Shifting loyals are customers who are loyal to one product or service for a time, then turn their loyalty to a different product or service for the second period. Brands can expect that shifting loyal customers will move back and forth between products and services. For example, a shifting loyal might purchase a Toyota followed by a Honda, then turn their loyalty back to Toyota for a third purchase.

Split loyals are customers who have a consideration set of two to three products or services in the category. The split loyal is willing to buy this select set of brands on any occasion without hard-core loyalty to any in the group. However, brands can convert split loyals into hard-core loyals with product/service consistency, loyalty programs, and marketing efforts. For example, customers may have loyalty to Gap, Banana Republic, and J.Crew for workwear.

Hard-core loyals are the customers that every brand wants. They are tried-and-true customers who will generally only purchase one brand in a category. For example, when purchasing from a catalog, they tend to make a purchase with less concern about price. In addition, hard-core loyals often tell friends and family about their purchases, extending word-of-mouth marketing for the brand. Brands need to retain hard-core loyal customers. For example, Dunkin' knows that loyalty is essential to its business, so it rewards its loyal customers with free food and coffee through its DD Perks program.

Metrics to Measure Brand Effectiveness

Brand sentiment is challenging to measure. Unlike sales or revenue, sentiment is not easily quantifiable. However, brands must measure their effectiveness because organizations invest heavily in building brands. There are three ways to quantify a brand's impact: brand lift, brand engagement, and brand preference.

Brand lift measures perception over time. To determine whether the campaign improved perceptions, brands can survey customers and noncustomers about their perception of a brand pre-campaign and again post-campaign. Keep in mind that positive perception doesn't necessarily mean that people will make a purchase; it

simply indicates a positive affect toward the brand.

Brand engagement measures how deeply the customer identifies emotionally with a brand. Deeply engaged customers typically make more purchases, advocate for the brand, and become loyal customers. Social media metrics, time spent on site, subscriptions, and bounce rate are ways to measure brand engagement.

Brand preference measures consumer behavior by determining the degree to which a brand is preferred over others in the category. Brand preference is the most accurate of the three measures in predicting sales, as its focus is on behavior over attitudes. Marketing research is the best way to assess brand preference.

MARKETING DASHBOARD



Profit Margins

Profit margins are a widely used financial measure to determine the profitability of a business, considering the cost to manufacture and sell a product or service and measuring how much of every dollar in sales or services your company keeps from its earnings. **Cost of goods sold**, or COGS, describes expenses directly attributable to the product or service. It is important to deduct COGS from profitability to fully understand how much direct costs impact profitability. However, expenses don't end once manufacturing costs are considered. Companies pay for overhead, such as office space, trucks, and warehouses. They also account for depreciation on their assets, pay taxes, and incur costs for employee salaries. All of these expenses chip away at profitability. Profit margin calculates profitability after expenses.

There are two types of profit margin on an income statement: gross profit and net profit.

Gross profit margin equates to net sales minus the cost of goods sold. The gross margin shows the amount of profit made before deducting selling, general, and administrative (SG&A) costs. The formula for gross profit margin is

$$\text{Gross Profit Margin} = \frac{(\text{Net Sales} - \text{COGS})}{\text{Net Sales}} \times 100$$

The calculation is expressed as a percentage.

Net profit margin takes the calculation one step further. It deducts all expenses from profitability, including administrative, sales, amortization, debt payments, taxes, income, and asset depreciation. This provides a more accurate look at profitability because it considers all the costs associated with producing and selling the product or service. The formula for net profit margin is

$$\text{Net Profit Margin} = \frac{(\text{Revenue} - \text{COGS} - \text{Other Taxes \& Expenses})}{\text{Revenue}} \times 100$$

The calculation is expressed as a percentage.

Suppose your sandwich shop is interested in its profit margins for a single order. Look at the chart and calculate the gross and net profit margins.

Total revenue	$6.25
COGS	$3.50

Table 9.3

Administrative, sales	$0.75
Taxes, depreciation, debt payments, amortization	$0.50

Table 9.3

Solution
Gross profit margin: 44%

Net profit margin: 24%

Which measure is more accurate?

Solution
Net profit margin considers all expenses, so it is a more accurate measure than gross profit margin that only considers COGS.

Your business partner, Priya, wants to decrease the revenue of a single order to $5.50. How will that impact your profit margins?

Solution
Profitability per order will decrease if revenue decreases unless COGS or other expenses are reduced in turn.

Knowledge Check

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

1. Domino's Pizza recently added sandwiches to its menu. This is an example of a _____.
   a. line extension
   b. brand extension
   c. multibrand
   d. new brand
2. The North Face adds a new parka to its line of North Face–branded winter coats. This is an example of a _____.
   a. line extension
   b. brand extension
   c. multibrand
   d. new brand
3. Bethany purchases a different bar soap every time she shops based on what is on sale. Bethany can be considered a _____.
   a. switcher
   b. shifting loyal
   c. split loyal
   d. hard-core loyal
4. Jorge only purchases Apple computers and will not accept a substitute. Jorge can be considered a _____.
   a. switcher
   b. shifting loyal
   c. split loyal

d. hard-core loyal

5. Which of the following brand metrics measures intended behavior?
   a. Brand lift
   b. Brand engagement
   c. Brand preference
   d. Brand equity

9.7 Creating Value through Packaging and Labeling

Learning Outcomes

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

LO 1 Describe how an organization creates value through packaging and labeling.
LO 2 Explain how packaging is used as a marketing tool.

Creating Value through Packaging and Labeling

If you have ever purchased from Apple, you know the power of sleek packaging. Apple is known for its simple white design packaging with metallic logos. Products are visually appealing in their packages, and unboxing an Apple product feels like an experience. Apple's packaging is as innovative as its products, which brings us to an important lesson in packaging. The package and label must represent the brand effectively (see Figure 9.10). While not one of the 4Ps of marketing, packaging is an important element of the marketing mix based on its close tie to the product. Packaging is also a critical shopper marketing tool as related to place. And, certainly, effective packaging can be its own form of promotion.



Figure 9.10 Product packaging can be a powerful promotional tool because of its close product connection, as demonstrated by Apple packaging. (credit: "iPad Pro & Apple Pencil" by Brett Jordan/flickr, CC BY 2.0)

A package essentially serves as a container for the product. It has a functional purpose to protect the product from harm. Package designers are first and foremost concerned with protecting the product and secondarily with designing an appealing package and label that piques interest on store shelves and online retailers' websites.

There are a variety of benefits to effective packaging and labeling. The first is that consumers see packaging before seeing a product. This provides a sensory experience that can influence a purchase. Colors, fonts, and logos can appeal to the eye, while packaging material can appeal to the sense of touch. These clues give a customer a sense of what to expect inside the package.

Additionally, the package reflects the brand, cuing the customer in to the brand feeling. For example, LaCroix is flavored carbonated water sold in brightly colored cans. The cans, as seen below, attempt to make the customer feel the excitement of opening a tasty carbonated beverage (see Figure 9.11).



Figure 9.11 The LaCroix can is a product container that reflects the brand and creates a feeling of fun and excitement for the customer. (credit: "Grapefruit La Croix + Flowers" by www.quotecatalog.com/quotes/inspirational/flickr, CC BY 2.0)

The functional benefits of packaging are numerous. First, a package serves to store the product to protect it from harm in transit from manufacturer to customer. Items such as foam and cardboard shield the product from damage and keep it clean. Second, packaging can also serve as convenience and safety for customers to carry items and store them in the home. For example, Tide Pods are sold in a plastic container with a child-locked lid. This packaging is convenient for customers to safely store the pods in their home.

Third, packaging can aid in the product's usability or become a part of the product experience itself. For example, drinkable yogurt is sold in small bottles. The bottles become part of the product experience when a consumer takes a sip of the yogurt. Fourth, packaging and labeling can aid in a brand's compliance with the law. For example, the Federal Trade Commission Act of 1914 stipulates that false, misleading, or deceptive labels or packaging may be upheld as unfair competition.[13] Thus, packaging and labeling allow a brand to be clear, accurate, and transparent in communication with customers.

Packaging can also have perceptual benefits to customers as they seek to associate with brands. Brand packaging containing logos might indicate status of the customer or signal the customer's values pertaining to quality. Tiffany & Co. is known for its "little blue box," a package that indicates status and a quality product inside (see Figure 9.12). The blue color of the box is a copyrighted by Tiffany as part of its brand's intellectual property.[14]



Figure 9.12 Known for its distinctive shade of blue, Tiffany's little blue box shares the company's brand value with consumers via a perceptual connection. (credit: "Tiffany & Co - Boxes" by ajay_suresh/flickr, CC BY 2.0)

Packaging Used as a Marketing Tool

Packaging can be used to differentiate a brand, either through design or functionality. For example, beautifully designed packages, such as Tiffany's little blue box, differentiate the brand through its status. Meanwhile, functional packaging, such as potato chip bags filled with air, serves as differentiation to deliver uncrushed chips.

Packaging can also create a customer experience. Unboxing a product can contribute to the positive emotions associated with a brand. Artisans who sell goods on Etsy understand packaging as a contributor to customer experience. Artisans will often take special care to package goods beautifully with a handwritten note of gratitude. Personalization and packaging make Etsy customers feel involved in an experience.

Packaging can display the value of a product. A well-designed, attractive package demonstrates value instead of a package that frustrates a consumer. For example, American Girl dolls are packaged in a box with a window to show the doll's face and serve as a keepsake for the owner. The packaging is so popular that some collectors purchase the package without a doll.

Knowledge Check

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

1. How can a brand capture attention with packaging?
   a. Location in store
   b. Supply chain
   c. Colors, fonts, and logos
   d. Printing the price on the package

2. Which of the following functional benefits of packaging is at play when the package becomes a part of the product?
   a. Storage
   b. Convenience
   c. Safety
   d. Usability

3. Which of the following functional benefits of packaging is at play when the package protects the customer from personal harm?
   a. Storage
   b. Convenience
   c. Safety

d. Usability

4. Maria purchased a Louis Vuitton purse for her mom because of the dust cover that protects the purse from wear and tear. This is an example of packaging used as a marketing tool for _____.
   a. brand differentiation
   b. creating customer experience
   c. displaying value
   d. encouraging people to purchase

5. The brand team at a technology company created product packaging that was enjoyable to unbox. This is an example of packaging used as a marketing tool for _____.
   a. brand differentiation
   b. creating customer experience
   c. displaying value
   d. encouraging people to purchase

9.8 Environmental Concerns Regarding Packaging

Learning Outcomes

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

LO 1 Describe environmental concerns with respect to product packaging.
LO 2 Discuss strategies that are being used to address environmental concerns.

Environmental Concerns in Product Packaging

Consumers are increasingly concerned about the environmental impact of packaging and its contribution to waste. A study by McKinsey indicates that more than half of US consumers are highly concerned about the impact of product packaging. While it is not a top criterion for purchase, product packaging is a consideration among consumers. Furthermore, consumers are willing to purchase products that have green packaging, such as recycled plastics and fiber-based substitutes.[15]

Groceries are typically packaged in glass, cardboard, plastic, and metal cans. Single-serve plastics are a concern when used for groceries, as they cannot be recycled. Electronics and other fragile products may be packaged with cardboard and foam, which can find their way into landfills. In addition to the energy used to manufacture the product, packaging adds to the environmental burden. Discarded product packaging can be found in landfills, as street litter, and in water sources, harming the environment. Creation of product packaging depletes critical resources, such as trees, and adds to air pollution.

LINK TO LEARNING



How Much Plastic Floats in the Great Pacific Garbage Patch?

Check out this website that describes the impact (https://openstax.org/r/theoceancleanup) of the Great Pacific Garbage Patch. Think about the impact that packaging has on the environment and what you can do to reduce your personal plastic waste.

Companies are innovating on packaging to make it sustainable. As you may see at a restaurant like Chipotle, brands are adopting more fiber-based packaging and compostable, and recyclable options (see Figure 9.13).



Figure 9.13 Chipotle's commitement to the environment through sustainable packaging and reuse is a strong part of its brand. (credit: "Quesadilla Steak Burrito + Carnitas Bowl" by punctuated/flickr, CC BY 2.0)

Companies are also looking at ways to reduce packaging to only its necessary components. Boxed Water Is Better has adopted a cardboard box for its water that is 75 percent paper and 100 percent recyclable (see Figure 9.14). The packaging is free of BPA and other chemicals. The paper is ethically sourced and shipped flat to reduce the amount of space in a truck, further reducing the company's carbon footprint.[16]



Figure 9.14 Boxed Water Is Better makes sustainable packaging decisions in order to be environmentally responsible. (credit: "Boxed Water, Complete with an Expiry Date. Meanwhile, There's a Drought in California" by Schill/flickr, CC BY 2.0)

Cradle-to-cradle packaging design takes the waste out of the life cycle of a package. The package is designed to be something that can be reused or 100 percent recycled. It is meant to imitate nature's processes by being regenerative. A cradle-to-cradle approach uses renewable energy and keeps parts of the biological world within the biological world. In a similar way, some consumer goods flow in a technical cycle, so that the

material resources can be generated into new products (see Figure 9.15).

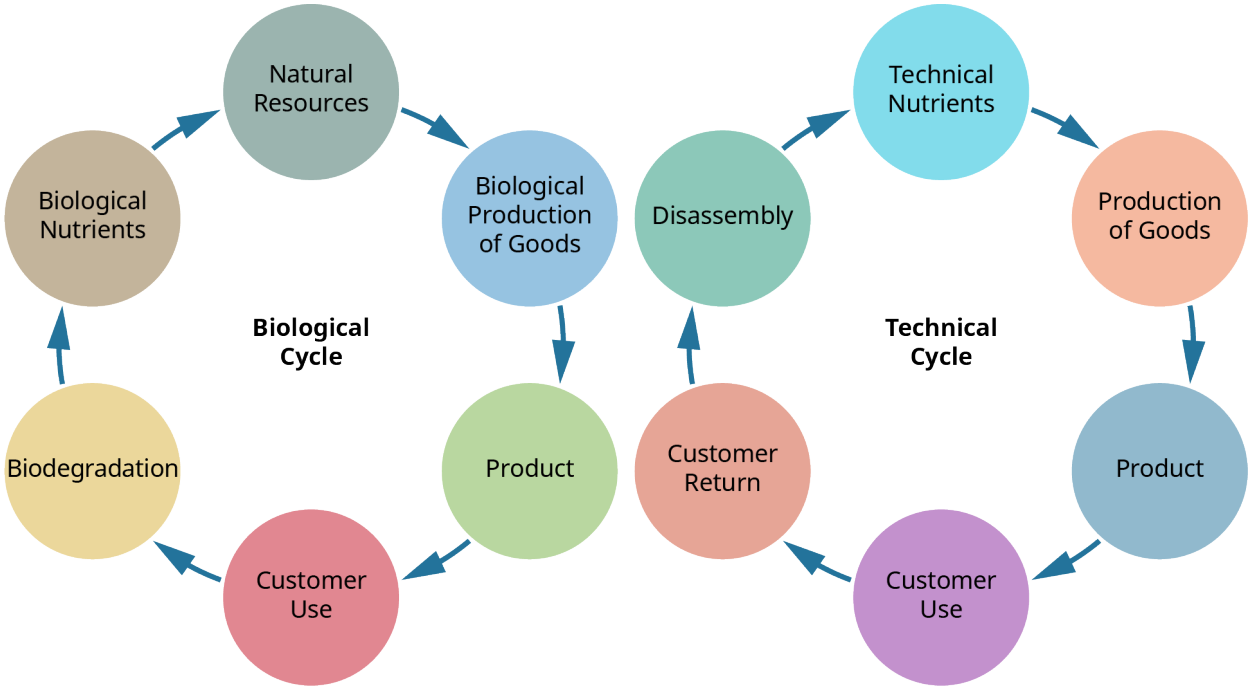


Figure 9.15 The Cradle-to-Cradle Approach (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

E-commerce introduces an additional challenge: How can companies sustainably ship single products to a customer? Companies must consider protecting the item, efficiency, cost, and sustainability in their e-commerce packaging. Companies can reduce packaging and use recycled or recyclable materials in their packaging. Additionally, companies can provide return-ready packaging so packages that need to be returned to the manufacturer are the same packages that arrive with the product.

Knowledge Check

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

1. Which of the following is not a type of grocery product packaging?
   a. Paper
   b. Plastic
   c. Metal
   d. Wood

2. Which of the following is not part of the technical cycle?
   a. Product
   b. Use
   c. Disassembly
   d. Natural resources

3. Which of the following is a trend in sustainable packaging?
   a. Increasing the amount of packaging
   b. Using boxes
   c. Using only necessary resources
   d. Using plastic

4. Where can discarded packaging be found?
   a. Water sources

b. Landfills
c. On the ground
d. All of these are correct.

5. Which part of the cradle-to-cradle approach is regenerative?
a. Production
b. Product
c. Use
d. Biodegradation

9.9 Ethical Issues in Packaging

Learning Outcomes

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

LO 1 Explain ethical issues with respect to product packaging.
LO 2 Discuss product safety and ethical packaging trends.

The Importance of Ethics in Product Packaging

In addition to concerns about sustainability, marketing professionals must be mindful of ethical concerns regarding packaging. Remember, a consumer can see the package on the store shelf, not the product inside. The customer is seeking guidance, explanation, and assurance of a product's quality from the packaging. The package must not mislead customers about the size, quality, ingredients, or health claims. The graphics on a package must also properly represent the product inside. For example, a package might display a photo of a product that is larger or more substantial than the product inside, leading the consumer to erroneously believe that the product matches the photo.

Product packaging should be effective in protecting the product. Therefore, brands have a responsibility beyond sustainability to design packaging that ensures that the product survives transport from the manufacturer, to the wholesaler, to the retailer, and finally home with the customer. Think about the last time you purchased eggs at the grocery store. The eggs are quite fragile, but they are packaged in such a way that minimizes damage as the container travels from the farm to your home. It would be unethical for a brand to reduce packaging to save money and leave the consumer with a damaged product.

Additionally, product packaging informs the customer of important safety issues. For example, a package with small parts might have a warning that it is a choking hazard for children under the age of three.

Companies must consider groups beyond their customers. Government, advocacy groups, and NGOs may influence ethical packaging. Some experts predict that ethical packaging will become a legal mandate, so brands have an incentive to think about packaging today and prepare for a more sustainable future.

Chapter Summary

Products are the consumer offering. They are the reason that the customer is making a value exchange. Products and services differ but are inextricably linked through experiences. Consumer products are classified in four ways based on consumer behavior, price, and distribution. Meanwhile, business and industrial products are classified by materials, parts, capital items, and supplies/services.

Products are often not the only offering for a company. Rather, products are sold in product lines and mixes to maximize consumer choice and profitability. Companies may stretch or fill their product lines to appeal to new customers or create new options for existing offerings. A product lives through a product life cycle, including introduction, growth, maturity, and decline, all of which consider revenue and growth. Marketing decisions are often made based on where a product is in the product life cycle. Companies may use levers such as product innovation, pricing, and promotion to encourage purchase.

Ultimately, products become part of a brand. A brand is a feeling that is evoked and a reason that consumers might make a purchase. Brand equity is an intangible asset with tangible value for a company, so it must be protected. Brands position themselves in consumers' minds to capture brand equity. Developing a brand can occur through extension or creating a new offering. Consumers have varying degrees of brand loyalty, which can be measured through preference, lift, and engagement.

Packages are more than containers for products, they are also an extension of the brand. They are useful in brand identity, differentiation, and customer experience. Packaging and labeling also serve functional benefits such as storage, convenience, protection, safety, usability, and legality. Brands should be mindful that packaging has an environmental impact. Brands are continually innovating their packaging designs to meet sustainability expectations.

Key Terms

actual product product available for purchase
augmented product product having unseen aspects essential to customers
brand an intangible asset with tangible value; made up of promotion efforts and customer meaning
brand engagement measure of how deeply the customer identifies emotionally with a brand
brand equity the additional value that a brand has over a substitute
brand extensions products that leverage the brand name to new product categories
brand lift measure of customer and noncustomer perception of a product over time
brand name the official name of a brand
brand positioning the way a brand signals emotions in consumers' minds
brand preference measure of the degree to which a brand is preferred over others in the category
brand value the financial asset associated with a brand
branding the process of developing a brand
capital items assets valuable to a business that also have tangible value
co-brand to bring the equity of two brands together for greater value
convenience products products that consumers can purchase easily, quickly, and without a lot of thoughtful decision-making
core product product solution that the customer is actually buying: convenience, ego, ease, flexibility, etc.
cost of goods sold expenses directly attributable to the product or service
cradle-to-cradle packaging design product design that eliminates waste from the life cycle of package
customer experience the overarching impression that customers have of a brand
decline stage part of the product life cycle characterized by a significant decrease in sales and profitability
divest to sell a brand or discontinue a product to protect a portfolio
gross profit margin comparison of profit before expenses to total revenue
growth stage part of the product life cycle characterized by increasing sales; stage when copycat brands may

enter the market

hard-core loyals tried-and-true customers who will generally only purchase one brand in a category

harvest to reduce all unnecessary expenses to retain any remaining revenue

introduction stage part of the product life cycle when consumer awareness is building and sales are starting to grow

licensed brands brands that provide the likeness of their brand as a fee for use

line extensions products that create new opportunities for an existing product and brand

manufactured materials and parts products used to create a product

market modification an extension of a product to new customers

maturity stage part of the product life cycle when sales growth slows and profitability levels off

multibrands new brand names within a company's existing product category

national brands name brands that sell a product or service under its corporate name and identity

net profit margin calculation that deducts all expenses from profitability

new brands an entirely different brand entity from a parent company

private-label brands store brands that are similar products to a national brand and labeled privately

product item a particular good that a company sells

product life cycle the stages a product goes through, tracking its sales and profitability

product line a set of products that are similar or complementary

product line depth the number of products in a line

product line filling products added to a product line to keep competitors from entering the market

product line stretching addition of product lines

product mix all the products a company sells

product mix width the number of product lines a brand carries

product modification alteration of products to fit the market

products tangible items that are part of an exchange between a buyer and a seller

profit margins a widely used financial measure to determine the profitability of a business; considers costs to manufacture and sell a product or service

rapid penetration pricing strategy strategy that sets a lower-price strategy; appropriate when volume sales will increase market share quickly

rapid skimming strategy strategy that sets a high price along with extensive advertising and sales promotion to establish a product in the marketplace

raw materials products that a business needs to purchase in order to make a consumer good

services intangible solutions that are an exchange between buyer and seller

shifting loyals customers who are loyal to one product or service for a time, then turn their loyalty to a different product or service at another time

shopping products products that require more thought from the consumer as they seek the best quality or price

slow penetration pricing strategy strategy that sets low prices and little promotion to capture market share slowly in a market not susceptible to promotion

slow skimming strategy strategy that sets high prices with low advertising and sales promotion investment

specialty products products that have unique qualities that consumers will make an extra effort to seek out

split loyals customers who have a consideration set of two or three products or services in a category

supplies and services goods and services that are typically disposed of and do not contain a tangible value

switchers customers who continually change their purchasing behaviors

trademarks (service marks) symbols that show legal ownership of a brand name or brand mark

unsought products consumer goods that a buyer doesn't anticipate purchasing



Applied Marketing Knowledge: Discussion Questions

1. Think of a product that you have used recently. What are the core, actual, and augmented products?

2. How would you promote a shopping product differently than a specialty product?
3. Look at the Oreo product line. Why are there so many products? What purpose does this variety serve?
4. Consider the Sears brand. Which stage of the product life cycle is Sears currently in? What do you recommend it do to change this stage?
5. Discuss a brand to which you are loyal. Why are you loyal to the brand? How does the brand contribute to your loyalty?
6. Would you consider yourself a switcher, shifting loyal, split loyal, or hard-core loyal for your favorite brand? Why?
7. Look at the Apple brand packaging in this chapter. How does this packaging meet the criteria that we discuss in the chapter?
8. Review Boxed Water Is Better's website (https://openstax.org/r/boxedwaterisbetter). How do the website and packaging address environmental concerns?
9. Discuss a brand's packaging. How could the brand reduce its packaging or introduce recyclable packaging?
10. Why are safety statements important on packaging? What might you add to product safety statements?

Critical Thinking Exercises

1. Brainstorm purchases that you have made this week. Classify each into convenience products, shopping products, specialty products, or unsought products.
2. Explain the product life cycle. How and why might it change based on certain criteria?
3. Examine the package of a product that you have in your pantry at home. Determine how the packaging aligns with the brand, protects the product, and displays value.

Building Your Personal Brand

Can you honestly say that you "own" who you are? Do your habits and mannerisms belong to you? Are you comfortable in your skin?

In her TED Talk, Harvard professor Amy Cuddy discusses how body language impacts how others perceive you. Our nonverbals give others a perception about who we are and how we are feeling. Our body language conveys dominance, much like animals do to show their power. Our posture and the space that we take up signals confidence. But sometimes we take cues from others. If our conversation partner is showing dominance, our body language might shrink in response. It turns out that posing for dominance changes the way we think and act. So use body language to your advantage next time you are trying to make an impression.[17]

Watch Amy Cuddy's video "Your Body Language May Shape Who You Are" and develop a perspective on how you can use body language to develop your personal brand. Specifically, write a 1-to-2-page document outlining what you will start doing and what you will stop doing, and explain why. Your professor might even enjoy seeing a photo of your "power pose."

Your Body Language May Shape Who You Are | Amy Cuddy | TED (https://openstax.org/r/yourbodylanguage)

What Do Marketers Do?

A product manager is the keeper of a brand. Their job is to develop the product strategy—the what, where, when, and how much of a product. Then, a product manager coordinates a cross-functional team of professionals from marketing, development, finance, legal, operations, manufacturing, supply chain, and more to bring the product to market successfully and shepherd the product through its life cycle. Product managers

understand how strategy underpins a product's success in the market and serves as a path to grow the brand.

Interview a product manager to determine the following:

1. What is their philosophy on successful product management from launch through the product life cycle?
2. What does their job entail? Who are the key members of their product ecosystem?
3. What is the career path that led them to this role?

Product managers can be found at companies of all sizes, including both B2B and B2C. You can use your network on LinkedIn or your professor to source an interviewee.

Marketing Plan Exercise

Complete the following information about the company and products/services you chose to focus on as you develop the marketing plan throughout the course. You may need to conduct research in order to obtain necessary information.

Instructions: Using the Marketing Plan Template file you created from the Marketing and Customer Value assignment and expanded upon in Strategic Planning in Marketing, Market Segmentation, Targeting, and Positioning, and Marketing Research and Market Intelligence, complete the following section of your marketing plan:

- Marketing Strategy: Product

Submit the marketing plan to your instructor for grading and feedback.

Closing Company Case

Ramblewood

In 2018, husband and wife duo Zach and Riley McDonald began getting a flood of requests to help with events. Each of them individually had significant talents. They were great foodies, and they understood good food both in taste and in presentation. Their combined skill for aesthetics in design, display, color, and texture was remarkable. And they were both gifted at bringing everything together and staging it all like a flawlessly produced Broadway show.

When the idea to create a business doing event planning started to become a reality, both were employed full-time while also tending to their young family. To say their plates were full was an understatement. However, after helping with a few events, the duo realized they had a passion for event planning, and they both really enjoyed working with people, helping others to bring their dreams to reality.



Figure 9.16 Ramblewood's unique value proposition is that it is a one-stop shop for the various components involved in hosting an

event, like a wedding. (credit: "Taipei Sheraton Taipei Sheraton" by spongebabyalwaysfull/flickr, CC BY 2.0)

Zach and Riley were both very involved in their community, and they were often guests at events around town. They noticed a lack of coordination between all the moving event components—planning, floral design, event rentals, decor, and catering. Was there a marketplace need to coordinate an event from beginning to end?

After putting together a few events for friends and acquaintances, they received rave reviews. Requests started pouring in for their services. With a keen eye for every detail and methodical oversight for all facets of an event, the Ramblewood team had a unique niche in its market. And with a robust start, Ramblewood came to life.

Ramblewood had a compelling value proposition in that it was a one-stop-shop for all event components. It was not uncommon for an event host to research, interview, and coordinate with musicians, furniture and linen rentals, caterers, florists, bakers, digital designers, and printers. Ramblewood would do it all and coordinate it seamlessly to take some of the stress off the work of an event.

While weddings might be the primary event market, Ramblewood had a strong following with corporations, family reunions, baby showers, bridal showers, and birthday parties. No event was too big or small for Ramblewood. If clients wanted to host an event to flawlessly match a vision, Ramblewood could make it a reality.

With over a decade of art and design experience, Zach and Riley were able to sit down with their clients and hear about their dreams and visions to bring them to reality. The team had a special skill for looking at creative ways to stretch the budgets and create focal points that would make an experience unforgettable.

As the business was getting off the ground, Zach and Riley wondered how to scale and still create the unique experience expected by every event. However, they were worried that quick growth might damage their unique brand. The two wanted to maintain the integrity of the brand. Every event deserved to have the same attention to detail and beauty they had built in to their very first event.

Zach and Riley quickly realized that every event they managed was in fact their "calling card." Guests who attended Ramblewood events talked about the experience. Guests discussed the beauty of the flowers, the exceptional food, the layout and decor, and most importantly, how well the event flowed. Each event had elements that created "oohs" and "ahs" that prompted the question, Who created this event? Marketing through word of mouth and social media seemed to be creating the growth engine Zach and Riley were seeking.

The essence of the Ramblewood brand was to create the vision and develop a magical experience for every guest in attendance. "From small intimate home parties or dinners, to large upscale corporate events, we love them all. We love hearing what the event is about and who it is for and then custom building your event into a true lasting experience"[18] was Ramblewood's mission.

After four years of unforgettable events, the duo chose to extend their brand with an upscale gourmet grocery market to deliver event elements in one location. Market customers could stop in and take a little bit of Ramblewood home. Ramblewood created RMarket—a place for a few magical moments available for everyone, including napkins, flowers, food, decor, and dishes.

The small company Zach and Riley launched was growing rapidly, and its brand was associated with the best events in the South. Growth was coming with the addition of its gourmet food market, and the two were looking for the next steps for their business. [19]

To learn more about Ramblewood, visit its website (https://openstax.org/r/ramblewoodco).

Case Questions

1. Ramblewood provides many benefits to its customers. What are the four levels of product provided by Ramblewood?

2. Products are tangible items offered for exchange between a buyer and seller. Services are intangible solutions that are also an exchange between buyer and seller. Ramblewood provides event planning. As part of its "offering," it also supplies flowers, decor, and food. Where does the Ramblewood offering fall on the product–service continuum?

3. Ramblewood was able to capitalize on positive word of mouth to build its business at the introduction stage. As it entered the growth phase, it incorporated some marketing strategies used by many companies. What did Ramblewood do to fuel growth?

4. Brands are built in the hearts and minds of the customers. Successful brands engage customers on a personal level, connecting to their emotions and needs. Name some of the strategies Ramblewood uses to create its brand.

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10

Maintaining a Competitive Edge with New Offerings

Figure 10.1 A new product's success is dependent on the product development cycle and why consumers adopt new products. New product development involves a process of stages. (credit: "Chandelier" by Drew Coffman/flickr, CC BY 2.0)

Chapter Outline

10.1 New Products from a Customer's Perspective
10.2 Stages of the New Product Development Process
10.3 The Use of Metrics in Evaluating New Products
10.4 Factors Contributing to the Success or Failure of New Products
10.5 Stages in the Consumer Adoption Process for New Products
10.6 Ethical Considerations in New Product Development

In the Spotlight

Swarovski, a well-known company that specializes in crystal cutting, developed a campaign around diversity and acceptance a few years ago in an effort to reach worldwide customers. One such campaign that was launched during the holiday season in China focused on the Advent calendar despite the fact that the observance of Advent is primarily a Western tradition. If you're not familiar with Advent calendars, they're a type of calendar that counts down the days from December 1 to December 25, Christmas day. On each day in December, you open a pouch or flap on the calendar where a small candy or toy is included. Swarovski took the concept to a whole new level.

The Swarovski Advent calendar retailed for $458 and contained 25 individual compartments with Swarovski crystals. You might be thinking that the price is a little high, but think again—the market supported the price, and the calendars sold out quickly. While the physical Advent calendars took off in the market, so did the digital version. With the digital calendar, users would play interactive games, earn game cards, and then swap the cards with other people. After they collected seven unique cards, they could turn them in to Swarovski for a gift.

Later in this chapter, we're going to explore some measurement metrics for determining the success of new product launches, but one immediate indicator that a product launch was successful is a quick sellout. For Swarovski, the fact that their Advent calendar sold out so quickly is a testament to the successful product launch.[1]

10.1 New Products from a Customer's Perspective

Learning Outcomes

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

- LO 1 Define a new product.
- LO 2 Explain "newness" from the perspective of the customer.
- LO 3 Explain the risks and rewards of developing new products.

New Product Defined

You've probably watched at least one episode of the popular television show *Shark Tank*, where budding entrepreneurs pitch their business plans to a panel of investors in return for funding. To date, over 1,000 sales pitches have been made on the show—some forgettable, others memorable—and some pitches have resulted in wildly successful businesses. Some of Shark Tank's most successful products include the Squatty Potty (over $200 million in sales since appearing on *Shark Tank*), Bombas Socks (over $225 million), and Scrub Daddy (over $330 million).[2]

LINK TO LEARNING



Shark Tank

You will learn a lot about new products and their development by watching *Shark Tank*. You can watch the episodes online here (https://openstax.org/r/sharktank). Interested in learning which *Shark Tank* products have been most successful? Check out these stories:

- Shark Tank Tales: "12 Most Successful Shark Tank Products" (https://openstax.org/r/bestsellingsharktank)
- Good Housekeeping: "Top 42 Gifts That Got Their Start on Shark Tank" (https://openstax.org/r/homeproducts)
- Entrepreneur: "Shark Tank" (https://openstax.org/r/sharktanktopic)
- Vulture: "Shark Tank Contestant Who Pitched Face Masks in 2009 Has No Regrets" (https://openstax.org/r/sharktankirina)
- Looper: "The Most Expensive Deals on Shark Tank" (https://openstax.org/r/themostexpensivedeals)
- Hustle Story: "21 Most Famous Shark Tank Failures in 2022" (https://openstax.org/r/the21mostfamoussharktank)
- Failory: "Shark Tank: 7 Products That Failed & Their 3 Biggest Mistakes" (https://openstax.org/r/sharktankfailures)
- Bplans: "5 Lessons Shark Tank Can Teach You About Pitching to Angel Investors" (https://openstax.org/r/5sharktanklessons)

Perhaps you've got an idea for a new product that's going to take the world by storm. If so, this chapter will be especially relevant for you. We're going to explore everything about new products in this chapter: the stages of new product development, what facets of those new products contribute to their success or failure, how consumers adopt new products, and more.

You would think that a "new product" would be an easy definition, but the term can mean different things. In fact, there are five different categories of new products (see Figure 10.2), each one unique.

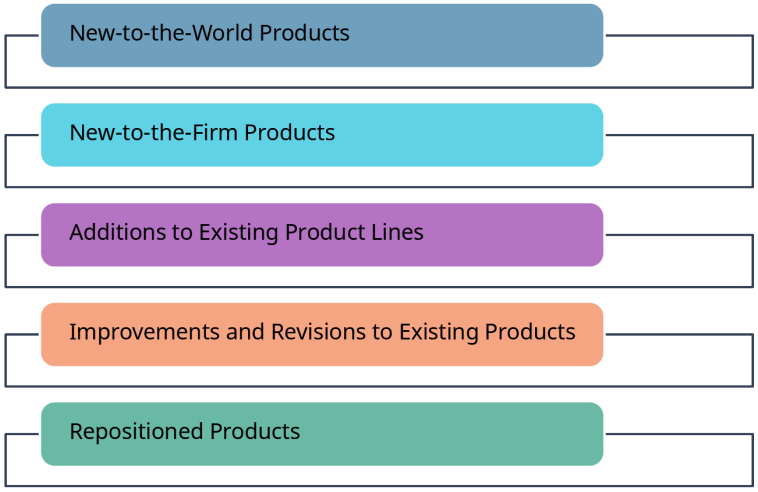

Figure 10.2 Categories of New Products (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Let's look at these new product categories in more detail.

- **New-to-the-World Products**: New-to-the-world products essentially are new inventions that create new markets. Some examples from products recently introduced include biomagnetic ear stickers for weight loss, cat self-groomers, and portable blenders.[3]
- **New-to-the-Firm Products**: These are products that are new to a company but not to the world. It's likely that marketers have seen a gap in the market and their product line and attempted to fill that void by adding a "me-too" type of product to their product line. For example, Nature Valley originally only made granola cereal but later introduced granola bars that could be eaten "on the go."[4] There's a perfect example of a company that saw a gap in the market and added a product that wasn't new to the world, but it certainly was new to Nature Valley.
- **Additions to Existing Product Lines**: Recall that a product line is a group of related products marketed under a single brand. Additions to existing product lines are simple product line extensions, designed to "flesh out" the product line. During its 130+ years in business, Coca-Cola has launched a number of product line extensions. The next time you're in a supermarket, look on the shelves in the soft drink aisle. You'll likely see a number of different flavors and styles of Coca-Cola varieties, such as Coca-Cola Cherry, Coca-Cola Cherry Vanilla, Coca-Cola Vanilla, Coca-Cola Zero, and more.[5]
- **Improvements and Revisions to Existing Products**: This is when existing products are improved. Think about how many times you've seen "new and improved" on the packaging of a product that you've been using for a while, like laundry detergent. As a concrete example, Meta (formerly Facebook) released its Oculus Quest 2 VR (virtual reality) headset and controllers late in 2021, which was simply an updated version of its original Oculus Quest.[6]

LINK TO LEARNING

Oculus Quest 2

Are you new to VR and would like to see what you can do with the Oculus Quest 2 device? Check out this short video where Meta Quest uses YouTube to market the features and benefits of using the Oculus 2. Meta Quest also provides tons of videos about how you can use the Oculus 2 in fitness, gaming, social experiences, and space exploration. Check out those Meta Quest videos here. (https://openstax.org/r/metaquestvr)

Explore the All-in-One VR System Oculus Quest 2 | Oculus (https://openstax.org/r/exploretheallinonevrsystem)

- **Repositioned Products**: Another reminder: product positioning is the process that defines how your product is different from others on the market.[7] Repositioned products are those that are retargeted for a new use or application. For example, Bayer repositioned its aspirin from treating headaches, fever, and inflammation to also safeguarding against heart attacks.[8]

Customer Perceptions of Newness

Just as there are different ways to categorize new products, there are different customer perceptions of newness. The difference in these perceptions is the result of how much change they cause in a consumer's existing habits. Newness can be categorized three ways:

- **Discontinuous Innovation:** Sometimes referred to as radical or disruptive innovations, discontinuous innovations consist of new-to-the-world products that are so different from products currently existing in the market that they require a significant change in consumer behavior when adopted. For example, think about how cell phones have changed the way we communicate today. Older cell phones did one thing—make and receive phone calls. With a smartphone, you can still make phone calls, but you can also listen to music, send and receive emails, surf the Internet, conduct online banking, and get driving directions, to name just a few. Consider how learning to operate all the features on your smartphone required you to change your behavior.[9]
- **Continuous Innovation:** This is the other end of the spectrum from discontinuous innovation. With continuous innovation, the existing product undergoes marginal changes and doesn't alter customer habits. For example, when Sony introduced new TVs that promised sharper, brighter TV pictures, the picture quality was better, but as a consumer, it didn't require you to change your TV viewing habits.[10]
- **Dynamically Continuous Innovation:** With dynamically continuous innovation, some changes in consumer habits are necessary, but the changes aren't as large or small as you see with the two other types of innovation. For example, manual and even electric typewriters have gone the way of the dinosaur since the advent of PCs, but the keyboard layout remained the same, so little change was required with consumer habits.

Risks and Rewards of Developing New Products

We started this chapter with a discussion of *Shark Tank* and some of the products that have been successful in the market as a result of the television show. However, not all products are successful, and there are both risks and rewards when developing new products.

Rewards of Developing New Products

You have probably heard the saying "No risk, no reward," and nothing could be truer in terms of new product development. However, a company's ability to maintain its competitive edge in the market requires a delicate balance between the necessity and the challenges of new product development.

We've already looked at Swarovski's successful product launch of its Advent calendar, but let's consider a few other examples to show you just how rewarding a well-executed product launch can be. Instagram, the social networking platform that allows users to share photos and videos, was first released in October 2010, and it quickly racked up 25,000 users in one day. The company now boasts that it has more than 1 billion (that's with a "b") monthly active users. Instagram succeeded by introducing bold features in its platform, from video editing features to interactive features like face filters and polling.[11]

And, of course, we can't talk about successful product launches without mentioning Apple, whose original iPhone was one of the most successful product launches in history—racking up 1 million units sold within just 74 days of its launch.[12]

Keeping the success of these products in mind, let's look at the reasons why products succeed.

- **Targeting New Markets:** New product development gives businesses the opportunity to expand into new markets, providing an opportunity to connect with different target markets. This creates the added benefit

of growing their customer base. For example, research from the Centers for Disease Control and Prevention (CDC) indicated that Americans were reporting symptoms of anxiety and depression since COVID-19 came about, so PepsiCo launched two new drinks that claim to support relaxation—Driftwell and Soulboost.[13]

- **Increasing Market Share:** Think about market share as a pizza, and every company that participates in the market has a slice (obviously some slices are bigger than others). As the market grows, a company needs to expand with it in order to keep its share of that pizza, but it can also increase its market share—and take another slice or two of pizza—through new product development.
- **Increasing Revenue Stream:** Revenue streams are all the ways a company can generate cash from the sale of its products or services. New products and/or services will create additional revenue streams that will generate extra income for the business, perhaps spurring even more new product development. For example, Apple generates revenue streams by developing new hardware products such as the Apple Watch and AirPods wireless headphones, and the company enjoys recurring revenues from services such as iCloud, Apple Music, and Apple TV+.

Risks of Developing New Products

Developing new products has many unforeseen issues and surprises, so it should come as no surprise to you that there are some significant risks associated with these efforts.

- **Lack of Differentiation:** There can be many problems with the design of a product, including insufficient differentiation from competitors' products. Perhaps the product or service did not solve enough problems or did not solve them sufficiently, or the product incompletely addresses the needs of the target market.

  For example, in 2021 Apple discontinued its HomePod smart speaker, which was not perceived as being sufficiently different from Amazon's Echo despite offering high-quality music playback.

- **Financial Feasibility:** New product development is expensive and can be financially risky for companies. It's important that a financial feasibility study is conducted in the earliest stages of new product development to determine whether it's worth launching the product or service in the context of sales and revenues.

  Financial feasibility is the primary reason why pharmaceutical companies typically don't invest large amounts of money in developing a new drug if the market for the drug is small. Novartis was the exception to this rule. The company developed a drug that treats children under the age of two suffering from spinal muscular atrophy (SMA). According to the Cleveland Clinic, only 1 in 10,000 children suffer from this rare genetic mutation, but Novartis went ahead and developed the drug anyway.[14] With a price tag of $2,125,000 for a one-dose treatment, it's the most expensive drug the world has ever seen.[15] You may be asking yourself, Is it worth it? Just ask the parents of a child suffering from SMA.

- **Technical Feasibility:** Technical feasibility studies are equally important as a financial feasibility study. Does the organization have the technical resources to meet capacity? Can the technical team convert the idea into a working product or service?

  For example, while Taco Bell's Doritos Loco Taco was in development, the team wasn't sure it was technically possible to coat a taco shell with the iconic Doritos flavoring. Its research and development (R&D) department spent approximately two years developing over 40 prototype taco shells before it found the right combination of crunch, seasoning, and flavor.[16]

- **Poor Timing:** Author Joshua Harris once wrote, "The right thing at the wrong time is the wrong thing." This couldn't be truer when it comes to new product development. You may have developed the best product or service, but if it's introduced to the market at the wrong time, it's likely to fail. The product development process can take a year or longer, and imagine the market changes that can take place during that time. A new competitor may enter the market before you do, consumer preferences and

needs can change, legislative or environmental regulations can change, or the economy can go south before you're ready to launch.

The situation with in-home COVID-19 testing kits is a perfect example of poor timing. By the time the US government made these kits widely available to the public, the need for these tests had greatly diminished because the majority of the population had already been vaccinated.

Knowledge Check

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

1. Many years ago, liquid soap was introduced in place of traditional bar soaps. This innovation changed an intrinsic feature of the product, but it's used for the same purpose. This is an example of _____.
   a. discontinuous innovation
   b. continuous innovation
   c. dynamically continuous innovation
   d. noncontinuous innovation

2. Coca-Cola, a behemoth in the soft drink market, decides that it is going to develop and market Coca-Cola popsicles. What type of new product would this constitute?
   a. New-to-the-world
   b. New-to-the-firm
   c. Improvements and revision to existing products
   d. Repositioned product

3. Saundra went to the grocery store and purchased the same laundry detergent she's been buying for years, but she noticed that the packaging had been changed and the label indicated that the laundry detergent was "new and improved." What category of new products would the laundry detergent likely fall under?
   a. New-to-the-world products
   b. New-to-the-firm products
   c. Repositioned products
   d. Improvements and revisions to existing products

4. Hoffman Enterprises has introduced a new product to the market that has undergone only marginal changes and doesn't alter consumer use habits. What type of product has Hoffman Enterprises introduced?
   a. Discontinuous innovation
   b. Continuous innovation
   c. Intermittent innovation
   d. Dynamically continuous innovation

5. Sources through which a business earns income from the sales of goods or services are known as _____.
   a. capital gains
   b. incremental income
   c. profits
   d. revenue streams

10.2 Stages of the New Product Development Process

Learning Outcomes

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

LO 1 Identify the stages of the new product development process.
LO 2 Define and describe the important factors of each stage of development.

The New Product Development Process

The new product development process involves activities where a company thinks of a new product concept and introduces a new product offering. New product development usually follows a process divided into stages (see Figure 10.3).

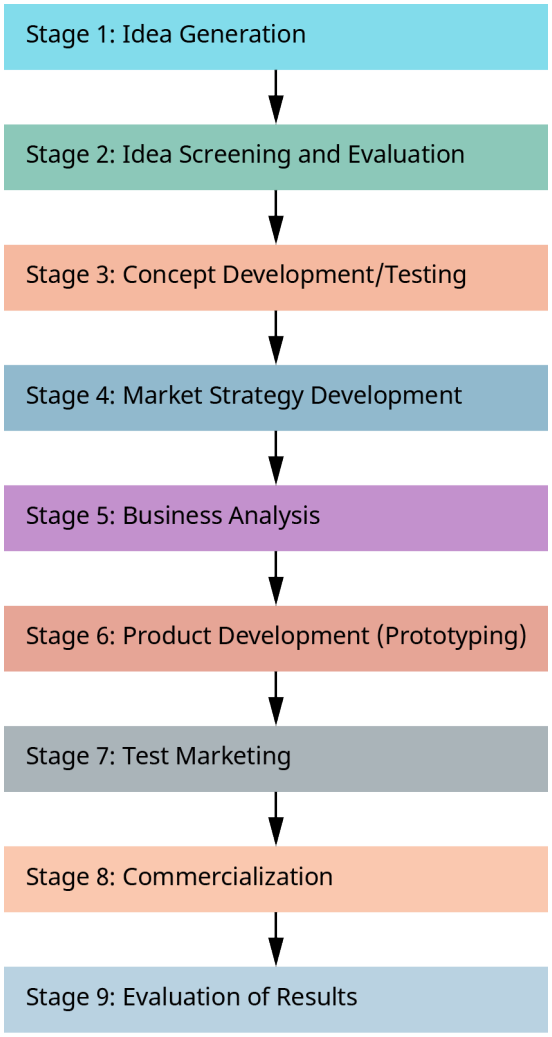

Figure 10.3 Stages in the New Product Development Process (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Stage 1: Idea Generation. With idea generation, you are working to create as many ideas as you can. The purpose of this stage is to focus on the products that are more likely to turn a profit so you can reduce the product development expense later in the process and develop profitable products.[17]

Instead of looking at the new product development process in abstract terms, let's discuss a potential product idea and follow it through all the steps of the process. Imagine that you're a marketer for a food processing company, and you believe there is a gap in the market for a high-protein freeze-dried yogurt powder that can be added to juice to make a nutritious, low-fat, fruit-flavored smoothie. This is what's known as a **product idea**—a new product that a company could potentially offer to the market. This idea may have been generated by **internal sources** such as research and development (R&D), market research, or employees who are not part of R&D. On the other hand, the idea may have come from **external sources** such as customers, suppliers, distributors, or even competitors.

Stage 2: Idea Screening and Evaluation. This is the process of filtering through the ideas brought to the table by your team, picking the ones that are most likely to turn a profit, and dropping the less favorable ones. For

example, with our high-protein freeze-dried yogurt powder, the team would create numerous product concepts that they then sift through to reach the best idea.

Stage 3: Concept Development and Testing. In this stage, a product idea can be turned into several **product concepts**—the perception of a new idea or innovation. The product team will consider *who* will use the product (e.g., children, athletes, or adults), *what* benefits the product will provide (e.g., meal replacement, a snack, nutrition, or energy), and *when* consumers would typically consume the product (e.g., for breakfast, as a midmorning or afternoon snack, or after a workout or exercise).

For example, your product team may come up with the following product concepts for our yogurt powder:

1. The yogurt powder would be marketed as an instant, on-the-go breakfast drink.
2. The yogurt powder would be marketed as a high-protein snack that is more nutritious than plain juice or milk.
3. The yogurt powder would be marketed to adults or athletes who work out and want to replenish the body's loss of protein during exercise.

It's important to develop these product concepts because each concept defines the product's competition. For example, Concept #1 would compete against other breakfast foods such as cereal, breakfast bars, toast, and bacon and eggs. Concept #2 would compete against juice, soft drinks, and plain milk. Concept #3 would compete against protein shakes.

Once you've developed your product concept, it's time to test that concept with consumers in what you believe to be your target market. This is what's known as **concept testing**. Concept testing is a market research method in which customers are presented with a description of a product or service.

Let's assume that the product concept we've chosen is the instant, on-the-go breakfast drink. Customers in the target market would be presented with a description of the product that may read something like: "Our product is a high-protein powdered yogurt mixture that is added to juice to make an instant breakfast smoothie that provides nutrition, good taste, and convenience. The product will be offered in individual packages, six to a box, priced at $3.49 per box."

Potential customers will then be asked a series of screening or qualifying questions, such as:

- To what extent do you like or dislike this product?
- How appealing are the attributes of the product?
- How likely would you be to purchase this product?

Quite often, these (and other) questions are scored using a five-point Likert Scale. For example, the last question might be scored on the basis of these five options: definitely would purchase; likely would purchase; may or may not purchase; unlikely to purchase; and definitely would not purchase. The answers to these questions suggest if the product will likely be successful in the market or not. If the answers are generally positive, the product concept will move to the next stage; if the answers are less than positive, the product concept will likely be rejected.

Stage 4: Market Strategy Development. Once concept testing has been completed and the decision has been made to proceed further, it's time for the product team to develop a preliminary marketing strategy plan. This plan will address the target market for the product. It will outline product positioning, pricing, distribution, promotion, budget, and both short- and long-term goals for sales, market share, and profit.

Stage 5: Business Analysis. Armed with the preliminary marketing strategy plan, the company now needs to assess the new product's business appeal. For example, the company will want to know if sales will be sufficient for the company to make the desired profit. The company will need to understand the costs involved in the new product development in terms of research and development, manufacturing, and marketing.

There are a couple of different analyses that can be done:

- Payback: This simply refers to the time frame within which the company can expect to recover the investment it made in the product development process.
- Break-even analysis: This analysis determines how many units must be sold before the company recoups its costs and starts making a profit.

These analyses are performed so that management can now determine if anticipated profits from the sale of the breakfast drink mix will satisfy company objectives. If the answer is yes, the product concept moves on to the next stage, product development. If the answer is no, the product concept is shelved.

Stage 6: Product Development. Remember that, until now, our product concept has existed only as words or perhaps a drawing. If our breakfast drink mix has passed the business analysis test, it will now move into the product development stage, and engineering will develop a physical version of the product, called a **prototype**.[18]

It's important to note that sometimes the company realizes in this stage that the product concept simply can't be translated into a commercially feasible product. For example, through market research, Maxwell House determined that consumers wanted a coffee that was "bold, vigorous, and deep tasting." However, after working with coffee blends for four months, the company determined that it was too expensive to commercially produce the formula, so Maxwell House changed the blend to meet its targeted manufacturing cost. Unfortunately, the taste of the new blend didn't meet consumers' expectations, and the new product flopped.[19]

The prototype is then put through functional and customer tests to see how well it perform. For example, at carpet manufacturer Shaw Industries, temporary employees are paid to walk on carpet samples for eight hours a day to see how the carpet holds up.[20] At Gillette, volunteers come to work unshaven so they can use certain razors, shaving cream, or aftershave and complete questionnaires. (The "motto" of this group is "We bleed so you'll get a good shave at home.")[21]

Stage 7: Test-Marketing. If the product team is satisfied with how the prototype performs functionally, the product concept is then test-marketed to determine its viability before it's launched on a large scale. Typically, the product is introduced in a limited number of stores or in a few geographic regions in order to gauge customer acceptance. There are several methods of consumer-goods marketing testing, but we'll just cover a few here:

- **Sales-Wave Research**: This is the least costly method of test-marketing. With this method, consumers are initially allowed to try the product at no cost. They are then reoffered the product (or a competitor's product) at a reduced price a number of times (i.e., sales waves). The point of this research is to see how many consumers select the new product and record their reported levels of satisfaction with the product.[22]
- **Controlled Test-Marketing**: In this type of test-marketing, the company arranges for a certain number of stores to carry the new product. The new product is delivered to the store, and marketers manage shelf position in the store, pricing, point-of-purchase displays, and more. The company then measures sales results through the scanners at checkout.
- **Test-Marketing**: Of course, the best (but also the most expensive) way to test a product concept is with a full-blown market test. The company will select a few representative cities (markets that closely resemble the target customers) and introduce the product with a full advertising and promotional campaign. In essence, the company is measuring the success of the new product on a smaller scale before launching it on a national or even global scale. Curious to know the top cities to test-market a national product? They are Nashville, Tennessee; Cincinnati, Ohio; Indianapolis, Indiana; Charleston, South Carolina; and Jacksonville, Florida.[23]
- **Simulated Test-Markets**: With this method, consumers are exposed to simulated market situations in order to gauge their reactions. Marketers interview consumers in two stages: concept stage and after use. The concept stage interviews provide the marketer with information about the product's appeal and trial

rate, whereas the post-usage interviews determine consumers' likelihood of purchasing the product again.

- **Crowdsourcing**: Crowdsourcing is the practice of using the input of a large group of people. This form of market testing would be particularly useful if your product includes mobile apps, web apps, or websites. The product team would choose a crowdsource testing platform, test the product, analyze the results, and tweak the product accordingly.[24]

Stage 8: Commercialization. In this stage, the company launches the product, complete with full-scale production, distribution, advertising, and sales promotion. The cost of launching a new product varies depending on the product itself, the industry, and the competition.

Stage 9: Evaluation of Results. As we've pointed out with the marketing metrics features in this textbook, you can't fix what you don't measure, so it's important after commercialization for the company to review the marketing performance of the new product. Is the new product accepted by consumers? Is there sufficiently high demand, sales, and profits? Are there competitors who are introducing a similar new product in the market? Depending on the answers to these questions, savvy marketers will closely monitor the performance of the new product and make changes as needed in both the marketing plan and the marketing mix strategy.[25]

CAREERS IN MARKETING



Product Development as a Career

Most companies have product manager (PM) as a job role. In this job, you manage the product creation or further development. Check out this summary of what a product developer position (https://openstax.org/r/productdeveloperjobs) entails, including average salaries.

This article from Stanford online (https://openstax.org/r/whatyouneed) outlines what you need to know to have a career in product management. ZipRecruiter also outlines skills and training needed (https://openstax.org/r/whatishowtobecome) for this job role.

Many companies post job descriptions to help you prepare. Here are a few for the product manager job role:

- Google PM (https://openstax.org/r/careersgoogle)
- Facebook (Meta) PM (https://openstax.org/r/productmanagement)
- Twitter PM (https://openstax.org/r/twitterproductmanager)
- Amazon PM (https://openstax.org/r/projectprogram)

If you're interested in learning more about the product manager job role and career, read here about the typical path you can expect (https://openstax.org/r/productmanagercareerpath).

Knowledge Check

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

1. A physical version of the product concept that is developed during the new product development process is called a _____.
   a. mock-up
   b. model
   c. prototype
   d. precedent

2. You've gathered customers in the target market and presented them with a description of the product concept you have selected. This process is known as _____.
   a. prototyping
   b. concept testing
   c. test-marketing
   d. crowdsourcing

3. At what stage in the new product development process would you launch the product, complete with full-scale production, distribution, advertising, and sales promotion?
   a. Test-marketing
   b. Product development
   c. Business analysis
   d. Commercialization

4. The least costly method of test-marketing is known as _____.
   a. controlled test-marketing
   b. sales-wave research
   c. simulated test-marketing
   d. crowdsourcing

5. What is the first stage in the new product development process?
   a. Idea screening and evaluation
   b. Market strategy development
   c. Commercialization
   d. Idea generation

10.3 The Use of Metrics in Evaluating New Products

Learning Outcomes

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

LO 1 Explain the importance of establishing new product metrics.
LO 2 Describe metrics used to evaluate the success or failure of new products.

The Importance of Establishing New Product Metrics

There are few marketing activities that are as difficult to manage as new product development. Not only does a company have to juggle multiple tasks like new features and innovative technologies against factors like cost, risk, and time to market, but it has to ensure that it's making the most efficient use of its limited resources on new products that will meet both its short-term and long-term strategic goals. In this section we're going to review product development metrics that can measure the success (or failure) of your new product launch.

Product metrics are quantifiable data that a business tracks and analyzes to determine how successful its new product(s) are. One way that companies accomplish this is by using key performance indicators (KPIs). KPIs are target metrics set by a company as a way to measure if the product is delivering on expectations. An example of a KPI could be targeted new customers per month or revenue growth.

LINK TO LEARNING



KPIs

If you haven't already heard the term KPI, and you plan on working at a business, it will become a part of your language. No matter what job role you hold in a company, KPIs are important to understand. Learn

more about KPIs from there resources:

- KPI.org: "What Is A Key Performance Indicator (KPI)? (https://openstax.org/r/kpibasics)"
- HubSpot: "How to Choose the Right KPIs for Your Business" (https://openstax.org/r/choosingkpis)
- Toucan Toco: "The Most Important KPIs to Track for Improved Marketing Efficiency" (https://openstax.org/r/mostimportantkpis)
- The Marketing Journal: "5 Marketing KPIs You Cannot Measure but Should Care About" (https://openstax.org/r/marketingjournal)
- Virtual Strategist Video: "How to Develop Key Performance Indicators" How to Develop Key Performance Indicators (https://openstax.org/r/keyperformanceindicators)

Specific Metrics Used to Evaluate New Products

There are any number of metrics you can use to measure the success of a new product. For our purposes, we're going to focus on just a few of the more common KPIs (see Figure 10.4).

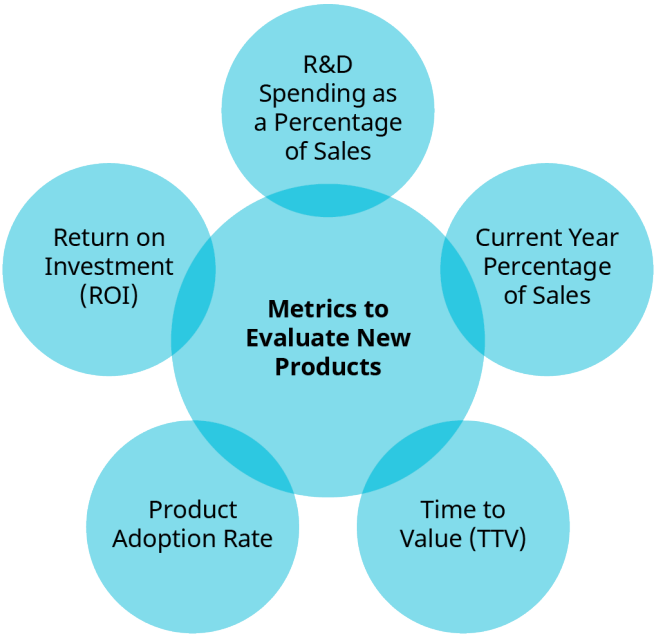

Figure 10.4 Metrics to Evaluate New Products (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

- **Research and Development Spending as a Percentage of Sales:** This metric is used to compare the effectiveness of R&D expenditures between companies in the same industry. It's important to use companies within the same industry because R&D numbers vary widely based upon the industry. For example, pharmaceutical and software companies tend to spend considerable dollars on R&D, whereas consumer product companies generally spend less. The percentage is calculated as R&D dollars spent divided by total sales.
- **Current Year Percentage of Sales:** This method calculates cost of goods sold, inventory, cash, and other financial line items as a percentage of sales and then applies that percentage to future sales estimates. It's a "quick and dirty" way to estimate the product's future value.[26]
- **Time to Value (TTV)**: Time to value refers to how long it takes new users to recognize your product's value (sometimes referred to as the "aha!" moment in marketing). Obviously, the sooner this occurs, the better, although time to value varies widely depending upon the product itself.[27] For example, if you purchase a new book for your Kindle, it's a matter of seconds before the book is available to you. On the other hand, if you subscribe to a magazine, it may be days or weeks before you see your first issue.
- **Product Adoption Rate:** When launching a new product, this metric is almost always at or near the top of

the product team's list of KPIs to track. Product adoption (or user adoption) is the process by which people learn about a product and start using its features to meet their needs.[28] The formula for calculating the adoption rate: divide the number of new users by the total number of users.

- **Return on Investment (ROI):** This is a metric formula used to evaluate the profitability, or overall value, of an investment. In marketing, you can use ROI to measure the profitability of a new product launch. To calculate the marketing ROI, you would take the sales from that product, subtract the marketing costs, divide by the marketing costs, and multiply by 100.[29]
  For example, if sales grew by $100,000 as a result of the new product launch, but the cost of the marketing campaign was $20,000, the ROI would be:

$$\text{Return on Investment (ROI)} = \frac{(\text{Sales} - \text{Costs})}{\text{Costs}} \times 100$$

$$\text{Return on Investment (ROI)} = \frac{(\$100,000 - \$20,000)}{\$20,000} \times 100 = 400\%$$

Knowledge Check

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

1. Data measurements that businesses use to evaluate the success of new products are called _____.
   a. ROI
   b. product adoption rates
   c. R&D
   d. product metrics

2. Which method calculates cost of goods sold, inventory, cash, and other financial line items as a percentage of sales and then applies that percentage to future sales estimates?
   a. Product adoption rate
   b. Current year percentage of sales
   c. Time to value (TTV)
   d. Revenue growth rate

3. To calculate this metric, the return of the investment is divided by its cost.
   a. Time to value (TTV)
   b. R&D spending as a percentage of sales
   c. ROI
   d. Revenue growth rate

4. This metric measures how long it takes new users to recognize the value of a new product.
   a. Product adoption rate
   b. ROI
   c. Time to value (TTV)
   d. Revenue growth rate

5. Which of the following metrics would likely NOT be used to evaluate the effectiveness of new products?
   a. R&D spending as a percentage of sales
   b. Time to value (TTV)
   c. Return on investment (ROI)
   d. Annual recurring revenue (ARR)

10.4 Factors Contributing to the Success or Failure of New Products

Learning Outcomes

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

- LO 1 Identify and discuss factors that contribute to the success of a new product.
- LO 2 Identify and discuss factors that contribute to the failure of a new product.

What Factors Contribute to the Success of New Products?

The story about how the Dollar Shave Club was started is more than just urban legend. Founders Mark Levin and Michael Dubin met at a party and commiserated about how expensive razor blades were. After that party, using their own money and investments from start-up incubator Science Inc., they launched their website that sold razor blades much more cheaply starting in April 2011. These founders seized an opportunity based on several insights: that prices for blades charged by market leader Gillette were perceived as too high; that most men do not want to shop in stores for shaving supplies; and lastly, that the move to online/subscription boxes was gaining traction. Five years later, the company was bought by Unilever for an astounding $1 billion.[30]

LINK TO LEARNING

Direct-to-Customer Sales

Watch this viral video of the founders speaking about the virtues of direct-to-customer sales. It's funny and informative. Check it out!

WEBFILM - Our blades are fucking great (https://openstax.org/r/ourblades)

Instant, phenomenal, new product success is what every marketer wants to achieve when launching a new product. But the reality is quite different. When you look objectively at new product introduction success or failure, significant differences emerge between successful and unsuccessful product launches. There's a similar pattern or a recipe for success. Figure 10.5 outlines the key factors that strongly influence new product success.

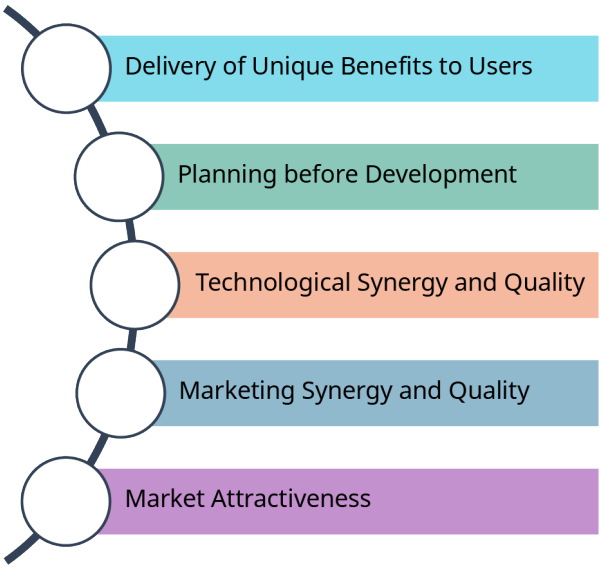

Figure 10.5 Factors Contributing to the Success of a New Product Launch (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Let's explore each of these factors:

- **Delivering Unique Benefits to Users:** The product itself—in terms of its design, features, and benefits to customers—is the often the bellwether of new product success. Are you introducing a "me too" product vis-à-vis the competition, or does the new product deliver unique benefits to the consumer? It probably comes as no surprise that innovative products typically fare better than those that have few elements of differentiation. As a matter of fact, research has shown that innovative products that offer unique benefits versus the competition have five times the success rate of products with fewer elements of differentiation.[31]
- **Planning before Development:** This would seem almost intuitive, but unfortunately, many companies fail to plan properly before developing a new product. Remember the old phrase "If you fail to plan, you plan to fail." The "rule of thumb" in successful new product development is to thoroughly define the product before development gets underway. This means defining the target market, the product concept, customer needs and wants, and product requirements. Numbers don't lie. Research has demonstrated that new products in which predevelopment activities were well-defined and executed had a success rate of 75 percent versus just over 31 percent for products in which those predevelopment activities were lacking.[32]
- **Technological Synergy and Quality: Technological synergy** is when a new product is built on the firm's existing technological resources. The bottom line is that new products that have a strong fit between the project needs and the company's existing technological and production resources are typically much more successful in the marketplace. The further away the product strays from the company's current technology, the less likely it is that the product will be successful.[33]
- **Marketing Synergy and Quality:** Like technological synergy, marketing synergy is also an important factor in new product success. **Marketing synergy** examines the fit between the needs of the new product development project and the company's sales, advertising resources, customer service capabilities, distribution, and marketing research. The closer the fit, the more successful the product will likely be in the marketplace. As a matter of fact, according to research, new products in which marketing synergy existed were 2.3 times more likely to be successful than products where marketing synergy was lacking.[34]
- **Market Attractiveness:** Market attractiveness is a measure of potential value and considers factors like short- and long-term profit, market growth rate, how much competition currently exists in the market, the cost of entry into the market, and how much the product satisfies the needs of customers in the target market.[35]

MARKETING IN PRACTICE



Kentucky Fried Chicken (KFC)



Figure 10.6 To address falling sales in the latter part of the year, KFC developed a new product that appeals to customers during the holiday season. (credit: "Food Photo of Fried Chicken Wings with Cucumber Slices and Lettuce on a Wooden Table with Tomato Ketchup and Chili Sauce" by Marco Verch/flickr, CC BY 2.0)

If you were to ask people what they eat during the holiday season, you'd probably get answers like turkey or ham. It's not likely that many of them will say fried chicken (see Figure 10.6). That's less than ideal for Kentucky Fried Chicken (KFC) because despite the fact that consumer spending typically spikes during the last six weeks of the year, KFC's sales typically falter.

Fortunately, savvy marketers at KFC came up with a new product designed to remind consumers of KFC during the holiday season: the KFC 11 Herbs and Spices Firelog that, when ignited, makes your house smell like fried chicken.[36] The idea behind this new product was twofold. First, a home's fireplace usually plays an important role in the holiday season. Second (and perhaps more importantly for KFC), hopefully the smell of fried chicken makes people want to *eat* fried chicken!

Some of KFC's promotional efforts involved discussions on TV talk shows and magazines. From these initiatives came 5,000 user-generated social posts and the logs being sold out in three hours![37] How's that for a successful product launch?

What Causes New Products to Fail?

We've just examined the factors that are favorable to the success of a new product, but what about the reverse? Those failure rates we mentioned in the previous section aren't to be taken lightly.

Statistics on New Product Failure

So, you've made it through all the stages of new product development, and you think your troubles are over. Think again! Just because something is new, improved, or changed doesn't guarantee that consumers will accept it or even hear about it. Every person reacts differently in how they hear about innovation, how they understand it, and whether they accept it.

Harvard Business School professor Clayton Christensen has been quoted as suggesting that approximately 30,000 new products are launched each year, and 95 percent of them fail. A study by the Product Development and Management Association found that new product failure rates varied among industries, ranging from 35

percent for health care products to 49 percent for consumer goods. Although those numbers are significantly lower than that proposed by Professor Christensen, the message remains the same: successful product launches shouldn't be taken for granted.[38]

What causes new products to fail? The reasons are likely different from one product to the next, but certain key factors appear to contribute heavily to the failure (see Figure 10.7).

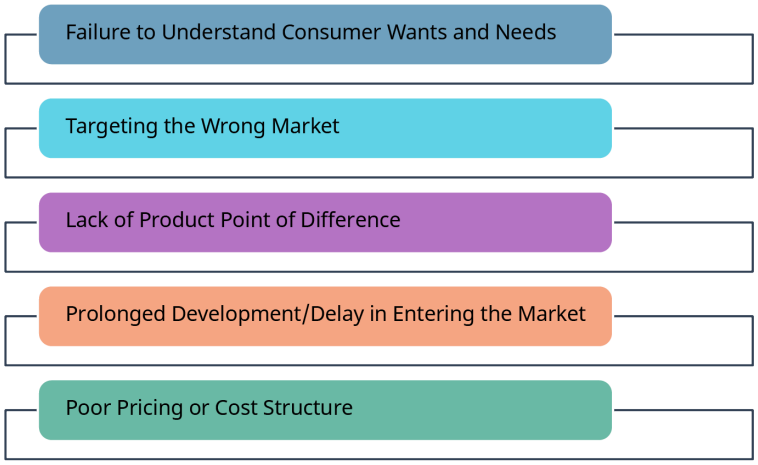

Figure 10.7 Contributing Factors to the Failure of a New Product (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Let's review each of these factors more closely.

- **Failure to Understand Consumer Needs and Wants:** Let's illustrate this with a real-life scenario that some of you may recall: Google Glass "smart glasses," which were like eyeglasses with smartphone capabilities (i.e., wearable technology). When Google announced the product in 2013, it issued a statement of principle reading, "We think technology should work for you — to be there when you need it and get out of your way when you don't." However, sales were disappointing despite the company's usual market hype, and it quickly became clear that consumers didn't want or need the product. There were other devices with longer battery life, faster processors, and better cameras, and most had lower prices. Google discontinued the product's development in 2015.[39]
- **Targeting the Wrong Market:** It doesn't matter how incredible your technology is or how phenomenal you think your product is. If you can't reach the right people in the right market at the right time to buy your product, it's likely going to fail. Even Microsoft fell prey to this mistake. The company decided to challenge the Apple iPod and launched Zune in 2006. The product failed, and Microsoft later admitted that it was just chasing Apple, and its product gave consumers little incentive to switch from the iPod to Zune.[40]
- **Lack of Product Point of Difference:** This could also be referred to as a lack of product uniqueness. If a new product doesn't satisfy a unique need of consumers, it's unlikely to dislodge existing brands that are available. The bottom line is that, to succeed in the market, a product has to either satisfy a new function or satisfy an existing function in new ways. For example, Google launched Google+, its own social media site, in 2011 to compete with Facebook. However, Google+ was unable to distinguish itself from Facebook, and the site never garnered the market share Google anticipated. The company shut down personal accounts in 2019.[41]
- **Prolonged Development/Delayed Market Entry:** You've probably heard the idiom that "time is money," and this is especially true in new product development. If a company takes too long to launch a product, it often spells doom for the product launch. By the time the product hits the market, the economy may have taken a downturn, consumer needs may have changed, or new competitors may have entered the market.

  That's what happened to Amazon when it introduced its Fire Phone after four years of development. CEO Jeff Bezos had said at the time, "Our job is to build the greatest device we know how to build, and then

customers will choose. The other job we have is to be patient."[42] Apparently, that patience didn't pay off, because by the time the phone was introduced to the market in 2014, Apple and Android already had several generations of smartphones on the market. Amazon ceased production of the Fire Phone just a year later and discontinued sales soon thereafter. Sometimes, timing is everything!

- **Poor Pricing or Cost Structure:** Unfortunately, many new products suffer from a poor pricing or cost structure. Perhaps the company designed the product with a number of innovative features to try to bring "something new and different" to the market, but the inclusion of all those features made the product more costly to produce. You may be keeping your fingers crossed that the market will be willing to pay more for that "new and improved" product, but the reality is that this may not be the case.

Knowledge Check

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

1. The degree to which a new product is built on the firm's existing technological resources is known as _____.
   a. market attractiveness
   b. marketing synergy
   c. technological synergy
   d. cost-benefit analysis

2. A study by the Product Development and Management Association found that new product failure rates varied among industries, ranging from 35 percent for _____ to 49 percent for _____.
   a. health care products; consumer goods
   b. consumer goods; pharmaceuticals
   c. consumer goods; technology products
   d. technology products; health care products

3. Graham, a marketer for ABC Corporation, was concerned about the new product launch because R&D was months behind in development and the economy appeared to be heading toward a recession. Which factor contributing to the failure of new products is Graham's concern?
   a. Lack of product differentiation
   b. Prolonged development/delayed market entry
   c. Targeting the wrong market
   d. Failure to understand customer needs/wants

4. Your company has added so many features to the new product you're launching that the price point when it hits the market is going to be significantly higher than originally anticipated. Which factor contributing to the failure of new products is at play here?
   a. Lack of product differentiation
   b. Prolonged development/delayed market entry
   c. Targeting the wrong market
   d. Poor pricing or cost structure

5. The FurZapper, which removes pet hair from laundry in the washing machine, was introduced on *Shark Tank* and became an immediate hit. It garnered over 5,000 five-star reviews on Amazon because customers were amazed at how much pet hair it trapped in the washer. Which factor contributing to the success of new products is likely at play here?
   a. Delivering unique benefits to users
   b. Technology synergy
   c. Planning before development
   d. Market attractiveness

10.5 Stages in the Consumer Adoption Process for New Products

Learning Outcomes

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

LO 1 Describe the stages in the adoption process for new products.

LO 2 Identify and define new product adopter categories.

Stages in the Adoption Process

Consumers go through five stages in the process of adopting a new product (see Figure 10.8).

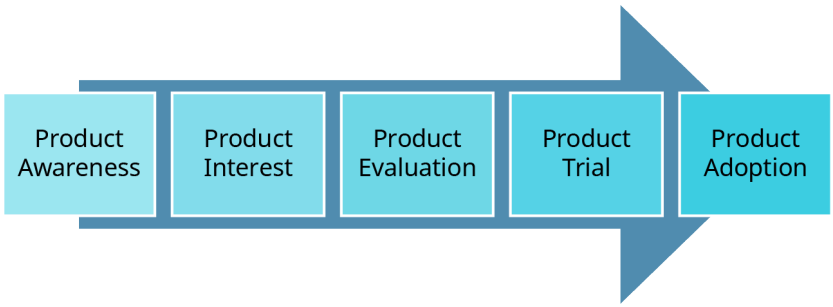

Figure 10.8 Stages in the Consumer Adoption Process (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Let's look at each of these stages in the **consumer adoption process** (often referred to as the "hierarchy of effects model") in some detail.

- **Stage 1: Product Awareness**. The first stage in the consumer adoption process is simply creating awareness that the product is available, so the company develops a successful marketing strategy to make customers cognizant of the new product. This strategy might include creating a strong presence for the product in social media, for example. The goal here is to reach as many customers as possible at a relatively low cost. Let's assume for a minute that you're watching a football game on Saturday afternoon, and you see a television commercial for a mouthwash that whitens your teeth while you rinse. You're now aware of the product, thanks to that commercial!
- **Stage 2: Product Interest**. In this stage, consumers are aware of the product, and it has piqued their interest. The company should guide consumers by providing easily accessible information on the product, such as a website, blog posts, tutorials, or instructional videos. Let's go back to our mouthwash example. You're intrigued with the concept that a mouthwash can whiten your teeth, so you call your brother who's a dentist to ask if he's familiar with the product and what he has to say about it. That's product interest.
- **Stage 3: Product Evaluation**. Before they buy it, consumers will typically examine, compare, and evaluate the product. They haven't purchased it yet, and they often look to social media channels, such as online reviews and recommendations, to see how other consumers feel about the product or service. Think about it: How many times have you viewed customer reviews on Amazon prior to purchasing a product? In our example of the mouthwash, you might do an Internet search to read reviews of the product before you actually purchase it. That's product evaluation.
- **Stage 4: Product Trial**. This is the stage in the consumer adoption process where the consumer actually tries the product out. It might be a free sample in a retail store or a "100 percent money-back guarantee" trial purchase of an online product. This is also the stage in which marketers are hoping that the product will deliver on consumer expectations.
- **Stage 5: Product Adoption**. When consumers enter this phase, they're ready to buy, whether it's online or in a retail store. As a marketer, hopefully you've made the acquisition and payment process as seamless as possible so that your customers can easily obtain your product.

It should be noted that there are five characteristics of innovation, and each affects the rate of adoption

differently. This is also known as the process of **diffusion of innovation**—the process through which new products are adopted (or not) by customers. Let's take a look:

- **Relative Advantage**: How much is the new product "better than" what it replaces? This is, of course, based entirely on a consumer's perception, but as a general rule, the easier it is to recognize the advantages of using the product, the more quickly it will be adopted.
- **Compatibility**: This is the level at which the innovation fits into a specific society due to economic, lifestyle, and cultural reasons. For example, PCs were very compatible with middle-class lifestyles, so the product was quickly adopted. On the other hand, the diffusion of birth control in parts of the world is not compatible with social mores due to religious beliefs and cultural values.
- **Complexity**: How difficult is the new product for the adopter to understand and use? If the difficulty level is too high, it is less likely that adoption/diffusion will take place. Think about your own experiences: Have you ever returned a product because it was too complicated to use?
- **Divisibility**: Divisibility is the ability to give the product a "test run" before putting down your hard-earned cash. For example, in no small part due to the COVID-19 pandemic, some online car sellers like Carvana and Shift, as well as some car dealerships, have adopted touchless test drives. The car is brought to the shopper's home, it's wiped down with disinfectant, and the consumer takes the car for a test drive alone while the delivery person waits.[43]
- **Communicability**: You may know your product is great, but you need to be able to effectively communicate to your audience. Communicability is the ability to effectively communicate the benefits and results of using the product, and when those benefits and results are both observable and describable to others. Let's imagine for a moment that you've purchased an expensive Peloton bike to get in shape after the new year. Would you continue to use it if you didn't see the desired results? Perhaps even more importantly in terms of communicability, would you be willing to share your results with others if those results weren't favorable?

  It was first thought that diffusion was a one-step process: from mass media (i.e., advertising) to the individual. Marketers now recognize that it is a two-step process, and the second step is **personal influence**—that is, communication between individuals in which individuals can affect the purchasing decision of others because of their authority, knowledge, or position. For example, Kylie Jenner is a powerful social media influencer with over 250 million followers on Instagram.[44]

New Product Adopter Categories

Consumers adopt new products at their own speed. Some want to have the "latest and the greatest" as soon as it is available. If you doubt that, just look at the lines around any Apple store on the day of a new product release. Others tend to wait a while before buying. Scholar and professor of sociology at The Ohio State University Everett Rogers is credited with introducing the diffusion of innovation theory in 1962, in which he explained how a product or idea gains momentum and spreads through a population or society. In his theory, he identified five adopter categories (see Figure 10.9).[45]

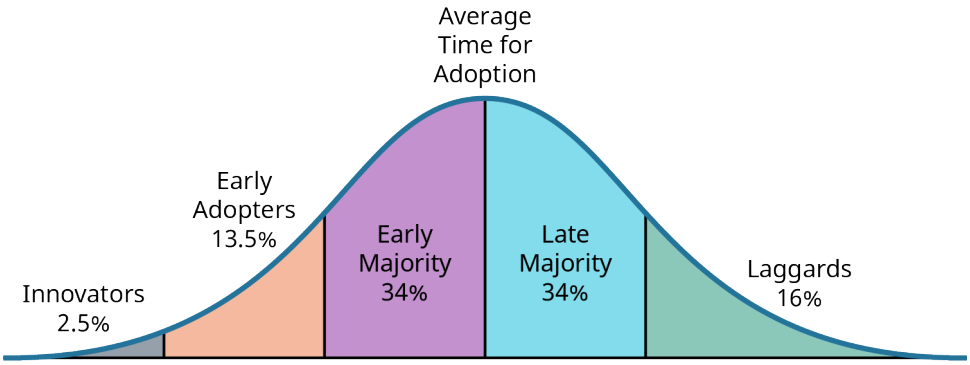

Figure 10.9 Categories of Adopters of New Products (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Let's look at each of these categories in a little more depth.

- **Innovators**: Innovators are the risk-takers in the market. As a general rule, they have higher-than-average income and are typically well-educated. They enjoy the "rush" of taking risk but are also willing to accept the consequences of failure. It's the innovators who buy new products as soon as they hit the market.
- **Early Adopters**: Early adopters are actually the best target market for new innovations. These people tend to be well-educated "opinion leaders" with neighbors and friends, and their product advice is generally accepted more readily than product advice provided by innovators.
- **Early Majority**: The early majority typically look to the innovators and early adopters to determine if the new product meets expectations because they don't want to take the risk of being the first to adopt the new product, but they do accept innovation before the "average person." This group of consumers is typically above average in terms of education and income but also tend to be "followers" in their social group.
- **Late Majority**: Consumers in the late majority category are typically slow to catch on to the popularity of new services, products, ideas, or solutions. About 34 percent of the population will buy a new product only after about half of the population does. They're not interested in the "bells and whistles" (i.e., functionality and benefits) of the "latest model" and want simple, cost-effective products that focus on specific uses. As a general rule, their income and education are limited, and they're typically unwilling to take a chance with a new product unless the majority of consumers has already adopted the innovation.[46]
- **Laggards**: Laggards are more in tune with the past than the future, and they're leery of new ideas. By the time they adopt a product, there's probably already a new version or innovation taking its place.

Knowledge Check

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

1. Garrett is the type of consumer who has to have the absolute "latest and greatest" technology products on the market. He is often the very first of his group of friends to acquire the newest smartphone or other gadget. Garrett would be considered a(n) _____.
   a. early adopter
   b. laggard
   c. late majority
   d. innovator

2. What is the first stage in the consumer adoption process?
   a. Product awareness
   b. Product evaluation
   c. Product trial
   d. Product interest

3. The extent to which the beneficial results of using a new product are observable or describable to others is referred to as _____.
   a. divisibility
   b. product awareness
   c. marketing synergy
   d. communicability

4. Bob refuses to get "on board" with smartphones. He insists on having a landline in his apartment. In terms of the new product adopter categories, Bob would be considered a(n) _____.
   a. early adopter
   b. innovator
   c. laggard

d. late adopter

5. Which group of consumers tends to be unwilling to take a chance on a new product or innovation until the majority of consumers has already adopted the product?
   a. Innovators
   b. Early majority
   c. Laggards
   d. Late majority

10.6 Ethical Considerations in New Product Development

Learning Outcomes

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

LO 1 Discuss violations of patents, trademarks, and/or copyrights.
LO 2 Describe ways to exercise due care in product development.

Violations of Patents, Trademarks, and/or Copyrights

Before we proceed with a discussion of the areas of concern with respect to patents, trademarks, and copyrights in new product development, it would probably be helpful to have some definitions. **Patents** secure the right to exclude others from making, using, or offering for sale the invention you've developed. As a general rule, US patents last 20 years from when the application is filed with the US Patent Office. **Copyrights** are original works of authorship that include software, songs, television shows, and motion pictures. **Trademarks** are words or symbols legally registered or established by use as representing a company or product. Collectively, these terms are referred to as **intellectual property (IP)**.

You may think that intellectual property infringements are uncommon or, at least, limited to new product development by smaller companies, but nothing could be further from the truth. Patent lawsuits and ever-increasing scrutiny for anticompetitive behavior have cost "Big Tech" companies like Apple, Microsoft, and Google hundreds of millions of dollars.

For example, in March 2021, a jury ruled against Apple for patent infringement and ordered it to pay over $300 million to Personalized Media Communications LLC. That same year, a judge ruled that Google had infringed on five patents owned by Sonos, and if the ruling is upheld, it may result in the ban of imports of products like Google Home and Pixel smartphones.[47]

Intellectual property infringement can have serious consequences in terms of both monetary fines and, of course, the reputation of the company. Penalties can include civil damages, lost profits, injunctions, payment of the other damaged party's attorneys' fees, and even felony charges with prison time.[48]

Methods of Exercising Due Care During Product Development

Intellectual property rights add immense value to a company's assets. Imagine having a product team invest time, energy, and money developing and then launching a new product only to discover that the company's intellectual property rights aren't protected or—worse yet—that the product team has infringed on another company's intellectual property rights. That's why it's important in the product development stage to do three things:

- **Conduct a Trademark Search:** It's critical to know whether anyone else is already using the mark *before* time and resources are invested into developing a name and market recognition. For example, Takeda Pharmaceuticals was required to change the name of its antidepressant drug Brintellix to Trintellix because of consumer confusion between Brintellix and an anti-blood-clotting drug named Brilinta.[49]
- **File a Trademark Application:** Filing a trademark application provides the company with a bona fide statement of intention to use the mark within six months of the application.

- **Conduct a Patent Search:** If the product relates to a technological or scientific invention, the company should also conduct a patent search. As noted above, the patent excludes others from making, using, or selling a claimed invention for 20 years.[50]

Another issue that you may hear a lot about is the control or lack of control users have over their personal data. Companies that collect personal data have to carefully (and ethically) consider what information is embedded in systems design, how much data is really needed from users, where that data will be stored, and when and how it will be disposed of after use.[51]

COMPANIES WITH A CONSCIENCE

Meta

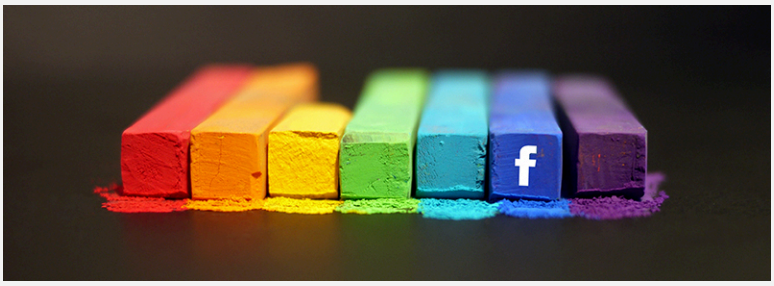

Figure 10.10 Meta is taking steps to better address ethical issues regarding users' personal data. (credit: "The Art of Facebook" by mkhmarketing.wordpress.com/about/flickr, CC BY 2.0)

Meta (formerly Facebook) has come under fire for several reasons recently, including a scandal that involved a whistleblower (see Figure 10.10). This person revealed that the tech giant "chooses profits over safety" when they released internal research and documents and testified before the United States Senate.[52]

However, the company took steps to ensure ethics in its new product development by hiring Zvika Krieger to its Responsible Innovation Team (RIT). Although the team had been in existence for some time, it's growing in size with the emergence of new ethical issues. Krieger's role focused on ethical issues in both the engineering and the design processes. For example, the RIT was involved in the decision to disallow filtering dating app results by race.

The RIT focused on the design and development stage of product development with the specific role of identifying ethical issues. Krieger departed Meta, and the RIT was dissolved in 2022; most members moved into other areas of the company, where they may be able to influence decisions more directly.

Chapter Summary

In this chapter we discussed the different forms of innovation as applied to new product development. The rewards of this development can include means to target a new market, to increase market share, and to increase revenue streams. Included in the risks are financial and technical feasibility and a lack of differentiation from existing products. There are seven stages to developing new products that include idea generation, idea screening and evaluation, concept development and testing, marketing strategy development, business analysis, product development, and test-marketing. The stages are followed by commercialization and evaluation of results.

Metrics are used to evaluate such things as R&D spending as a percentage of sales, return on investment (ROI), the percentage of sales due to the new product release, and other key concepts.

New products succeed when there is synergy and quality of technology and marketing and when the product delivers benefits to users. By contrast, failure can be due to targeting the wrong market and misunderstanding consumer needs/wants. The adoption process was discussed and includes different categories of consumers.

Key Terms

additions to existing product lines product line extensions that involve changes to styles or flavors
business analysis the fifth step in the new product development process, in which a potential new product is evaluated
commercialization the eighth step in the new product development process, in which the product is launched with full-scale production, distribution, advertising, and sales promotion
communicability the ability to communicate to the audience the benefits of using a particular product or service
concept development and testing the third step in the new product development process, in which a product concept is developed into a detailed idea
concept testing market research method in which customers are presented with a description of a product or service
consumer adoption process stages consumers go through in adopting a new product
continuous innovation category of "newness" in which the existing product undergoes only marginal changes that do not alter consumer habits
copyrights original works of authorship that include software, songs, television shows, and motion pictures
crowdsourcing using the input of a large group of people for market testing
diffusion of innovation theory about how products gain momentum and spread through a population or society
discontinuous innovation new-to-the-world products that require a significant change in consumer behavior when adopted
divisibility the ability of a consumer to give a product a "test run" before purchasing it
dynamically continuous innovation changes to a product or service that require little change to consumer habits
early adopters consumers who are willing to try new products typically before others but not as early as innovators
early majority consumers who are initially reluctant to risk trying a new product but accept innovation
evaluation of results the ninth and final step in the new product development process, in which a company evaluates product launch performance based on predetermined metrics
external sources in product development, sources of ideas for new products or services from those outside the organization
idea generation the first step in the new product development process, in which many new ideas for a product are developed
idea screening and evaluation the second step in the new product development process, in which ideas are

filtered to those most likely to turn a profit

improvements and revisions to existing products improvements to existing products that fine tune or perfect them

innovators consumers who are the first to take a risk and buy new products as soon as they are available

intellectual property collective term used to describe patents, copyrights, and trademarks

internal sources in product development, sources of ideas for new products or services from those inside the organization

laggards consumers who are skeptical of new ideas and are reluctant to try new products

late majority consumers who are slow to catch on to the popularity of new services, products, ideas, or solutions

market attractiveness the measure of potential value; considers factors like short- and long-term profit, market growth rate, how much competition currently exists in the market, the cost of entry into the market, and how much the product satisfies the needs of customers in the target market

market strategy development the fourth step in the new product development process, in which a preliminary marketing strategy is developed

marketing synergy the fit between the needs of the new product development project and the company's marketing capabilities

new-to-the-firm products products that are new to a company but not to the world

new-to-the-world products new product inventions that create new markets

patents the right to exclude others from making, using, or offering for sale an invention

personal influence communication between individuals in which individuals can affect the purchasing decision of others because of their authority, knowledge, or position

product adoption the fifth stage in the consumer adoption process, also known as user adoption, in which people learn about a product and start using its features

product awareness the first stage in the consumer adoption process, in which a company creates awareness that the product is available

product concepts perceptions of a new idea or innovation

product development the sixth step in the new product development process, in which a potential new product undergoes development; may include the creation of a prototype

product evaluation the third stage in the consumer adoption process, in which consumers examine, compare, and evaluate the product prior to purchase

product idea concept of a new product that a company could potentially offer to the market

product interest stage in the consumer adoption process in which the product has piqued the consumer's interest

product metrics quantifiable data that a business tracks and analyzes to determine how successful its new products are

product trial the fourth stage in the consumer adoption process, in which the consumer tries the product out

prototype in new product development, the creation of a physical version of the product

repositioned products products that are retargeted for a new use

return on investment (ROI) a metric formula used to evaluate the profitability of an investment and, in marketing, the measurement of the profitability of a new product launch

revenue streams all the ways in which a company can generate cash flow from the sale of its products or services

technological synergy the extent to which a new product is built on the firm's existing technological resources

test-marketing the seventh step in the new product development process, in which a product concept is test-marketed to determine its viability before launch to market

trademarks words or symbols legally registered or established by use as representing a company or product

Applied Marketing Knowledge: Discussion Questions

1. Explain the differences in:
   a. Continuous innovation
   b. Dynamically continuous innovation
   c. Discontinuous innovation

2. List the stages of new product development.

3. Consider new product adopter categories and answer the following questions.
   a. Do you believe that consumers are always in the same category? For example, once a laggard, always a laggard? Can someone be a laggard in one category and an early majority in another?
   b. What impact do these categories have on new product development?
   c. Can you think of a time or product category where marketing would want to push more consumers into one category?

Critical Thinking Exercises

1. From a consumer perspective, what motivates you to try a new product? What new products have you tried in the last year? Did you continue to purchase them after the initial trial?

2. Idea generation is the first step in new product development. Where do those ideas come from? Do all the ideas that are suggested make it to the prototype stage? Explain your answers.

3. Success and failure are always possible outcomes of new product development. Describe two factors that may lead to success and two factors that may lead to failure of a new product.

4. Ethical considerations of new product development include avoiding violations of patents, trademarks, and/or copyrights. How can marketing and R&D departments work to make sure that they do not violate these standing rights?

Building Your Personal Brand

Review this Ascent article by Aaron Weber (https://openstax.org/r/the5psofpersonalbranding) and pay attention to his explanation of the 5 Ps for building your personal brand. Write two paragraphs on what you feel your personal brand is today. Is it what you want it to be? Interview three colleagues, classmates, or family members and ask them to describe how they see your brand. Add a paragraph to your write-up describing their assessment.

Add another paragraph discussing your brand assessment compared to those you interviewed. Is it the same or different? Include changes you would like to make and the impact it would have on your personal brand.

What Do Marketers Do?

Using an online networking platform—for example, LinkedIn—network and connect with someone in product development. Explain that you have a college project and that you'd like to interview them. There are hundreds of product development professionals, and you will quickly find that professionals in this field love to talk about their products and ideas.

Use the following questions as a guide to dig deeper into their job responsibilities.

1. Could you please outline your career and how you got started on this path?
2. Please outline for me your current job responsibilities.
3. Do you specialize in a particular product concept (food, fashion, etc.)?
4. How do you interact with and support your team or clients in this role?

5. What product have you worked on that you are most proud of or excited about?
6. What product did you work on that failed? What did you learn in that process?
7. What advice can you offer me if I choose to pursue product development as my career path?

As always, follow up with any questions that you have, being respectful of their time, and be sure to thank them for their information and help!

Closing Company Case

Maintaining a Competitive Edge with New Offerings—Ember

Every morning, millions of Americans wake up and prepare a cup of coffee. But as they sit down to drink it, the deluge of interruptions begins. Once the interruptions begin, that delicious dark roast often goes cold. Within the United States there are approximately 150 million coffee drinkers.[53] Throughout the day, people pour a cup of coffee, a cup of tea, or a variety of other hot drinks, only to be distracted and come back to a cold beverage. Many hot beverage drinkers have transitioned to the insulated travel mug where the drink stays hot for a while, but it too eventually gets cold.

Back in 2009, Clay Alexander was eating his breakfast. By the time he took his last bite, his scrambled eggs were cold. Alexander began experimenting with dinner plates that could stay hot and keep food at the same temperature throughout the meal. Then, one day as he was drinking coffee, he realized that using the same the technology with a coffee mug would be a transformative experience. In playing with the technology, he developed the Ember mug. (Watch this video for more information on the Ember mug development story.)

Clay Alexander: Ember's Founder Story (https://openstax.org/r/embersfounderstory)

Alexander's first version of the Ember mug looked like something from *Weird Science*. The prototype mug was not sleek or stylish and definitely was not easy to clean. But as he carried his early version of the Ember mug to work and around town, curious commuters began to ask questions. Alexander was raising awareness and piquing the interest of potential new consumers. Through his interactions, he knew that there was definitely interest in a product that could keep beverages at a constant temperature for a long period of time.

This new innovation was a juncture of cutting-edge digital technology and the low-tech coffee mug. Using technology to warm the cup and keep a hot beverage at a constant temperature, Ember transformed the common mug. The Ember mug was able to keep hot beverages at a constant temperature for hours.

Creating the new product required hours of development. Building the product meant developing, testing, creating more prototypes, more testing, and running a business analysis. The new product was great. There was nothing like it on the market. But would customers buy it? A new entrant in the market often comes with a high price tag. All the hours, months, and years of development are coupled with the high cost of creating brand awareness.

The biggest question with the Ember mug was, How would the customer respond? Innovators are the first to purchase new market entry products, and they typically look for and buy new products before the rest of the market. And for this product, that market would probably include the coffee connoisseur and die-hard coffee drinkers. As with any new product, the biggest obstacle would be creating awareness and connecting with consumers about the benefits of the Ember mug.

Alexander knew that consumers were already attached to their smartphones, so he incorporated the Ember technology into something they already used. Consumers could control the temperature of their Ember mug beverages through the Ember app on their smart phones. With dozens of settings to create and keep the perfect temperature, Ember technology was easy and very customizable.

Getting the product to market meant getting it right and easily educating the consumer on the benefits of the Ember mug. The Ember mug incorporates smart LEDs to indicate when the mug has the beverage at the perfect temperature. Using a built-in battery, the Ember mug can work all day if placed on its charging coaster

or upward of two hours without the coaster after being fully charged. The Ember mug also comes with auto-sleep technology to know when to turn off as well as built-in temperature controls for the variable preferences of consumers.



Figure 10.11 Product innovation focused on keeping coffee warm for long periods of time. (credit: "coffepour.jpg" by Eric McGregor/flickr, CC BY 2.0)

Initially the Ember was only available for sale on the company's website; however, as brand awareness increased and consumer demand picked up, the Ember could be purchased through both online and in-store retailers. The mug can now be purchased at Amazon, Best Buy, Costco, Starbucks, and several other locations.[54]

Ember has been featured in leading publications such as *Forbes*, *Fast Company*, and *People* as well as broadcast and digital media including *Today*. With many positive reviews, excellent public relations, and organic word of mouth from customers, the Ember mug saw positive growth. Since the introduction of the original 10-ounce mug, Ember added a 14-ounce version as well as a travel mug and plenty of added charging options.

Case Questions

1. How did the Ember mug redefine the coffee-drinking experience?
2. What was the first step Alexander needed to do in developing the Ember mug?
3. What three things helped drive sales of the Ember mug?
4. How would you describe the first customers of the Ember mug?

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11

Services: The Intangible Product

Figure 11.1 Services are intangible, nonphysical products, such as childcare, and they make up the majority of the US GDP. (credit: "DSC_1551" by Josh Ward/flickr, CC BY 2.0)

Chapter Outline

11.1 Classification of Services
11.2 The Service-Profit Chain Model and the Service Marketing Triangle
11.3 The Gap Model of Service Quality
11.4 Ethical Considerations in Providing Services

In the Spotlight

Services are acts a consumer is willing to pay for, and there are hundreds of different types. One such service is day care. According to the US Chamber of Commerce, 88 percent of two-parent families and 83 percent of single-parent families relied on non-parental care prior to the COVID-19 pandemic and spent approximately $42 million on early care and education.[1]

Sara Bullock, who has a background in early childhood education and four children of her own, owned a childcare business in Maryland for more than 10 years. When her husband was required to move to Tennessee for his job, she closed her business and started a new childcare business using a different business model. She changed it from a conventional daycare center to a "drop-in" center, allowing parents to bring in their children for short periods of time (anywhere from one to seven hours) without requiring them to make a monthly commitment. That was the birth of MeTime Drop-In Child Care. The concept has been so successful that Bullock has already begun plans to open a second location.[2]

11.1 Classification of Services

Learning Outcomes

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

- LO 1 Define services.
- LO 2 List the classification of services.
- LO 3 Describe the characteristics of services.

Services Defined

You may have heard that the United States' economy is primarily considered a service economy. But do you know why this is? Figure 11.2 provides the answer. It outlines the percentage each industry contributed to the gross domestic product (GDP) in 2020.[3] (A quick refresher from your economics course: the GDP is a measure of the total monetary value of all finished goods and services generated within a country's borders during a specified period of time.) Which industries are the largest contributor to the GDP? Service industries. (Note that this figure does not include smaller industries such as utilities, or mining and agriculture.) When you total the service industries, they make up a whopping 67 percent of GDP versus only 10.8 percent for manufacturing.

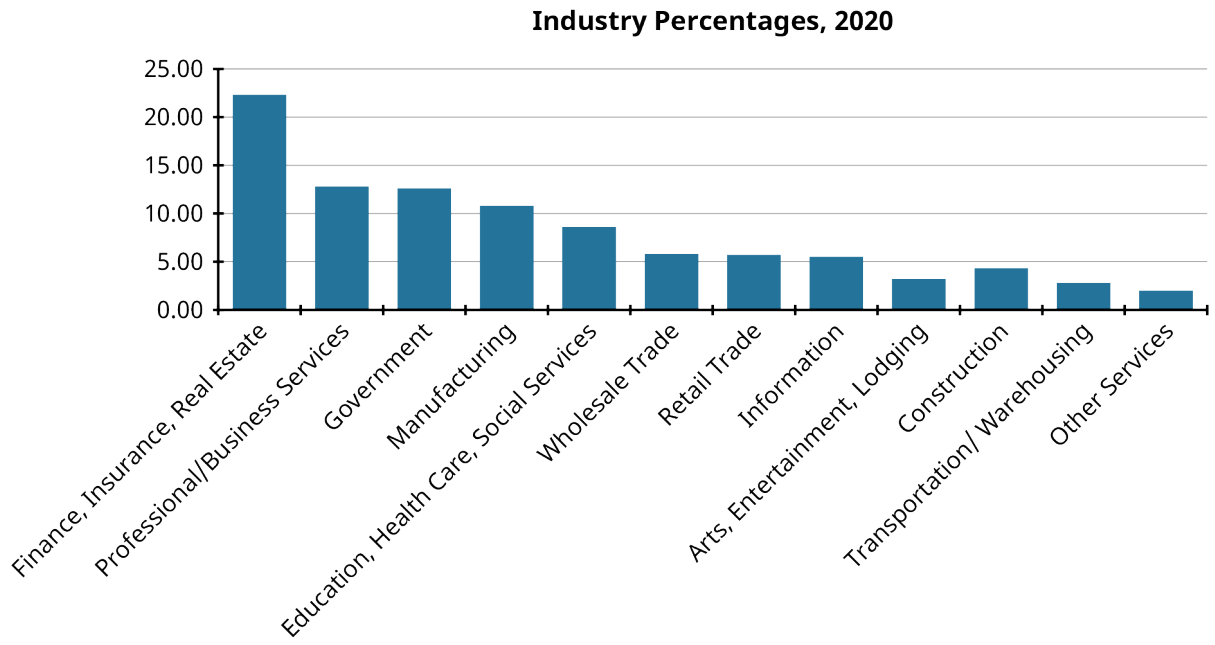

Figure 11.2 Percentages Added by Industry to the US GDP in 2020 (data source: BEA; US Department of Commerce; attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

In a nutshell, **services** are the nonphysical, intangible economic activities. On the other hand, physical goods are the things we can touch or handle, commonly called tangibles. Do you realize that, as you read this textbook, you're participating in the services sector of the economy? That's because education is considered part of the service sector. The service sector also includes things like banking, medical treatment, transportation, insurance, and many more categories. Based on the fact that the majority of contributions to the GDP in the United States are services, and more than half of the country's workforce is employed in producing "intangibles," it's critical to understand this important sector from a marketing perspective.

Consider the challenges to marketers when selling services as opposed to products. A consumer can't touch or see the service before they purchase, so it's difficult to examine or evaluate benefits. Think about it: you can't take a service out for a test drive the way you might if you were buying a new car. Yet it's just as crucial for organizations that provide services to build brand awareness and brand loyalty.

Classification of Services

Services are classified as people-based services or equipment-based services. And within those classifications, there are subcategories (see Figure 11.3).

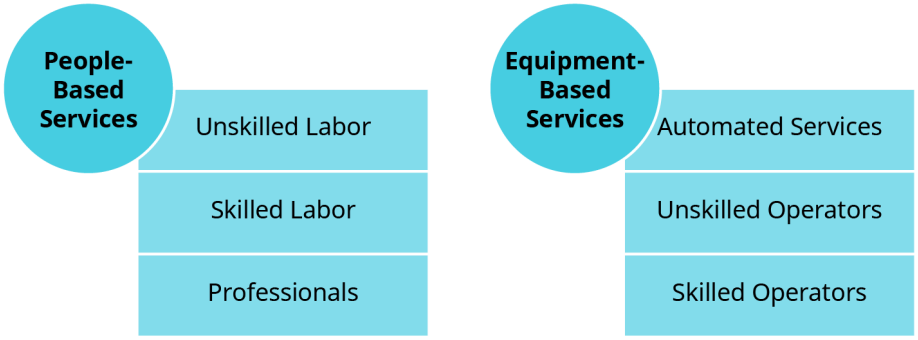

Figure 11.3 Services Classifications (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

People-Based Services

People-based services are when people primarily deliver the service, rather than equipment or machinery (see Figure 11.4 for examples). It's the individuals delivering the service, and the knowledge and skills that they possess, that add value and allow the service to be performed. People-based services can be broken down further into these subcategories:

- services provided by unskilled labor: parking lot attendants, babysitters, and janitors
- services provided by skilled labor: plumbers, caterers, and hairstylists
- services provided by professionals: doctors, attorneys, college professors, and accountants

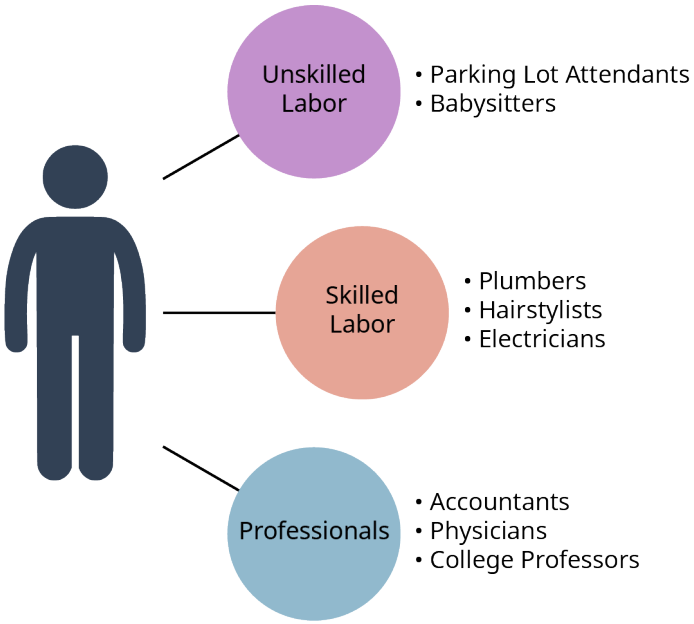

Figure 11.4 People-Based Services (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Equipment-Based Services

Equipment-based service firms utilize equipment, machinery, and other forms of technology to perform service tasks (see Figure 11.5). Similar to people-based services, equipment-based services can be further broken down into subcategories:

- automated services: car washes and parking meters
- equipment-based services operated by relatively unskilled operators: dry-cleaning equipment
- equipment-based services operated by skilled operators: X-ray machines and ultrasound equipment

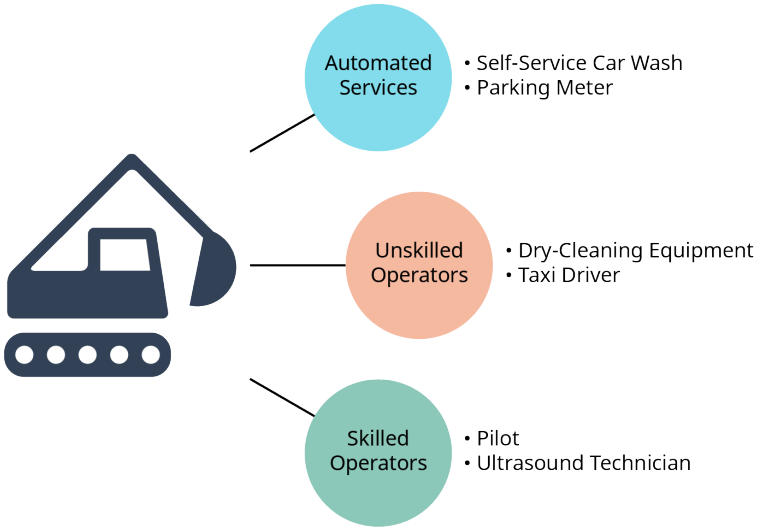

Figure 11.5 Equipment-Based Services (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

There is another way to categorize services, according to well-known author and professor Christopher Lovelock (1940–2008). He proposed four broad categories of services:

- people processing: services toward people's bodies
- possession processing: services toward possessions
- mental stimulus processing: services toward people's mind
- information processing: services toward intangible assets[4]

In Figure 11.6, the categories are defined on a two-dimensional matrix, wherein one of the dimensions is the direct recipient of the service and the other is the nature of the service act.[5]

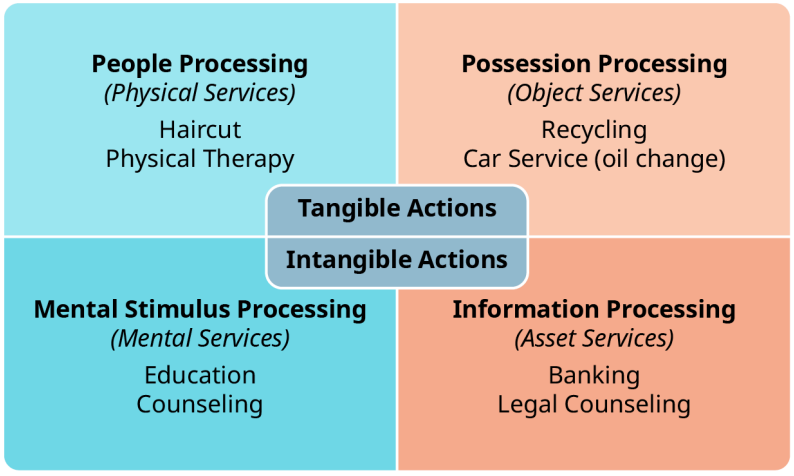

Figure 11.6 Lovelock's Categories of Service (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

LINK TO LEARNING

Lovelock

If you plan to continue toward a marketing degree, you'll want to familiarize yourself with Christopher Lovelock's work. You can run a search on Amazon.com for his books or a search in your browser for articles and more information. Start by reading his Wikipedia page (https://openstax.org/r/christopherlovelock) to learn about his academic background and achievements.

Let's look at each of these categories in more depth. The first two categories (people processing and possession processing) involve tangible actions directed toward a person's physical body or property, whereas mental stimulus processing and information processing involve intangible actions directed toward a person's mind or information. We'll expand on this in the following sections.

People Processing

In **people processing** services, the customer is a direct recipient of the service, and the production and consumption of the service are simultaneous. Consider examples of services where you must be present in the service facility in order to interact with the service provider and receive the service, such as barbershops or hair salons, physical therapists' offices, or restaurants.

Possession Processing

The difference between people processing and **possession processing** is that the service is directed toward the customer's physical possessions. In other words, production and consumption are separate. Your only involvement is dropping off the item that requires service or repair and explaining the problem. For example, once you have taken your car in for an oil change, you do not need to be physically at the location for the oil change to occur. Similarly, once you've dropped your clothes off at the dry cleaner's, you don't need to be physically present when the cleaning process is performed. These services are tangible because the direct recipient is one of your possessions rather than you as a person.

Mental Stimulus Processing

In its simplest explanation, **mental stimulus processing** is when the services interact with your mind rather than your body. Time and mental effort are required from the customer to receive this type of service. What you're doing right now—reading this textbook—is a prime example of mental stimulus processing. Other examples include psychotherapy or counseling services. The key here is that services rendered in this category are intangible.

Information Processing

Information processing is the most intangible form of service, although it can be transformed into a tangible service output like reports, books, letters, DVDs, etc. Some examples of information processing services are things like meeting with your financial advisor regarding investment advice, legal services, and banking.[6]

LINK TO LEARNING



Service Industry Stats and a Changing Industry

If you'd like more insight into service industries, check out the US Bureau of Labor Statistics website (https://openstax.org/r/blsgov). It categorizes industries and provides interesting statistics on employment.

Companies are launching new services every day. Think about it—services like Uber didn't exist 20 years ago. As a marketer, understanding services and their business models is critical. Start here and read about on-demand service companies (https://openstax.org/r/serviceindustries) and how services—and apps—are changing the industry. And also check out this article about the top 15 service businesses for 2022 (https://openstax.org/r/articlesmallbusiness).

Characteristics of Services

As outlined in Figure 11.2, service industries contribute the major percentage of the US GDP. It's important to understand that this shift from the manufacturing sector to the service sector isn't limited to the United States. Increasingly, the world economy is being characterized as a service economy. Looking at economic history, we

can see a natural evolution in developing countries from the agricultural industry to the service sector as the mainstay of the economy. That's why it's critical for marketers to understand the characteristics of services.

As we pointed out above, some services come from physical products, such as getting a haircut or having your income tax return prepared by a professional. But other services are completely intangible. When you rent a hotel room, travel on an airplane, visit your doctor, attend a professional sporting event, or get advice from a lawyer or an accountant, you're buying a service, so a marketer needs to consider the characteristics of services in order to get the right marketing messages to the right target market (see Figure 11.7).

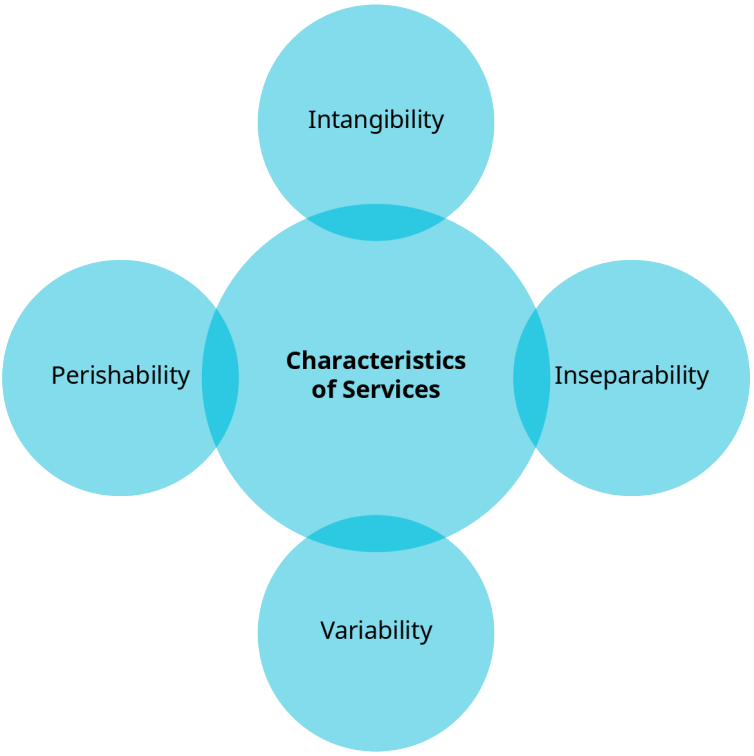

Figure 11.7 Characteristics of Services (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Service Intangibility

By their very nature, services are **intangible**. This means they can't be seen, tasted, felt, smelled, or heard before they are purchased. Consider the last time you purchased automobile insurance for your car. Other than the physical policy the company sends you (the only tangible asset), what you've paid for is completely intangible—it's the company's promise to pay claims against the policy.

Intangible services have a number of implications in marketing. The very fact that there's nothing to touch, hear, smell, and so on typically increases the level of uncertainty that a consumer faces when choosing between services offered by your organization or those of competitors. Intangible services can seldom be tried out, inspected, or even given a "test drive" by a customer. Customers have to rely on the word of the marketers in order to assess what they're actually going to get in return for what they've paid. In effect, they are buying a promise.

Savvy marketers reduce this uncertainty by creating physical "evidence" that allows the consumer to picture the service before it is purchased. For example, a hair salon may have imaging software that predicts how you would look with different hairstyles or colors. Companies like Zenni and Eyebuydirect have a virtual mirror that allows you to "try on eyeglasses" and see how the selected frames look on your face before you purchase.[7]

Service Inseparability

The order of production and consumption between a physical product and a service differs. Think about a box

of Girl Scout cookies, a physical good or product. The cookies were produced, stored, sold, and finally consumed. That's not the way it works with services. Like goods, services are sold, but they are produced and consumed simultaneously. They can't be separated from the service providers, whether they are people or equipment.[8] For example, try to get money out of your bank on a weekend or evening without an ATM, or try to get a haircut without the physical presence of your stylist. That's the concept of **service inseparability**—you can't separate the delivery of the service from the presence of the customer. In other words, the service provider is physically connected to the service and is evaluated on the basis of their communication skills, language, demeanor, personal hygiene, and clothing.

The impact to the marketer in these services—in which the service provider and customer must both be present—is how service providers (sometimes called frontline employees) conduct themselves in the presence of the customer because it may determine the likelihood of repeat business.[9] There are also other marketing implications with this concept, such as customer cooperation and participation, not to mention the influence from other customers who may be present.

Service Variability

Have you ever gone to a restaurant and had stellar customer service? You were seated promptly by a cheerful hostess; the busser filled up your water glass and refilled it several times during the evening; the waitstaff was attentive but not to the point of being annoying; and your dirty dishes were cleared promptly. But perhaps the next time you visit the same restaurant, your experience isn't quite as amazing. The hostess isn't as cheerful, and it takes her several minutes to seat you. It takes a while for someone to refill your water glass. The waitstaff isn't nearly as attentive as they were during your first visit. What went wrong?

Perhaps what you've experienced is what's known as **service variability**—the quality of the service depends on who provides it, when it is provided, and how it is provided. For example, Delta Air Lines prides itself on improving peoples' lives and exceeding customer expectations.[10] However, because services are provided by humans who have human experiences where they may not be feeling well or they are having a bad day, the service may be variable between employees. One Delta employee may be cheerful and efficient, while another lags due to their energy and state of mind.

This is a challenge to marketers because products generally have little variability: each unit is built to certain specifications. For example, if you buy an Apple iPad Pro and your classmate purchases the same model, it's likely that the two iPads will be virtually identical. The case color may be different, but otherwise they are the same. That's not the case with a service, where there will undoubtedly be variations in the quality of the service depending on who offers the service, when it is offered, and at which location. Service-based companies need to rely on standardizing processes to the extent possible, frequent audits, customer surveys, and most importantly, customer feedback.

Service Perishability

Unlike most goods, services can't be produced and stored for later use or sale. Services are, in effect, performances by the service provider. That's the concept of **service perishability**. Did you miss tonight's concert because of traffic? Too bad, because a ticket for tonight's concert can't be used for tomorrow night's performance. Hotel rooms that are not occupied, airline seats that are not purchased, and unused gym memberships cannot be reclaimed.[11] Because these items can't be stored for later use, they are considered a perishable service. This is particularly important for marketers because the perishability factor and the fluctuating demand poses special problems in capacity planning, scheduling, product planning, and pricing.[12]

One way that marketers deal with this problem is by manipulating demand. Consider how many restaurants offer "happy hours" with discounted food and drinks during the late afternoon or early evening. Restaurants do this because this time is typically the period where there is a lull before the start of the dinner rush.

CAREERS IN MARKETING



Salaries

You might be curious about the salaries of marketing jobs. There are numerous online resources that provide guides, but the best step to take is to check out popular sites like Monster, Indeed, and LinkedIn to view current job positions. They may not all include the salary, but most will include salary ranges. The following is a list of a few of resources to get you started.

- Monster: "High-Paying Marketing Jobs" (https://openstax.org/r/highpayingmarketingjobs)
- Acadium: "How Much Do Marketers Make? Marketing Job Salaries in 2022" (https://openstax.org/r/marketingjobsalaries)
- All Business Schools: "Marketing Manager Salaries and Job Outlook" (https://openstax.org/r/allbusinessschools)
- Indeed: "Entry Level Marketing Salary in United States" (https://openstax.org/r/entrylevelmarketing)

Knowledge Check

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

1. You purchased an airline ticket to go on vacation, but on the way to the airport, you get a flat tire and miss your flight. Which characteristic of service does this example illustrate?
   a. Service variability
   b. Service inseparability
   c. Service perishability
   d. Service intangibility

2. You go to a new hairstylist, and he suggests that you add highlights to your hair, cut off a few inches, and add some layers. You're hesitant to do so because you can't imagine what you're going to look like with your new hairstyle. What characteristic of service does this example illustrate?
   a. Service intangibility
   b. Service variability
   c. Service perishability
   d. Service inseparability

3. You go to the spa to get a massage, but your regular massage therapist is off for the day. The massage therapist to whom you're assigned does an adequate job, but they don't have the same technique as your regular massage therapist. What characteristic of service does this example illustrate?
   a. Service inseparability
   b. Service perishability
   c. Service variability
   d. Service intangibility

4. You go to your Certified Public Accountant (CPA) to have your tax return prepared and filed for the year. How would this service be characterized in terms of classifications of services?
   a. People-based services: unskilled labor
   b. Equipment-based services: unskilled operator
   c. People-based services: professionals
   d. Equipment-based services: skilled operator

5. You're headed to lunch with friends at a downtown restaurant. Because there is no restaurant parking lot,

you have to park on the street and feed the parking meter or risk getting a parking ticket. How would the service provided to you by the parking meter be classified?

a. Equipment-based services: unskilled operator
b. People-based services: professionals
c. People-based services: skilled labor
d. Equipment-based services: automated service

11.2 The Service-Profit Chain Model and the Service Marketing Triangle

Learning Outcomes

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

LO 1 Define and explain the purpose of the service-profit chain model.
LO 2 Describe the steps in the service-profit chain model.
LO 3 Explain the Services Marketing Triangle.

Definition and Purpose of the Service-Profit Chain Model

Just like goods-producing businesses, service firms use marketing to position themselves in selected markets. These businesses position themselves in the market through marketing mix activities (i.e., product, price, place, and promotion). However, because of the inherent differences between services and tangible products, different marketing approaches may be required. Consider a product like a laptop or smartphone. The products are fairly standardized, so they can be produced and shipped to retailers and then sit on shelves in the store until purchased by a consumer. However, if you're a service business, it takes the interaction of the frontline employee and the customer to literally create the service. The interaction between the employee and customer is important in creating the value of that service.

The **service-profit chain model**, created by a group of Harvard researchers in the 1990s, establishes relationships between profitability, employee satisfaction, loyalty, and productivity. The concept is reasonably simple: happy workers make happy customers who keep coming back and tell their friends. The model itself is a little more complicated and states the following:

- Internal service quality (the support received by frontline employees from the rest of the organization) leads to employee satisfaction.
- Employee satisfaction results in employee loyalty, productivity, and the willingness to go that "extra mile" for the customer, which creates value.
- Value contributes to customer satisfaction, resulting in customer loyalty.
- Customer loyalty translates to profitability and growth for the organization.

Perhaps the most critical aspect of this model is that all of these points link together, are equally important, and depend on one another. There are no shortcuts to increasing profitability. Didn't quite follow that? Refer to Figure 11.8 for a visual depiction.

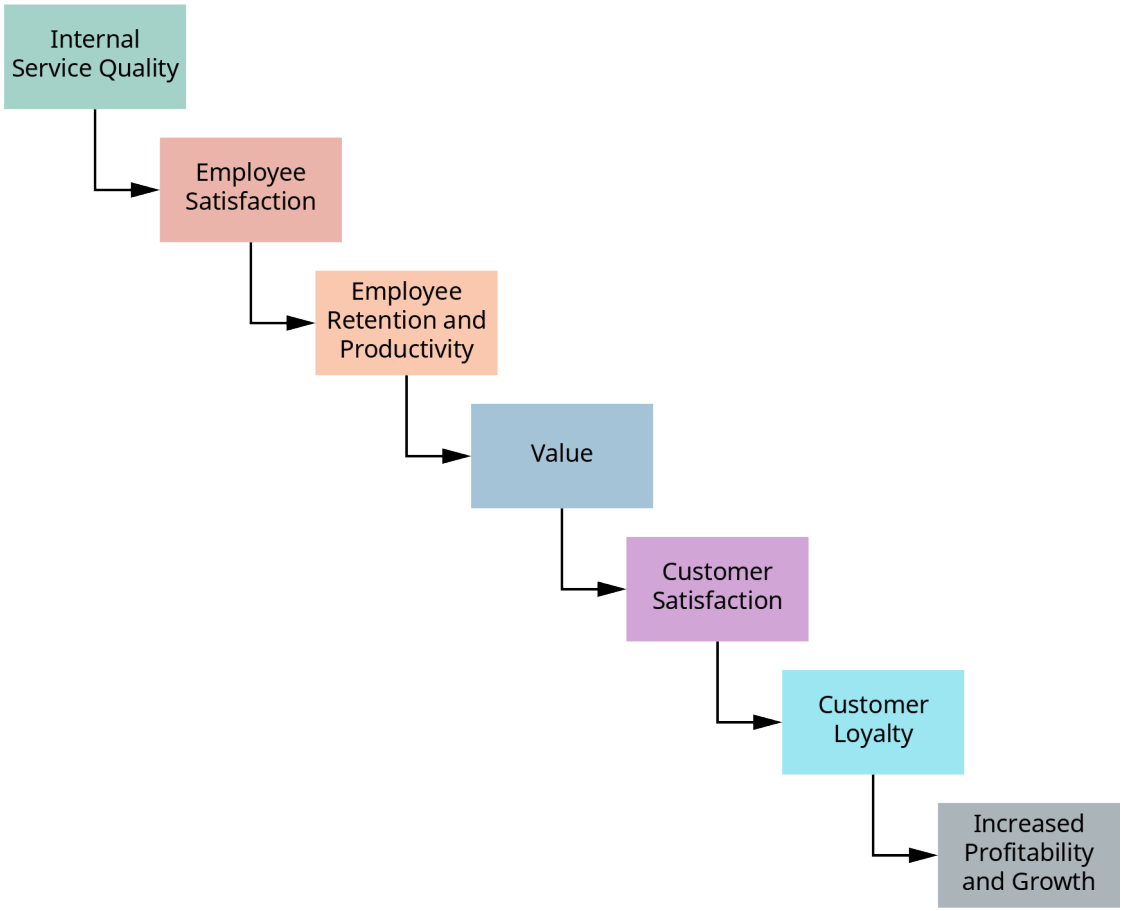

Figure 11.8 The Service-Profit Chain Model (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Steps in the Service-Profit Chain Model

The service-profit chain model connects the interworkings and relationships between the different parts of a business. It impacts employee satisfaction and retention, customer satisfaction, customer loyalty, and profitability. Let's take a closer look.

Internal Service Quality

Internal service quality refers to the perceived satisfaction frontline employees experience when they are supported by effective policies and service from the organization. If you've ever worked in a restaurant, you'll be familiar with the terms "back of house" and "front of house." Front-of-house employees are "guest-facing" roles like hosts/hostesses and servers—those who intentionally interact with the customer. Back-of-house employees like bussers, dishwashers, and cooks typically don't have direct interaction with the customer. Rather, it's their work that supports the front-of-house employees. Even if your server may is friendly, attentive, and efficient, if your silverware is dirty or your steak isn't prepared as ordered, the overall dining experience is going to be less than optimal. In addition to the customer dissatisfaction, server/employee satisfaction will also suffer due to the lack of support from the back-of-house staff.

Consider another example. Your flight was delayed, and it took forever to get your luggage and rental car. By the time you get to your hotel, you're tired and cranky, and you just want to check in and get some rest. The front desk clerk is cordial and efficient. However, your room isn't available because the housekeeping staff hasn't cleaned the room yet. Who gets the brunt of your anger? Imagine the lack of job satisfaction on the part of the front desk clerk who's tried to do everything right and was thwarted by the lack of support from housekeeping.

One of the ways that this problem can be alleviated within an organization is to create an employee feedback

loop in which frontline employees can communicate problems that hurt productivity, satisfaction, and loyalty. The feedback loop is a critical element because, as consultant Sidney Yoshida reports in his study "The Iceberg of Ignorance," 4 percent of an organization's frontline problems are known by top management, 9 percent are known by middle management, 74 percent are known by supervisors, and 100 percent are known by employees.[13]

Employee Satisfaction

Employee satisfaction is the level of happiness or contentment employees have with their jobs and work environment. It's often the direct result of company policies and support services that empower employees to deliver quality products and services. If employees are satisfied with the company's policies, it's easier to facilitate a happy attitude that helps consumers have pleasurable experiences with the organization.

For several years, Zappos has made Fortune's list of "100 Best Companies to Work For." The late CEO Tony Hsieh focused so much on the happiness of his team and customers that he wrote a series of books about it, including *Delivering Happiness: A Path to Profits, Passion, and Purpose*. He recognized that the only person-to-person contact a customer would have with an online retailer would be with customer service personnel, so he encouraged his employees to go above and beyond for the customer.[14]

Employee Retention and Productivity

Employee turnover is one of the most frustrating and recurring problems that organizations face. Turnover is costly regardless of whether it's involuntary (such as termination due to poor performance) or voluntary (such as employee-decided resignation or retirement). The conservative estimate from the Society of Human Resource Management (SHRM) is that it costs six to nine months of an employee's annual salary to replace that person.[15] That's why **employee retention**—keeping employees motivated so that they choose to remain with the company—is so critical.

The good news is that employee satisfaction is inversely related to employee turnover. In other words, an increase in employee satisfaction brings about a decrease in employee turnover. Perhaps even more importantly, studies have shown that low turnover leads to an increase in organizational **productivity** (the efficiency and output of employees) and performance. For example, some time ago, Taco Bell discovered that its restaurants with high employee retention had twice as many sales as other stores and had 55 percent higher profits than restaurants with high turnover. In response to these findings, the company enhanced its internal service quality by giving employees more latitude for on-the-job decision-making.[16]

LINK TO LEARNING

The Great Resignation

You may be aware of the Great Resignation, in which employees are leaving their jobs in large numbers. Because of the cost to hire, train, and retain employees, employee retention is a major concern for organizations. There are many reasons why this is happening, and there are ways companies can improve to help them retain their employees. Read these articles from the Pew Research Center (https://openstax.org/r/majorityofworkers), Forbes (https://openstax.org/r/workersarequitting), and Mashable (https://openstax.org/r/2022greatresignation) about this shift in employee thinking.

There are corporate strategies companies can take to counteract this resignation trend. Learn about these strategies from LinkedIn (https://openstax.org/r/talentengagement) and Family Business (https://openstax.org/r/familybusinessmagazine).

External Service Value Proposition

Customer value is also known as **external value proposition**. It's the promise of value that a customer expects a business to deliver.[17]

Think about your last haircut. Why did you choose to get your hair cut at that particular salon versus a competitor? Certainly, the quality of the haircut itself was important, but the customer value you experienced from your stylist played a role. What else factored into your experience? How about the other behind-the-scenes employees who made it easy for you to book an appointment or who checked you in efficiently, the person who kept the salon clean and attractive, and the person who made it easy for you to pay and perhaps book another appointment when you were leaving?

That's why employees (both frontline and behind the scenes) play a major role in ensuring customer value. Satisfied, motivated employees generally (and genuinely) care about the company and the services it provides and can convey this to consumers in an honest, positive manner.[18]

Customer Satisfaction

The next two steps (customer satisfaction and customer loyalty) in the service-profit chain model are related and directly linked. A dissatisfied customer will not be loyal and will likely not do business with the company in the future. Conversely, **customer loyalty**—the ongoing positive relationship between a customer and business—is a result of **customer satisfaction**—or the measure of how happy customers are with the company's products, services, and capabilities.

The greater the satisfaction from a customer, the more likely they will return. Additionally, satisfied customers often serve as unofficial "ambassadors" of the company and will spread the word about their positive experience.[19]

Customer Loyalty

The definition of customer loyalty is when a person goes to the same company for subsequent services, even if that service is more expensive than those of the competitor. The customer makes a deliberate choice to do repeat business with a company with which they have had positive experiences, resulting in growth and higher profits for the company.[20]

Profit and Growth

In terms of the service-profit chain model, profit isn't the goal; it's the result. The formula is really quite simple:

- Happy employees result in happy customers.
- Happy customers mean repeat business and spreading the word about your organization.
- Repeat (and new) business mean profit and growth for the organization.

The key is to keep employees happy because it leads to company profits.

LINK TO LEARNING

Putting the Service-Profit Chain to Work

Learn from this *Harvard Business Review* article (https://openstax.org/r/puttingtheservice) about the connectivity of the service-profit chain links.

Interested in understanding how the model works in other industries? Read this *Hospitality News and Business* (https://openstax.org/r/serviceprofitchain) article about why the service profit chain is important in the hospitality industry.

MARKETING IN PRACTICE



Ritz-Carlton



Figure 11.9 The Ritz-Carlton Hotel directly impacts its service-profit model by empowering its employees to provide a positive experience for customers. (credit: "Cannes" by Fred Romero/flickr, CC BY 2.0)

Employee empowerment is one of those buzzwords that has become popular over the last few decades. It's defined as the ways in which an organization provides its employees with some autonomy and freedom to make decisions and have some control in their day-to-day activities. For example, a supermarket may empower its cashiers to match competitors' ads without approval from a manager for up to a certain dollar amount.

If you were the owner of a business, how much latitude would you give your employees in helping customers? A lot? A little? None? The Ritz-Carlton, considered a gold standard for hospitality (see Figure 11.9), allows its employees to spend up to $2,000 to solve customer problems without manager approval.[21]

You might be shaking your head right now, trying to understand this. Two thousand dollars seems like a lot of money to be left to the discretion of employees, doesn't it? But you may not realize that the average Ritz-Carlton customer will spend approximately a quarter of a million dollars with the hotel chain over their lifetime. When you consider that the customer lifetime value (CLV) of a Ritz-Carlton guest is $250,000, that $2,000 doesn't seem hard to believe, does it?[22]

For more information about Ritz-Carlton and its commitment to customer service, watch this brief video with Ritz-Carlton founder Horst Schulze and Yahoo! Finance where he discusses the importance of and value in caring for customers.

Ritz-Carlton founder: 'Caring for the customer doesn't cost anything' (https://openstax.org/r/caringforthecustomer)

The Service Marketing Triangle

The **Service Marketing Triangle** is a visual image of a model that speaks to the importance of people in a company's ability to keep its service promises (see Figure 11.10). It might help to imagine the Service Marketing Triangle as a three-legged stool. Take out one of the legs, and the stool won't stand for long. That's the premise and the importance of the Service Marketing Triangle—all three aspects must be achieved or exceeded for the customer to be delighted.

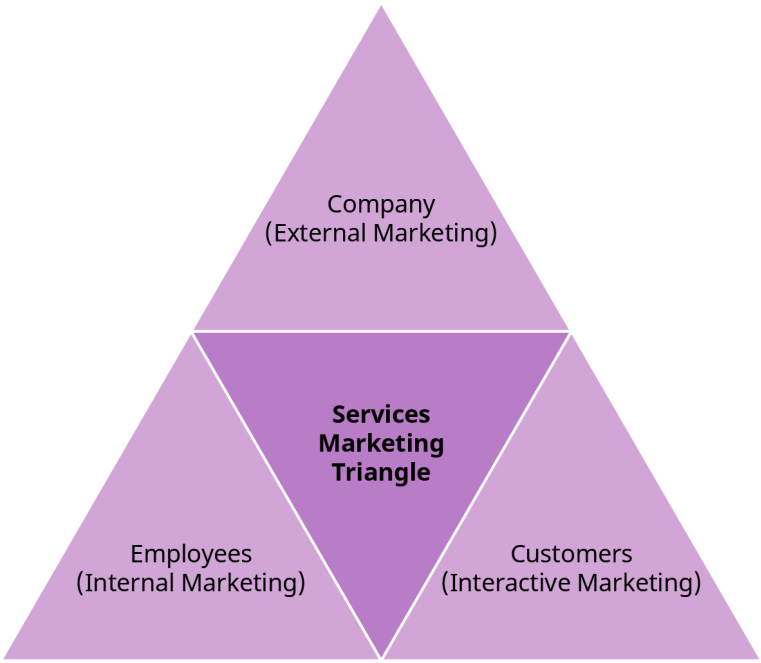

Figure 11.10 The Services Marketing Triangle (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

External Service Marketing—Making Promises

External service marketing refers to the promotion of an organization's services in an external environment where the company promotes its services to customers through various traditional techniques like pricing, advertising, direct marketing, public relations, and personal selling. These marketing techniques are intended to achieve multiple aims, such as creating and increasing awareness, setting price expectations, and setting expectations for the level of service to be delivered.[23]

Internal Service Marketing—Enabling Promises

In a service business, employees are seen as "internal customers." As you've seen from the discussion on the service-profit chain model, if a company wants to better serve its customers, it has to start with satisfying its employees so that they're committed to delivering the best service possible to external customers. That's the essence of internal service marketing.

Internal service marketing is the process of motivating employees to deliver customer value and ensure customer satisfaction by acting as a team. While that is obviously true for frontline employees who interact with the customer, it is equally applied to all employees, including those behind-the-scenes employees who support the frontline employees. In other words, all employees of an organization need to be empowered so they can deliver great customer service.

Key components of internal service marketing include motivating employees, training them in customer satisfaction techniques, ongoing communication of company goals and objectives, and (of course) good pay and working conditions.[24]

Interactive Service Marketing—Keeping Promises

Interactive service marketing is the communication between the service provider and the customer, called a **service encounter**. The service encounter is where external marketing promises are either upheld, exceeded, or broken by employees.

Interactive service marketing is critical because it sets short-term and long-term customer satisfaction. In its simplest terms, when a customer is happy in the short term, they are more likely to be happy over the long term.[25]

Let's review the elements of the Service Marketing Triangle with an example of a fine-dining restaurant in a major metropolitan area. The three "parties" involved in the Service Marketing Triangle are the owner of the restaurant, the restaurant employees, and the diners. As part of *internal marketing*, the owner may offer training to servers about the pairing of certain dishes on the menu with wines offered by the restaurant or hold a "huddle" at the beginning of each shift to train servers about daily specials and wine pairings. As part of *external marketing*, diners might be lured to the restaurant through the restaurant's Facebook page, which touts its extensive list of wines and the fact that servers are experienced in recommending wines to enhance the flavor of the menu items. Finally, as part of interactive marketing, servers are encouraged to give diners full descriptions of all menu items and daily specials and recommend which wines to pair with their food choices, leading to a more satisfying dining experience.[26]

LINK TO LEARNING



Service Marketing Triangle

Check out this brief video about the Service Marketing Triangle model to gain a better understanding.

Services Marketing Triangle Explained with Examples (https://openstax.org/r/servicesmarketingtriangle)

Knowledge Check

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

1. According to the service-profit chain model, what drives organizational profitability and growth?
   a. Internal service quality
   b. Employee satisfaction
   c. Customer loyalty
   d. Value

2. The extent to which employees are happy or content with their work environment is known as which of the following in the service-profit chain model?
   a. Employee satisfaction
   b. Internal service quality
   c. External value proposition
   d. Customer loyalty

3. Which two steps in the service-profit chain model are related and directly linked?
   a. Internal service quality and value
   b. Value and customer satisfaction
   c. Customer satisfaction and customer loyalty
   d. Internal service quality and increased productivity and growth

4. In the Service Marketing Triangle, _____ occurs when employees and customers associate and communicate.
   a. internal marketing
   b. external marketing
   c. interactive marketing
   d. customer satisfaction

5. In the service-profit chain model, there is a(n) _____ relationship between employee satisfaction and employee turnover.

a. behavioral
b. equivalent
c. parallel
d. inverse

11.3 The Gap Model of Service Quality

Learning Outcomes

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

LO 1 Describe the Gap Model of Service Quality.
LO 2 List and describe the dimensions of service quality.

Dimensions of Service Quality

While we're still on the subject of customer satisfaction, let's take a look at still another model that aids marketers in better understanding customer satisfaction: the **Gap Model of Service Quality** (sometimes also known as the Customer Service Gap Model or the Five-Gap Model), first proposed in 1985. The importance of this model is that it demonstrates that customer satisfaction is essentially a function of perception. In other words, if the service provided meets or exceeds customers' expectations, they will be satisfied; if not, they will be dissatisfied, likely as a result of one of the customer service gaps presented below.[27]

According to the model (see Figure 11.11), there are five major gaps or potential inconsistencies organizations encounter in seeking to meet customers' expectations of the customer experience.[28]

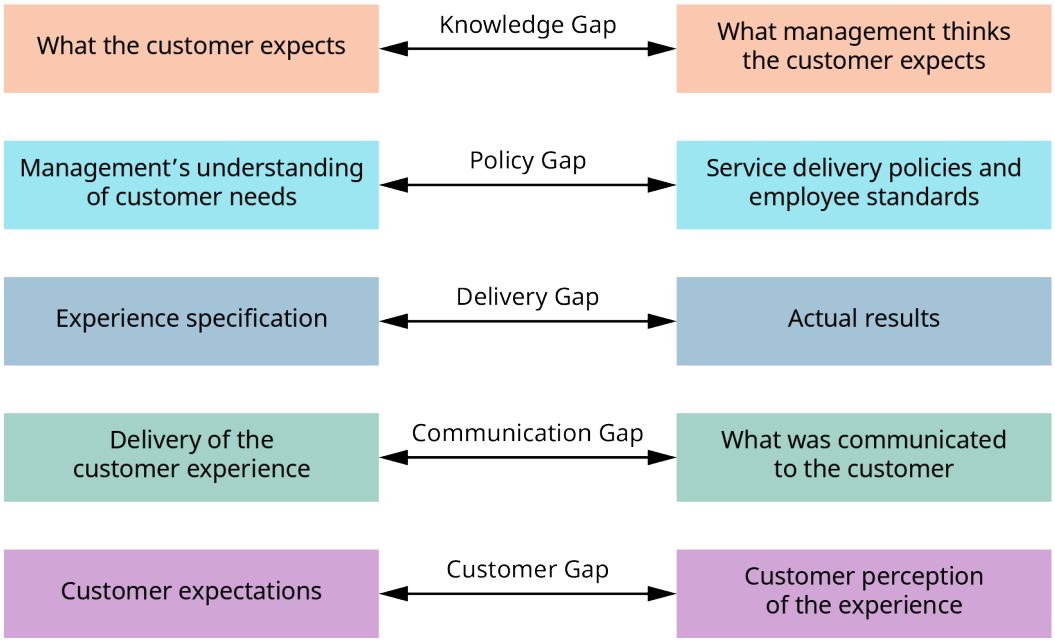

Figure 11.11 Gap Model of Service Quality (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

The gaps are:

- Gap 1—knowledge gap: the difference between customer expectations and what managers *think* they expect
- Gap 2—policy gap: the difference between management's understanding of the customer's needs and how they translate that understanding into service delivery policies and standards for employees
- Gap 3—delivery gap: the difference between the experience specification and the actual results of the service
- Gap 4—communication gap: the difference between the delivery of the customer experience and what is

communicated to the customer
- Gap 5—customer gap: the difference between the customer's expectations of the service or experience and their perception of the experience

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

Gap 1: The Knowledge Gap

The **knowledge gap** is the difference between what customers expect and what the company *thinks* they expect.[29] The bottom line here is that the company doesn't know exactly what customers want. This could be due to a variety of factors—lack of communication between frontline employees and management, inadequate market research, or simply a failure to listen to customer feedback, including complaints. For example, a hotel manager may think that guests want a hot breakfast instead of a continental breakfast, but the reality is that guests are more concerned with the cleanliness of their rooms or the speed of the Internet service at the hotel than they are with breakfast.

Gap 2: The Policy Gap

The **policy gap** reflects the difference between management's perception of the customer's needs and the translation of that understanding into its service delivery policies and standards. Typically, management has an accurate understanding of what the customer wants, but performance standards haven't been established that ensure the appropriate employee behaviors are displayed.[30] Using the hotel example again, assume that a number of customers have complained that the phone rings innumerable times before it is answered. Management wants to address this issue, so it establishes a policy that phones must be answered "quickly." What's your interpretation of the word *quickly*—two rings, four rings, six rings? Specificity here is the key.

Gap 3: The Delivery Gap

The **delivery gap** is the difference between service standards and policies and the actual delivery of the service. In this situation, frontline service workers *know* what to do to delight the customer; they simply aren't doing it. For instance, management may have established a policy that the front desk phones get answered on or before the second ring, but the front desk employees are allowing phones to ring much longer before answering. This gap may arise due to improper training, lack of capability on the part of employees, unwillingness to meet the established service standards, or staff shortages.

Southwest Airlines is a great example of this. According to its website, the mission of the company is "dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride and Company Spirit."[31] The company doesn't "overhype" its service, so there is no delivery gap—the difference between the experience specification and the actual delivery of its service. This is demonstrated by the fact that, compared to other airlines, Southwest has the greatest customer service rating, earning a 33.9 percent excellence rating.[32]

Gap 4: The Communication Gap

If marketers are doing an effective job in terms of their promotion efforts, the customer is likely to be highly influenced by that promotion. The problem now becomes, the company had better deliver. The **communication gap** is the difference between the delivery of the service and what is communicated to the customer. In other words, what did the company promise versus what did it deliver?

For example, if your coffee shop asserts in its advertising and on its menu that its food is gluten-free, and it isn't, customer expectations won't be met. Failure to deliver on a promise hurts the company's credibility. Former US President Donald Trump wrote, "A brand is two words: the 'promise' you telegraph, and the 'experience' you deliver."[33]

Gap 5: The Customer Gap

The **customer gap** is the difference between the customer's expectations of the service or experience and

their perception of the experience itself. In an ideal world, the customer's expectations would be nearly identical to their perception, but customer perception is totally subjective and has been shaped by word of mouth, their personal needs, and their own past experiences. The problem here is that each individual perceives their world through their own eyes, and everyone perceives reality differently. In other words, while reality is a fixed factor, perception of reality is a variable.

LINK TO LEARNING

Understanding the Gap Model

Watch this video and learn more about quality of service and the gap model from Jochen Wirtz, a well-known marketing author.

Master Class: Service Quality - The Gaps Model & Diagnosing Quality Shortfalls (https://openstax.org/r/thegapsmodel)

Also check out this article from Indeed about the GAP Model of Service Quality (https://openstax.org/r/careerdevelopmentgapmodel), with examples.

The RATER Model

In their book *Delivering Quality Service,* researchers Valerie Zeithaml, A. Parasuraman, and Leonard Berry identified five dimensions of service that customers use when evaluating service quality. Their research pointed to the fact that these five dimensions result in service excellence and lead to higher customer loyalty. This model is sometimes known as the **RATER framework of service quality**.[34] Refer to Figure 11.12 for a visual representation of the RATER framework.

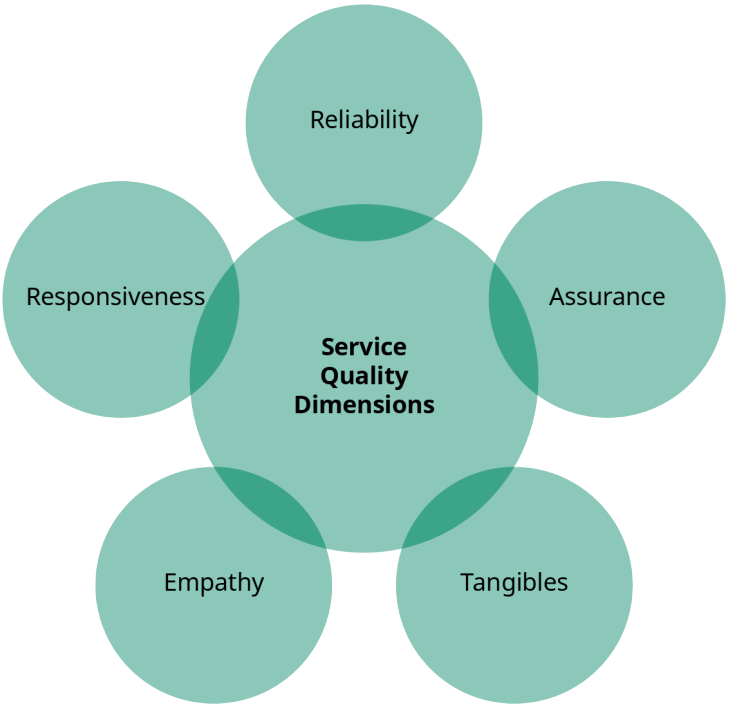

Figure 11.12 The RATER Framework of Service Quality (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Let's explore each of these dimensions (represented by the acronym RATER) in some detail:

Reliability

R, for **reliability**, depicts the organization's capability to provide accurate, dependable, and on-time service.[35] Consistency is critical. Companies that provide on-time, error-free service to customers tend to have repeat customers. Research has shown that service reliability is three times more important to customers than the latest equipment or flashy uniforms.[36] The bottom line when it comes to service reliability and quality is: Do you deliver as promised?

Assurance

A, for **assurance**, is the degree to which the organization inspires trust in its customers. For example, when you take your sick pet to a veterinarian or have your income tax return prepared (or any other service, for that matter), you expect the service provider to be an expert in the service they're delivering. Research has shown that communicating this expertise to customers is important. If customers aren't aware of that expertise, they often have less confidence in that provider, which can lead to a low assessment of that provider's service.[37]

Does your organization inspire confidence in its service providers? Whether you're a hairstylist, a physical therapist, a tattoo artist, or any number of other service professions, it's important to communicate your expertise *before* you do the work. For example, a plumber's business card may contain the words "licensed, bonded, and insured." Hairstylists generally display their state licenses in their work space. Doctors often have framed diplomas in the office from medical school, residencies, and fellowships. These are all ways in which these service providers communicate their competencies. Communicating these competencies to customers helps shape expectations and influence assessments in advance of the service.[38]

Tangibles

When we talk about **tangibles** in the RATER model, we're focusing on factors such as the physical appearance of both the physical facility and employees. Does your organization present itself professionally? This is one of the factors in the RATER metric that is hard to define because it takes into account customers' perceptions, and different customers may respond in different, subjective ways to the environment created.

Let's imagine that you're taking that special someone out for a romantic or special-occasion dinner at a fine-dining restaurant. What tangibles contribute to that experience? You may expect a knowledgeable, uniformed staff; soft lighting and background music; an appealing menu; and clean restrooms. All of these tangibles will factor into your overall perception of the quality of service you receive.

Another good example of tangibles in terms of the RATER model is the Mayo Clinic in Rochester, Minnesota, where tangibles include Warhol prints on the wall, Chihuly sculptures hanging from the ceiling, and a professionally attired staff that projects a sense of caring and expertise. There are 500 original pieces of art from 70 US artists on display throughout the hospital.[39]

Customer perception isn't the only challenge marketers face in terms of tangibles. It's also the fact that, done right, customers may not even notice and point out the tangibles unless their feedback is negative. That's why listening and acting on customer complaints is critical in improving an organization's tangibles and promoting a strong customer service image.[40]

Empathy

Empathy in terms of the RATER model means focusing on customers attentively to ensure that they receive caring and distinguished service. It isn't enough to be efficient and thorough in delivering service to customers—it's also about service providers "connecting" with customers during delivery of the service and making them feel valued.

You may have heard the old saying that it's not *what* was said, it's *how* it was said. The same is true of providing service. For example, let's go back to the example of that special dinner in the fine-dining restaurant. Imagine that you accidently spill your beverage all over the table. A busser is called to clean the spill, change

the tablecloth, and provide you with new silverware and napkins. That busser may have taken care of those tasks effectively and efficiently but didn't make eye contact, smile, or ask you if you needed anything else. In this hypothetical situation, the busser's tasks were performed fully, but you didn't feel that they cared about your predicament.[41]

Responsiveness

A service staff's desire to treat customers with respect and provide satisfactory and quick service speaks to their **responsiveness**. This dimension focuses on promptness and willingness. Accordingly, the organization has to ensure that customers are getting quick service, without delay, and with an effort that makes customers believe the company genuinely wants to help them.[42]

Responsiveness is directly in line with the amount of time that customers wait for an answer or a solution. Have you ever called an organization with a service question and had to play "20 Questions" with the company's automated phone system? You know the drill—press 1 for option A, press 2 for option B, press 3 for option C, etc. The chances are that your patience evaporated after about the fourth telephone prompt and you were left screaming "Representative" into your phone. That's a classic example of a company that needs to focus on its responsiveness if it wants to generate customer loyalty.

LINK TO LEARNING



Applying the RATER Model to Real-World Companies

Check out this video about Disney guest service and the RATER model.

Disney Guest Service With RATER (https://openstax.org/r/disneyguestservice)

Also look at this article that applies the RATER model (https://openstax.org/r/ratermodel) to Amazon, Thermomix, Apple, and a bank.

Knowledge Check

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

1. Which gap in the Gap Model of Service Quality represents the difference between what customers expect and what the company thinks they expect?
   a. Communication gap
   b. Customer gap
   c. Knowledge gap
   d. Policy gap

2. Management in a hotel perceives that the biggest problem in customer service is the length of time that it takes to check in guests, so they have established a policy that check-in will take no more than 5 minutes. Which gap in the Gap Model of Service Quality does this action illustrate?
   a. Policy gap
   b. Delivery gap
   c. Communication gap
   d. Customer gap

3. In the Gap Model of Service Quality, which dimension is the difference between the customer's expectation of the service and their perception of the experience?
   a. Communication gap

b. Delivery gap
c. Customer gap
d. Knowledge gap

4. The acronym RATER in the RATER framework of service quality stands for which dimensions of service quality that result in service excellence and lead to higher customer loyalty?
   a. Responsibility, accuracy, tangibles, empathy, and responsiveness
   b. Risk, acceptance, transparency, earnings, and revenue
   c. Reliability, assurance, tangibles, empathy, and responsiveness
   d. Revenue, appreciation, trust, efficiency, and responsibility

5. Which dimension in the RATER model represents the physical facilities, employees' appearance, equipment, machinery, and information systems?
   a. Assurance
   b. Responsiveness
   c. Transparency
   d. Tangibles

11.4 Ethical Considerations in Providing Services

Learning Outcomes

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

LO 1 Describe the ethical considerations in providing services to customers.
LO 2 Discuss how ethics contribute to customer satisfaction.

How Do Ethics Contribute to Customer Satisfaction?

In 2019, AT&T ran a series of TV commercials featuring a variety of professionals who don't quite "make the grade." These commercials included a surgeon who has "almost" been reinstated and a tax professional who will get your taxes into an "okay" place when his audit is over. The catchphrase is each of these commercials was "Just OK is not OK." The same is true of an organization's ethical culture. Do you want your ethical culture to be "just OK"?

In this chapter, we've been talking about the importance of building customer loyalty, which drives profitability and growth. But what about the link between ethics and customer loyalty? Ethics are becoming central to consumers, employees, and a company's reputation (and hence its ability to gain customer loyalty). New research from Mintel, a market intelligence agency, reveals that over half of US consumers stop buying from companies they perceive to be unethical.[43] Talk about a wake-up call!

Service Excellence through Ethics

Obviously, ethics matter. But how do you ensure that those ethics are instilled and demonstrated by your employees, particularly those frontline employees who interact directly with the customer? The National Ethics Association (NEA) has two suggestions. First, within your ethics program, make customer service a core component. Second, promote values and ethics, and include them within the rules for your frontline workers along with the consequences if they aren't followed.[44]

According to the NEA, steps can include the following:

- Identifying customer service behaviors that are unethical, like lying to customers or failing to display sensitivity to customers with problems.
- Training employees on an ongoing basis in desired behaviors.
- Ensuring customers know that promises aren't empty words but rather a commitment to their satisfaction.
- Monitoring interactions between frontline employees and customers to spot ethical gaps, especially in

times of high stress and work volume.
- Leading by example. It's not enough to just "talk the talk" when it comes to ethical behavior within the organization; managers also need to "walk the talk." It's important to "walk the talk" of ethical behavior as a model for employees when dealing with customers' complaints and problems.[45]

Royal Caribbean Group is another company that takes its ethical behavior seriously. It has a Code of Business Conduct and Ethics decree that connects its core values (fairness, integrity, honesty, and trustworthiness) to all of its actions. Chairman and CEO Richard Fain reaffirms its commitment to integrity and an ethical culture and states, "Simply complying with the law is not enough; we need to be ABC (Above and Beyond Compliance)."[46] Beyond just words, however, the company has established an ethics hotline managed by The Network, a leading third-party hotline provider. Through the use of this ethics hotline, employees can anonymously report their concerns about ethics violations 24 hours a day, 7 days a week, by either telephone or the Internet.[47]

LINK TO LEARNING

Royal Caribbean

Read more about Royal Caribbean's Code of Business Conduct and Ethics on its website (https://openstax.org/r/2019cleanfinal).

Also, read this article on the potential ethical issues (https://openstax.org/r/potentialethicalissues) specific to service marketing.

COMPANIES WITH A CONSCIENCE

Nasco Gulf

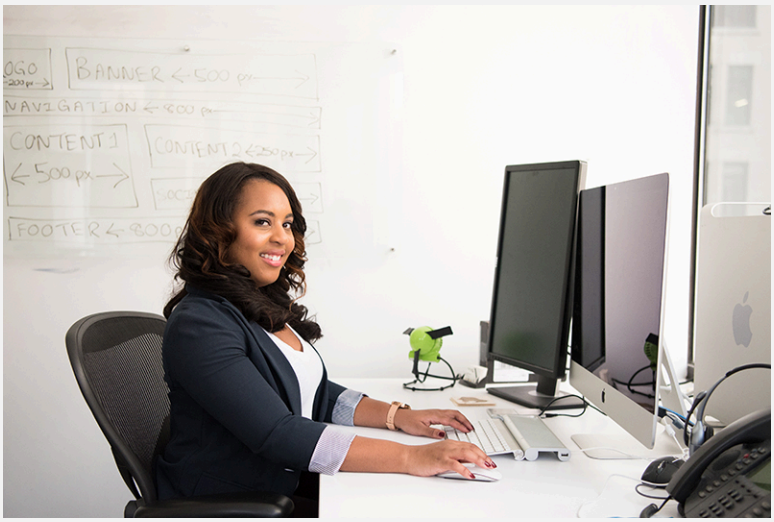

Figure 11.13 Ethics are becoming increasingly more important to customers and the services they use, so companies like Nasco Gulf, an insurance company, are focusing more on trust as a way to develop long-term loyalty. (credit: "WOCinTech Stock - 81" by WOCinTechChat.com/flickr, CC BY 2.0)

You may not be familiar with Nasco Gulf, a leading insurance agent in Dubai, but the company stands out in its Customer Service Code of Conduct (see Figure 11.13). The "customer service mission is to provide customers with timely, responsive service with integrity, simplicity, and a passion for excellence while meeting or exceeding the customer's expectations."[48]

The principles upon which Nasco serves its customers are trust, understanding, and resolve. The following is from its Customer Service Fundamental Principles:

- "Trust—I work hard to gain and maintain customer trust in us . . .
- Understand—I understand our customers and their needs . . .
- Resolve—I solve our customer's problems, even if the solution is difficult"[49]

Nasco lists its values on its website for all to see. The company outlines that its word is good, it is a bold partner, it works to earn loyalty, and it focuses on what matters. For more information about Nasco Gulf, visit the Nasco Gulf website. (https://openstax.org/r/nascogulf)

LINK TO LEARNING



When It Goes Wrong

We have all heard the stories where companies poorly handled a customer issue, and you can easily find numerous videos where customers have recorded a company's poor customer service. Here are a few articles that share some of the more well-known stories:

- CBS News (https://openstax.org/r/shockingviralvideos)
- RingCentral (https://openstax.org/r/badcustomerservice)
- Forbes (https://openstax.org/r/unethicalmarketing)

Chapter Summary

In this chapter, we explore services. One of the first concepts is that services are intangible, meaning that they cannot be felt, tasted, heard, or smelled before purchase. Customer satisfaction is dependent upon many factors, the first one being the communication of what can be expected by the customer and the actual customer experience. It can be considered a communication gap when customer expectations and experiences do not match. This gap is the first point in the Gap Model of Service Quality. The second point is based on the perception of service received versus customer expectations. Other issues covered in this model are service quality, knowledge, and policies.

Service goes a long way in building customer satisfaction and loyalty; without returning customers, a business is doomed to struggle and fail.

Employees are responsible for a sizable amount of what goes into satisfaction at the customer level. One of the key points is employee satisfaction and retention. A more engaged, happier employee delivers a higher level of customer service. This is an additional point that employers are measuring. The act of internal service marketing is a concept that many have not experienced. This covers the activities that the company engages in to keep employees involved with delivering the desired level of service.

External service marketing is the act of promoting or selling services to the customer. This is a well-known concept both inside and outside the company.

Services can be further examined with the understanding of the following concepts: Services are inseparable; they are produced and consumed at the same time. They are intangible, which means that they cannot be touched, felt, heard, tasted, or smelled before purchase. They are perishable, so they cannot be stored in inventory for future use or sale. They are variable, meaning that the service depends on who provides them, as well as when, where, and how. These concepts help to explain the complexities of marketing services and satisfying the consumer.

Key Terms

assurance in terms of the RATER model, the degree to which an organization inspires trust in its customers
communication gap in the Gap Model of Service Quality, the variance between what is communicated to the customer and their actual experience
customer gap in the Gap Model of Service Quality, the variance between the customer's expectations and their perception of the service
customer loyalty an ongoing positive relationship between a customer and a business that drives repeat purchases
customer satisfaction a measurement that determines how happy customers are with a company's products, services, and capabilities
delivery gap in the Gap Model of Service Quality, the difference between the experience specification and the actual delivery of the service
empathy in terms of the RATER model, focusing on customers attentively to assure they receive caring and distinguished service
employee retention an organization's ability to retain its employees and stop employees from leaving
employee satisfaction the level of happiness and contentment employees have about their jobs and the work environment
equipment-based services when machinery or equipment plays the primary role in the service delivery
external service marketing the action of promoting or selling services to customers and potential customers
external value proposition the value companies promise to deliver to customers post-purchase
GAP Model of Service Quality theoretical marketing model that helps to identify the gaps between the perceived service and the expected service

information processing intangible actions directed at a customer's assets, such as insurance or consulting
intangible unable to be seen, tasted, felt, smelled, or heard
interactive service marketing the communication between the service provider and the customer; also called a **service encounter**
internal service marketing satisfying employees to motivate them to work as a team to satisfy customers
internal service quality the perceived level of satisfaction an employee experiences with services offered by internal service providers
knowledge gap in the GAP Model of Service Quality, the difference between what customers expect and what managers think they expect
mental stimulus processing situation in which the services interact with the customer's mind rather than the body
people processing services in which the customer is the direct recipient of the service and production and consumption are simultaneous
people-based services tasks in which people, rather than equipment or machinery, play a major role in the delivery of the service
policy gap in the GAP Model of Service Quality, the difference between managers understanding customer needs and being able to turn that into service delivery practices
possession processing services in which the service is directed toward the customer's physical possessions
productivity the efficiency and output of employees
RATER framework of service quality theoretical model that focuses on the five dimensions of service excellence: reliability, assurance, tangibles, empathy, and responsiveness
reliability in terms of the RATER model, the organization's capability to produce an accurate, dependable, and on-time service
responsiveness in terms of the RATER model, promptness and willingness to provide satisfactory and quick service
service encounter a consumer's direct contact with a service provider
service inseparability concept where services must be produced and consumed concurrently
Service Marketing Triangle a visual representation of a strategic model that outlines the importance of people in a company's ability to keep its service promises
service perishability concept that states services cannot be stored in inventory for future use or sale
service variability concept that states the quality of the service depends on who, when, where, and how it is provided
service-profit chain model model that establishes relationships between profitability, employee satisfaction, loyalty, and productivity
services nonphysical, intangible economic activities
tangibles in terms of the RATER model, the physical appearance of both the facility and its employees



Applied Marketing Knowledge: Discussion Questions

1. Review this *Houston Chronicle* article about the eight elements of service marketing (https://openstax.org/r/8elementsservicemarketing). Pick two different service-oriented organizations and describe each of these eight elements as they relate to the service each company offers. Conduct additional research if needed to address these eight elements.

2. Take the information that you have learned about internal and external marketing and describe two instances where as a student you have noticed excellent and poor marketing strategies. Are they internal or external, and why did you feel the way you did about them?

3. Consider service variability instances where you were a customer and noticed exceptional service and poor service. For each instance, answer the following questions:
   a. Were you surprised?

b. What specifically made you notice?
c. Had you had this experience before with this company or another company?
d. What response did you have? For instance, did you compliment? Tip? Complain? Do nothing? And why?
e. If you were the company owner, what kind of training program would you develop to address the poor service you experienced? What might you implement as a reward for exceptional service? Why?

4. Analyze the differences between internal and external marketing.
   a. Define both terms.
   b. Consider and list the positive impact that both internal and external marketing can have on an organization.

Critical Thinking Exercises

1. Agree or disagree with the following statement: I tip for service based solely on the amount of the bill, not on things like quality of service, timing, etc. Discuss or make a list of the reasons why you agree or disagree.
2. Nordstrom's reputation was built upon its value proposition of superior service. The company has maintained a high level of service over the years. Research other retailers that have a similar service-oriented value proposition. It could be a car company, restaurant, clothing store, etc. In looking at the changing demographics, do you believe that this level of service will continue to be perceived as value? If not, what will take its place?
3. Have you ever experienced service that was so poor that you did not return? Compare your views with someone that you know. Is this a common service issue?

Building Your Personal Brand

"Communication is the act or process of using words, sounds, signs, or behaviors to express or exchange information or to express your ideas, thoughts, feelings, etc., to someone else."[50] What type of communicator are you? Analytical? Intuitive? Functional? Personal? Research communication styles and describe which best describes you. Outline a plan on how you might communicate with those who adhere to a different style. To get started, try this free communication style assessment (https://openstax.org/r/communicationstyles). There are also other assessments available online, so try a few and see and see if there are any differences.

Keep in mind that communication also includes nonverbal signs such as our facial expressions and body language. How does your body position change when communicating a happy story versus a sad story? Try this body language self-assessment (https://openstax.org/r/scienceofpeople).

A large percentage of our personal brand comes from how we communicate with others. Think about the people you admire; odds are they communicate in a way that you understand and relate to. Work on becoming comfortable in your style and recognizing the styles of others. If you do this, others will be comfortable with you, and they will remember you. Often, a key component to a promotion is being noticed and remembered for the personal brand you exhibit.

What Do Marketers Do?

Considering that "70% of small businesses are operated and owned by a single person," the question arises: Who is doing the marketing?[51]

Find at least two small service businesses, one that you know to be successful and one that might be hanging on by a thread (hair salons, dry cleaners, mechanics, party planners, florists, etc.). Call and see if you can arrange a time, either on the phone or in person, to ask questions about their marketing efforts. You might

want to do a bit of homework before you do. Here are questions that will help you gather information:

1. Do they consider what they do to promote their business as marketing?
2. Do they have someone who helps them?
3. Do they have a website or Facebook page?
4. What are the main activities that they do to market their business?
5. Do they have a formal business plan? A budget?
6. How do they figure out what their budget should look like?
7. Are there efforts that they consider successful and anything that seriously did not work?
8. Do they respond to the marketing of their competitors?

Of course, there are additional questions that you can ask as time permits. The idea here is to get a good look at what the challenges are to marketing a small business. Is this something that you see yourself doing—perhaps even as a business of your own?

Closing Company Case

Adventist Health Castle

Adventist Health Castle in Kailua, Hawaii, is an award-winning hospital focused on serving the mind, body, and spirit of its patients. The 300 physicians provide services to the entire island of Oahu, following the mission to "care for the community and share God's love."[52]

Adventist Health Castle offers programs in wellness and lifestyle, cutting-edge weight-loss procedures, and advanced imaging techniques. All programs come with a patient-focused approach with compassion and dedication from its health team. The mission statement of "transforming the health experience of our community by improving health, enhancing interactions and making care more accessible" is accomplished through "integrity, compassion, respect, and excellence."[53] In 2017, it won the Malcolm Baldrige National Quality Award, an award that recognizes the excellent patient care the staff provides to the community.

Adventist Health Castle is proud of its Wellness and Lifestyle Medicine center because of the variety of health education and lifestyle resources it provides for the community. It offers classes, events, and services to the public for a small fee or often for free. Check out more here (https://openstax.org/r/adventisthealth) about the medical services it offers.

Health systems are a product of the community they serve, and Adventist Health Castle is no exception. To help with its cause, it developed a community needs assessment to understand the concerns and needs of the populations within its service area. From that work, it has developed numerous programs and events, including diabetes care classes and improved access to health services. It also added ENT, cardiology, and dental services to its Rural Health Clinic in Laie. With this addition of the new Rural Health Clinic, Adventist's system served 2,432 unique patients in its first year.[54]

With its work, Adventist Health Castle expanded access to classes to include a center in Kaneohe. Multiple locations allow the health system to extend its reach to the community with more classes and events. And it's working! Through a postcard mailing, Adventist received a positive response to class enrollment.

Another initiative created around better access to care included having physician practices add more office hours to include evenings and weekends. Through this effort, Adventist has been able to engage with more patients and coordinate care better for the populations it serves.

With this work, the community has seen many positive outcomes including increased overall health due to the greater availability of healthy center resources. Serving a community means adapting to the needs of the community and meeting the populations where they are most vulnerable.

Case Questions

1. Adventist Health Castle is a health system operating to serve the population of Oahu. How would you classify its services?
2. When community members choose to take a class on diabetes management, they are learning about diabetes from a clinical nurse instructor. The instructor informs the participants of the health risks associated with unhealthy lifestyle choices. Different clinical nurse instructors teach the classes each time. Depending on who teaches the course, the participants may learn the risks of a sedentary lifestyle. This is an example of which service characteristic?
3. Adventist Health Castle realized that access to health services was an important need in its community. To provide for that need, it developed a multidisciplinary clinic to serve rural communities. It immediately started seeing and treating patients. How does this fit into the service-profit chain?
4. When Adventist Health Castle added more hours to physician practices, what dimension of service quality was it addressing be



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12

Pricing Products and Services

Figure 12.1 Price is one of the marketing mix elements and a factor that impacts customer decisions. (credit: modification of work "Thrift Shop Helps Consumers, Community" by W. Wayne Marlow/USAGHumphreys/flickr, CC BY 2.0)

Chapter Outline

12.1 Pricing and Its Role in the Marketing Mix
12.2 The Five Critical Cs of Pricing
12.3 The Five-Step Procedure for Establishing Pricing Policy
12.4 Pricing Strategies for New Products
12.5 Pricing Strategies and Tactics for Existing Products
12.6 Ethical Considerations in Pricing

In the Spotlight

In February 2005, Amazon launched Amazon Prime, which offered unlimited two-day delivery for millions of items.[1] At a time when consumers were accustomed to paying high shipping fees and experiencing slow service, the membership service—$79 per year—offered a new alternative. It was a first-of-its-kind pricing structure that has sparked many companies to do the same. Today's subscription services cover everything from toilet paper to dog toys. Amazon Prime is still arguably the most prevalent subscription service in history. In 2021, Amazon reported its Amazon Prime members had reached 200 million worldwide.[2]

The membership, according to a public letter from Jeff Bezos, executive chair of the Amazon board, "takes the effort out of ordering; no minimum purchase and no consolidating orders. Two-day shipping becomes an everyday experience rather than an occasional indulgence."[3]

Since its first offering in 2005, Amazon has raised its prices only three times—in 2014 to $99 a year, in 2018 to $119, and most recently to $139/year.[4] While rumbles in the market suggested that these price increases might drive away customers, Amazon has proven this was not the case. The price increases through the years also included new benefits—Amazon Prime video, Prime Pantry, Prime Reading, and many others. The company demonstrates that consumers are, in fact, willing to pay higher prices—so long as they can perceive value that is added to the increase in price.

12.1 Pricing and Its Role in the Marketing Mix

Learning Outcomes

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

- LO 1 Define pricing.
- LO 2 Explain pricing and its role in the marketing mix.
- LO 3 Explain the psychology of pricing.

Pricing Defined

Anytime anything is sold, a price is involved. Recall that during the exchange process, a seller is offering something of value to a buyer in exchange for also something of value. This value to the seller is often referred to as price. The practice of pricing is not a new concept. Some of the oldest records of prices ever discovered were found on clay tablets with symbols in Uruk, located in modern-day Iraq. The records are written receipts of exchanges of sheep, beer, and barley and date back to 3300 BCE![5]

You may recall that price is one of the 4Ps of marketing, or one element in the marketing mix. Once a product has been developed, marketers must determine at which price the product or service will be offered to the target market. Today, pricing is one of the more difficult decisions that marketers must make in the marketing mix because it directly impacts the perception of value from the customer as well as the company's bottom line. Poor decisions in pricing can have immediate and catastrophic effects on profits that are difficult for companies to recover from. Price decisions must be linked to a product or service's real and perceived value while also considering competition, supply costs, and when discounts should be offered.

Simply put, **price** refers to the exchange of something of value between a buyer and a seller. The price determines how much revenue the company will earn and drives the financial health of the organization. However, marketers cannot simply price products and services based on the expected revenue of the organization. The price must be set so that the buyer sees value in the product offering and the price they will pay for it. In other words, marketers must put the perception of value in the product's price at the forefront while also considering the financial impact to the organization.

While price is what is referred to when discussing most goods and services, price can take on many terms depending on the exchange that is taking place. In higher education, you are paying tuition—the price—in exchange for your education. If you need an attorney, you are likely going to pay a fee—the price—for services rendered. When you are traveling and have to pay a toll, it is the price you pay for using the road or bridge. Regardless of the exact terminology used, pricing of goods and services have the same basic elements.

Elements of Pricing

While a marketer is determining the price of goods and services, they must keep in mind that pricing must benefit both parties involved in the exchange process: the seller (company) and the buyer (customer). Both parties must see value in the product process through pricing for the exchange process to be successful. We'll first discuss how price is an indicator of value to the buyer and then turn our attention to the seller.

Price as an Indicator of Value

When a buyer purchases a product or service, they seek to satisfy a need through the purchase. The customer will, consciously or not, use several criteria to determine the amount they are willing to spend to satisfy that need. These criteria ultimately lead to the value that the customer sees in the product.

The price-value equation is a subjective assessment by a consumer about what they deem as a value. The price-value equation states that as a customer's expectations are met at what they consider an acceptable price, value is realized. Value is related to the quality and price of the product, and the formula is

$$\text{Value} = \frac{\text{Quality}}{\text{Price}}$$

For example, if a consumer purchases a high-end designer Chanel handbag for $11,000, they might equate the value to a beautiful, high-end, well-made handbag that will last for many years. They may also subconsciously believe the bag will portray a certain social status while carrying it. For them, there is value and quality in the product, and they are willing to pay the high price.

Consider another example: you are in the middle of fixing dinner, and you realize you don't have enough milk for the dish you are preparing. There is a convenience store just a block away from your house and a grocery store five miles away. If you send your partner to walk to the closer convenience store, they will pay more for the milk than if they were to drive the extra five miles to the grocery store, which would be less expensive. With the higher-priced item at the convenience store, you are paying for the convenience. The value in this scenario is in the time saved even at a higher price.

With these two examples, the perceived benefits are directly related the price-value equation. Perceived benefits can include status, convenience, brand, quality, etc. and can vary from buyer to buyer or even situation to situation.

Perceived costs can also include a host of criteria in addition to the price printed on the price tag. Let's return to the milk purchase example. If the situation were different—say you were not in the middle of cooking dinner—would your decision change? Perhaps. You will still consider other factors before making the decision. How long does it take for you to drive that extra five miles? Is the grocery store known for having long lines during the time you will be shopping? Do you need other items you can only get at that store? Does the store carry the brand of milk you prefer? These are only a few of the many considerations you make before you decide to make the purchase. These are all perceived costs and are weighed against the perceived benefits the buyer considers when determining value.

MARKETING IN PRACTICE



Upside



Figure 12.2 Upside is an app that benefits both customers and businesses by playing on the psychological effects of pricing. (credit: "iPhone Home Screen" by freestocks.org/flickr, Public Domain)

Founded in 2016, Upside is an app that promotes itself as saving customers money on purchases at gas stations as well as helping local brick-and-mortar businesses earn more profit. Here's how it works: Upside

links to gas stations, restaurants, and grocery stores within a specified mile-radius of the user. The user chooses to claim an offer on the app and has four hours to upload the receipt. The linked businesses are those that have contracted with Upside to drive business to their establishment. Once redeemed, cash is deposited into the user's account and can be cashed out for gift cards or to a PayPal account.

Upside is banking on the value equation as well as psychological factors of pricing to attract both buyers and sellers. Gas prices, for example, are relatively unchanged from station to station in a small geographical area. If the user is able to get 25 cents cash back per gallon on their fill-up, they may swap convenience of the closer station with that of getting a cash reward at a station a few miles away. If the buyer chooses the station with cash back over one without, the seller (gas station) also finds value in a one-time or new customer.

For more information about Upside, visit the app's website (https://openstax.org/r/getupside).

Price in the Marketing Mix

Recall that the marketing mix elements include product, price, promotion, and place. Marketers create value through the maximization of benefits within an acceptable price point using the marketing mix elements. Price, however, is the only element of the marketing mix that directly produces revenue for the company. The other elements are considered costs to organization. Another way to think of price as differing from the other elements is to understand the price not only creates perceived value for the customer but also harvests monetary value for the company. Because price is the revenue-generating element of the marketing mix, it is vital that marketers set the right price both to match buyer perceptions and to maximize company profits. Profit is determined by subtracting total expenses from total revenue.

The Profit Equation

Recall that the goal of any for-profit company is make a profit. The price marketers set for goods and services offered will have a direct impact on the company's profit-making ability. Therefore, it is imperative that the price set is one that achieves value not only for the buyer but also for the company. Certainly, buyers would prefer a lower price—or even free—for goods and services. It's simply not feasible for a company to give its products and services away for free; the company would cease to exist very quickly, which does not serve either the company or the buyer well. Rather, it is in the company's interest to set prices that create value for the buyer and profit maximization for the company, as this gives the organization the best chance of continuing to create value in the long term.

So what is the best price that creates value for the seller? In short, it's the one that creates value for the buyer and simultaneously generating the maximum profit. If a price is set too high, the buyer may refuse to purchase because they do not see the value; in turn, the company loses out on profit. Alternatively, if the price is set too low, the company may be losing out on profits when a buyer would be willing to pay a higher price.

Profit is the financial gain of a company, or the difference between the amount earned and the amount spent in buying, operating, or producing something. It is the difference between total revenue and total costs and is calculated with the profit equation.

$$\text{Profit} = \text{Total Revenue} - \text{Total Costs}$$

Let's look at this formula more closely.

- **Total revenue** is the money generated from normal business operations. It is calculated by the sales price of a product times the quantity of units sold. For example, a company selling wireless earbuds for $19.99 that sold 5,000 units in one period has revenues of $99,950.
- **Total costs** of a company are the costs of sales and operating expenses. It is all expenses related to operating the business that are directly related to producing a good or service and that are indirectly

related to producing goods and services. In other words, it includes items such as building leases, employee salaries, and electricity as well as direct costs in producing the product, such as component parts and equipment.

Total costs can be categorized as either fixed or variable. **Fixed costs** are those expenses that do not change regardless of the number of units sold. For example, if the company selling wireless earbuds makes one unit or one million units, the company still has to pay the mortgage for the building it is occupying; the mortgage payment does not increase or decrease based on the number of units produced. Alternatively, **variable costs** do change based on the number of units produced. In the wireless earbud example, the company would spend more per unit if it ordered fewer units. If it ordered a higher quantity of units, the unit price would decrease.

In determining profit, the total costs include both the fixed and variable costs. The formula is

$$\text{Total Costs} = \text{Fixed Costs} + \text{Variable Costs}$$

When setting prices, the marketer must determine how much profit can be made from the sale of goods and services. However, as mentioned earlier, profit is not the only deciding factor in price. Much research has been done on how psychology also effects the perception of pricing.

The Psychology of Pricing

From a marketer's standpoint, these are all factors that must be considered when setting price. In addition to the value perceived by the buyer, the marketer must also understand other psychological factors that influence the buyer's perception of price. Several psychological pricing examples are discussed next.

Price Anchoring

When Steve Jobs introduced the Apple iPad during a Keynote in 2010, he showed off the high-resolution screen and talked about its revolutionary features. "What should we price it at?" he asked. "If you listen to the pundits, we're going to price it at under $1,000, which is code for $999." He put a giant $999 on the screen. He finally went on: "I am thrilled to announce to you that iPad pricing starts not at $999, but at just $499." The screen then showed the $999 price being crushed with the $499 price.[6] The crowd went wild!

The concept of **price anchoring** relies on the first piece of information that a buyer sees. This acts as an anchor, or a frame of reference for what the buyer expects a price to be. Steve Jobs used this concept in his introduction of the iPad. The anchor price he quoted was $999. This immediately made buyers believe the product should be priced around $999. However, when Jobs showed the actual price, starting at $499, the buyers immediately believed, psychologically, that it was a great deal. Viewers did not know what the worth of the iPad was; they just believed they were saving nearly $500 by having the initial anchor of $999.

Artificial Time Constraints

Marketers—particularly retailers—often use the psychological strategy of **artificial time constraints**. These trigger a sense of urgency in the buyer; if they don't buy today, they'll miss out on a great deal. Whereas a consumer may have been on the fence about spending money, these artificial time constraints act as a catalyst for consumers to spend money right now. And there is a lot of power in artificial constraints: consumers are afraid of missing out and don't want to later regret not buying. But consumers can often find the same prices many times throughout the year because retailers use this tactic frequently.

Price Appearance

A study on the effects of auditory representation in pricing showed that buyers believed $1,555.83 was a very complicated price and difficult to comprehend quickly. The study further outlined that a price of $1,555 (no cents) was *better* but that buyers were able to more easily and quickly comprehend a price of $1555 (no commas) and thus more likely to pause and consider the product.[7]

If you've ever gone to a fancy restaurant, you may have noticed the prices on the menu are in a small font and

don't have zeros at the end. The price will be listed as $29 instead of $29.00. Psychologically, longer prices appear to be more expensive because they take longer to read. This effect is augmented by the use of a dollar sign. Similarly, the use of prices with multiple syllables seems more expensive because consumers pronounce the prices in their head. In short, the longer it takes to read and pronounce, the more impact the buyer believes it has on their wallet,[8] which is explained by **price appearance**.[9]

Price Gouging

Price gouging is when companies or individuals take advantage of a situation, typically an emergency or natural disaster, and charge exceptionally high prices for products or services. In some states, like New York, it's illegal for businesses to price gouge during a state of emergency.[10] In fact, New York was the first state to enact a price gouging law. In 1978, when there was a shortage of oil for heating in the winter and the lives of young and elderly people were threatened, the state created a law where companies could not sell goods or services at excessive prices.[11]

Can you think of recent examples where price gouging was a potential concern? During the COVID-19 pandemic, several states posted on their government websites lists of items that couldn't be subject to price gouging. Currently, the US Department of Justice provides a list of items that can't be hoarded or subject to price gouging due to COVID-19 precautions, including masks and other personal protective equipment (PPE), respirators, ventilators, and medical gowns.[12] There have been other instances where price gouging was an issue. According to AccuWeather, "some of the most rampant examples of price gouging came during the most destructive storms in recent years, such as Hurricane Katrina, Hurricane Sandy, Hurricane Harvey, and Hurricane Irma."[13] After Hurricane Katrina, a hotel manager boosted room prices and was sentence to five years in jail.[14]

CAREERS IN MARKETING



Pricing Analyst

A pricing analyst studies the market and analyzes data to determine the best pricing for products. This article from Zippia provides helpful information about (https://openstax.org/r/pricinganalystjobs) the job role, including qualifications, career paths, salary, education, resume templates, and online courses to improve skills. Indeed.com also provides a thorough job description (https://openstax.org/r/descriptionpricinganalyst) that outlines top duties and qualifications.

The best way to understand the core of any job is to learn from people who have done the job. Watch this video from a pricing analyst where he discusses his career.

What does a Pricing Analyst do? (https://openstax.org/r/whatdoesapricing)

Also check out this article on what makes a great pricing analyst (https://openstax.org/r/whatmakesagreat). Some people wonder how a pricing analyst and a data analyst differ. Learn the answer to that question in this article (https://openstax.org/r/interviewquery).

Once you've determined this may be the career for you, prepare for an interview by watching this video.

YouTube Video (https://openstax.org/r/top20pricinganalyst)

Knowledge Check

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

1. You receive an email from your favorite clothing store. It is having a one-day sale where everything is 50

percent off. The retailer is using a form of psychology known as _____.
a. artificial time constraint
b. price appearance
c. profit
d. fixed costs

2. Which of the following best describes the profit equation?
a. Profit = Fixed Costs – Variable Costs
b. Profit = Total Costs – Total Revenue
c. Profit = Total Revenue – Total Costs
d. Profit = Fixed Costs + Variable Costs

3. Marquis has decided to purchase a new kitchen table. He looks at various brands online and decides to purchase one that is $500 more than the others because it is a brand his parents had when he was growing up and they offer free delivery. These factors indicate Marquis has perceived _____ in the higher-priced table.
a. value
b. artificial time constraints
c. costs
d. profit

4. Kilee sees an advertisement for a new computer. The advertisement portrays an initial price of $699 that has a large red "X" through it with a new price of $499. The advertisement is utilizing which pricing concept?
a. Artificial time constraints
b. Price appearance
c. Price gouging
d. Price anchoring

5. The perception of a buyer's value includes which of the following?
a. Profit a company can expect from sales
b. Perceived benefits less the perceived costs associated with a purchase
c. Revenue expected from a sale
d. Costs of manufacturing the product

12.2 The Five Critical Cs of Pricing

Learning Outcomes

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

LO 1 List the five critical Cs of pricing.
LO 2 Characterize the five critical Cs of pricing.

Cost

What should you charge for a product or service? As you've probably discovered by now, pricing is not something that marketers approach without a lot of research. Using the five critical Cs of pricing can help to determine the *best* price—one that provides optimal value to the buyer and profit maximization for the company. Figure 12.3 illustrates the five critical Cs to consider when pricing: cost, customers, channels of distribution, competition, and compatibility.

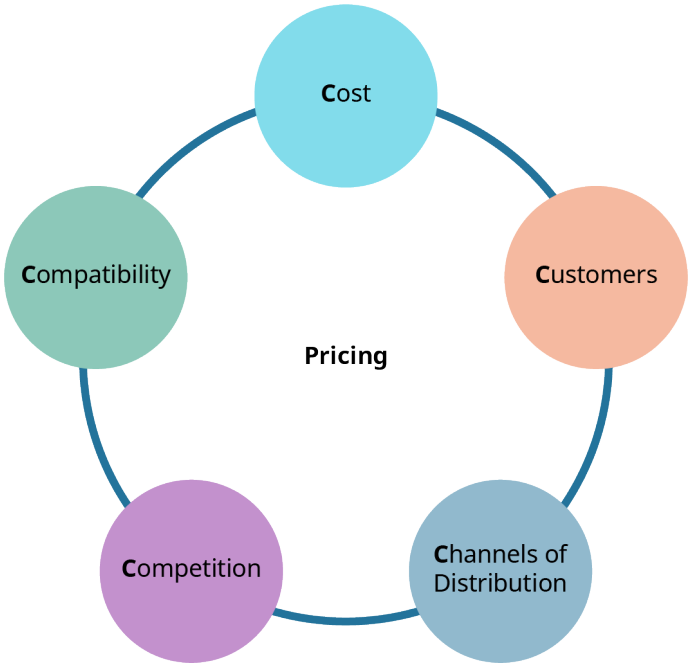

Figure 12.3 The Five Critical Cs of Pricing (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Cost is the most obvious element of the pricing decisions. As we've already discussed, you must know the cost of doing business—both fixed and variable—before you can set an adequate price. However, cost alone cannot be the only basis on which a pricing decision made. After all, buyers never know (and don't care) how much it costs a business to produce its goods and services.

LINK TO LEARNING

The Five Critical Cs of Pricing

Scale Finance has provided an excellent article (https://openstax.org/r/the5criticalcs) that may help you get your mind around the five Cs of pricing.

Customers

Customers are another key element to pricing decisions, as you've learned already in this chapter. Marketers must determine not only what customers expect a product or service to be priced at but also what those customers are willing to pay. Toyota manufactures cars and markets them toward the middle class. Through research, it has determined what its target market is willing and able to pay for a particular vehicle. Alternatively, Lexus, which is marketed as more of a luxury car, has a higher price point and is marketed to a different market than that of Toyota.

Channels of Distribution

Many products are sold through channels of distribution—intermediaries who move products from manufacturer to end users. Intermediaries affect the prices of products because they also need to maximize their profits. Therefore, pricing decisions must consider profits, expenses, and the value they are adding to the product or service.

IKEA began as a mail-order catalog in 1953 in Älmhult, Sweden. Today, it is a global home furnishings brand that focuses on sustainability.[15] Its distribution channel consists of the manufacturer, dealer, wholesaler, and retailer. Each of these channel members are in business to make a profit. Therefore, the price strategy that

IKEA utilizes must help to ensure that each member is financially satisfied while making a profit itself and keeping the price that is of value to the end user. If any of the channel members (or the end user) does not find value in the price set by IKEA, the entire channel becomes weak and unsustainable.

LINK TO LEARNING



IKEA

IKEA is a very interesting company to study when you are learning about marketing and business. As this blog examines (https://openstax.org/r/marketingstrategyin), it has 1,600 suppliers for manufacturing products that deliver to 186 global stores. That's a complex—and successful—system!

The MBA Skool website (https://openstax.org/r/marketingmixservices) provides an explanation of the IKEA marketing strategy and the four Ps, including IKEA's distribution model.

The Contact Pigeon blog outlines (https://openstax.org/r/contactpigeon) IKEA's strategy that made it the successful company it is today.

Competition

Every company and product faces competition. Even the most unique products are competing for buyer dollars. Buyers' perception of one product in comparison to that of alternatives has an important impact on pricing decisions. Gazelle Bikes is a top-tier manufacturer of bicycles. The bikes offered by Gazelle have a starting price point of $1,499.[16] One of Gazelle's competitors, Giant, has a starting price point of $1,720.[17] For bicycle enthusiasts, these price points are important when comparing one brand with another; an enthusiast who comes across a new brand of bicycles with a starting price of just $200 would not position it with Gazelle and Giant bicycles.

Compatibility

Panama City Beach has been one of the most popular spring break destinations of college students for decades. In fact, it is considered the "Spring Break Capital of the World."[18] It is well-known for its late-night parties, concerts, and celebrity sightings. Hotels and clubs along the beach of Panama City drive their marketing efforts toward this segment of the market: college-aged spring break–goers. The prices they set for the weeks of spring break are compatible with both this segment of the market's ability to pay and the businesses' profitability. Conversely, hotels in areas of Florida that are more family-friendly set prices that are considered a value for families and promote the hotels toward families rather than college-aged partygoers.

Pricing decisions are not made in a vacuum. When marketers set a price for a good or service, it must be consistent with the other marketing objectives. Imagine if McDonald's starting offering a $20.00 ribeye steak. This decision would be inconsistent with the marketing of the company's low-priced fast food, would be confusing to customers, and thus would not be successful.[19]

MARKETING IN PRACTICE



The Five Cs of Pricing

The five Cs of pricing has long been a standard for marketing practitioners. However, some practitioners also consider another area when determining price: context. Context refers to a more complex strategy of pricing where marketers set—and change—prices according to variables external to the company. For example, an ice cream truck in the US Midwest would arguably have more traffic during the peak summer

hours and less during the colder winter months. The owner of the ice cream truck would change their prices to best fit the context (in this case, weather). The product (ice cream) remains the same regardless of the price, but the price is changed to fit the context of the situation. The appropriateness of using this strategy depends on several factors, including the product category, market size, and other nuances of the industry.

Knowledge Check

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

1. Which of the critical Cs of pricing includes taking into the consideration the value of the product to retailers and suppliers?
   a. Cost
   b. Competition
   c. Channels of distribution
   d. Customers

2. Amir is the head of marketing and is explaining to colleagues that the company's new boutique bed and breakfast near the ocean should not be priced similarly to the local Super 8 motel. Amir explains that the new bed and breakfast is of the highest quality, has posh amenities, and is therefore being marketed to upper- and upper-middle-class couples. Amir is explaining which of the critical Cs of pricing?
   a. Cost
   b. Competition
   c. Customer
   d. Compatibility

3. Kevin is a marketing intern at a large corporation. They are tasked with presenting a price for a new service the company will be offering. Which of the following would you recommend Kevin do first?
   a. Analyze the critical Cs of pricing
   b. Choose a pricing strategy
   c. Create an advertisement
   d. Ask his friends what price they would be willing to pay

4. Which of the following statements is false with regard to pricing?
   a. Customers are interested in the price of the product, not the cost to a company.
   b. Cost only includes the materials needed to produce a product.
   c. If cost is not considered in pricing, the company will likely be unsuccessful.
   d. Costs include both variable and fixed costs.

5. Which of the following is not a critical C of pricing?
   a. Customers
   b. Cost
   c. Competition
   d. Commitment

12.3 The Five-Step Procedure for Establishing Pricing Policy

Learning Outcomes

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

- LO 1 List the five-step procedure for establishing pricing policy.
- LO 2 Describe ways to determine the pricing objective.
- LO 3 Identify ways to estimate demand.
- LO 4 List ways to estimate costs.
- LO 5 Explain how to analyze the external environment.
- LO 6 Discuss selecting pricing strategies or tactics.

Determine Pricing Objectives

Whether a product is new to the market or established, marketers face the challenge of setting prices. Recall that the main objective for pricing is for the buyer to perceive value in the product while the company maximizes profits. Marketers often use a five-step approach for establishing pricing policies (see Figure 12.4).

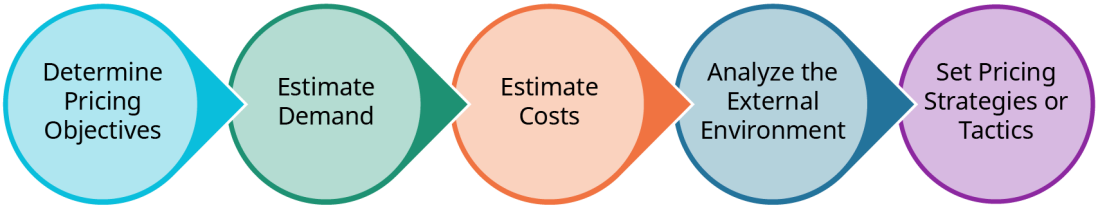

Figure 12.4 The Five-Step Process for Establishing Pricing Policies (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

During the first step in establishing pricing policies, the marketing team will set the pricing objectives (see Table 12.1). The most common pricing objectives are based on customer value, cost, sales orientation, market share, target return, competition, and being customer-driven. It is not uncommon for more than one objective to be set within the company. Let's take a look at each of the pricing objectives in more detail.

Objective	Description
Customer value	Based on a product's added value
Cost	Based on the cost to produce a product
Sales orientation	Developed to boost sales volume(s) of a product
Market share	Focused on increasing market share
Target return	Focused on a specific profit at a specific time
Competition	Developed based on competitors' prices
Customer driven	Focus on what the customer is willing to pay

Table 12.1 Pricing Objectives

Customer Value–Based Objective

As you've already learned, it's essential to have a deep understanding of the value a product will provide for

customers. Before Jim Semick and his team launched GoToMeeting, a conferencing app, they developed the pricing of $49 "all you can meet flat-rate pricing." This pricing was unique to the industry, and Semick stated that they determined this pricing structure based on dozens of interviews with potential customers. From these interviews, the GoToMeeting team discovered key areas that would provide value to customers not only through the product itself, but also through the flat-rate price structure that was easy to understand.[20] Semick utilized the **customer value–based objective**, one in which the company has a good understanding of the value-added benefits of a product and sets its price accordingly.

Cost-Based Objective

A fairly simple way to price products and services is using the **cost-based objective**. This pricing objective sets prices based on the costs of doing business, which were explained earlier in the chapter. The biggest pitfall of utilizing this pricing objective is that it might not align well with the customer's value perception. Remember, customers don't know (or care) what the cost of doing business is, so long as they receive value in their purchase. Therefore, marketers run the risk of overpricing the product. Marketers using this objective also run the risk of pricing their products too low and failing to maximize profits.

Consider the manufacturing of a smartphone. Assume the total cost to the manufacturer to produce one smartphone is $3,000. This cost includes all expenses to the company for producing this one smartphone (product costs, variable and fixed expenses). The company chooses to set the selling price of this smartphone to include these costs plus a profit of 10 percent, which sets the final price at $\$3,300$ $(3,000 + 10\% \times 3,000)$.[21]

Sales-Oriented Objective

A company may wish to seek a boost in sales volume of a product. In this case, marketers would choose the **sales-oriented objective**. The goal of a sales-oriented objective is to increase the volume, or units sold, of a product against the company's sales over a period of time. This objective is achieved by raising or lowering prices to increase sales. An increase in sales assumes a direct impact on profits, thus maximizing profits. Consider the smartphone manufacturer again. Executives have set a sales goal of 1,000 units within the first quarter. Marketers may choose to lower the price of the smartphone to meet the goal. So perhaps the company changes the price from $3,300 to $3,100 for a short period of time until the sales goal is reached. Note that it is still covering the cost to manufacture the product and still making some profit.

Market Share–Oriented Objective

A **market share–oriented objective** is one in which the company's pricing objective is to set prices based on those of the competition. This strategy involves comparing similar products being offered in the market and pricing at, below, or above those prices depending on the products offering. The cell phone market is one example of an industry that leans on market share orientation. The biggest suppliers of cell phones—Apple, Google, and Samsung —take their pricing cues from one another and are priced very similarly.[22]

Target Return Objective

A **target return objective** is one in which marketers calculate the price so that it returns a specific profit in a given period of time. Let's assume that a company has invested $1 million into a new product. Company executives wish to recuperate 10 percent of those costs in year one of sales. If it costs the company $2 to manufacture one unit of product and marketers estimate that it will sell 50,000 products in the first year, marketers know they will need to price the product high enough that it will yield the desired results. The obvious drawback to this objective is that much of the decision is based on estimations of units sold in a given time frame.

Competition Objective

A **competition-based objective**, as its name suggests, is when a company sets its prices according to the prices of its competitors. Amazon uses this pricing objective often with some of its most popular products.

Using data intelligence, the company gathers the prices of products of its competitors and sets its prices just below the price set by competitors.[23]

Customer-Driven Objective

Some companies choose to set prices based on **customer-driven objectives**—that is, what the customer is willing to pay for a product or service. Auctions, e-trades, and bids are common examples of customer-driven objectives. eBay, for example, allows a company (or individual) to place an item for sale on its website. Often, the interested buyer will bid on the item, thus stating what they are willing to pay. The highest bidder is then able to buy the product.

Estimate Demand

After setting the pricing objectives, marketers will estimate the product or services demand. **Demand** is an economic term that refers to the buyer's desire and willingness to purchase a product or service at various prices. All other factors being consistent, an increase in price will result in a decrease in demand. The demand curve is a visual representation to understand demand.

Understanding the Demand Curve

The **demand curve** is a graph that shows how the demand for a product or service varies with the change in price. As you can see from Figure 12.5, the price (p) is located on the vertical axis and the quantity (q) demanded is located on the horizontal axis. As the price of a product increases, the demand of the product decreases.

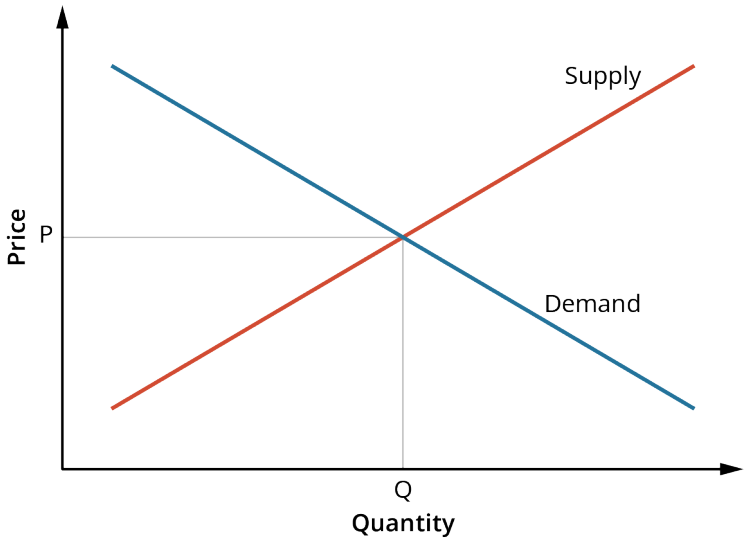

Figure 12.5 Demand Curve (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

The relationship between price and demand shown in the figure above is contingent on certain conditions remaining constant. Such conditions include substitute goods, personal income, and consumer tastes, which are discussed further below. Changes in these conditions can cause a change in demand that might not follow this basic concept of the demand curve.

The Demand Curve for Prestige Products

One pricing strategy that negates the demand curve is prestige pricing. **Prestige pricing** is a strategy that marketers use to set high prices knowing that demand will increase with higher prices because the higher price increases the perceived value of the product. Prestige pricing is closely tied to brand image and appeals to buyers who see value in elevated status. Consider these brands of shoes. The Adidas Yeezy Boost 750 costs around $76 to produce but sometimes sells for over $1,000, while the D Rose 5 Boost costs around $43 and sells for around $100. So why the large price difference? The Yeezy Boost 750 pricing strategy is that of

prestige pricing. The allure and exclusivity of the Yeezy Boost 750 allowed the company to price the shoes at a much higher price.[24]

LINK TO LEARNING



Prestige Pricing

In this article, HubSpot explores (https://openstax.org/r/prestigepricing) the pros and cons to prestige pricing and things to consider when implementing this strategy. Included are several prestige pricing examples such as the Adidas Yeezy Boost and the D Rose 5 Boost, diamonds, cars, AirPods, and T-shirts.

Demand Elasticity

What will be the impact of demand for a product if the price is changed? If the product is discounted, will demand increase? If the price goes up, will demand decrease? The concept of demand elasticity helps marketers answer these questions. In short, **demand elasticity** is a measure of the change in the quantity demanded in relation to the change in its price. Mathematically, it is derived from the percent change in quantity demanded divided by the percent change in price. If you have been considering buying a new home, would the prices of homes sway your decision? Perhaps so. Home prices are considered elastic because the price has a huge impact on the demand for new homes. Additionally, there are many options for housing, including apartments, roommates, living with relatives, condos, etc.[25]

As a second example, consider gasoline. Since we need gasoline to get to work, school, the grocery store, and meetups with friends, it is considered relatively inelastic. There are very few substitutes for gasoline. Because gasoline has inelastic demand, the price may fluctuate considerably, but the demand for gasoline remains relatively the same. Consider the higher gas prices of 2022, averaging over $5.00/gallon across the United States and even higher globally. Even though the prices have risen, the demand for gasoline has not changed because people still must travel to work and other essential places.[26]

In summary, if a product is determined to be inelastic, the demanded quantity does not change with a change in price. Conversely, if the product is elastic, the demanded quantity will change with a change in price. You might be asking: What makes a product elastic or inelastic? There are several factors that will help determine how elastic a product or service will be.

Factors in Demand Elasticity

When determining the demand elasticity of products and services, there are several factors to keep in mind. These include substitutes, the effect of income, time, and cross-elasticity of demand (see Figure 12.6). Let's explore each of these in depth.

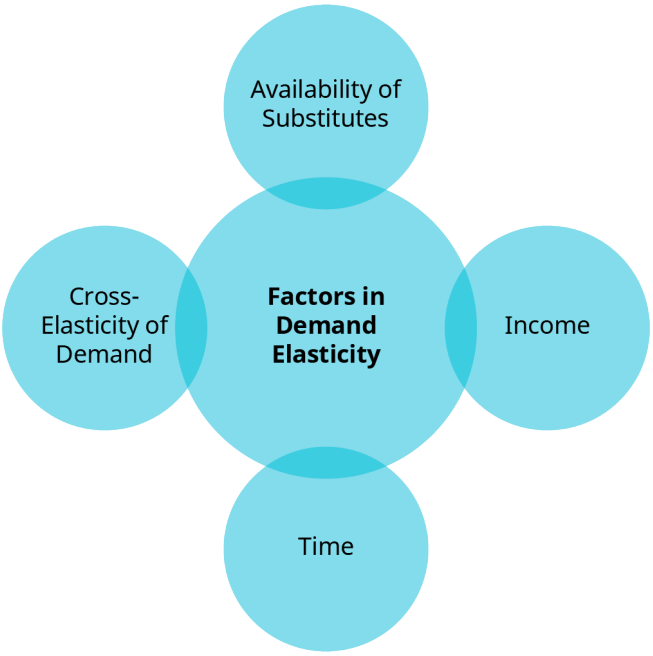

Figure 12.6 Factors in Demand Elasticity (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Availability of Substitutes

Substitutes are products and services that are similar to the one being offered. If a buyer can easily choose a different product when the prices change, the demand will be more elastic. For example, if you are at the grocery store to buy English muffins but the store is out, you can easily choose to purchase bagels instead. Conversely, if there are relatively few or no alternatives, demand will be more inelastic. Consider the generic need for gasoline. It is fairly inelastic. The availability of substitutes for car travel is inconvenient. However, the demand for gasoline at specific gas stations is considered elastic because buyers can choose the gas station they prefer based on price. If two gas stations are located within a convenient geographic region to the buyer, they will choose the station that has lower prices.

Income

Buyers have limited money to spend on their needs and must make decisions on how the purchase of goods and services will impact their total income. The **income effect** is the way in which buyers see the change in price affecting their real income. Generally, an increase in price indicates that the buyer will have less money left over to spend; therefore, they will choose to buy less of a product, decreasing demand. The opposite is also true: the lower a price, the more money buyers have to buy more of the product, thus increasing demand. Consider the 8.6 percent inflation that the United States saw between May 2021 and May 2022. Because inflation is a general rise in prices, consumers noticed that their purchases of goods and services caused their real income to decline. In other words, consumers had less money to spend on products and ultimately chose to purchase less of those products.

Time

When the price of a good or service is changed, it takes time for buyers to adjust to the change in price. The time factor of price elasticity indicates that the product's elasticity of demand is dependent upon the time it takes buyers to adjust to the new prices. For example, if there is a sharp decrease in the price of automobiles, buyers would not immediately go out and buy a new vehicle. Rather, it would take some time to save money for a down payment, secure a loan, and generally go through the buying process. Therefore, the demand for automobiles would increase, but over time rather than immediately.

Cross-Elasticity of Demand

What happens when one of two similar products has a price increase or decrease? If the price of coffee increases, it would be expected that the demand of tea (a substitute product) would also increase. Buyers see the price increase and look for lower-priced substitutes to replace the higher-priced item. The **cross-elasticity of demand** measures the amount demanded of one good when the price for a similar good or service changes.[27]

Estimate Costs

The next step in determining a pricing policy is to estimate the total cost of producing a product or service. Recall that maximizing profits is the goal of a pricing strategy and marketers must factor the cost of doing business into pricing considerations. When estimating total costs, it is important to divide costs into fixed and variable costs.

Fixed and Variable Costs

As mentioned earlier in this chapter, costs are categorized as either fixed or variable. Fixed costs are those expenses that do not change regardless of the number of units sold. Consider the example used earlier in the chapter of manufacturing a smartphone. If the company manufacturers 1,000 or 100,000 smartphones, the company must pay the same amount for its lease on the property the plant is located on. The lease payment does not change based on the number of units produced. Alternatively, variable costs do change based on the number of units produced. In this same example, the amount manufacturing spends is dependent on the number of smartphones produced.

Analyze the External Environment

The fourth step in determining prices is to analyze the external environment. The external environment is comprised of factors outside of the organization that impact marketing decisions. While marketers cannot directly change these factors, they should be aware of how they might impact pricing decisions.

One way to remember the factors of the external environment is through the acronym PESTLE: political, economic, social, technological, legal, and environmental.[28] Questions to consider in a PESTLE analysis when analyzing the external environment as it relates to pricing are included in Table 12.2.

Factors	Question	Example
Political	What is the current political situation as it relates to the market?	A price cap on certain pharmaceuticals would limit the price a company could charge.
Economic	What is the current economic climate?	During inflation or deflation, prices may need to increase or decrease.
Social	How is culture changing or shaping the industry?	During the latter months of the year, the Indian market purchases more vehicles than at other times of the year.
Technological	What technologies are trending?	If technology for a product is becoming obsolete, a decrease in price may be necessary.

Table 12.2 PESTLE Factors

Factors	Question	Example
Legal	What current legislation is impacting the industry?	A new vehicle emission law may require new technology, thus increasing the price of vehicles.
Environmental	What are the environmental concerns of the product?	A highly toxic product or process may need to have a higher price to properly and safely dispose of byproducts.

Table 12.2 PESTLE Factors

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PESTLE Analysis

There are hundreds of online resources that discuss PESTLE. Here are a few to start with:

- The Corporate Finance Institute provides a PESTLE walk-through (https://openstax.org/r/corporatefinanceinstitute).
- The Oxford College of Marketing outlines the advantages and disadvantages of a PESTLE analysis (https://openstax.org/r/oxfordcollegeofmarketing).
- Business-to-you provides a video, sample analysis, and a full list of PESTLE factors (https://openstax.org/r/scanningtheenvironment).

Competitors' Costs, Prices, and Products

It probably seems obvious by now that analyzing the competition is key in setting prices. Marketers must constantly analyze both current and potential competition in the market to understand how their products will measure up to that of the competition. If a competitor is planning to introduce a nearly identical product to one that your organization already has on the market—but at a much lower price—you will need to consider how that will affect your sales as well as analyze how it is offering such a lower price. Should you lower your price? Consider changing suppliers for lowered costs? Take a cut in profits to stay competitive? All of these questions, and more, will help you as a marketer determine what pricing strategy should be used.

Stage in the Product Life Cycle

How long a product—and its substitutes—have been in the market will have an impact on the marketer's choice of pricing strategies. Recall that the product life cycle consists of four stages: introduction, growth, maturity, and decline. During the introduction stage, marketers must choose pricing strategies wisely to capture the intended market and begin recuperating research and development costs. As a product moves through the other stages of the life cycle, prices may need to be changed in order to stay relevant to consumers.

Status of the Economy

As you can imagine, the state of the economy at any given time will have an impact on the buyer's ability to purchase products as well as their willingness to spend. Economic factors that marketers should specifically be aware of when considering demand for products include employment, inflation, interest rates, and consumer confidence.[29]

One of the main factors that influences consumer demand is the employment rate. The **unemployment rate**

is a measure of the number of people who are not employed but are actively seeking work in a given period—usually one month. When buyers are employed and receiving steady income, they are more likely to use discretionary income. **Discretionary income** is the money left over after all taxes and necessities—such as food and housing—are paid. When discretionary income decreases, demand for nonessential items also decreases.

Inflation is an economic measure of the rate of rising prices of goods and services in an economy. When inflation incurs, prices for most goods and services rise. Therefore, the amount of discretionary income a buyer has decreases, and demand for nonessential goods and services also decreases. Consider the high inflation in the United States economy from 2021 to 2022, which was 8.6 percent as of May 2022.[30] The rate of inflation is currently the highest that it has been since 1981. Because of the higher price of goods and services within the economy, consumers are spending more of their earned income on necessities such as food and shelter. This, in turn, causes them to purchase fewer nonessential items such as vacations, toys, and the like. Inflation also impacts pensions and other retirement accounts, so as inflation rises considerably, people are even less likely to spend their discretionary income and more likely to save anything left over after essentials for future use.[31]

Even consumers who do not have a deep understanding of the economy have some degree of optimism regarding the overall state of the economy. This is known as **consumer confidence**—it measures how optimistic consumers are about the economy and their own finances.[32] When consumers have little optimism in the economy, they are more likely to save their discretionary income rather than spend it.

The overall status of the economy—both current and future—is important for marketers to be aware of as it has a direct impact on the ability and willingness of buyers to spend money. Choosing pricing strategies that are aligned with the health of economy will have a greater chance of success.

Select Pricing Strategies or Tactics

After gathering all the data explained in previous steps, marketers are ready to set specific pricing strategies or tactics. The strategies and tactics chosen for a product or service should align with the other marketing mix elements, create value for the customer, and maximize profits for the company. In the next section, we will discuss specific strategies and tactics and how to optimize each.

Knowledge Check

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

1. Sam is explaining to her friend Beth that prices for video conferencing software is increasing because more people are working from home. This relationship can be described by _____.
   a. prestige pricing
   b. customer-driven pricing
   c. the demand curve
   d. the income effect

2. Each month you pay your rent. It is $800 and does not change based on the number of hours you work. This is known as a _____.
   a. variable cost
   b. fixed cost
   c. changing cost
   d. profit

3. Decreases in prices are most often associated with which stage of the product life cycle?
   a. Introduction
   b. Growth

c. Maturity
d. Decline

4. Adding fixed costs to variable costs yields which of the following?
   a. Total costs
   b. Profit
   c. Value
   d. Inflation

5. When the price of a product increases and the demand for its substitute product increases, this is explained by _____.
   a. elasticity
   b. inelasticity
   c. a change in income
   d. cross-elasticity of demand

12.4 Pricing Strategies for New Products

Learning Outcomes

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

LO 1 List the pricing strategies for new products.
LO 2 Explain each pricing strategy for new products.

Price Skimming

When a new product is introduced to the market, marketers often use one of three pricing strategies. Remember that when a company introduces a new product to the market, a good deal of financial resources have already been used even before the first unit is sold. Therefore, it is important for marketers to choose an appropriate price that both appeals to buyers and helps to recuperate the costs of research and development so that the company can begin to maximize profits more quickly.

Price skimming is a new-product strategy in which marketers choose to initially set a high price for a product or service and lower it over time. The goal of price skimming is to attract the segment of the market that is willing to pay the highest possible price for the product. Once achieved, the price is lowered to attract another segment of the market and so on. The term *skimming* comes from the skimming the cream, layer by layer, from raw milk—or in this case, each segment of customers.

Innovative technology often uses price skimming. For example, when Sony launched the PlayStation 3, it was set at a fairly high price of $599. With little competition and a well-established brand, it was successful. Each year thereafter, it lowered the price—and gained new customers—until it eventually reached a price of $299.[33]

Market Penetration Pricing

The opposite of price skimming is **penetration pricing**. The penetration pricing strategy is one in which the new product or service is set at the lowest price possible. This strategy's objective is to penetrate the market, or gain as many customers in all segments as possible from the beginning of the product life cycle.

In the late 1990s, Netflix introduced its movie rental service. For a monthly subscription fee, users could rent four movies at a time with no return date. The low initial price targeted the most segments of the market and allowed customers to try the new service with little effort or financial impact.

Break-Even Pricing

Break-even pricing is a pricing strategy in which marketers choose a price that will cover all of the costs of manufacturing. The break-even point is when the number of units produced equals the revenue for the

product. The break-even point will produce zero profit but will cover all associated costs.

The break-even formula is calculated by dividing the total fixed costs by the production unit price minus variable unit costs. The break-even point in units will tell a marketer exactly how many units must be sold in order to start making a profit.

$$\text{Break Even} = \frac{\text{Fixed Costs}}{(\text{Unit Price} - \text{Variable Unit Costs})}$$

Let's look at an example. Assume you are opening a new gourmet cookie shop and you have estimated your projected costs. You'd like to know how many units you must sell in order to break even and then start making a profit. Let's assume your fixed costs are $20,000. This includes rent, deliveries, ingredients, and new signage. You have estimated your variable costs to be $1.50 per unit, or cookie. You plan to charge $2.00 per cookie. How many units must you sell to break even? Using the formula above, you find that you must sell 40,000 cookies in order to break even.

$$\begin{aligned}\text{Break Even} &= \frac{\$20{,}000}{(\$2.00 - \$1.50)} \\ \text{Break Even} &= \frac{\$20{,}000}{(\$0.50)} \\ &= 40{,}000 \text{ Units}\end{aligned}$$

Knowledge Check

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

1. Luis is planning to introduce a new product to the market. Their aim is to gain as much of the market share as possible in the early introduction stage, so they are thinking of setting an initially low price. Which pricing strategy is Luis using?
   a. Break-even analysis
   b. Price skimming
   c. Penetration pricing
   d. Psychological pricing

2. Alexandra is working on the pricing strategy for her new food truck items. She is interested in knowing how many hamburgers she will need to sell in order to break even. Which formula should she use?
   a. Fixed Costs + Variable Costs
   b. Fixed Costs − Variable Costs
   c. Fixed Costs/(Unit Price + Variable Unit Cost)
   d. Fixed Costs/(Unit Price − Variable Unit Cost)

3. Tomas is selling his bottled sodas for $2.00 each at the vendor fair. His fixed costs are $100. He estimates that his variable costs are $0.25 per bottle. How many bottles of soda must Tomas sell to break even?
   a. 57
   b. 2
   c. Less than 1
   d. 25

4. Which of the following is true of price skimming?
   a. It captures the most market share in the introduction stage of a product.
   b. It is setting an initially high price of a product.
   c. It is setting an initially low price of a product.
   d. It determines break-even units.

5. David hopes to capture as much of the market as possible with the company's new product. Which pricing strategy should David use?

a. Price skimming
b. Cost-based pricing
c. Psychological pricing
d. Penetration pricing

12.5 Pricing Strategies and Tactics for Existing Products

Learning Outcomes

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

LO 1 List the pricing strategies and tactics for existing products.
LO 2 Provide examples of each pricing strategy and tactic.

Product Line Pricing

More often than not, marketers must make pricing decisions on existing products rather than new products. As products go through the product life cycle, price changes will likely need to occur to maintain value for customers and continue to maximize profits. Some common strategies and tactics for existing products are discussed next.

Many large companies offer multiple products and product lines in their product mix. One strategy for pricing products is to price products in a product line the same or similar. For example, Unilever is the manufacturer of many brands that you've likely heard of: Dove, Axe, and Hellman's to name a few. Within its host of products, Unilever has divided its products into price categories; higher priced items have a higher perception of value and so on. (Recall that a product line is a group of related products differentiated by features and price.) Unilever sets a higher price for some of its product lines and lower price points for others in order to capture various target markets, known as **product line pricing** (see Figure 12.7).



Figure 12.7 Companies utilize pricing strategies like product line pricing to appeal to various target markets through multiple products. (credit: "d2590-1" by Stephen Ausmus/USDA/flickr, CC BY 2.0)

Captive Product Pricing

Assume you need to purchase a new printer for your home computer. Once you buy the printer, you're also going to need to purchase what? That's right, ink. Captive product pricing uses a strategy that requires both a core product and a captive product. In the above example, the core product is the printer and the captive product is the ink. When you are shopping for the printer, you are likely to take into consideration the price you will have to pay for ink as well. Marketers may price the printer at a very reasonable price, knowing it will catch your attention and thus make the price of the ink seem less expensive. Captive product pricing maximizes profits by intentionally pricing both the core and captive products at a level that will increase the perceived

value to consumers.

Bundle Pricing

Bundle pricing is another popular pricing strategy that marketers use to promote purchasing multiple products at once. Consider when you go to the drive-through at your favorite fast-food establishment. Ever notice that it is cheaper or nearly so to purchase a "meal" than each item individually? Have you ever gone to the drive-through intending to get a cheeseburger but feel compelled to get the value meal instead because it only costs a little more? This strategy is used to prod customers to purchase (and spend) more than they may have otherwise.

Psychological Pricing (Odd/Even Pricing)

One popular form of psychological pricing is odd-even pricing. Similar to price appearance discussed earlier in this chapter, **odd-even pricing** banks on human motivation to lure in customers. The "odd" in this pricing tactic refers to the odd number at the end of a price, such as $19.95. Psychologically, the odd number in the price equates to value; the product is not $20.00, it is still in the "teens" at $19.95. Conversely, the "even" in the tactic utilizes even numbers at the end of the price, often zero, as in $50.00. This pricing tactic leads buyers to believe that the product is of higher quality because it is a nice, even number. Luxury items are often priced using the "even" side of odd-even pricing.

Ever wonder how odd-even pricing got its start? Decades ago, retailers began using this pricing strategy not to lure customers but rather to force cashiers to open their cash register drawers to make change—and thus record the sale. Over time, consumer psychologists studied the impact of odd-even pricing on consumption and found it to work!

Economy Pricing

When you are grocery shopping, are you surprised to see that name-brand products are priced much higher than store brands even though the product is essentially the same? Does the name brand really cost that much more to produce? Well, yes and no. Brand-name items spend considerably more on advertising than store brands. In order to recoup those costs (and based on the fact that name brands have a higher value perception to buyers), companies set prices higher for name brands. **Economy pricing**, on the other hand, is a tactic in which store brand prices are set much lower than their name-brand competitors. The focus on these products is selling in high volume by lowering prices and minimizing advertising costs.

Another example of economy pricing is used in the airline industry. Allegiant Air strives to offer no-frills air travel that is priced considerably lower than its competitors. But you have to get your seats fast at the lowest prices because the price increases as seats fill up. Oh, and if you want to travel with any luggage, you'll need to pay extra; Allegiant charges for any luggage other than one personal item.

Knowledge Check

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

1. You are considering purchasing cable for your new apartment. You would really like to add HBO to your cable plan, so you can watch some of the shows all of your friends are talking about. You can purchase basic cable for $49.99 per month and add HBO for an additional $12.99 month as a standalone addition. Alternatively, you can choose a package that includes HBO for $59.99. Obviously, you will choose the less expensive package. The cable company is using which of the following pricing tactics?
   a. Product line pricing
   b. Odd-even pricing
   c. Bundle pricing
   d. Economy pricing

2. Finley was tasked with setting the price of a new coffee maker that would utilize coffee pods instead of traditional coffee filters. Because customers would have to buy the pods in order to utilize the product, Finley should consider which pricing tactic?
   a. Captive pricing
   b. Odd-even pricing
   c. Bundle pricing
   d. Economy pricing

3. Thames is shopping for a new pair of jeans. He notices that one brand is priced at $49.99 and another is priced at $50.00. He immediately chooses the pair priced at $50.00 because he believes they are of better quality. Which pricing tactic was used to help Thames make his decision?
   a. Odd-even pricing
   b. Captive pricing
   c. Bundle pricing
   d. Economy pricing

4. Which of the following is NOT considered a pricing tactic for existing products?
   a. Odd-even pricing
   b. Price skimming
   c. Bundle pricing
   d. Captive pricing

5. Daphne often buys store or generic brand items at the grocery store because they are so much cheaper than name-brand items. Which pricing tactic is generally used for store or generic brands?
   a. Bundle pricing
   b. Cost-based pricing
   c. Psychological pricing
   d. Economy pricing

12.6 Ethical Considerations in Pricing

Learning Outcomes

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

LO 1 Identify ethical issues related to the pricing of products and services.
LO 2 Describe the different types of unethical practices.

Price Fixing

Recall that *ethics* is defined as behaviors based on values and beliefs of right and wrong. In marketing, unethical behavior can have catastrophic consequences. If a customer's trust is broken with a product, their likelihood of continuing to do business with that company dramatically decreases. Companies practicing unethical behavior run the risk of not only losing customers and profits, but also facing legal consequences. Let's explore some unethical (illegal) practices as they relate to pricing.

Price fixing occurs when two or more competitors agree to set prices at a specific level. The practice of price fixing force customers to pay higher prices than normal with no substitute alternatives. Consumers who purchased or leased certain automobiles were part of a class-action lawsuit involving several automobile manufactures. The brands, including Audi, BMW, Buick, Chevrolet, and many others agreed to pay into the settlement after being accused of conspiring together to artificially inflate the prices of various auto parts.[34]

Deceptive/Illegal Price Advertising

Deceptive price advertising is an unethical pricing practice in which the advertised price of a product is misleading to consumers. For example, let's assume a company advertised a product with a "suggested retail

price" of $9.99 but is offering the same product for the "low price of only $4.99." If the same product is actually priced in a market in the same country for $9.99, it is not considered deceptive. However, if the product is not priced at $9.99 in any other market, it is considered deceptive.

Say you sell hats for a price of $29.99, but sales are sluggish. You decided to offer your hats "buy one get one free," but just before the sale starts, you raise the price of one hat to $59.99. Is this deceptive price advertising? Yes. This is not a bargain for consumers and is considered deceptive according to the Federal Trade Commission (FTC).

Predatory Pricing

Another unethical (and usually illegal) pricing strategy is that of predatory pricing. **Predatory pricing** occurs when a company prices goods or services so low that other companies cannot compete. Predatory pricing often entails a company selling products below its cost with the intent of driving out competition and creating a monopoly situation. Once competition is eliminated, the company will often increase the prices exponentially—not only to recuperate losses from the lower prices, but also to make more profit. Under various antitrust laws, this practice is illegal when it seeks to drive out competition and makes a market susceptible to monopolies.[35] In 2000, Walmart was accused by the Wisconsin Department of Agriculture, Trade, and Consumer Protection of predatory pricing practices. The complaint stated that the company was selling staple goods such as butter and milk below cost with a goal to drive out competition and create a monopoly.[36] In short, predatory pricing undermines the free market where supply and demand sets prices.

Price Discrimination

Price discrimination is a pricing strategy that charges different prices to customers based on what the seller believes it can get the customer to agree to. This pricing strategy is not illegal so long as it does not cause specific economic harm. But marketers should be wary of using this price tactic, as it could lead to disloyal customers if they feel they are not getting the best price.

Monopoly Gouging

Monopoly gouging is when a seller increases the prices of goods and services that are not considered fair or competitive. If there are no or very few substitutes, a company may be enticed to force buyers to pay a much higher price, leaving them no options. When there are very few competitors in a market, such as utilities, the industry is highly regulated by the government. For example, your electric company cannot choose to randomly increase prices to increase profits; it must follow a regulated process when increasing prices.

During the winter of 2020–2021, Texas experienced much colder and snowier conditions than usual. Millions were left without power, and dozens lost their lives. As hotels began to fill up, prices skyrocketed. A Super 8 motel was shown on Hotels.com at nearly $400/night, exponentially higher than in ordinary times. Identifying price gouging is a bit more complicated than it seems. While basic economics would expect higher demand to equal higher prices, the practice of price gouging is not only unethical but also illegal in many states when a disaster is announced.[37]

COMPANIES WITH A CONSCIENCE



Warby Parker

Warby Parker sought to find a solution to the problem of expensive eyeglasses—a medical necessity for many people. The company stated that "the eyewear industry [was] dominated by a single company that has been able to keep prices artificially high while reaping huge profits from consumer who have no other options."[38] Warby Parker set out to change the way in which glasses were offered to consumers. The company's direct-to-consumer approach and a uniform pricing strategy have made waves in the eyewear

industry.

All of Warby Parker's eyeglasses are not only priced lower than its competitors, but all of its eyeglasses are priced the same: $95. The average cost of eyewear was $263, making it difficult for some consumers to afford the needed glasses and making it difficult for people to distinguish the value between a $200 pair of glasses and a $400 pair of glasses.[39]

The company bypassed traditional supply chains and began making glasses in-house. It also talked directly to customers to understand the needs of the market and, in turn, is able to offer prescription eyeglasses at a fraction of the cost. In addition, it saw a global problem: too many people need glasses but cannot afford them. That's why the company donates one pair of glasses for every pair sold.

Chapter Summary

In this chapter, we explored the process of setting pricing for products and services and the importance of pricing to the profitability of a business. We defined fixed and variable costs and how they factor into the break-even equation in initial pricing decisions. Commonly used pricing objectives were defined as cost based, sales oriented, market share, and target return. These objectives are used to set a clear pricing strategy for both products and services.

The new-product pricing strategies of price skimming and penetration pricing were defined, explaining common practices used based on the product type and placement in the market. The psychology of pricing based on consumer buying habits was identified and defined. Techniques include odd-even pricing, prestige pricing, and artificial time constraints.

The final concept we covered was ethics in pricing and how the consumer can identify unethical and/or illegal pricing practices. Price fixing, deceptive/illegal pricing in advertising, price discrimination, and monopoly/price gouging were discussed as practices that are used in an effort to increase profits.

Key Terms

artificial time constraints pricing strategy that creates a sense of urgency in buyers' minds
break-even pricing pricing strategy in which marketers choose a price that will cover all the costs of manufacturing
bundle pricing pricing strategy that promotes purchasing multiple items at once; used to prod customers to purchase (and spend) more than they may have otherwise
competition-based objective product pricing based on the prices of a company's competitors
consumer confidence an economic indicator that measures the degree of optimism that consumers have regarding the overall state of the country's economy and their own financial situations
cost-based objective product pricing based on the costs of doing business
cross-elasticity of demand the change in price of one good or service as a similar good or service's price changes
customer value–based objective product pricing based on a company's understanding of the value-added benefits of a product
customer-driven objective product pricing based on what a customer is willing to pay for a product or service
deceptive price advertising an unethical pricing practice in which the advertised price of a product is misleading to consumers
demand a buyer's ability and willingness to purchase a specific product or service
demand curve a graph that illustrates the relationship between demand and price
demand elasticity measure of the change in the quantity demanded in relation to the change in its price
discretionary income a household's money that is left over after all taxes and necessities are paid
economy pricing setting a price much lower than competitors to sell high volumes of a product
fixed costs costs of doing business that do not change based on number of units produced
income effect the perception buyers have of how price changes will affect their income
inflation an economic measure of the rate of rising prices of goods and services in an economy
market share–oriented objective setting prices at, below, or above competitors in an effort to increase market share
monopoly gouging when a seller increases the prices of goods and services that are not considered fair or competitive
odd-even pricing psychological pricing strategy that uses prices that end with odd or even numbers to attract customers
penetration pricing new product or service strategy that sets the lowest price possible in order to reach the majority of the market in the introduction stage

predatory pricing when a company prices goods or services so low that other companies cannot compete
prestige pricing a strategy marketers use to set high prices knowing that demand will increase with higher prices because the higher price increases the perceived value of the product
price the exchange of something of value between a buyer and seller
price anchoring a frame of reference for a buyer to set an expectation of a price
price appearance the way in which a customer perceives a price based on how it is visually represented
price discrimination selling goods and services at different prices to different customers
price fixing two or more companies agreeing to set certain prices in the market
price gouging when companies take advantage of a situation, typically an emergency or natural disaster, and charge exceptionally high prices for products or services
price skimming pricing strategy in which a company initially sets a high price for a product or service and lowers it over time as new segments of the market are reached
product line pricing setting a higher price for some product lines and lower price points for others in order to capture various target markets
profit the financial gain of a company
sales-oriented objective setting prices based on the goal of increasing the volume of sales
substitutes products and services that are similar to the one being offered
target return objective setting prices so they return a specific profit during a given period of time
total costs total expenses of doing business
total revenue the money generated from normal business operations
unemployment rate measure of the number of people not employed in an economy during a given period of time
variable costs costs that vary based on the number of units produced

Applied Marketing Knowledge: Discussion Questions

1. Choose a mass retailer such as Walmart or Target and look at its weekly advertisement. You can do this online, in the store, or with a physical flyer. Identify and analyze the pricing strategies used. Apply what you have learned to how you personally respond to those strategies.
2. Consider what products the penetration-price strategy and the price-skimming strategy work for. What are the advantages and disadvantages of these strategies?
3. Analyze the role pricing plays in strategic marketing.
4. Discuss with your family and friends what you have learned about pricing. Ask them how they respond to odd-even pricing, prestige pricing, and artificial time constraints. Note generational differences and possibly how family traditions can skew the answers.

Critical Thinking Exercises

1. Compose a 150–200-word paragraph using all the following terms as they relate to pricing. The goal is to prove you understand the meaning of each term.

   Terms to include:

   - Unemployment
   - Inflation
   - Discretionary income
   - Consumer confidence

2. Describe a break-even point and provide a mathematical example.
3. Pick one product that you would find at a grocery store, a mass merchandiser, and a convenience store.

Now go to each of these stores and check the price of the product you selected. Note if the product is on sale or listed at its regular price.

Are the prices consistent? Is one store higher or lower across the board? What would compel a consumer to pay higher prices for products when they can purchase them at a lower price?

Building Your Personal Brand

One of the most important tasks you have in establishing your personal brand is how you are going to communicate your skill level and experience to others. Let's start by developing a 30-second elevator pitch about yourself. An elevator pitch is what you would say about yourself if you were in an elevator with someone and only had the time between floors to share your message. What is the most important thing you would want to share about yourself and your personal brand if you were in an elevator with a hiring manager at company you want to work for? Things to consider covering include a quick introduction, your unique value or skill that would want to make them hire you, and something engaging about yourself to help them remember you.

What Do Marketers Do?

Using LinkedIn, find a pricing analyst. Reach out to them, introduce yourself, and let them know that you're a student wanting to know more about their job role. Then schedule an interview. Questions you may want to ask include:

- What is your background and education, and what brought you to this job?
- What do you feel are the pros and cons of this job role?
- Share with me what a typical day, week, and year look like in this job role.
- How has COVID-19 impacted your work?
- What advice do you have for someone interested in pursuing this job?

Marketing Plan Exercise

Complete the following information about the company and products/services you chose to focus on as you develop the marketing plan throughout the course. You may need to conduct research in order to obtain necessary information.

Instructions: Using the Marketing Plan Template file you created from the Marketing and Customer Value assignment and expanded upon in Strategic Planning in Marketing, Market Segmentation, Targeting, and Positioning, Marketing Research and Market Intelligence, and Products: Consumer Offerings, complete the following section of your marketing plan:

- Marketing Strategy: Pricing

Submit the marketing plan to your instructor for grading and feedback.

Closing Company Case

Naked Wines

Buying a good bottle of wine can be hit or miss. A consumer can pay a lot and not enjoy the wine or pay a little and really love the wine. As with any product, there are fixed costs and variable costs included in the price of a bottle of wine. Some of those expenses include the costs of production, the raw materials including grapes, barrels, bottles, utilities, and labor. Other costs include administrative overhead, sales, and marketing costs.[40]

Of course, distribution must be factored into the price of a bottle of wine. With an indirect distribution channel, wine often passes from the winemaker to a distributor, a wholesaler, and then a retailer. Macroenvironmental factors such as nature can affect pricing by affecting the grape supply, which will also add to the overall cost.

In addition to the obvious cost factors, there are psychological factors such as branding, exclusivity, and rating points. Wine rating points are awarded to wines based on input from industry experts and wine critics. Bottles with higher ratings points can generally command a higher price. In addition, a bottle with greater notoriety and awards will also be able to sell for significantly more than more obscure wines or those just starting out.

Breaking into the wine-making business can be incredibly challenging. All business start-ups face steep hurdles in the beginning stages. Wine making may well have more sunk costs than a typical start-up. With grapes taking years to grow and reach their peak and the labor for harvesting, juicing, and fermenting, entering the wine-making business can quickly burn through start-up cash. [41]

Getting money from a bank to start a business means business plans, initial investment, proven experience, and endless paperwork that takes up valuable time that could be spent tending the grapes. And making a name for yourself in the wine industry can take years. How do you get consumers to choose and buy your wine from the thousands of labels available?

Enter Naked Wines (https://openstax.org/r/nakedwines). The company was founded as a way to help small, independent winemakers break into the wine business. Started in 2008, Naked Wines had a mission to give consumers great wines at significantly reduced prices and help winemakers get the funding needed to start their business. [42]

Naked Wines thought it could break into the wine business by allowing consumers to join as investors. When a customer buys from Naked Wines, they become an investor. Each month investors purchase wine at a reduced cost from Naked Wines, which in turn invests in the winemakers it represents.

While the pricing is an advantage, being invested in the winemakers is a bigger advantage. Each month, investors get to choose which wines are delivered to them. The wines are carefully curated based on their wine preference profile along with the ratings they provide to the winemakers on previous purchases.

The Naked Wines business model allows the winemakers to have access to funding and market research, while the investors have access to great wines. As Naked Wines continues to grow from an initial start in the United Kingdom to operations in the United States, it continues to add winemakers and investors. Small winemakers who would otherwise not have had an opportunity to grow their business have found success and community through Naked Wines.

Case Questions

1. What are the psychological factors that affect the pricing of wine?
2. Name the five critical Cs of pricing evident in the Naked Wines pricing model.
3. What elements of the external environment are most evident in the pricing of a bottle of wine?
4. How might you best define the pricing strategy for Naked Wines?

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13

Integrated Marketing Communications

Figure 13.1 Peloton uses an integrated marketing strategy to reach consumers through multiple channels. (credit: modification of work "Going Backstage at Peloton HQ" by Jurvetson/flickr, CC BY 2.0)

Chapter Outline

13.1 The Promotion Mix and Its Elements
13.2 The Communication Process
13.3 Integrated Marketing Communications
13.4 Steps in the IMC Planning Process
13.5 Ethical Issues in Marketing Communication

In the Spotlight

Peloton started in 2012 with a group of ambitious people and the mission to "use technology and design to connect the world through fitness, empowering people to be the best version of themselves anywhere, anytime."[1] In 2019, Peloton, still a relatively new company, released a holiday television ad that put it front and center in a very controversial spot. The ad opens with a mother and daughter walking down a set of stairs to open Christmas presents. You can see the snow outside through the windows of the house. At the bottom of the stairs is her husband waiting with a Christmas gift.

"A PELOTON?!?" she shrieks—but it isn't immediately clear if she is happy with the gift. The commercial progresses with the mother documenting her fitness journey. She rides after work. She rides early in the morning. She rides through the seasons as you watch them change through the windows of the house.

The audience watches as she records her fitness journey on her Peloton. Toward the end of the ad, a Peloton instructor gives the young mother a name in a workout class by saying "Let's go, Grace from Boston!" As the commercial comes to an end, Grace shares her journey with her husband. It turns out she was talking to him the whole time.

"A year ago, I didn't realize how much this would change me," she says, now a true believer. After her year-long journey and her new "fit" state, Grace thanks her husband for the gift and how it transformed her.

Consumers immediately took to social media to accuse Peloton of promoting a negative body image, economic privilege, and archaic marital relationships. The controversial ad sparked a significant spike in social

media engagement. The brand and the ad were widely publicized in the media. The ad and the controversy definitely produced significant brand awareness and an intense interest in the benefits of using a Peloton.

Once the controversy died down, Peloton was a well-known brand name. And with the lockdowns that came with the COVID-19 pandemic, consumers around the world were seeking options for in-home exercise. Peloton was poised to become the market leader with a reputation as a premier means of in-home workouts.

Much of Peloton's success is a result of its robust integrated marketing strategy. Consumers learn about Peloton through a variety of methods: YouTube ads, television commercials, mall kiosks, social media posts, and web content. Though the organization does its best to develop its promotional messages, its best marketing strategy is the excellent word of mouth and rave reviews from all its loyal and satisfied customers. Using multiple avenues for reaching customers is known as an integrated marketing communication strategy, the core concept that you'll learn more about in this chapter.

Throughout 2020 and into 2021, during the height of the pandemic, Peloton experienced a 172 percent increase in sales.[2] But quick growth can create other problems. As Peloton's popularity exploded during the COVID-19 pandemic, management issues began to surface. In February of 2022, Peloton saw a 73 percent drop in its stock price, which led to the ousting of founding partner and CEO John Foley. Marketing communications can bring much-needed brand awareness, but it's been said that great marketing can quickly kill a bad company. What is next for the twice-named "CNBC Disrupter 50 Company"?[3]

13.1 The Promotion Mix and Its Elements

Learning Outcomes

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

- LO 1 Define the promotion mix and explain its importance.
- LO 2 List and describe the elements of the promotion mix.

What Is the Promotion Mix?

We are all consumers, and we have all been the target of promotional campaigns. To connect with consumers of a target market, companies conduct extensive market research so that they may better understand the consumer. When companies understand the consumer, they can better structure a message to appeal to the consumer and also find the best channels for reaching the customer.

The created messages aim to get consumers' attention. Sometimes they create awareness of a new event, a new product, a new idea, or a place to visit. Sometimes they are asking consumers to make a purchase. Marketing promotion is all around us.

According to the marketing firm Yankelovich Inc., the average digitally connected person is exposed to around 5,000 ads per day.[4] Among the biggest promotional spenders in the United States is Disney.[5] Disney produces ads for everything from its movies and toys to its vacation clubs and theme parks. While we should be flattered that these companies are thinking of us and trying to figure out how to reach us and what messages they should send, many consumers are busy trying to figure out how to shut out the messages.

When you sit down to watch television, you are typically exposed to ads that a company believes that you will respond to based on the research it has done about the audience watching the show you tuned in to watch. During your time scrolling through your news feed on Facebook, you are being served ads that correspond to your Internet search history and even products you may have mentioned while your phone was on and your news feed open. Digital advertising relies heavily on algorithms of your search history and site visits.

As recipients of these marketing messages, many consumers believe that marketing is only advertising or sales. However, advertising and sales are simply two options in a marketer's arsenal of communication tools used to connect with the target market. Developing a marketing communications strategy is something

marketers should only do after they have developed the rest of the marketing mix.

In fact, marketers have a wide variety of strategies to use from the overall promotional mix (see Figure 13.2). Most companies choose to use a combination of the promotional mix methods to create an integrated marketing communication message that reaches the customer in many different ways. When the messaging is integrated, the consumer receives the same message no matter which method of promotion is chosen. If the consumer is watching the news and hears a story about the company or product, public relations has impacted them. If they then scroll through their social media accounts at the end of the day and they see an ad for the same product, advertising has impacted them. When they sort through their email and have a message from the company, they have received a direct marketing communication.

No longer does promotion need to rely heavily on just one method of marketing communication. Marketers can be much more targeted and more cost-effective in the promotional methods they choose. Using a combination of methods to send the same message allows the marketer to be more strategic in their messaging and in their budgeting.

The best products are nothing until the consumer knows about them. Without good promotion, the best products are just secrets. We all have things we want to say, and on any given day we make phone calls, create Instagram posts, upload TikTok videos, send emails, shoot off text messages, and talk face-to-face with people. And just like us, marketers also have things to say. Usually, they want to tell consumers about their new brand extension of Reese's, a trade-in allowance for a new Toyota Camry that just hit the car lot, or even a buy-one-get-one-free promotion for your Starbucks latte. How marketers decide to say and send the message is the promotion mix.

The **promotion mix** is the set of strategies marketers use to communicate with their customers. With combined strategies, the promotion mix creates a powerful method of connecting with the customer and conveying all the other marketing mix elements for a holistic marketing approach. The promotion mix allows marketers to reach customers in many different ways, ensuring that the message is seen, heard, and understood. After determining and defining the target market, creating a good product, selecting a pricing strategy and optimal price, and deciding on the distribution method, the marketer is ready to communicate with the customer.

Messages sent by multiple methods provide a better opportunity for consumers to see and hear the message and make the connection back to the company. When a message is only sent by one method, the potential for interference, noise, and avoidance is more likely to occur. Marketers use a multichannel approach to send an integrated message.



Figure 13.2 The Promotional Mix (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Promotion Mix Defined

The full set of strategies that combine to make up the promotion mix include advertising, sales promotion, personal selling, public relations, direct marketing, and Internet/digital marketing. Each of these methods is intended to produce different results when used. Combining the elements creates an overall integrated message designed to reach consumers at various points in their path to purchase. Marketers call this integrated messaging integrated marketing communications.

The Importance of the Promotion Mix

Of all the marketing mix variables, the promotion mix can be further divided into different message channels that allow for connection and communication with the customer. When the promotion connects with the customer, it is the moment when all the marketing activities come together. When the messaging and method of delivery reach the customer and create the desired result, the marketing has achieved its purpose.

The strategies in the promotion mix provide the marketer with an arsenal of methods to achieve their marketing objectives, such as increasing sales or introducing a new product. However, consumers are bombarded with marketing messages throughout the day, and these are combined with the business of everyday life events like news, music, work, chores, family, and friends. With this busy pace and activity, the consumer is very difficult to reach. For the busy consumer, one communication method alone is not likely to cut through the clutter and noise to reach them and make an impact. Marketers must combine the various communication elements to connect with the customer and meet the communication objective.

Elements of the Promotion Mix

When analyzed individually, each of the **promotional mix elements** is powerful. They each have a part to play in the overall success of a company. When combined and carefully executed, they create powerful brands with legions of loyal fans and followers—the consumers. What do each of these promotional mix elements do, and how do they contribute to the whole process of connecting with the consumer?

Advertising

Advertising is a multibillion-dollar industry. According to Statista, in 2020 alone, worldwide advertising spending reached $586 billion.[6] **Advertising** is paid, nonpersonal communication from an identified source that allows for creative messaging about all aspects of a product, service, idea, person, or place. Consumers are able to quickly point to advertising as a form of promotion. It is perhaps the element of the promotional mix that we are most familiar with and the one we have been most exposed to throughout every phase of our lives.

From our very first commercial showing how much fun it is to build with LEGO to imagery of a toddler walking the Disney streets with a costumed princess and Cinderella's castle in the foreground, we know what advertising looks like. And while advertising can take many forms, it is important to note that advertising consists of carefully designed messaging from the company to the consumer. Advertising is meant to produce a response in the viewer. And advertising is all about what the company wants to tell us.

Advertising can be the pop-up window while we are doing a Google search. It can be the Chick-fil-A billboard we pass every day on our way to work. Advertising can be the trailer we watch before our movie starts. And advertising can be the fun Doritos spots we look forward to during the annual Super Bowl.

While advertising can be a costly means of communication with the customer, it is relatively inexpensive based on the number of people reached. When NBC priced the 2021 Super Bowl at $6 million for a 30-second spot, with a record 96 million viewers, the price averaged out to around $0.06 per person reached.[7]

Advertising is effective based on the **frequency** with which it is usually viewed. And because of the media, the advertising message can usually be repeated many times, depending on the budget. Due to its repeatability, production costs have a better return on investment (ROI) the more an ad is used, and the recall of the ad

increases significantly.

Sales Promotion

Most consumers love a **sales promotion**. It creates a feeling of excitement and often includes a bit of a gaming experience into the purchase decision. Marketers value the benefits of sales promotions because the results are immediate and they have a wide variety of options when using this promotional mix element. A sales promotion is a method for a marketer to induce sales in the short term. Sales promotion is not a long-term strategy but is geared toward specific calls to action, typically aimed at getting the consumer to buy something immediately or enter a sweepstakes or contest (see Figure 13.3).



Figure 13.3 Sales discounts are a promotional mix element that marketers use to appeal to customers and to deliver short-term sales for the company. (credit: "Sales Promotion at a Shop Window in Munich" by Henning Schlottmann/Wikimedia Commons, CC BY 4.0)

Using sales promotions can be an effective method of getting the consumer to try a product or buy more of a product, or it can be a way to quickly deplete an inventory to make way for new products.

While sales promotions have many tactics that the marketer can employ, several commonly used examples of sales promotion include the following:

- **Buy One Get One (BOGO)**. When Domino's Pizza offers the customer a free pizza when they buy a medium one-topping pizza, this BOGO deal is used to get an immediate increase in sales for Domino's pizza. Consumers may buy Domino's over other pizza brands because they can get more pizza for their money.
- **Enter to Win**. PepsiCo needed to gain traction with the millennial audience. It needed to boost the Lay's brand of potato chips and compete with new flavorful organic chips that were getting market share in the category once dominated by Lay's. To generate new interest in its brand, Lay's launched a campaign for consumers to create a new flavor. New flavors could be entered, Lay's would create samples, and the winner of the new chip flavor would win $1 million.
- **Coupons**. This method of promotion has come a long way with the use of technology. While consumers are still able to "clip" coupons and redeem them at the point of sale to receive savings on the products they are buying, many companies are making coupons available through mobile apps and discount codes to apply at the point of sale through an e-commerce store. Using coupons is a great method of inducing trial of a new product and increasing market share.

For National Ice Cream Day (see Figure 13.4), Cumberland Farms wanted to increase the sales of its house brand of ice cream, Ultimate Scoop.[8] It offered consumers a digital coupon for $1 off a pint of the ice cream. Cumberland Farms' existing customers received their coupon via text message, and new customers could text in to get the coupon.



Figure 13.4 Cumberland Farms used a coupon promotional strategy as a way to increase the price of its ice cream. (credit: "Ice Cream Cone" by Sean MacEntee/flickr, CC BY 2.0)

- **Rebates**. Companies offer rebates to induce purchase and generally to receive something in return besides the sale. When a rebate is offered for the purchase of an Energy Star–certified product, the consumer gets a designated dollar amount off the price of the product, and in turn they must submit the proof of purchase along with identifying information about themselves.

Personal Selling

Personal selling is one of the most expensive forms of promotion because it is a one-on-one, person-to-person form of communicating with the customer. The role of the salesperson is to inform and persuade the customer. This is usually done in what is termed an exchange situation. The salesperson is exchanging knowledge and something of value, while the customer is exchanging money for the item of value. Personal selling is ideal for products that can be customized, are complex, and have a relatively high price point.

Typically, personal selling is most often used in business-to-business (B2B) markets. Business buyers have longer buying cycles, more complex buying situations, and larger budgets. The pharmaceutical industry is well-known for using personal selling. Company representatives must have a high degree of training and knowledge about the products they are selling to physicians and hospitals. It is also very common to have a sales force to sell equipment and machinery to manufacturing plants. Businesses rely on the knowledge and service of the sales force selling them products.

In the business-to-consumer (B2C) market, personal selling is used for items that cost more or items that have a high degree of variation. We find sales representatives when we buy automobiles, home improvement products, and insurance. The job of the sales representative is to determine our needs and provide solutions that fill those needs.

When compared to advertising, which has a very general message directed to a very large audience, personal selling is an individualized message for one or several people within the buying group. When evaluating the costs of personal selling, it is typically hundreds to thousands of dollars per person reached.

The process of personal selling can be time-consuming. The process of selling and the tasks of the sales force can be complex. The sales professional is tasked with prospecting to identify the right customers and then qualifying them to make certain they are a good fit for the product.

It is not uncommon to hear people say, "You talk a good game. You could sell to anyone." In reality, salespeople do not want to talk people into a product. A good sales force only wants to sell to customers who want and need the product. The best sales force knows that when the customer is a good fit, they will bring repeat business and good word of mouth.

While some salespeople have a natural inclination for selling, others are highly skilled with the technical knowledge of the products they are selling. Understanding customers, the buying situation, and the product being sold are a few of the skills needed to master the art of selling. Good sales professionals know that the real work of the sale is to service the needs of the client long after the sale has been made.

Public Relations

Public relations is a nonpaid, nonpersonal form of promotion. Because it is nonpaid, it has a high degree of credibility and is beneficial because a typically credible, non-biased third party is the messenger. While there are many tactics that marketers might use for public relations, some of the most commonly used include press releases, press conferences, events, and annual reports.

Many of the other promotional tools focus specifically on communication with the customer. By contrast, public relations includes efforts to work with the community where it operates, media, government officials, educators, and potential investors.

When Nordstrom opened its flagship store in Manhattan, it unlocked the doors a few days early for a VIP celebration that included Vogue's editor, Anna Wintour, along with actresses, models, and designers. Some of the noted attendees included Zoe Saldana, Katie Holmes, Olivia Wilde, Karlie Kloss, Joan Smalls, Winnie Harlow, Tory Burch, Tommy Hilfiger, and Stacey Bendet of Alice + Olivia. Guests formed long lines around the store in an attempt to access the party.[9]

TOMS shoes has long been a leader in cause marketing (see Figure 13.5). When you buy from TOMS, one-third of the profits go to Grassroot Good.[10] TOMS' annual report highlights the people the company helps and how it helps them. Investors and any interested parties receive the annual report that details the work TOMS does right along with the profits it is making.



Figure 13.5 TOMS Shoes has effectively utilized a cause strategy, which has led to positive public relations with customers. (credit: "Toms Shoes at OhNo!Doom" by OhNo!Doom Collective/flickr, CC BY 2.0)

When celebrities wind up in the news, it is public relations, and it works to keep their name before the public and their fans. So the headline that hits the front page of the *New York Times* or is a leading story on the NBC nightly news both create publicity for the celebrity. Businesses also use publicity. A business might have a product as part of a movie, such as BMW vehicles showing up in 37 of the highest-grossing movies of 2018.[11]

Public relations can also include crisis communication when negative issues occur. One of the biggest public relations issues happened in 1982 to Tylenol. A malicious person or persons in the Chicago area tampered with a few bottles of Tylenol Extra Strength capsules by replacing the actual capsules with cyanide-laced capsules. Consumers who unwittingly bought the Tylenol ended up dead. Johnson & Johnson, the maker of Tylenol, was facing issues that could easily have destroyed its business. The issue was the leading story for every news outlet.

Johnson & Johnson faced the issue head-on and made the bold move to have Tylenol removed from all shelves. The recall resulted in the removal of 30 million products from store shelves.[12] In the end Tylenol was a hero and won the trust of a nation.

Direct Marketing

Direct marketing allows for direct communication with the customer. Messages can be tailored to specific market segments and even personalized toward individual consumers. Early tactics of direct marketing included telephone and mail; however, technology has allowed for new methods of connecting with the customer to include text messaging and email marketing.

In 2019, the Data & Marketing Association (DMA) reported that the direct mail industry was valued at $44.2 billion.[13] It's the second largest channel for ad spend in the United States, and it continues to grow. Transformed by technology, direct marketing is finding new methods to connect with the customer. Most connection includes a call to action that provides for immediate feedback on the effectiveness of the method.

Internet/Digital Marketing

Internet/digital marketing includes uses of technology to reach customers at many different points of interaction. Marketers have at their disposal a variety of methods to reach their customers and brand products. Some of the tools include websites, landing pages, social media pages, widgets, and customer relationship management (CRM) systems. All the digital properties work together to drive traffic to the branded properties and engage the consumers.

Digital marketing is geared toward very specific market segments and is primarily interactive. Think of digital marketing as the mechanism that produces the immediate interaction with the customer and produces some type of feedback. Digital is considered two-way communication between the company and the customer. During the early stages of launching the SPANX brand, Sara Blakely primarily used digital marketing with a heaving emphasis on social media.[14] She involved her women friends who were in her target market demographic and had them post about the brand through their social media.

By contrast, Internet marketing is sending a message to a mass audience. The Internet is used to for digital marketing and includes websites and digital ads as well as the two-way communication of social media. Other forms of digital marketing include mobile technology such as SMS and mobile apps.

When a consumer completes a Google search for shoes and then jumps to Facebook to scroll their feed and are served shoe ads from Nordstrom, Macy's, and Steve Madden, they have been targeted by these shoe companies. The targeting, immediacy, and changeability of the messaging makes digital a quick and efficient method of reaching consumers. Digital promotional tools are extremely effective and can cut through the clutter and reach the consumer when they are in the demand phase of the buying process and have signaled an intent to purchase.

According to a 2020 chief marketing officer (CMO) survey from Gartner, two-thirds of promotional budgets are being spent on digital.[15] Because of the tremendous analytics available, marketers are able to assess the effectiveness immediately. Messages can be tested for effectiveness and quickly changed if they are not producing results. It is very difficult to get the same quick feedback with any of the other forms of promotion. Through careful tracking and robust customer relationship management (CRM) systems, marketers are quickly able to promote products, increase brand awareness, and move consumers down the sales funnel to instantly

purchase through online e-commerce sites.

Utilizing mobile app technology, marketers are able to push promotions to customers while segmenting them by their behaviors and simultaneously filling their CRM with insights and analytics that can help drive promotions and sales.

CAREERS IN MARKETING



Integrated Marketing Career

An integrated marketing communications (IMC) professional builds and manages campaigns that integrate all the facets of marketing—advertising, public relations, digital campaigns, sales, etc. If you're interested in this job role, check out this article to learn about the qualifications, experience, and salary (https://openstax.org/r/requirementsintegrated). You can also refer to programs offered by educational organizations that specialize in integrated marketing. A few examples of those educational organizations include San Diego State University (https://openstax.org/r/businesssdsuedu), Marist (https://openstax.org/r/integratedmarketingcomm), Northwestern (https://openstax.org/r/imcprofessionalinfo), and Eastern Michigan University, to name a few. Check out this list for the Best Marketing Communication Colleges according to Best Accredited Colleges (https://openstax.org/r/bestaccreditedcolleges).

Additional resources to explore include the following video:

- IMC Careers from Northwestern's IMC director
  Integrated Marketing Communications (IMC) Careers (https://openstax.org/r/imccareers)
- Introduction to IMC geared toward marketing management students
  Integrated Marketing Campaigns - An introduction (https://openstax.org/r/imccampaigns)
- Evolution of IMC from Marist College
  Marist College: Evolution of Integrated Marketing Communication (https://openstax.org/r/maristcollege)

Knowledge Check

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

1. The goal of an integrated marketing communications (IMC) program is to _____.
   a. have all of a company's marketing and promotional activities project a consistent image and message to its target market
   b. control all facets of a product's distribution
   c. communicate with customers only through television commercials
   d. have complete control over all facets of the marketing mix

2. One of the promotional mix methods is advertising. Advertising may be defined as any _____.
   a. communications about a good, service, or company
   b. paid forms of nonpersonal communication about a good, service, or company
   c. communication that moves the product from the wholesaler to the retailer
   d. communication from a company sales representative to a company buyer

3. If you have a new brand and you want to reach a large consumer audience, which promotional mix element would probably be used?
   a. Sales promotion

b. Personal selling
c. Advertising
d. Public relations

4. Dunkin' includes coupons in its print magazine advertisements. This is an example of _____.
a. sales promotion
b. public relations
c. personal selling
d. Internet/digital promotion

5. When a singer who is voted off *The Voice* television series appears on *Today* to discuss the experience, it is an example of _____.
a. advertising
b. public relations
c. sales promotion
d. direct marketing

13.2 The Communication Process

Learning Outcomes

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

LO 1 Describe the communication process.
LO 2 Identify and discuss each element of the communication process.

Communication Process Defined

At first glance, the communication process seems simple. However, a deeper look shows the complexity and issues that are involved with communicating. When choosing how to send a message to the consumer, it is important to understand how the communication process works. All forms of marketing promotion are methods of communicating from the company to the consumer. No matter which method of promotion you use, the elements of the communication process are important to recognize and consider.

Understanding how communication flows helps the marketer to create better messaging, better media, and a response system that facilitates the communication objective. Sending and receiving a message are only two small parts of the complex system that marketers work with when trying to send promotional messages to consumers.

Within the complex system of communicating are the variables of the sender, encoding, messaging, media, the receiver, decoding, and the feedback loop—all while contending with constant noise. Out of all the elements of the communication process, only the sender, the encoding, the message, and the media are in the marketer's control. All of the other elements are outside of what marketing can control. Marketers must understand all of the other aspects of the communication process to mitigate the unknown and meet the campaign objectives.

When we consider communication, we are simply transmitting information. On the granular level, the communication process is how the message gets created, sent, and received. The elements of the communication process are consistent no matter what the message is or how you choose to send it. However, the variation in messaging, medium, and receiver all affect the encoding process and the feedback loop (see Figure 13.6).

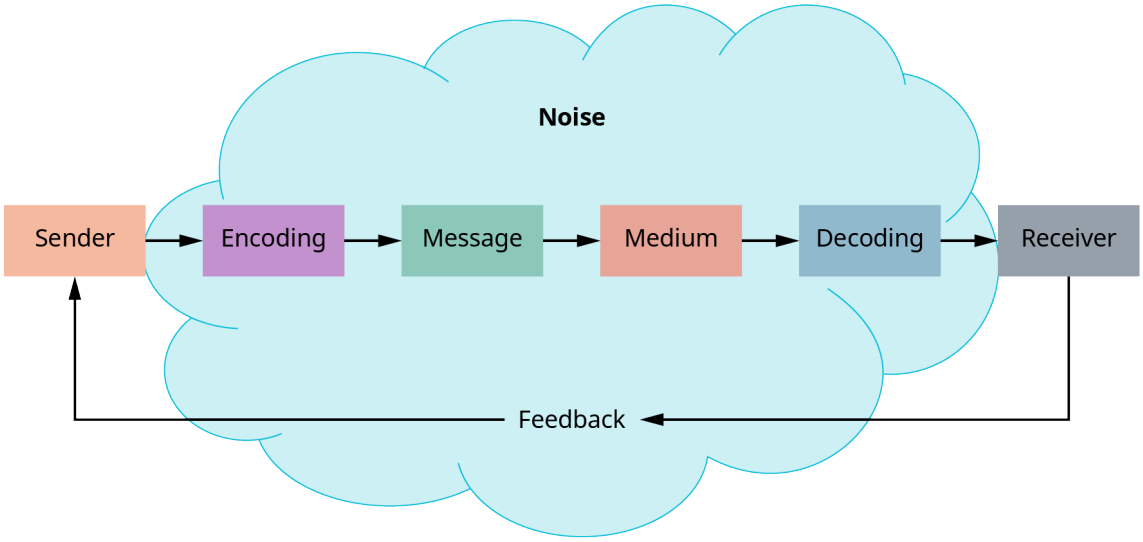

Figure 13.6 The Communication Process (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

The Elements of the Communication Process

In order for communication to happen, it must go through a process. Both personal and professional communication are comprised of several elements that occur in order for the exchange of information to take place. For communication to happen, there must be a sender of the message and a receiver of the message. Between the sender and the receiver is the message itself as well as the channel by which the message is sent. All the variables in between include the elements that are uncontrollable and, if not managed well, can cause issues. These elements include the encoding and decoding of the message as well as the noise that gets in the way and the feedback that helps us gauge the success or failure of the message.

The Sender

The **sender** is the source of the message. This can be the company, the marketer, or the hired talent for a commercial. For example, when PepsiCo signed a multiyear contract with Beyoncé to be a brand ambassador, Pepsi made Beyoncé the sender of its messaging.[16]

Encoding

How the message gets developed is the creative process marketers go through to put meaning behind the information they want to share with their customer. The process of creating the message is known as **encoding**. The process of putting the thoughts and ideas into words or symbols is encoding. Encoding could be writing a press release, developing a tag line, writing ad copy, creating a jingle, or designing a brand symbol. How a marketer chooses to encode the message should be dependent on the characteristics of the audience.

The Message

From the encoding process, a message is developed. For marketers, the goal is to have the message reflect the value the product provides to the consumer. When Nike tells its customers to "Just Do It," it has created a message. Dove's "Real Beauty" campaign created a message that beauty comes in many different forms.

The Medium

Once the marketer has the message developed, they need to send it. The **medium** is how the message is delivered. The message could be sent through the television in the form of an advertisement or a news story. The message could travel to the customer through an email directly in the customer's inbox. Or the message could be a salesperson describing why the new Ford Broncos are safe and dependable.

The Receiver

In marketing, the customer is generally the **receiver**. However, messaging can also be delivered to groups and organizations. When Comcast develops its annual report and sends it to its group of investors, the investors are the receivers of the message. If Chick-fil-A creates a billboard saying to "Eat More Chicken," the travelers passing the billboard are the receivers.

Decoding

Decoding is the process of unpacking the message and giving it meaning. It is the receiver's understanding of the message that has been sent. Many things affect the process of decoding, some of which include the receiver's knowledge and experience. To create the most effective messages and delivery, the marketer needs to have extensive research about and understanding of the receiver. When the consumer hears the message "Red Bull gives you wiings," the company (sender) wants to convey that the product will give the customer (receiver) the energy to do whatever they want to do. If the receiver believes that they can actually fly after drinking Red Bull, there was an error in the decoding process.

Feedback

The **feedback loop** tells the sender if the receiver understood the message as they were intending it when they encoded the message. Feedback is the checkpoint on a specific call to action. It can be a return email, a click to a website, or a purchase using a coupon. When the feedback loop is complete, the marketer has data regarding the communication process.

Personal selling has the richest method of feedback. If the salesperson is in front of the receiver and can hear their voice when they respond and can see their body language, they have a complete understanding of whether the encoding was effective when the decoding takes place. If the marketer sends a coupon to a consumer via a mobile app and the consumer redeems the coupon at the point of purchase, the redemption is the feedback loop for the sales promotion.

Noise

In the communication process, many elements are outside of the marketer's control. The biggest factor that can be a point of conflict for the marketer is the **noise** that interferes with the receiver's ability to get the message, decode it, and provide feedback. All the elements that get in the way of the receiver getting the message are noise. Noise can be the distractions that happen while the ad plays during an episode of *Seal Team*—things such as getting a snack, talking to a family member or friend, or surfing channels just as the ad is playing. Noise can be the other thousands of messages targeting the same receiver and vying for their attention.

The marketer's job is to understand the various sources of noise and work to create encoding and mediums that will help to reduce the interference. It is typically believed that because of all the noise that exists, the receiver must be exposed to the message on average 7–10 times before they take action toward the message.

Knowledge Check

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

1. When a message is created and the company chooses to have a celebrity as the spokesperson, what does the celebrity represent in the communication process?
   a. Sender
   b. Feedback loop
   c. Medium
   d. Noise
2. Which of the following is considered noise in the communication process?

a. The sender sings a jingle.
b. A special news bulletin interrupts a paid ad.
c. The consumer calls the 800 telephone number displayed in the advertisement.
d. The consumer clips the coupon from a mailer.

3. A popular form of communicating is through television advertisements. Which element of the communication process is the television advertisement?
a. Noise
b. Sender
c. Medium
d. Feedback loop

4. Putting thoughts, ideas, or information together in symbolic form is called _____.
a. encoding
b. noise
c. decoding
d. sender

5. The Tennessee Department of Tourist Development purchased and ad in *Southern Living*. The ad encouraged people to choose the state of Tennessee for summer vacations. Along with beautiful, scenic photos of Tennessee, the ad includes the tagline "Tennessee sounds good to me." In this print ad, the source of the advertising message is _____.
a. the Tennessee Department of Tourist Development
b. *Southern Living* magazine
c. the people in the scenic pictures
d. readers of the magazine

13.3 Integrated Marketing Communications

Learning Outcomes

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

LO 1 Define integrated marketing communications (IMC).
LO 2 Discuss why IMC is important in marketing.

Integrated Marketing Communications (IMC) Defined

Now that you are familiar with the various forms of marketing promotions, how do you use them? Because consumers are all different—no matter how they fit into your target market—it is important to reach them through a combined approach, using a variety of the methods in the marketing promotion mix.

The method of using various forms of the promotional mix to send the same message to the target audience is called **integrated marketing communications**.

Importance of IMC in Marketing

If a group of friends is planning to go out to dinner, as the group organizer you may find it best to text some friends and call others. The message is the same: "Let's meet for dinner at Chipotle at 6:00 p.m." The methods of communication are different depending on the traits and characteristics of the group. This works similarly in marketing. Marketers have many forms of communicating through the various methods available in the promotional mix. However, it is important to send the same message in different ways to reach different customers within the target market. And consumers need to hear the same message many times and in many different forms.

Benefits of IMC

Benefits of an integrated marketing campaign are many. As a marketer seeks to create awareness, stimulate demand, or even encourage product trial, they are continuously seeking methods of cutting through the clutter and noise and trying to reach their intended audience—the customer. When using one method, they may reach a few customers; when using two or more methods, the odds begin to increase; and when using all of their available promotional mix methods to reach the consumer with a consistent message, marketing becomes more effective. The benefits of the integrated approach are significant.

Better Results

Without an integrated approach, the marketing message and methods of delivery will be disjointed. Different members of the marketing team may be sending very different messages to the consumer. The consumer will then be confused as to what they should do. Think of it as a bike with all the pieces lying on the sidewalk—the bike doesn't work very well. However, when the pieces all come together to form the bike, it glides smoothly along the sidewalk. It is the same when the message comes together.

When Taco Bell (see Figure 13.7) wants to tell the consumer that the Grilled Steak Burrito is only available for a limited time, it can send the message many different ways. The consumer soon knows the Grilled Steak Burrito is only available for a limited time. They have received the same message through ads on television and radio, an email, a photo and reminder on Instagram, and a billboard on their way to work. After receiving the same message in many different ways, the consumer realizes there is some urgency in getting to Taco Bell to try the new Grilled Steak Burrito. When the customer is in physical proximity to their local Taco Bell, apps such as RetailMeNot can send push notifications to customers when they pass the location. The offer can include BOGO or other promotions to convince the customer the time to purchase a Grilled Steak Burrito meal is now.



Figure 13.7 Taco Bell effectively utilized an IMC strategy to tell customers that its Grilled Steak Burrito was available for a limited time. (credit: "Taco Bell" by JeepersMedia/flickr, CC BY 2.0)

Increased Efficiency

Having streamlined communication channels all working toward a unified goal reduces waste and increases productivity. The marketing effort should not create divergent messaging. Through integrated marketing communications, the creation of a clear and simple message allows the marketing team to focus on the single message while each team member uses their skills to push the message through their unique specialization, be it public relations or advertising. Everyone comes together through a shared goal.

Improved Brand Awareness

You can tell a small child to brush their teeth multiple times, and chances are good it still won't happen. But when a parent tells the child to brush their teeth, the dentist provides them with a toothbrush and tells them to brush their teeth, and Elmo shows them the importance of brushing their teeth, soon the child understands that it is a good idea to brush their teeth. The same thing happens when Southwest Airlines publishes all of its fares and fees on its website, broadcasts ads on television and radio, send emails to its Southwest Rapid Rewards customers, and advertises on its mobile app (see Figure 13.8).



Figure 13.8 An IMC strategy in which the consumer hears product or service benefits through multiple channels, as utilized by Southwest Airlines, allows a company to increase brand awareness. (credit: "Waikiki IMG_2379" by John Martinez Pavliga/flickr, CC BY 2.0)

Repeated Success

Through the use of an integrated approach, marketers are finding repeated success. Success is generally based on the metrics chosen for the campaign objectives. Typically, marketers are concerned with objectives such as return on investment, cost per impression, cost per lead, and customer lifetime value. With a truly integrated campaign, you will see the objectives remain the same while the execution strategies change across the various promotional methods.

Customer Satisfaction

When customers know the brand promise and they hear it repeated often with increased company connection, customers are more educated and have more realistic expectations. The combination of connection and knowledge leads to increased customer satisfaction.

Knowledge Check

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

1. British Airways used the James Bond movie *Die Another Day* to show that James Bond flies first class. The airline also ran ads with the slogan "Save your moneypennys, fly like Bond," which referenced one of the main characters in the film. The airline also posted ads where consumers were watching the movie. This an example of _____.
   a. the marketing mix
   b. distribution
   c. integrated marketing communications

d. advertising

2. The goal of integrated marketing communications is to _____.
   a. have all marketing and promotional activities project a consistent unified image
   b. gain control of the distribution process
   c. use only paid methods of promotion
   d. develop a competitive pricing structure

3. When Sally is able to quickly recall the Taco Bell ad and think about purchasing a Grilled Steak Burrito from Taco Bell when she is hungry, it indicates which of the following benefits of an integrated marketing communications approach?
   a. Increased efficiency
   b. Customer satisfaction
   c. Improved brand awareness
   d. Expense

4. Tina knows that when she goes to Walgreens, she can use coupons and her reward points. She is thrilled with the way she saves money at Walgreens, and she is happy to be able to use so many of the great promotional opportunities. She tells many of her family and friends about her savings and her experience. Which of the following integrated marketing communications benefits is Tina demonstrating?
   a. Better results
   b. Increased efficiency
   c. Improved brand awareness
   d. Customer satisfaction

5. When a marketer uses multiple promotional methods to send a consistent message to the consumer, they are demonstrating the use of _____.
   a. advertising
   b. public relations
   c. integrated marketing communications
   d. personal selling

13.4 Steps in the IMC Planning Process

Learning Outcomes

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

LO 1 List the steps in the IMC planning process.
LO 2 Summarize the details of each step in IMC planning.

Identify the Target Audience

All successful IMC campaigns start with a good foundation and a carefully written and executed plan. Every step in the marketing process should be driven by research; the same is true for the IMC planning process (see Figure 13.9).



Figure 13.9 The IMC Planning Process (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Understanding the audience is integral to creating an effective IMC campaign. Using a variety of tools, marketers are able to identify the target audience. The more that is known about the target audience, the higher the likelihood is of making sure the message is coded correctly and the right medium for effective

encoding and reduced noise is chosen.

Marketers employ many tools to understand the target audience. Both primary and secondary marketing research can provide significant insights. A clear understanding of the consumer allows the marketer to create messages that resonate with the needs and wants of the target audience.

Determine the Marketing Communications Objectives

Marketing campaigns must start with clear objectives. Objectives define what needs to be done, and they help to keep the strategy and tactics clearly aligned. Good objectives will help marketers create cohesive messaging across all the promotional mix methods. Objectives need to be simple, and they should be written in such a way that they provide opportunity for analysis. If done correctly, marketers should be able to analyze if the messaging and the medium are working. When creating objectives, follow the SMART guidelines: simple, measurable, actionable, realistic, and time-bound.

The 5A Framework

The **5A framework** is the map of the customer's needs. Through the 5A framework (see Figure 13.10), marketers create messaging that moves the customer through the funnel, or customer journey with the brand. The 5As provide the marketer with clear steps on the role of the messaging at each step of the framework.

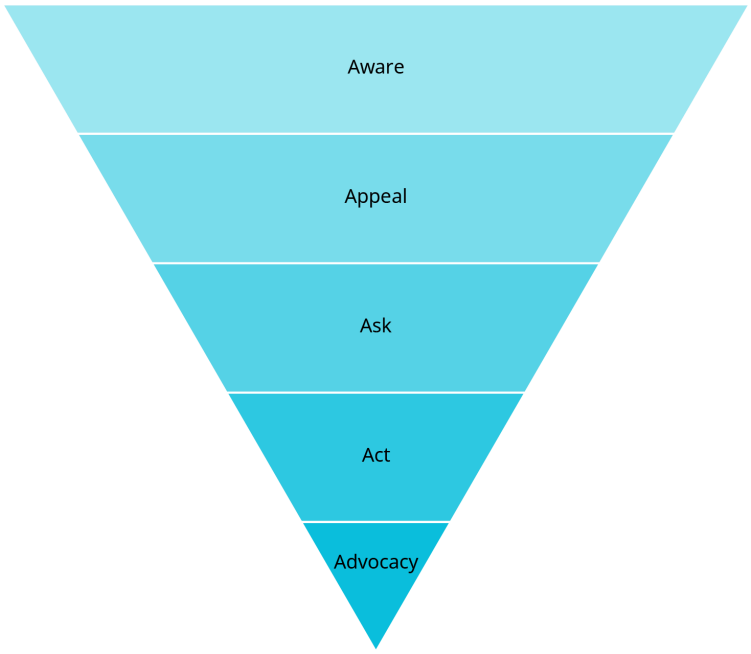

Figure 13.10 The 5A Framework (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Let's look at the five steps of the 5A framework in more detail:

- **Aware**: The first stage in the customer journey with any product is to be aware that the product exists. It is difficult for a product to be desired by the customer if they don't know about it.
  When Angel Johnson launched her activewear company ICONI, she needed to stand out from more popular and well-funded activewear brands. As a Black woman–owned business, Angel wanted to appeal to other women, many of whom needed different types of activewear. Angel found success in creating awareness through running ads on Amazon, where customers could easily find and purchase her products.[17]
- **Appeal:** After becoming aware that a product exists, the consumer must gain some understanding of what the product can do for them. If the benefits are favorable for the consumer, they may put it in their

consideration set of things that appeal to them.

- **Ask:** After the appeal stage, the consumer may become motivated to actively seek out information about the product. When the consumer asks the company about the product, they have opened the channels of communication. This is part of the feedback loop. Methods of asking include the consumer engaging online through a chatbot or a contact form or by calling a listed phone number.
- **Act:** Further down the customer journey funnel, if the customer has received information and they feel it is favorable, then they will act. The action can be to either purchase the product or not purchase the product. Either form of action must be evaluated by the marketing team. The marketer can determine if the messaging created a favorable or unfavorable reaction and then modify the messaging for the segment that acted not to buy the product.
- **Advocacy:** At the bottom of the funnel is the marketer's holy grail—the consumer becomes a loyal customer. The marketer can begin to calculate lifetime value, but most importantly the consumer becomes an advocate for the product. Through their advocacy, the consumer provides positive word of mouth and encourages purchase by other consumers.

Design the Message

A key element of integrated marketing communications is creating the message. Messages are designed to fulfill the established objectives. Depending upon the objective and the desired action of the consumer, the marketer may create the message to meet the various stages in the customer journey and have a call to action.

The biggest part of the message design is the content of the message. To move the consumer to the point where they act, marketers have at their disposal various forms of appeal. The appeal is the approach used to attract the attention of the target audience or to persuade it to take action.

Create the Message Content

When creating the message, the marketer has to consider not only the stage of the customer journey, but the product's features and benefits as well. Other factors to consider in the message content include the media and the traits and characteristics of the target market. All of the segmentation bases should be considered when creating the appeal.

Rational Appeals

When Toyota advertises the features of alternative-fuel vehicles and tells the consumer how those features benefit them, it is creating a rational appeal (see Figure 13.11). **Rational appeals** prompt the consumer to make the choice for the product because of all the ways they will benefit from using it.



Figure 13.11 IMC messages that appeal to a consumer's rational side, like Toyota's alternative fuel vehicle, speak to the benefits the consumer will see from using the product or service. (credit: "Another Breakfast at Buck's" by Jurvetson/flickr, CC BY 2.0)

Emotional Appeals

Consumers have a wide variety of emotions. Advertising messages can play to all those emotions. A few of the typical **emotional appeals** include happiness, fear, trust, sadness, anger, and guilt. It can be quite effective to create fear if the customer doesn't purchase the product. Some examples of common fear appeals include skin care products and the fear of the effects of aging on skin. Vitamins and supplements use the fear of being unhealthy. And automobiles promote the fear of not being safe in a crash unless you drive a certain brand with a good crash-test rating.

LINK TO LEARNING

Happiness Campaign

Coca-Cola (see Figure 13.12) wanted to associate drinking a Coke with being happy and created a whole campaign on the emotion of happiness. Everything in the campaign was focused on drinking Coke and choosing to be happy. They created the #choosehappiness hashtag to be used in their social and digital promotions. Consumers would include their pictures drinking a Coke with friends and add #choosehappiness. Check out this commercial from the campaign.

Coca-Cola Happiness advertising campaign "Choose Happiness" - produced by AG Films (https://openstax.org/r/cocacolahappiness)



Figure 13.12 IMC messages that speak to a consumer's emotional side, like Coca-Cola's "Happiness" campaign, influence purchasing behavior by playing to the wide variety of emotions that consumers have. (credit: "Coca Cola" by JeepersMedia/flickr, CC BY 2.0)

Public health campaigns often rely on **fear appeals** (see Figure 13.13). If you continue a behavior there may well be negative consequences, which can arouse fear in the consumer. These campaigns seek to change behavior through fear. Fear appeals can be very effective in some circumstances.



(a) (b) (c)

Figure 13.13 IMC messages that speak to consumers' fears create a sense of panic that if message isn't heeded, something bad may happen. (credit: "Cancer Take Warning" by Archives New Zealand's health poster collection, transferred by the Department of Health/Railways Studios/Archives New Zealand/flickr, CC BY 2.0; "Knocked Flat by a Sneeze" by Archives New Zealand's health poster collection, transferred by the Department of Health/Archives New Zealand/flickr, CC BY 2.0; "How Many Cigarettes a Day Does Your Child Smoke?" by Archives New Zealand's health poster collection, transferred by the Department of Health/Archives New Zealand/flickr, CC BY 2.0)

Moral Appeals

A **moral appeal** pushes the consumer to want the product because of a sense of morality or social good (see Figure 13.14). The messaging may encourage the consumer to do the "right thing." If they don't do what is being asked of them, the situation will get worse.



Figure 13.14 Messages based on morals encourage consumers to do what is considered right. (credit: "Beer Bottle Chained with Handcuffs and Don't Drink and Drive Text" by Marco Verch/flickr, CC BY 2.0)

Message Structure

Promotional messages generally have common elements, which include a slogan, the text or content, and the graphics. The graphics can include photos and brand identification. Messages can tell stories with words or lead the audience to their own conclusion based on the graphics.

When Apple first promoted its iPod, the company used the imagery of a very colorful background, a completely black silhouette, and the stark contrast of the all-white iPod with white headphones. The graphic alone conveyed the message that the iPod would allow consumers to "jam" to their own tunes through this new device.

Message Format

The format of the message depends largely on the media being used to send the message. For example, a television ad combines sight and sound, while radio is reliant only on sound. The same is true for print, billboards, and various digital campaigns. Formatting the message needs to take into consideration the target market as well as the medium of the message.

Determine the Budget

Promotional budgets are determined based on many variables. In developing the promotional budget, it is important to consider where the consumer is in their journey. Additional considerations include the current level of brand awareness for the product, accessibility of the target market, creation of the promotion, and specific media under consideration. There are several commonly used methods of creating promotional budgets.

- **Objective and Task:** This is perhaps the best method but is often used the least. With objective and task, the marketer determines the objectives of the IMC campaign and what tasks need to be done in order to complete the objectives. The tasks are priced, and the level of reach (number of consumers who will see the message) and the frequency (the number of times the consumer will see the message) are estimated. Based on the tasks necessary to achieve the campaign objectives, the budget is established.
- **Top Down:** With a top-down budgeting approach, the IMC campaign budget is issued from the operating budget based on input from the executives responsible for setting the budgets. While this method takes into consideration the overall organization, it pays little heed to the needs of the specific campaign.
- **Percent of Sales:** While personal selling is one of the methods included in the promotional mix, it is not the only method. A percent-of-sales approach attributes sales to all the functions of marketing. Generally, an organization may provide an arbitrary percent of overall sales as the total budget for the marketing promotions. Because many issues affect the sale of a product, it is difficult to make sales the only

determinant of the marketing activities and the promotional methods.

- **Affordable:** The affordable method allocates only the amount of money the company can provide to a marketing budget. This method does not create a mindset of growth within the organization. A robust marketing strategy is focused on the growth of the organization. Affordable only provides for what is left over after all the other expenses have been allocated.
- **Competitive Parity:** If you were to look at the advertising budgets of competitors in the same industry, you might very likely see that they are spending similar amounts on a very similar promotional mix. Companies of every size closely monitor the promotional activities of their competitors. With the competitive parity method of budgeting, the allocations essentially mirror whatever the closest competitor is spending on promotions. This method of budgeting doesn't allow for increased market share.

Develop Strategies and Tactics

The promotional strategies include the promotional methods the marketer chooses in order to achieve the objectives. Within the promotional methods, the tactics are the specifics the marketer must use to achieve the objectives. For example, if Panera Bread wants a 10 percent increase in brand awareness for its decorated Christmas sugar cookies from November 26 to December 30, it may choose to use the following strategy and corresponding tactics:

A strategy might be to create an Internet/digital messaging campaign focused on creating awareness with a message to try the Panera Christmas sugar cookies for a limited time. The tactics might then be developed as follows:

- Develop push ads through the Panera Bread mobile app
- Publish pop-up banner ads through Google
- Post campaign messages in Instagram
- Post campaign messages in Facebook

Select the Promotional Tools

The marketer must decide on the mix of promotional tools based on the established marketing objectives. Choosing the mix of promotional methods is also primarily dependent on the consumer and how best to reach them.

When Timmy Global Health, a not-for-profit organization, wanted to do an end-of-year fundraising ask, it chose to reach its donor base through direct mail. The organization chose an email campaign for the segment of its market that is responsive to email and has an email address in the CRM system. For a small segment of its market, those who are older and not responsive to digital marketing, it chose to do a direct mail campaign with a postcard mailed through the US Postal Service.[18]

LINK TO LEARNING



Direct Mail Examples

There are hundreds of examples where companies have used direct mail campaigns in their promotional mix. Check out some of the best as referenced in this article (https://openstax.org/r/bestdirectmail).

Designing the Promotion

In considering the target market and the message to send, the marketer must think of the desired response. Three important issues arise in the design of the promotion: what to say (message), how to say it (creative), and who should say it (source). This leads the marketer to the overall message strategy, which will look at the appeal as it relates to the brand positioning. A marketer will consider the following in designing a promotion:

- **Message Strategy:** A good **message strategy** must tie the brand to the target audience. What will appeal to them? What action do you want them to take? How does the brand positioning need to be portrayed? The marketer may choose to highlight how the product compares to the competition (points of parity), or the marketer may choose to focus on how the product is different (points of difference). In doing so, it is important to showcase the product or service through the value it will bring to the target market. Ultimately, the customer wants to know "What's in it for me?"
- **Creative Strategy:** Through a **creative strategy**, the marketer is able to translate their message into words, images, and sounds. If the message and the creative do not match up, the communication objectives may miss their mark. The creative strategy helps the marketer cut through the clutter and get the attention of the target audience. A properly done creative strategy serves as the guiding principles to develop good content.
- **Communication Channel:** Think of the **communication channel** as the delivery mechanism, taking the message from the company to the consumer. Determining which channel is generally guided by the audience, the message, and the creative strategy. Channels can be nonpersonal or personal. The channel options are as varied as the consumers themselves.
  Personal communication channels can include social networks like friends, family, and neighbors. They can also include paid or unpaid experts and even the company's own sales force. Nonpersonal communication channels include everything from television and radio to billboards and direct mail.

In designing the promotion, the marketer can mix and match the message, creative, and communication strategies until they have the right combination to execute on their objectives and connect with the target market.

For example, when World Food Championships wanted to reach home cooks, professional chefs, and aspiring chefs to participate in its Food Sport events, it enticed them with the opportunity for a big payout in winnings. And it created a connection with them through smaller local qualifying events. When the winners of smaller events received a Golden Ticket to compete, they were instantly excited. Then they realized the competition would allow them to meet with even bigger food celebrities and increase their chances of television fame (see Figure 13.15).



Figure 13.15 Designing a promotion involves developing a strategy around message, creativity, and communication—an approach that was effectively implemented by the World Food Championships when it wanted to reach a wider variety of cooks. (credit: "Cookin' with Gas (Oh Wait, That's Induction...)" by Shrie Bradford Spangler/flickr, CC BY 2.0)

Scheduling the Promotion

Knowing when to promote and how often to promote is a critical juncture in the promotional process. For scheduling purposes, it is important to understand the complexity of the message and the medium or channel for delivery. If the average of 5,000 promotional messages a day is correct, the consumer will need to see a message many times in order to become aware and act. To move them down through the customer journey, the message has to cut through the clutter and stick.

Reach is the number of consumers who will be exposed to the promotional message at any given time. Frequency is the number of times the consumer will be exposed to the message. Using the combination of reach times frequency, the marketer is able to determine the promotional schedule. Marketers typically work to create promotional schedules that optimize the exposure to the target market. Once again, we see that having extensive knowledge of the target market is critical to creating effective campaigns. There are three promotional schedules a marketer may consider:

- **Continuous:** With a **continuous promotional schedule**, the marketer will conduct the promotion year-round on a very regular schedule. Consumers will continuously see the ads.
- **Flighting**: Through a **flighting promotional schedule**, the marketer will run a period of heavy promotions and then go for a period of time without any promotional messaging. The idea is to give the target market a break and avoid potential wear-out of the message.
- **Pulsing:** If you see promotions on a regular basis and then suddenly you see them a lot during certain seasons, the sender is using a **pulsing schedule**.

For example, let's consider the television commercial for MyPillow. Throughout a broadcast, the MyPillow commercial plays two or three times. The commercial plays every night on one broadcast station. However, during holiday seasons, the commercial plays more often. The commercial is often accompanied by a special code. With the code, viewers can receive a discount on the pillows. The viewer gets a discount, and MyPillow receives analytics to determine if its budget for this commercial television time is effective. In this example,

MyPillow is utilizing a pulsing schedule for its promotional efforts.

Evaluate and Measure the Objectives

Before starting a promotional campaign, marketers must establish objectives. Including measurable and time-bound objectives is important. The marketer must evaluate the campaign on a continual basis to ensure that every element in the campaign is working to achieve the objective. Measuring and evaluating the campaign on a continual basis allows the marketer to evaluate the elements and make changes. Typically, objectives also have financial accountability. Changing elements of a campaign avoids overspending on components that are not working to meet the objectives.

Some common **key performance indicators (KPIs)** for evaluating promotional campaigns include the following:

- return on investment
- cost per lead
- cost per sale
- conversion
- engagement

Digital promotional campaigns allow marketers to track many analytics in real time and have the ability to make changes to the campaign in real time. The advantages of digital media include a host of valuable analytics, such as the following:

- website traffic
- page views
- bounce rate
- conversion rate
- impressions
- cost per click

MARKETING DASHBOARD



ROCI

IMC is centered on data-driven decision-making to drive organizational value. So it's no surprise that the founder of IMC, Don Schultz, determined a way to measure IMC campaigns. Schultz calls this metric **return on customer investment (ROCI)**. ROCI is a marginal analysis that shows the efficiency of marketing communications spending. We often think of effectiveness as the key measure of a campaign's success. But equally important is the efficiency of how we spend resources. We should consider how hard our resource works for us.

We should also be concerned about how well our investment does in the short term and the long term. After all, we are trying to build financial returns for our organizations. ROCI looks at short- and long-term value by considering the change in profitability and value during the period and overall.

IMC considers all aspects of the marketing communications relationship, not just a single campaign. The ROCI metric looks at how revenue grows over time and not just in response to one action.

The formula for ROCI is as follows:

$$\text{ROCI} = \text{Profit from Customer in Current Period} + \frac{\text{Change in the Customer's Value in Period}}{\text{Customer's Value at the Beginning of the Period}}$$

Let's say we own an ice cream shop and we are interested in the efficiency of our recent IMC campaign. So, we decide to conduct an ROCI calculation for an average customer using the following data. What is the ROCI?

Profit from the customer in the current period	$38.00
Change in customer's value in the current period	$10.00
Customer's value at the beginning of the period	$21.00

Table 13.1

Solution
$38.48

Last period, the ROCI was $37.50. What factors might impact the change from the previous period to this period?

Solution
ROCI considers all aspects of the IMC relationship, so as the relationship grows, the ROCI does as well.

What is the value of the ROCI calculation?

Solution
It determines the marketing communication campaigns that yield the most profitable customers.

LINK TO LEARNING



Don Schultz

Hear from Dr. Schultz directly about IMC trends in this video.

Don Schultz on IMC trends (https://openstax.org/r/donschultz)

Knowledge Check

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

1. The first step in the IMC planning process is _____.
   a. determine the objectives
   b. determine the budget
   c. identify the target audience
   d. select the promotional tools

2. According to the 5A framework, when Jennifer uses the Panera Bread coupon sent through a text message to her mobile device, which stage of the customer journey is she in?
   a. Advocacy
   b. Aware
   c. Appeal
   d. Act

3. When advertising is scheduled to run constantly without variation, this is referred to as _____.
   a. flighting
   b. continuity
   c. reach
   d. pulsing

4. When Nestlé shows an advertisement that has children coming down the stairs on Christmas morning to the smell of freshly baked Nestlé Tollhouse chocolate chip cookies, this is an example of which method of message appeal?
   a. Rational
   b. Emotional
   c. Fear
   d. Moral

5. The CFO for Wendy's tells the CMO that after doing the annual budget, there is only $700,000 left for marketing promotions. Which form of budgeting is Wendy's using?
   a. Objective and task
   b. Competitive parity
   c. Affordable
   d. Percent of sales

13.5 Ethical Issues in Marketing Communication

Learning Outcomes

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

LO 1 Identify ethical issues with respect to marketing communications.
LO 2 Discuss ways to maintain and foster ethical marketing communications.

Socially Responsible Marketing Communications

While some argue that marketing makes people buy things they don't want, marketing cannot *make* someone buy something. The adage "buyer beware" still holds true. And while there are stories of rogue marketers not holding to the American Marketing Association (AMA) code of ethics, ultimately marketers want lifetime customers. The lifetime customer is easier to educate, more agreeable, and generally a good word-of-mouth testament for the company. It is difficult to get and keep customers without ethical marketing.

Marketers look to self-regulation as the first line of defense. It is in the marketer's best interest to always maintain a code of ethics in order to serve their customers and grow their organization. Good brands are always built on trust.

After self-regulation, there is regulation by trade associations, followed by federal regulation. The federal agencies with oversight for marketing promotions include the following:

- **Federal Trade Commission (FTC).** The FTC maintains oversight of commercial speech, unfair methods of competition, and deceptive advertising.
- **Federal Communications Commission (FCC).** The FCC regulates broadcast communication and has jurisdiction over the radio, television, and telephone sectors.
- **Food and Drug Administration (FDA).** This organization has authority over labeling, packaging, branding, ingredients lists, and advertising of packaged foods, pharmaceutical products, and cosmetics.
- **CAN-SPAM Act.** This regulation monitors commercial email practices and is one of the prominent regulations that affect many marketers across industries.

Companies have realized that when they are socially responsible, it benefits many of their customers, their communities, the environment, and their shareholders. Customers have come to expect more from the

companies they purchase from, and they want to support companies that "do good." When companies support and sponsor programs and charities that are important to their customers, their customers in turn support them.

In 2021, Subaru celebrated 14 years of its Share the Love event.[19] To celebrate this event, it debuted a national ad campaign highlighting the people, places, and pets that have been impacted by its social responsibility. Charities supported by Subaru include the American Society for the Prevention of Cruelty to Animals (ASPCA), Make-A-Wish Foundation, Meals on Wheels America, and the National Park Foundation. In its advertising, Subaru also showcases some of the local charities—selected by Subaru retailers—that benefit from the Subaru Share the Love event, as well as the impact of the automaker's work with Feeding America to help address food insecurity.[20]

Maintaining and Fostering Ethical Marketing Communications

Ethical marketing communications includes avoiding activities that could mislead consumers—communication such as withholding information, making misleading claims, and misstating information. In an effort to make products be all that a consumer would want from them, marketers can easily go down the slippery slope that leads to ethical missteps. To make sure marketing communication doesn't follow any of the common unethical practices, it is important to be aware of two of the most used and violated ethical issues:

- **Puffery** is when marketers exaggerate at extreme levels. For example, a marketer may say that a product is "10x stronger than the competition." This is an unethical statement unless the marketer can support this claim through independent research from a third-party firm. Using general terms such as "awesome," "fabulous," and "best" are all acceptable, but making specific statements crosses the ethics threshold.
- **Paid sponsorship** is when a person promoting a product is paid by the company to make an endorsement. We've all seen the political ads describing who has paid for the ad and who has endorsed the ad. When we see a television commercial and it has a Ford truck driving over rugged terrain and we hear "Built Ford Tough," we are certain the ad was paid for and sponsored by the Ford Motor Company. However, if we scroll through Instagram and we see one of our favorite Instagram accounts using the new Babyliss Pro Titanium Flat Iron for their styling hair, and they are extolling its many great features, we cannot be sure if this Instagram account simply really likes the flat iron or if they are a paid influencer. Paid influencers must disclose their relationship to the brand so the consumer is notified that the endorsement of the product is a business arrangement. Disclosing paid sponsorship is a big issue, particularly for advertorials, native advertising, paid links, influencer marketing, affiliate marketing, and any "pay for play" content.

COMPANIES WITH A CONSCIENCE



Farmer Direct Organic

This group of farmers in Canada and the United States banded together to provide better food and better prices. The mission of Farmer Direct Organic is not only to grow better food but to change the way consumers think about food and how they eat. The farmers who participate in the cooperative are focused on quality and transparency. All of their food is 100 percent organic and 100 percent farmer owned.

Through its Facebook and Pinterest accounts, Farmer Direct Organic showcases the family farms that grow the food it sells. Consumers can purchase Farmer Direct Organic at Fresh Market and Whole Foods locations throughout North America. In keeping with its mission to help consumers eat better food, the company shares recipes and serving suggestions on social media and the organization's website.

With a vision of a "food future that is good for you, for your family, for farmers, and for the planet," Farmer Direct Organic carefully monitors the food that bears its brand, and it has an unwavering commitment to

pesticide monitoring, transparency, and traceability from the store back to the farm that grew the food that is now on your table.[21]

Chapter Summary

After the marketer has facilitated all the other marketing mix variables, they are ready to communicate with their intended target audience. Marketers have a set of promotional methods for communicating. This chapter explores the various methods of communication along with modeling the communication process.

Throughout the chapter we explore the various promotional methods: advertising, personal selling, sales promotion, public relations, direct marketing, and internet and digital marketing. The communication process has multiple steps: sender, receivers, message, medium, encoding, decoding, feedback, and noise. To get messages through the process, it is important for the marketer to have an extensive understanding of the intended target audience.

To reach the target audience and build value for an organization, the marketer typically sends a consistent message through multiple promotional methods; this is called integrated marketing communications (IMC).

Key Terms

5A framework map of the consumer's various need states as they find out about a product and finally decide to purchase
advertising a paid form of nonpersonal communication about a product, service, or idea
buy one get one (BOGO) promotion strategy in which consumers are offered the opportunity to buy one product at regular price and get a second item free
communication channel delivery mechanism that takes the message from the company to the consumer
continuous promotional schedule process of conducting promotions year-round on a regular schedule
coupons sales promotion strategy that works to induce a consumer to buy a product based on a price reduction
creative strategy method of translating a message into words, images, and sounds
decoding method of transforming and interpreting a message
direct marketing method of promotion that directly connects with the customer and generally requires a response or transaction
emotional appeals advertising messages that appeal to human emotions
encoding process of putting ideas and thoughts into a transmittable form
enter to win promotion strategy where consumers must complete entry requirements for a chance to win something of value from a company
fear appeals campaigns that seek to change behavior through fear
feedback loop notification that the message has been received between the sender and the receiver
flighting promotion schedule process of running a period of heavy promotions and then going for a period of time without any promotional messaging
frequency number of times the target market is exposed to a promotion
integrated marketing communications development and execution of multiple promotional methods that include a coordinated message
Internet/digital marketing promotional method that utilizes the Internet and digital technology such as text messaging, phone applications, and social media to reach consumers
key performance indicators (KPIs) methods of evaluating promotional campaigns
medium various methods of communicating with a target audience; may include broadcast, print, outdoor, and other forms
message strategy method of developing a message based on how the message will best tie the brand to the target market
moral appeal information communicated to the consumer to appeal to their sense of right and wrong
noise unplanned distractions that interfere with the communication between a sender and a receiver
paid sponsorship when a person promoting a product is paid by the company to make the endorsement
personal selling one-to-one communication between the seller and the buyer; used to inform and persuade

the buyer

promotion mix tactics marketers use to communicate with the customer

promotional mix elements tactics to communicate with the customer including advertising, sales promotion, personal selling, public relations, and direct marketing

public relations nonpaid, nonpersonal communication

puffery providing unrealistic and unsubstantiated claims about a product

pulsing schedule process of running steady promotions followed by a period of heavy promotions

rational appeals information communicated to the consumer based on how they will benefit

rebates sales promotion strategy in which consumers must provide key information to a company in exchange for dollars off the product

receiver intended message recipient

return on customer investment (ROCI) a marginal analysis that shows the efficiency of marketing communication spending

sales promotion promotion that creates an incentive to purchase; provides for a fairly immediate increase in sales in the short term

sender source of a message; can be an organization or person

Applied Marketing Knowledge: Discussion Questions

1. Evaluate the skills that are required to be successful in a personal-selling position. What are they, and why do you believe they would be important?
2. Consider the communication process discussed in this chapter. Explain the process as you understand each step. Where do you believe the biggest challenges are from a marketing perspective?
3. Explain the ethical issues involved in the messaging that marketers create. How can they make sure that they are not crossing the line when it comes to these issues?
4. Identify some of the benefits and the pitfalls of paid sponsorships. Occasionally an issue hits the news about something that had a blowback effect on the company that sponsored a team, event, and/or product.

Critical Thinking Exercises

1. Compose a 150–200-word paragraph using all the following terms as they relate to integrated marketing communications. The goal is to prove you understand the meaning of each term.

   Terms:

   - advertising
   - digital marketing
   - frequency
   - reach
   - feedback loop
   - sales promotion

2. Several companies come to mind when we think about great integrated marketing communications; Target and Gap are two of those. Consider other companies that have campaigns that you recognize in any form of marketing that truly stand out. What makes them memorable?
3. Socially responsible marketing campaigns such as the Subaru one mentioned are becoming more visible over time. Identify two to three other campaigns that you have seen. What do they use as a motivator? Is it to give to a cause, to buy a product or service that they sell based on the fact that they make a donation in your name, or is it simply an informative campaign?

Building Your Personal Brand

One of the key ways that you can build your personal brand is by association. The following is a list of marketing associations. Research each of these to determine which organization(s) are most congruent with your goals. Many of these organizations have local chapters that you can join, where you can attend a function, or that you can simply use to gather additional information. These are great ways to network with other marketing professionals, organizations, and industry leaders. From this association you can continue to develop a network of peers that you can gather information, experiences, and ideas from.

- American Advertising Federation (AAF) is a leading professional organization that includes members across all disciplines and career levels in advertising.
- American Marketing Association (AMA) is the largest marketing association in North America with more than 30,000 members globally.
- Association of National Advertisers (ANA) is a leading marketing and advertising organization.
- Association of International Product Marketing and Management (AIPMM) is a membership-based professional organization for product managers, brand managers, and more.
- Association of Network Marketing Professionals (ANMP) is the premier association uniting network marketing professionals worldwide.
- Legal Marketing Association (LMA) is the universal voice of the legal marketing and business development profession.
- Social Media Association (SMA) informs, inspires, and empowers business through social, digital, and future media.
- Society for Marketing Professional Services (SMPS) is for marketing and business development professionals in the architecture, engineering, and construction industry.

What Do Marketers Do?

Using the same list of marketing associations above, contact the one that interests you the most and ask if it is possible to speak with a member. Explain that you are a student and you would like to interview someone in the field. Before the interview, consider what information you would like to leave the interview with. Below is a list to get you started, but be sure to add anything else that the list does not contain and be prepared to ask follow-up questions for clarity.

1. Tell me about yourself. What is your education, how long have you held this position, and how did you get here?
2. Can you outline your current job?
3. What does your typical day look like?
4. What do you like best and least?
5. What is the biggest challenge of this position?
6. What does a career path look like from where you are now?

Marketing Plan Exercise

Complete the following information about the company and products/services you chose to focus on as you develop the marketing plan throughout the course. You may need to conduct research in order to obtain necessary information.

Instructions: Using the Marketing Plan Template file you created from the Marketing and Customer Value assignment and expanded upon in Strategic Planning in Marketing, Market Segmentation, Targeting, and Positioning, Marketing Research and Market Intelligence, Products: Consumer Offerings, and Pricing Products and Services, complete the following section of your marketing plan:

- Marketing Strategy: Promotion

Submit the marketing plan to your instructor for grading and feedback.

Closing Company Case

Little Debbie

Part of your childhood nostalgia may include the Little Debbie Oatmeal Creme Pie, Nutty Buddy, or Swiss Roll. These much-loved products are from the family bakery known as McKee Foods. The company was founded in 1934 by O. D. and Ruth McKee. The company started out as Jack's Cookie Company, a small bakery in Chattanooga, Tennessee, that was bought by the couple to provide convenient snacks for school lunches.

Prior to McKee Foods, bakery or snack cake items were not individually wrapped and sold in a multipack carton. The snack cake brand was named Little Debbie after the founders' granddaughter. Her image is still the famous logo on all packaging. Back in the 1960s, a carton of 12 cakes and cookies had a suggested retail price of 49 cents.

Among the company's brands are Little Debbie, Sunbelt Bakery, Drake's Cakes, and Fieldstone Bakery. The largest brand is Little Debbie, with a wide range of favorites from Apple Fruit Pies to Zebra Cakes. Little Debbie offers seasonal items in rotation, such as Christmas Tree Cakes. Distribution extends to all 50 states, Mexico, and Canada.

The Little Debbie brand of products is widely available in grocery stores, convenience stores, and vending machines. The company has many best-selling products that are pantry mainstays in households throughout the markets they serve. Because the company is such an American icon, the products evoke a sense of nostalgia in many consumers. One such product: Christmas Tree Cakes. Debuting in 1985, the beloved product can be found on shelves to celebrate Christmas and is widely anticipated by consumers around the start of the Thanksgiving season. It is one of the best-selling holiday treats.

For the 2021 holiday season, Little Debbie launched a new Christmas treat, Christmas Tree Cake Ice Cream. To create this new confection, Little Debbie partnered with Hudsonville Ice Cream, a Michigan-based company that has been in business for over 90 years. The new product launched with a great deal of media attention. Public relations were in full swing with articles in newspapers across the country as well as trial of the product on live news broadcasts. Additional headlines appeared in digital media outlets to amplify the message that this new treat was available in stores for the holidays "while supplies last."[22]

Little Debbie featured the product in its social media with release information on all of its channels starting in October, well ahead of the holiday selling season. The company has a robust social media presence with over two million fans on Facebook, 85,000 followers on Instagram, and 200,000 followers on Twitter. The likes, shares, and positive comments had social media buzzing in anticipation of this new product.[23]

Case Questions

1. When Little Debbie creates its message about the Christmas Tree Cake Ice Cream, what is an example of the encoding?
2. Because this promotion was largely dependent on public relations and publicity, what is the potential noise that may interfere with the media?
3. How did Little Debbie integrate its communication for the introduction of the Christmas Tree Cake Ice Cream?
4. What type of appeal is Little Debbie using for the launch of the Little Debbie Christmas Tree Cake Ice Cream?

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14

The Promotion Mix: Advertising and Public Relations

Figure 14.1 Advertising is a form of promotion and can be presented in many channels; one example is the billboards in Times Square in New York City. (credit: modification of work "Times Square, NYC" by MK Feeney/flickr, CC BY 2.0)

Chapter Outline

14.1 Advertising in the Promotion Mix
14.2 Major Decisions in Developing an Advertising Plan
14.3 The Use of Metrics to Measure Advertising Campaign Effectiveness
14.4 Public Relations and Its Role in the Promotion Mix
14.5 The Advantages and Disadvantages of Public Relations
14.6 Ethical Concerns in Advertising and Public Relations

In the Spotlight

Leo Burnett was a journalist for the *Peoria Times* in Illinois when he decided to start his own advertising firm with the same name in 1935.[1] His strategies were fairly simple: to utilize models who looked like ordinary people instead of Hollywood stars. His motto: "What helps people, helps business." That strategy paid off big for Philip Morris with the introduction of the iconic—albeit now considered unethical—Marlboro Man. In 1952, the ageless Tony the Tiger cartoon icon for Kellogg's Frosted Flakes was also born from the Leo Burnett ad agency. Other notable companies that have utilized the Leo Burnett ad agency include Procter & Gamble, McDonald's, and Fiat, to name just a few.

Today, the company has offices around the globe, and it still prides itself on aligning brands with human values. According the company, "Leo Burnett was built on a simple belief. That the most creative, most effective and most powerful work has people at its core—their needs, wants, dreams and hopes. It's a belief that can be seen in action in everything we make."[2]

In July of 2021, Leo Burnett London released a new advertisement for McDonald's—"Fancy a McDonald's?"—that showcases one of life's simpler pleasures: laughter. It featured a television advertisement with no dialogue, just some friends and family enjoying time together.[3] The advertisements, a big success, ultimately highlight Leo Burnett's ability to reach a multitude of audiences across cultures and generations.[4]

LINK TO LEARNING

Leo Burnett

There is a lot to learn from the Leo Burnett advertising agency. Check out the agency's website (https://openstax.org/r/leoburnett) to see the various kinds of campaigns the company has worked on. Be sure to check out the News section to read about several campaigns.

Interested in the campaigns mentioned in this section? Check out these websites:

- Fancy a McDonald's laughter commercial
  Laughter | Fancy A McDonald's | McDonald's UK (https://openstax.org/r/fancymacadonald)
- Kellogg's discussion about the Tony the Tiger campaign (https://openstax.org/r/nutritionhowdidyoucome)
- Food nonfiction's history of Tony the Tiger (https://openstax.org/r/foodnonfiction)
- Video on the history of Tony the Tiger
  (1950s-1970s) Tony The Tiger Frosties Cereal Advert Compilation (https://openstax.org/r/tonythetiger)

14.1 Advertising in the Promotion Mix

Learning Outcomes

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

LO 1 Define advertising and provide examples.
LO 2 Discuss the importance of advertising in the promotion mix.

Advertising and its Importance in the Promotion Mix

Marketers utilize a variety of ways—or media channels—to promote the organization's offerings. Regardless of the media channel used, marketers must be consistent in the communication they send to customers.

Advertising is paid communication messages that identify a brand or organization and is intended to reach a large number of recipients. The most traditional media that are used for advertising include newspapers, magazines, television, radio, Internet, and billboards (see Figure 14.2). The increase in the availability and use of the Internet and other technology has also led organizations to advertise on mobile phones, through email, on social media, and on other digital devices.



Figure 14.2 Billboards are one channel for advertising. (credit: "March04 015" by Lord Jim/flickr, CC BY 2.0)

Like every promotion mix element and media channel, advertising has its own advantages and disadvantages. Advertising is fairly expensive, so the cost to the organization is high. However, advertising reaches a large audience with one ad, so the cost per exposure is relatively low. For example, just one 30-second commercial during the 2021 Super Bowl cost companies around $6 million.[5] But with 96.4 million viewers, the cost per exposure (assuming every viewer sees the commercial) is only around 6 cents per viewer. Because advertising is nonpersonal and reaches a large audience, the message can get distorted from the marketer's intention to that of the audience. For this reason, it is difficult to quickly change the message if it is misunderstood, and it also difficult to capture how well the message was received.

LINK TO LEARNING

Cost of Super Bowl Commercials over Time

Super Bowl ads have a large following, and the expense has increased each year. Check out this article from *The Sporting News* (https://openstax.org/r/superbowlcommercials) that compares the cost of commercials from 1967 to 2022.

Product Advertisements

Product advertisements are those that promote a specific product within the organization's product mix. These advertisements focus on a singular product and intend to bring brand awareness to a product or to differentiate the brand from competitors. In 2013, PepsiCo created a print ad showing a can of Pepsi wearing a Coca-Cola cape, wishing the audience a Happy Halloween. In 2020, Coca-Cola used the same advertisement to counteract the original ad by stating: "Everyone wants to be a hero!" Both are examples of product advertisements, cheekily comparing two fiercely competing brands.[6]

LINK TO LEARNING



Pepsi versus Coke

Brands roasting one another through advertisements is not something that PepsiCo invented. It's been done many times. To see the Pepsi versus Coke campaigns as well as other big brands roasting their competitors, check out this Bulldog article (https://openstax.org/r/5brandsroasted).

Institutional Advertisements

Unlike product advertisements that focus on one product or brand in an organization's product mix, **institutional advertisements** focus on the organization. This differs also from public relations—discussed next—in that it is a paid form of communication. The goal of institutional advertising is to create a positive image or support for the entire organization. Institutional ads also have the advantage of creating a positive impact by attracting potential candidates and increasing employee engagement within the organization. At the start of the COVID-19 pandemic, many companies stepped up to help mitigate the effects the pandemic had on the country. Early on, Anheuser-Busch switched some of its operations from distilling beer to making hand sanitizer. In April 2020, just one month after the pandemic hit the United States, the company had already delivered over 500,000 bottle of hand sanitizer.[7] The company utilized both print and television advertisements to communicate its philanthropic efforts to consumers. It wasn't trying to sell the public a Budweiser, but rather was using the ads to help bolster its image to consumers.

Importance of Advertising

While there has been a major increase in commercial-free television and the ability to skip ads in multiple media platforms, advertising still remains an important part of the promotion mix. Advertising assists in consumer awareness—making sure the audience is aware of a product or service and its benefits. Advertising also helps to retain customers through reminders and can show audiences that a business aligns with their values. However, with the increase in society's reluctance to believe what they see in advertisements, it is more important than ever that marketers ensure they are sending the right message at the right time.

Knowledge Check

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

1. Promoting a product in a television commercial aligns with which of the promotion mix elements?
   a. Advertising
   b. Public affairs
   c. Social media
   d. Institutional advertising

2. You see a television advertisement from Ford thanking frontline heroes during the pandemic. Which term best describes this advertisement?
   a. Product advertising
   b. Public relations
   c. Institutional advertising
   d. Press relations

3. As a new marketer in a firm, you are asked to provide the advantages of using advertising in an upcoming promotion strategy. Which of the following would be included in your list of advantages?
   a. Advertising's per-exposure cost is an advantage.

b. Advertising is nonpaid, so it does not cost the company.
c. Advertising's message is easy to change.
d. Advertising's effectiveness is easy to capture early.

4. Breana sees an advertisement that compares Colgate toothpaste with that of Crest. She decides to change her toothpaste brand based on this new information. Which term best describes what Breana was exposed to?
   a. Institutional advertisement
   b. Public relations
   c. Social media
   d. Product advertisement

5. Which of the following is a false statement about advertising?
   a. It is still as important to the promotion mix as other elements.
   b. It is the least costly of all promotion mix elements.
   c. It should always be a well-thought-out strategy.
   d. It assists in consumer awareness and brand loyalty.

14.2 Major Decisions in Developing an Advertising Plan

Learning Outcomes

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

LO 1 List the steps involved in developing an advertising plan.
LO 2 Describe the details involved in each step of advertising development.
LO 3 Discuss methods for assessing and evaluating the advertising program.

Major Advertising Decisions in an Advertising Plan

As with any successful plan, certain decisions need to be made while creating an advertising plan. Advertising is expensive and should have specific objectives with clear communication to the audience to ensure the right message is being sent at the right time with the biggest impact. These steps include choosing the objective(s), choosing a push or pull strategy, establishing a budget, developing the strategy, executing the program, and assessing the impact (see Figure 14.3).



Figure 14.3 Decisions in an Advertising Plan (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Establishing Advertising Objectives

The aim of advertising is to communicate something to an audience. The objectives of such communication can vary depending on the goals of the advertisement. Some common objectives of advertising include information, persuasion, comparisons, and reminders. Let's explore each of these types of advertising objectives in more detail.

Informative Advertising

Informative advertising is most often used as a new product is being introduced in the market. The goal of **informative advertising** is to bring awareness to a product through educational communication to increase demand for the product. A new product can only be successful if people know it exists and why.

Specific messages of informative advertising will vary depending on the product or service. A simple teaser of a new product is effective for some products, while for others, more detailed information may be necessary so the audience understands the product. For example, when the newest iPhone is about to be launched, Apple often uses a short and simple advertisement with only a photo of the phone and its available date. For an existing brand such as Apple, this works well because consumers are already familiar with the product's brand. Conversely, when a brand-new product is brought to market that consumers may not be aware of, more information may be necessary in the message.

Persuasive Advertising

The goal of **persuasive advertising** is to convince consumers to purchase by highlighting the benefits of a product or service being advertised. Whereas informative advertising often uses facts and figures to introduce a product, persuasive advertising often focuses more on the emotions of the audience. For example, when an automobile company advertises a brand of its SUV, it might include a scene with a family and focus on the safety of the vehicle (see Figure 14.4). This is an attempt to showcase the benefits of the automobile to the consumer on an emotional level.



Figure 14.4 Car advertisements are a form of persuasion intended to appeal to consumers' emotions by highlighting the product or service benefits to the consumer. (credit: "Audi Q5 Vs BMW X3 Vs Land Rover Freelander 2 - Comparison - NRMA New Cars" by The NRMA/flickr, CC BY 2.0)

Comparative Advertising

Comparative advertising's aim is to showcase the benefits and values of one product over its competitors. Wendy's, a fast-food burger establishment known for its "fresh never frozen" beef, has long used comparative advertising to showcase its freshness over competitors, particularly McDonald's—its biggest competitor. The marketing team at Wendy's often uses humorous advertisements to compare its food with competitors, and in recent years, the company has become known for its humorous social media posts.

Reminder Advertising

Reminder advertising is aimed at bringing a product back into the forefront of the consumer's mind. Typically, reminder advertising is used during the maturation stage of the product life cycle. For any well-established brand, most advertisements are considered reminder advertisements—unless the brand is introducing a new product or a change to an existing product. McDonald's 2021 advertisements that remind consumers to get their friends fries if they say they don't want them is an example of reminder advertising, as the company is not introducing a new product but rather reminding audiences that McDonald's is there as a choice in fast food.[8]

Push Strategy versus Pull Strategy

After choosing an objective for the advertising plan, marketers must determine whether a push or pull strategy will be most effective. A **push strategy** is aimed at pushing the brand in front of an audience. Often a push strategy will utilize multiple forms of advertising media so that the product or service is in front of the consumer at multiple times. Common push strategies involve sending postcards or emails and placing ads in print and television media.

Conversely, a **pull strategy** is intended to bring audiences to the product. For example, if a company is launching a new game app, the company may choose to advertise in another game app. The interested consumer would then click on the advertisement and be pulled into the new product (app).

LINK TO LEARNING

GameStop

GameStop is a great example of a company with push and pull strategies. Check out its website for

examples (https://openstax.org/r/gamestopdeals).

Establishing the Advertising Budget

The next step in the advertising decision process is establishing an advertising budget. There are several approaches to this decision, but it is important to keep in mind that the advertising budget is just one component of the overall promotion budget. Table 14.1 outlines the most common approaches to budgeting.

Budget Approach	Definition
Percent of sales	Budgets are set as a percentage of prior years' sales or predicted future sales.
All you can afford	Budgets are set after all other necessary expenditures have been covered in the organizational budget.
Return on investment (ROI)	Budgets are set based on the expected return, in dollars, an advertising campaign will produce.
Competitive parity	Budgets are set based on predications of what competitors will spend.
Objective and task	Budgets are set based on the objectives set for activities planned.

Table 14.1 Advertising Plan Budget

Companies often use previous year (or period) data to set objectives for the current or future years. Marketing budgets can use the same approach. The **percentage-of-sales approach** utilizes prior years' sales or predicted year's sales and sets a percentage of those sales aside for advertising. This is a simple way to budget, particularly in stable markets. However, it is somewhat backward of what you have learned thus far in marketing: instead of advertising creating sales, it assumes sales creates advertisements.

Some companies choose to budget their advertising dollars after all other organizational budgeting is complete. The **all-you-can-afford approach** to budgeting ensures everything else in the organization is budgeted for and then sets aside the remaining funds for advertising. This is a practical and simple approach, but it can often lead to budgets that have less money than desired for much-needed advertising.

Unlike other approaches to budgeting, the return-on-investment (ROI) approach views advertising as an investment rather than a cost. The idea behind the **return-on-investment (ROI) approach** is that for every dollar spent on advertising, a return of that dollar—plus some—is expected. The disadvantage to this approach is the difficulty in determining exactly which ad, media, or campaign is specifically contributing to the return.

The **competitive-parity approach** relies on setting budgets based on the expected budgets of competitors. This approach works well in stable markets where competition is well established. However, with this approach, marketers are setting rather important budgetary decisions based on competition and can lose sight of internal objectives.

The final common approach to budgeting for advertising is the objective and task approach. The **objective-and-task approach** is budgeting based on the objectives set previously for the advertising plan. This approach does not consider previous sales or expected competitor budgets. However, marketers must be aware that this approach can lead to overspending when other factors are not considered.

Developing the Advertising Strategy

After marketers and other company executives set a budget for the advertising plan, it is time to work toward the advertising strategy. In this stage of planning, marketers will create the message and choose the appropriate media.

Creating the Advertising Message

Creating the advertising message can be a difficult task for marketers, particularly in the current climate of media. The advertising message is the visual or auditory information that is used in an advertisement to inform or persuade the audience regarding the product, service, or organization. Messages are usually broken down into five areas: the headline, subheading, copy, images, and call to action.[9] See Table 14.2. Each area must be consistent with one another and with the overall strategy of the advertising plan and the company's values and mission.

Message Component	Purpose	Example
Headline	Grabs the attention of the target audience	Buy One Get One Free! (BOGO)
Subheading	Clarifies the headline or provides attention details	Buy a couch, get a matching recliner free
Copy	Answers any immediate questions of the audience	Add a stylish yet comfortable look to your living room with our new rich brown couch and recliner in soft chenille fabric, built to last for generations
Image(s)	Visuals to enhance the message	An image of a family sitting on a new couch and recliner watching television
Call to action	Tells the audience what they need to do now that they have seen the advertisement	Come to our showroom today to select your couch!

Table 14.2 Advertising Message Components

LINK TO LEARNING



Advertising Messages

There are numerous examples of the message components listed in Table 14.2. Check out these articles discussing ways each of these can be successful:

- Live About article: "Buy One Get One Free (BOGO) Sales Events (https://openstax.org/r/buyonegetone)"
- Ecwid article: "5 Effective "Buy One, Get One Free" Promotions for an Online Store (https://openstax.org/r/5-typesofbogof)"
- Drip article: "Limited-Time Offers: 10 Creative Ways to Drive More Online Sales (https://openstax.org/r/limitedtimeoffers)"
- HubSpot article: "50 Call-to-Action Examples You Can't Help But Click (https://openstax.org/r/

calltoaction)”

Selecting Advertising Media

Once the message is determined, the marketer will select which advertising media is appropriate for the message. The selection of advertising media will often be determined based on reach, frequency, impact, and engagement that the marketer is hoping for.

Reach refers to the estimated number of potential customers that can be reached with an advertising campaign. **Frequency** refers to how many times someone is exposed to an advertisement in a given time period or how many times an advertisement is shown in a time period.

Impact refers to how quickly members of the audience receive an advertising message. The form of media that is used will help to determine the impact of the message. For example, a direct mailing may take longer to be received by the audience than a Facebook advertisement. Finally, **engagement** refers to any interaction with advertising content. This becomes particularly important in digital marketing. The number of times members of an audience click on an Internet ad would measure the engagement of that particular advertisement. Clearly, the more engagement, the more likely a consumer is to make a purchase. Keep in mind that engagement can also be negative—such as a “dislike” or negative comment on a social media advertisement.

There are trade-offs between reach and frequency. It seems obvious that marketers would want an advertising campaign to reach the greatest number of people possible with one advertisement. But is one exposure enough to call a person to purchase the product? Often, potential consumers need to be exposed to a message more than once before they will make a purchase. Therefore, the marketer must decide whether reaching the most people or reaching the same people the most is more beneficial to the advertising strategy.



Figure 14.5 Newspapers are a form of print media advertisement. (credit: “Business Newspaper” by bestpicko.com/flickr, CC BY 2.0)

Different Media Alternatives

As you learned earlier in this chapter, there are different forms of advertising media that marketers will choose from. Most marketing strategies do not focus on only one media but rather on a mix of media that are most likely to reach the target audience. Print media includes magazines, newspapers, brochures, and fliers (see Figure 14.5). Broadcast media includes radio and television.

Outdoor advertising is a very economical option because it has such a large reach. Banners, flags, wraps, events, billboards, and even automobiles are types of outdoor advertising. Most companies have shifted their

budgets away from some of these more traditional media and moved to digital media. Digital media is any advertising done via the Internet, mobile phones, and other devices other than television and radio (Kindles, iPads, etc.).

LINK TO LEARNING



Car and Social Media Advertising

Have you ever seen a car drive by advertising a company or service? There are companies that will pay you to advertise on your car. Read more about three companies (https://openstax.org/r/getpaidtoadvertise) that will pay you to put their advertisement on your car.

Check out these thought leader articles on social media marketing trends in 2022 (https://openstax.org/r/digitalagencynetwork) from Digital Agency Network. And learn about the value and impact of social listening (https://openstax.org/r/whatissocial) here.

Each media has its own advantages and disadvantages and best uses. When marketers decide on media to be used, they must consider the product or service, the target market, and any budgetary constraints. For example, a product that is primarily targeted toward senior citizens would be best advertised through traditional media, while millennials are more likely to see advertisements in digital form.

Executing the Advertising Program

At this stage in the advertising plan, marketers are almost ready to release their advertisements to the chosen media. However, before doing so, most marketers will choose to test their advertising to a small group of the target audience to ensure all the messaging is clear and concise.

Pretesting the Advertising

Pretesting advertising involves research that predicts the performance of an advertisement before it airs. The three most common types of pretesting are portfolio tests, jury tests, and theater tests.

Portfolio tests consist of respondents browsing through various versions of an advertisement and then being asked to recall certain details from each. Respondents are chosen from the target audience, and those advertisements most recalled by participants are chosen to air for the entire target audience.

Similarly, **jury tests** are a form of pretesting in which the respondents discuss the advertisements most likely to induce a purchase.

Theater tests utilize a sample of the target audience as well. In this form of pretesting, the audience is shown advertisements—usually television ads—in the context that they would be shown to the entire target market.

Assessing and Evaluating the Advertising Program

After pretests are completed, it is time for the marketers to make any necessary changes and disseminate the ads to the target audiences through the chosen media. But the advertising planning does not end there. Once advertisement messages have been out, marketers then must assess and evaluate the programs. Even the best-planned and best-tested programs can still be failures.

Post-testing the Advertising

Post-testing simply refers to testing the effectiveness of a campaign after it has launched. Marketers have several ways in which they can post-test the advertising campaign.

Aided recall is a type of advertising posttest that uses cues to assist a sample audience in recalling brands and

products in an advertisement.

The opposite of aided recall, **unaided recall** does not use any cues or prompts to test the recollection of the advertisement message. The respondent is typically asked open-ended questions to gauge information retained from the advertising message.

Attitude tests investigate the attitudes of a sample target audience toward a product or service. Often, the attitude test will ask the respondent to compare the advertised product with a competing product.

An **inquiry test** is a type of advertising posttest that runs two or more similar ads on a limited scale and determines which of the ads are most recalled by and effective for respondents.

Another form of advertising posttest is the sales test. The **sales test** determines how many sales will be made based on a test market. This test can be done as either a pretest or a posttest. As a pretest, it is used as an estimate or prediction of future sales that the advertisement will attract. As a posttest, it measures the actual sales that can be linked to the advertisement.

Knowledge Check

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

1. Daved is a marketer looking to see how successful his new marketing campaign was. Which of the following would you suggest to Daved?
   a. Posttest
   b. Pretest
   c. Jury test
   d. Portfolio test
2. As a marketer in charge of a new advertising campaign, what is the first step you will utilize in planning?
   a. Determine a budget
   b. Decide on a push or pull strategy
   c. State the objectives
   d. Execute the plan
3. If the target market for a product or service is millennials, which advertising media would you most likely choose?
   a. Digital media
   b. Outdoor advertising
   c. Newspapers
   d. Billboards
4. Jamal is trying to explain the difference between reach and frequency to his classmates. Which of the following best describes *reach*?
   a. Interactions with an advertisement
   b. Estimated number of times a potential customer will see an advertisement
   c. How quickly the audience will be reached with an advertisement
   d. Estimated number of potential customers to see an advertisement
5. Which of the following is the final step in the advertising plan?
   a. Assessment
   b. Strategy
   c. Budgeting
   d. Execution

14.3 The Use of Metrics to Measure Advertising Campaign Effectiveness

Learning Outcomes

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

- LO 1 List the key performance indicators (KPIs) for measuring the effectiveness of an advertising campaign.
- LO 2 Describe how each KPI is measured.

Key Metrics in Measuring Success

The most well-planned advertising campaigns are only effective if they bring about some result. Marketers use performance metrics to determine the effectiveness of a campaign.

Key performance indicators (KPIs) are indicators that measure how an advertising campaign is achieving certain goals or objectives. There are several KPIs marketers choose to measure to determine the impact of an advertising campaign. These metrics help marketers make changes to campaigns in order to meet the goals and objectives set forth.

Brand Recognition

Brand recognition refers to the ability of a campaign audience to recognize and identify a specific brand. It measures the extent to which an audience can identify a brand with only a logo or photo. Depending on the advertising media used, marketers will choose the most appropriate metric to measure brand recognition. There are also numerous brand-tracking software programs that will gather this data for marketers.

Brand Awareness

While brand recognition and brand awareness sound very similar, there is a distinct difference. **Brand awareness** takes recognition a step further to determine if audiences can recall information about the brand. Awareness often seeks to determine the emotions and impressions that a campaign has raised with specific advertisements.

Impressions (Ad Views)

During an advertising campaign, marketers are also interested in quantifying how many times an advertisement appears in a chosen medium, known as **impressions**. To calculate impressions, you need to first determine the rating of the advertisement. The rating is simply a percentage of the target audience that is reached with an advertisement. This data is often gathered by outside firms, such as Nielsen, a long-time marketing research firm.

The following is the accepted impressions formula:

$$\text{Impressions} = \text{Rating} \times \text{Target Population} \times \text{Number of Ads Run}$$

Let's assume that one of your television advertisements ran 2 times this week. Your target audience is 1 million people. You discover that your ad has a rating of 30 percent, or 0.30. Using the impressions formula

$$\text{Impressions} = 0.30 \times 1{,}000{,}000 \times 2 = 600{,}000 \text{ Impressions}$$

LINK TO LEARNING



Nielsen

If you're going to be a marketer, you're going to need to know Nielsen Company, a "global leader in audience measurement, data and analytics, shaping the future of media."[10] To better understand what the

Nielsen Company is about, read this Investopedia article. (https://openstax.org/r/investopedia)

Check out Nielsen's 2022 Global Annual Marketing Report (https://openstax.org/r/annualmarketingreport) about current trends.

Conversion Rate

A **conversion rate** refers to the percentage of an audience that has completed a desired action. The formula for conversion rate is

$$\text{Conversion Rate} = \frac{(\text{Number of Converts})}{(\text{Audience Size})} \times 100\%$$

For example, a web page advertisement may be attempting to get a viewer to click on the advertisement.

The conversion rate, then, would be the percentage of those viewers who clicked on the advertisement. Using our example of the web page advertisement, let's assume that our audience size 500,000 and the number of converts (that is, the number of viewers who click the ad) is 100,000. Our conversion rate would be

$$\text{Conversion Rate} = \left(\frac{100{,}000}{500{,}000}\right) \times 100\% = 0.020, \text{ or } 2.0\%$$

While industry averages can vary, generally a conversion rate somewhere between 2 percent and 5 percent for traditional marketing and above 10% for digital marketing is considered effective.[11]

Return on Ad Spend (ROAS)

Marketers are also often interested in calculating the return on advertising spending. **Return on ad spend (ROAS)** is a metric that measures the amount of revenue earned for every dollar spending on advertising. Unlike the other metrics discussed, ROAS utilizes the revenue from advertising. To calculate ROAS, you will simply divide the revenue for a given period by the advertising dollars in the period. The ROAS formula is

$$\text{ROAS} = \frac{\text{Revenue}}{\text{Advertising Dollars}}$$

Let's assume your company spent $1,000 on an online campaign in a given month. The revenue generated from this campaign was $5,000. Your ROAS for this campaign in this period would be $5, or a 5:1 ratio:

$$\text{ROAS} = \frac{\$5{,}000}{\$1{,}000} = \$5$$

In other words, for every $1 spent on advertisement, your company generated $5 in revenue.

Knowledge Check

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

1. Ally is a new marketer trying to determine the return on ad spend that her first marketing campaign netted. She spent $20 on a Facebook advertisement, and the ad brought in $500 of revenue. Which of the following would be the return on ad spend (ROAS)?
   a. $25
   b. 5:1
   c. 10,000
   d. $2.50
2. You show your friend the Adidas logo and ask them which brand it identifies. This is an example of _____.

a. brand impression
b. brand awareness
c. brand recognition
d. conversion rate

3. Coco is trying to determine if the most recent ad she created and launched has been effective at increasing revenue. Which of the following metrics would you recommend Coco use?
   a. ROAS
   b. Impressions
   c. Brand awareness
   d. Brand recognition

4. Indicators that measure the effectiveness of an advertising campaign are known as _____.
   a. KMAs
   b. Recalls
   c. ROIs
   d. KPIs

5. Liam is interested in the ratings of a recent television advertisement. They are interested in calculating the impressions of this ad. Liam knows that the target population of this ad is 500,000, and the ad runs three times. Which information is Liam missing to calculate impressions?
   a. Converts
   b. Rating
   c. Conversion rate
   d. Number of weeks the ad ran

MARKETING DASHBOARD



Measuring the Impact of Advertising

When marketing professionals purchase advertising, they are primarily interested in who will see it. Advertising is dependent on views, as it is not direct response like search or email marketing. Therefore, marketing professionals are looking for the biggest bang for their buck. This is where cost per thousand (CPM) comes in. The "M" in cost per thousand represents the Latin term *mille*. CPM is the cost to advertise to 1,000 people.

An advertisement's cost per thousand depends on a variety of factors. One such factor is how targeted an ad is to a given audience. Targetability increases the cost per thousand. Another factor is whether the media is digital or traditional. Traditional media (television, radio, print, and outdoor) have a higher CPM than digital advertising. Niche media may have higher CPM than mass media.

There are some legitimate criticisms of CPM. First, an ad view does not indicate an intent to purchase. It simply means that a prospective customer saw the ad. We have no way of knowing whether the ad was persuasive or changed behavior. CPM does not allow us to track behavior. Next, ad views may be duplicative or not properly targeted, potentially wasting the impression. For example, if you see an ad for the same running shoe three times and you're not a runner, the brand wasted three impressions on you because you have no intent to purchase. Finally, ads may not run or load as intended, wasting advertising dollars on a failed impression.

$$\text{CPM} = \frac{(\text{Campaign Cost})}{(\text{Impressions})} \times 1{,}000$$

Let's revisit our ice cream shop from Integrated Marketing Communications. We decided to run an advertising campaign in the local newspaper. We paid $1,000 for 2,000 impressions. What is our CPM?

Solution
$500

Last period, we acquired 15 customers from our advertising campaign with an average customer lifetime value of $50. Did our advertising campaign have a profitable result in the last period?

Solution
No. We spent $1,000 on advertising and gained $750 in revenue.

Let's say we decide to reallocate our $1,000 advertising spend on a more targeted campaign. Do you expect that our CPM will increase or decrease?

Solution
CPM will most likely increase because targeted media typically has a higher CPM.

14.4 Public Relations and Its Role in the Promotion Mix

Learning Outcomes

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

- LO 1 Define public relations and discuss its role in the promotion mix.
- LO 2 List and describe the tools of public relations.

Public Relations Defined

With today's ever-changing media landscape, maintaining a positive image with the public is of utmost importance. This is where public relations becomes an important tool in the promotion mix. **Public relations** is about creating and maintaining a favorable public image. Unlike other tools in the promotion mix, public relations is not paid for; it is earned media. The result of public relations is called **publicity**.

There are two sides to public relations. The first is considered the "fun" side, where marketers get to share stories of all the great things an organization is doing. This helps to promote the brand's image in a positive, feel-good way. The other side of public relations is damage control. This is when something negative happens within an organization and marketers must perform crisis communication—that is, addressing issues that could negatively impact the reputation of a brand. Consider in 2017, amid the height of Black Lives Matter protests, when PepsiCo aired a commercial featuring Kendall Jenner calming an angry crowd by simply handing a police officer a can of Pepsi.[12] Activists slammed Pepsi for trivializing such an important issue. Originally, Pepsi released a statement supporting its advertisement, but public backlash soon changed that position, and the company issued an apology, saying it had "missed the mark" with its intentions.

CAREERS IN MARKETING



Public Relations

A public relations professional is someone who shares information on behalf of a company. There are various types of public relation jobs, and knowing the types of skills you should have to get the job is important. Read this article to learn about the various types of jobs and the necessary (https://openstax.org/r/masterclass) skills needed.

Read this article from *Harvard Business Review* to gain insight (https://openstax.org/r/therightcareer) into whether a job in public relations is right for you. And learn from this expert guide on how to get a job in public relations (https://openstax.org/r/may18anexpertguide). Want to learn about what a day looks like for a public relations professional? Check out this video from a public relations professional about what a day in the life of a real-world public relations professional looks like.

On My Way: A Day in the Life of a Public Relations Manager (https://openstax.org/r/adayinthelife)

The Role of Public Relations in the Promotion Mix

In many organizations, public relations has been an afterthought or a sidebar to marketing, something used only when a crisis has occurred. However, public relations is more important than ever as the public seeks brands that have values aligned with their own and are not hesitant to boycott those who don't. In fact, according to a 2017 survey, 86 percent of consumers say that authenticity is a key factor when deciding which companies and brands they will support.[13] For example, in the past several years, the public has become more aware and vocal about the use of Photoshop in advertisements. In fact, many celebrities have spoken out about their own photos being Photoshopped in media and the unauthenticity it translates to the public. Similarly, companies such as CVS, Dove, and Target have stopped—or limited—the use of model editing to challenge unrealistic beauty standards.

The Tools of Public Relations

In an age of information access and sharing, companies can no longer afford to hide behind their mistakes, nor can they afford to miss opportunities to boast about their good deeds. Marketers need to be keenly aware of how the organization's image is portrayed publicly—to all interested parties. There are several tools that marketers should use to positively impact this image. While the goal of public relations and publicity is to promote positive images to the public, marketers must use public relations to minimize the impact of negative publicity as well.

Consider CNN's *Blackfish*, which aired in 2013. The documentary shed light on the consequences of keeping orcas in captivity, forcing them to perform for sightseers at sea parks. It takes a deep dive into the lives of these captive marine mammals and how sometimes such animals can be deadly, as was witnessed at SeaWorld in 2014.[14] The results of the negative publicity created by the documentary caused SeaWorld's park attendance, as well as its market value, to drop.[15]

LINK TO LEARNING



Examples of Bad Publicity

Watch the *Blackfish* official trailer and see for yourself the message behind this documentary, and read here about the impact (https://openstax.org/r/worldanimalprotection) this negative publicity had on SeaWorld.

Blackfish - Official Trailer (https://openstax.org/r/blackfish)

You can find numerous examples of bad publicity on the Internet. Check out this article that identifies (https://openstax.org/r/mediatoolkit) many from companies such as Easy Jet, Tinder, and Tesla.

Press Relations

Press relations entails establishing and maintaining positive relationships with those in the media, such as

newspapers and television. Press relations are controlled internally by the marketing team and often include the marketer sending press releases and other stories that help to maintain a positive image of the brand. Although press relations are controlled internally, it is up to the media whether the stories will be disseminated to the public. Consider your local news station that covers a story of a local bakery raising money for charity. The bakery owner or marketer has most likely sent the news station a press release of the upcoming event. The local news station will decide if it will or will not cover the story in its newscast. The more positive relationships the bakery team has with the local news station, the more likely it is to receive media coverage.

Public Affairs

Another important tool of public relations is **public affairs**—efforts to influence public policy and engage with public officials and trade associations. Public affairs often align with noncorporate entities, such as nonprofits and government agencies. However, for-profit organizations are becoming more and more involved in public affairs. Organizational leaders and marketers often share their economic impact with legislators to help policy makers amend or set new policies. For example, when Walmart plans to open a new store, the executives often reach out to local legislators to explain the goodwill and positive impact on the local economy. They continue conversations with local politicians to show they are "good citizens" of the community and help to impact local (as well as state and federal) legislation.[16]

Lobbying

Very similar to public affairs, **lobbying** involves the intention of influencing public policy and law. Lobbying is a way for companies to influence legislation in their favor. Lobbying is a large part of the political system in the United States, and many companies and industry associations contribute massive amounts of money to influence politicians. Lobbying has come under a lot of scrutiny over the years as companies continue to grow and have larger resources to influence laws and legislation in their favor as opposed to favoring the individual or the greater society.[17]

For example, in 2020, the National Association of Realtors was the top lobbying association in the United States, followed by the US Chamber of Commerce, Pharmaceutical Research and Manufacturers of America, and the American Hospital Association. Together, these associations spent over $200 million lobbying to impact local, state, and federal legislation.[18]

Events

Organizations are increasingly sponsoring or hosting special events to show support for various causes. Such events are also a way to showcase the company, products/services, and/or brands to the public. Often, companies use special events to show the public that their values and ideals are part of their business model. For example, Kroger has sponsored and volunteered for the Susan G. Komen Central Indiana Race for a Cure for many years. With one of its division offices located in Indianapolis, Indiana, the company has been covered by media for its involvement in the local chapter of the Breast Cancer Foundation.[19] The events not only provide a much-needed community service but also generate positive publicity for the company.

Digital Media/Social Media Marketing

Social and digital media have become important tools for marketing managers, and the use of these platforms is advantageous in public relations as much as in advertising. The biggest advantages to using digital tools in public relations and publicity is that they can reach a larger audience in a short time, are fairly inexpensive in comparison to other mediums, and allow for real-time communication.

The San Francisco Batkid took social media by storm when the campaign was rolled out by Make-A-Wish Foundation. A boy fighting leukemia wished to be Batman, and the campaign went viral with the hashtag #SFBatman. People everywhere took time to volunteer and take part in the boy's dream.

LINK TO LEARNING



#SFBatman

Check the #SFBatkid Twitter hashtag here (https://openstax.org/r/hashtagsfbatkid) to see the Batkid's journey, watch the trailer to a movie telling his story, and watch a video showcasing the public relations campaign.

Batkid Begins - Official Trailer [HD] (https://openstax.org/r/batkidbegins)

Official Batkid Video (https://openstax.org/r/officialbatkidvideo)

Knowledge Check

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

1. What is a promotion mix element that is earned rather than paid for?
   a. Public relations
   b. Advertising
   c. Television advertisements
   d. Web page advertisements

2. Which of the following is a way companies attempt to influence public policy and law?
   a. Press relations
   b. Events
   c. Lobbying
   d. Publicity

3. Mikel does not have a lot of money for marketing his new business. But he wants to raise awareness of his company and decides to commit to handing out free water at a local 5K run. Which of the following is Mikel participating in?
   a. Events
   b. Lobbying
   c. Press relations
   d. Public affairs

4. As a marketer, you are responsible for creating and maintaining positive relationships with the press. Which part of public relations are you responsible for?
   a. Lobbying
   b. Publicity
   c. Public affairs
   d. Press relations

5. As a new business owner, Michaela is attempting to sway local leaders to give the business a tax cut for the first year of operation. She invites all the local officials to a public meeting, where she presents the anticipated economic impact of her business. Michaela is engaged in which public relations tool?
   a. Press relations
   b. Public affairs
   c. Lobbying
   d. Events

14.5 The Advantages and Disadvantages of Public Relations

Learning Outcomes

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

- LO 1 Discuss the advantages of public relations.
- LO 2 Discuss the disadvantages of public relations.

Advantages of Public Relations

From a business perspective, the greatest advantage to public relations is that of cost; public relations is not a paid form of promotion. However, there are other advantages that accompany a well-thought-out public relations strategy.

Increasing Brand Credibility

Because public relations are unpaid and come from an objective source—news media—they are perceived as much more credible than paid forms of advertising. In fact, it is the most credible and persuasive form of promotion. Most consumers value the opinions of news media and opinion leaders over that of a company's best advertising.

Increasing Sales and Leads

Another advantage of public relations is that of sales and leads. Again, because public relations is considered a more credible source of information, various tools in public relations can help to increase sales and leads for the organization. Imagine you are attending an event that is raising money for the local animal shelter because you are a huge animal advocate. You see signs that an organization unfamiliar to you is the lead sponsor. While you may never have heard of this organization, let alone considered buying from this company in the past, the fact that it is helping raising money for the local animal shelter sways your decision to do business with them. For example, let's look at Campfire Treats, which makes dog treats. This company was one of the first in its industry to embrace the Better Chicken Commitment (BCC) to ensure better treatment of chickens.[20] The company has gained industry publicity and is becoming popular with pet owners that embrace more humane animal treatment.[21]

LINK TO LEARNING



Pet Food Industry.com

Check out this Pet Food Industry.com article (https://openstax.org/r/petfoodindustry) to learn more about Campfire Treats and its commitment to BCC. If you're interested in learning more about the product, check out this video review from Top Dog Tips or this article from Groovy Goldendoodles (https://openstax.org/r/groovygoldendoodles).

Campfire Natural Dog Treats Review, Single-ingredient (2018) (https://openstax.org/r/campfirenaturaldog)

Positive Brand Image

Because consumers are more likely to patronize organizations whose values align with their own, public relations has the distinct opportunity to provide a positive brand image to audiences. When organizations are authentic in their own values, it translates to increased loyalty and brand equity.

Cost-Effectiveness

As you've already learned, public relations is not a paid tool in the promotion mix. A really good brand or

company story can be picked up by several media outlets, exposing the promotion to a large audience. Considered the Ice Bucket Challenge that went viral in 2015. The challenge was first promoted by Pat Quinn and Pete Frates as a way for the public to better understand how Lou Gehrig's disease (amyotrophic lateral sclerosis [ALS]) affects those with the disease. The challenge raised over $115 million worldwide for the disease and was an extremely cost-effective (and fun) way to raise funds when it went viral on social media.[22]

Disadvantages of Public Relations

While public relations is a cost-effective way to potentially reach a large audience, it does come with its own set of challenges, including no direct control, lack of guaranteed results, and a difficulty in evaluating effectiveness.

No Direct Control

Unlike other tools in the promotion mix, marketers have no direct control over public relations. In other words, the media controls how the organization is portrayed, when—or if—the coverage will appear, and where it will be placed. This is why press relations is such an integral part of the public relations strategy.[23]

Lack of Guaranteed Results

Proficient marketers will spend time crafting the perfect press release, curating photographs, and getting just the right message to the media. They can even have excellent relationships with media personnel, but it is ultimately the decision of the media if it will publish a story. A story that is buried deep in a newspaper's pages or a blur during a news program may not create the results marketers intended.

Difficulty of Evaluating Effectiveness

Public relation activities can be difficult to measure. A marketer can observe media mentions and stories, but the impact they have on the audience can be difficult to determine. Other tools in the promotion mix can be targeted to the audience of interest, but public relations is not. As such, marketers should consider paying keen attention to areas such as website traffic and social media mentions or shares to determine who is seeing the press and what they are saying about it.

Knowledge Check

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

1. After watching a TikTok, you learn that Thinx—a company that produces period underwear—has donated over $25,000 in period and other products to Afghan women who have recently fled their country. Because of this, you decide to purchase Thinx products. Which advantage of public relations has been achieved in this scenario?
   a. Increased sales and leads
   b. Lack of direct control
   c. Guaranteed results
   d. Direct control

2. Public relations has all the following advantages except _____.
   a. increased brand credibility
   b. increased brand image
   c. direct control
   d. increased sales and leads

3. When Story Land, a children's museum in New Hampshire, reopened, it utilized public relations. Numerous local television stations picked up and reported the story, providing free marketing to potential customers. The company bet on the positive virality of its press release, which worked in its favor. Which of the following disadvantages explains why Story Land "bet on the positive virality"?

a. No direct control
b. Increased brand recognition
c. Increased sales
d. Guarantee of results

4. Which of the following is a true statement concerning public relations?
   a. Public relations is more expensive than advertising.
   b. Public relations has more of a guarantee of positive results than other forms of promotion.
   c. Public relations has the most message control of the various forms of promotion.
   d. Public relations is free but has no guarantee of results.

5. When Taco Bell was hit with a lawsuit that claimed its seasoned beef was only 35 percent beef, the company utilized social media to show its ingredients, a campaign that was wildly successful. Which of the following was Taco Bell hoping for?
   a. Guaranteed results
   b. Improved brand image
   c. Direct control of the message
   d. Increase sales and leads

14.6 Ethical Concerns in Advertising and Public Relations

Learning Outcomes

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

LO 1 Illustrate ethical issues with respect to advertising.
LO 2 Illustrate ethical issues with respect to public relations.

Ethical Issues Related to Advertising

Marketers must be keenly aware of not only the legal implications of advertising, but also the ethical ramifications. The Federal Trade Commission (FTC) has a number of laws that help to protect consumers against false claims in advertisements. The watchdog group Truth in Advertising is an independent, nonprofit organization that "empower[s] consumers to protect themselves and one another against false advertising and deceptive marketing."[24]

Truth in Advertising

Every year, Americans spend billions of dollars on health-related products, such as supplements, exercise programs, and nonprescription medication. Unfortunately, many of the advertisements claim that these—and many other—products will perform in a way that has not been proven. Not only can such claims be very harmful to individuals, but they can also get companies in big trouble.

In 2021, Subway was put in the spotlight by its own franchisees for its "Eat Fresh" slogan. The franchisees claimed that the slogan was misleading and that Subway's ingredients were often days or weeks old when they arrived at the stores and that the meat was laden with chemicals.[25]

Advertising to Children

Marketers must be keenly aware of how they advertise to children. Children are exposed to advertising just as often as adults. It is estimated that children view more than 40,000 commercials per year.[26] However, children and youth do not understand how to decipher those advertisements that are trying to get them to want something. For products that are harmful to, not meant for, or illegal to sell to children, marketers need to steer clear of advertising to children.

The vape company Juul found itself in hot water in 2019 when it was accused of marketing to teens. The company advertised its product—intended for adults only—on websites such as Nickelodeon, the Cartoon

Network, and Seventeen, all sites directed toward youth.[27]

Advertising Harmful Products

When organizations run advertisements for potentially harmful products, they can be held legally liable for the claims and for any harm caused by the product. Even if the company is not held legally liable, the reputation of the business can be damaged.[28]

Have you ever noticed in a prescription drug commercial, there is considerable time spent on the side effects of the medication? Or that at the bottom of the screen there is a disclosure that the actor is not an actual patient? These are all required by the Federal Food, Drug, and Cosmetic Act (FFDCA), the Food and Drug Administration (FDA), and the FTC to adhere to truth in advertising expectations.

Ethical Issues Related to Public Relations

Similar to being truthful in advertising, marketers must also be aware of how they are disseminating information via public relations. Again, with the increase in social media and the Internet in general, it is much easier for consumers to find information regarding companies. In addition, it is much more commonplace for consumers to call out companies that are being unethical or dishonest. It is much easier for organizations to be honest and transparent up front than try to dig themselves out of a public relations nightmare.

LINK TO LEARNING



IKEA

The start of the COVID-19 pandemic required the entire world to shift its perspective. This was true for marketers as well. Many companies changed their marketing strategies from selling goods and services to creating feelings of goodwill and solidarity. IKEA, the Swedish furniture manufacturer, was no exception. In a marketing campaign launched early in the pandemic, the company offered six ways to build a furniture fort, giving the public ways to cope with being quarantined. The campaign earned a nod in *AdWeek*'s most notable advertisements.[29] Read more about the campaign, and see the forts, here. (https://openstax.org/r/ikeafurnitureforts)

Transparency

An important part of managing public relations is to disseminate information to the public. It can be a very effective way of gaining loyalty and interest in the brand. The more transparent a company is to its target market, the more trust consumers have in the brand.

Whole Foods, known for offering natural foods, faced scrutiny over its mislabeling of genetically engineered foods. The company's top priority became that of transparency, and it requires every product sold as non-GMO to go through a verification process.[30]

Selective Truth Telling

Selective truth telling is a practice in which a person or organization tells a portion of the truth but omits other portions of the truth. Particularly in the face of scrutiny, marketers have always had to decide how much of the truth should be provided in order to satisfy the public but also protect the organization. In more recent years, many organizations have been increasingly telling the whole truth upfront, to avoid being called out later.

Verifying Facts and Information

Fact-checking in a process to verify facts on an issue. Marketers must do their best to present information that is valid to their target. This should be done before the information gets released to the public. In a society of

"fake news," consumers are more skeptical than ever when it comes to information. Obviously, presenting information that is not factual will lead to decreased trust from the public.

COMPANIES WITH A CONSCIENCE

TOMS

In 2006, Blake Mycoskie founded TOMS shoes (see Figure 14.6), the name of which comes from the word "tomorrow." TOMS is committed to its One for One model: for every item purchased, an item is donated to those in need.[31] Since its inception, TOMS has also committed one-third of its profits to grassroots movements.[32]



Figure 14.6 TOMS is an example of a company that built a company, product, and mission focused on giving. (credit: "Spring" by molltiply/flickr, CC BY 2.0)

TOMS remains transparent, and the company's behavior is aligned with its values. In every advertising campaign launched, TOMS' philanthropic mission is consistently reinforced to the public. As a result, it's nearly impossible for anyone to think of TOMS as anything but aligned completely with its mission, whether one is visiting the company's website, viewing print media, or looking at the company's social media.[33]

Chapter Summary

In this chapter, we discuss the importance of advertising and public relations in the promotional mix. Major decisions that need to be made in order to successfully build a strong advertising campaign include establishing objectives, creating an advertising budget, developing a strategy, executing the campaign, assessing and evaluating the program, and post-testing the advertising. The use of metrics to measure the success provide key information to marketers and include brand recognition and/or awareness, ad views, conversion rates, and return on ad spend.

The advantages and disadvantages of public relations as it impacts the promotion mix were discussed, along with related ethical issues. The tools used to carry out public relations and publicity were explained.

Key Terms

advertising paid communication messages that identify a brand or organization and are intended to reach a large number of recipients

aided recall a type of advertising posttest that uses cues to assist a sample audience in recalling brands and products in an advertisement

all-you-can-afford approach advertising budget approach that ensures everything else in the organization is budgeted for and then sets aside the remaining funds for advertising

attitude tests a type of advertising posttest that investigates the attitudes of a sample target audience toward a product or service

brand awareness metric used to determine if audiences can recall information about a brand

brand recognition the ability of a campaign audience to recognize and identify a specific brand

comparative advertising type of advertising that showcases the benefits and values of one product as compared to its competitors

competitive-parity approach advertising budget strategy that relies on setting budgets based on the expected budgets of competitors

conversion rate the percentage of an audience that has completed a desired action

engagement any interaction with advertising content

frequency how many times someone is exposed to an advertisement in a given time period or how many times an advertisement is shown in a time period

impact how quickly members of the audience receive an advertising message

impressions quantifying how many times an advertisement appears in a medium

informative advertising a type of advertising intended to raise awareness of a product through educational communication to increase demand of the product

inquiry test a type of advertising posttest that runs two or more similar ads on a limited scale and determines which of the ads are most recalled by and effective for respondents

institutional advertisements advertisements intended to create a positive image or support for an entire organization

jury tests a form of pretesting in which the respondents discuss the advertisements that are most likely to induce a purchase

key performance indicators (KPIs) indicators (metrics) that measure how an advertising campaign is achieving certain goals or objectives

lobbying networking and other efforts that have the intention of influencing public policy and law

objective-and-task approach advertising budget strategy that is based on the objectives set previously for the advertising plan

percentage-of-sales approach advertising budget strategy that utilizes prior years' sales or predicted year's sales and sets a percentage of those sales aside for advertising

persuasive advertising a type of advertising that aims to highlight the benefits of a product or service being advertised

portfolio tests a type of advertising pretest that consists of respondents browsing through various versions of an advertisement and then being asked to recall certain details from each
press relations efforts to establish and maintain positive relationships with those in the media by sending press releases and other stories that help to maintain a positive image of the brand
pretesting advertising research that predicts the performance of an advertisement before it airs
product advertisements advertisements that promote a specific product within the organization's product mix
public affairs efforts to influence public policy and engage with public officials and trade associations
public relations any actions that help to create and maintain a favorable public image
publicity notice or attention given by the media
pull strategy advertising strategy intended to bring audiences to the product
push strategy advertising strategy aimed at pushing the brand in front of an audience
reach the estimated number of potential customers you can reach with an advertising campaign
reminder advertising advertising aimed at bringing a product back into the forefront of the consumer's mind
return on ad spend (ROAS) metric that measures the amount of revenue earned for every dollar spent on advertising
return-on-investment (ROI) approach advertising budget strategy that focuses on every dollar spent on advertising; a return of that dollar—plus some—is expected
sales test a type of posttest in advertising that determines how many sales will be made based on a test market
theater tests a form of advertising pretest in which the audience is shown advertisements—usually television ads—in the context that they would be shown to the entire market
unaided recall a type of advertising posttest that does not use any cues or prompts to test the recollection of the advertisement message

Applied Marketing Knowledge: Discussion Questions

1. List the objectives of advertising.
2. Explain the five approaches to creating a marketing budget.
3. List the tools used for public relations and explain how each of these are used.
4. List the tools used for publicity and explain how each is used.

Critical Thinking Exercises

1. Explain the key metrics used to measure the success of an advertising campaign.
2. List the advantages and disadvantages of public relations.
3. Provide examples of ethical issues related to advertising and include ways to avoid them.
4. Provide examples of ethical issues related to public relations and include the ways to avoid them.

Building Your Personal Brand

The act of building a personal brand requires a commitment that comes with having a well-developed and clear path. One of the many tools that a person can use to set and review their progress is the GOOD framework from Quantum Workplace (https://openstax.org/r/quantumworkplace). This framework can be used to set goals, identify obstacles and opportunities, and make decisions. As with any strategic goal-setting framework, the important thing to remember is that it should be used organically, allowing for the shifts that come with growth and development.

The framework includes the following parts:

- Goals: What goals are you setting? What needs to be done to achieve them?
- Obstacles: What is standing in your way? Can you work around or remove the obstacles?
- Opportunities: What can you pursue for learning and development to move you forward?
- Decisions: What decisions do you have to make to reach your goals? What will you do more of? What will you do less of?

This framework can be utilized on a personal and professional basis. The idea is to monitor and review throughout the year to determine whether you are on track, have the need to reassess, have achieved your goals, or need to create new ones.

What Do Marketers Do?

Send a message to your college or university marketing department asking for a time to talk to the marketing manager about their job for your class. These positions vary greatly based on how many functions they outsource. Use the following questions as a guide to dig deeper into their process and responsibilities.

1. Please share with me your employment history and how you got to where you are today.
2. Can you summarize your job responsibilities?
3. Is the organizational structure of the company you work for private, nonprofit, or state?
4. Can you share with me what functions, if any, are outsourced (for example, website design, website maintenance, graphic design, or printing of materials)? How long have you been outsourcing these functions?
5. How many employees report to you, and what is person's role?
6. What challenges do you face with the structure you currently have in place?

Feel free to add any questions you might have. Thank them for their time. From this interview you should be able to gain more insight into how different areas of marketing are handled within a given organization's marketing department.

Closing Company Case

Peloton

If you have ever taken a class at your local gym, you know the excitement of the camaraderie and competition that takes place when you are in a class of like-minded individuals all sharing the same goal and passion for performance. Former Barnes & Noble e-commerce executive John Foley liked riding his stationary bike but wanted to bring the gym class experience to his at-home riding sessions. And in 2012, the idea for Peloton was born.[34]

Hailed as "Netflix for Fitness," Peloton introduced its first bike in 2013. The company had slow and steady growth. With several rounds of funding, the start-up took off and began to take hold among consumers who enjoyed the rigorous workouts provided by trainers through the built-in bike video screens and subscription service to the various "rides."[35]

For Christmas 2019, Peloton debuted what turned out to be a significant ad for the young brand. Featuring a husband buying a Peloton for his wife, the ad took viewers through the mind and thoughts of the wife while she rode her bike and seemingly got more "in shape." Viewer outrage kicked up as some viewers believed the ad depicted a husband body-shaming his wife with the gift of exercise for the holidays. Check out the Peloton Christmas Commercial from 2019.

Peloton bike Christmas advert | The Gift That Gives Back (https://openstax.org/r/pelotonbikechristmas)

While the ad may have sparked some controversy, it did one thing successfully—it got people talking about Peloton. The ads allowed the viewer to glimpse the life of a Peloton user—it showed the fun method of the

video courses, the use of the bike no matter what the weather outside, and the potential transformation of the Peloton user.

The other element of the ad's storyline is that it sparked a parody ad produced by Maximum Effort, a film production and digital marketing agency.[36] The agency was founded by the actor Ryan Reynolds, and the parody ad featured a voice-over by Reynolds himself. Although the ad was for Aviation Gin, a brand owned by Reynolds, the ad featured the "wife" from the Peloton Christmas ad. The parody ad did three things—kept people talking about Peloton, created a memorable story for Aviation Gin, and connected Reynolds and the Peloton brand.[37]

AdWatch: Aviation Gin / The Gift That Doesn't Give Back (https://openstax.org/r/aviationgin)

As Peloton began to take off in the United States, the country literally came to a screeching halt. In January 2020, the COVID-19 pandemic hit the country. Within months, citizens everywhere were quarantined, with gyms, restaurants, travel, businesses—everything—shut down. What started as 14 days to slow the spread turned into months. Remote work and learning became the norm, and people started to feel restless cooped up in their homes.

As the pandemic surged, so did Peloton. It picked up the fitness gauntlet, and in 2020, for the first quarter ever, the company turned a profit with a 172 percent increase in sales, stock up 220 percent, and over 1 million subscriptions. The new challenge for the organization was in the fulfillment of orders.

During the pandemic of 2019–2021, Peloton became a household name. It was the topic of discussion on the Fox News show *The Five*. Hosts Greg Gutfeld and Dana Perino regularly discussed the joy they got from using their Peloton bikes. Consumers everywhere were "riding out" the pandemic on a Peloton.

Even as sales surged and Peloton became a household name, it was being woven into the fabric of the American culture, such as on the '90s hit show *Sex and the City*. With the aging of the show's stars, the demographic of viewers was prime for a reboot. And so, in late 2021, the show's stars reprised their famous roles and *And Just Like That* debuted.

The show premiered on HBO to a record audience.

Per HBO Max, the *Sex and the City* revival starring Sarah Jessica Parker, Cynthia Nixon and Kristin Davis had a strong 24-hour performance that ranks as the most viewed series premiere of a new HBO or HBO Max series on the streaming service. Overall, the *AJLT* opener ranks in the Top 10 of all HBO Max's movies and series debuts, including both HBO and Max originals, trailing just some of the tentpole Warner Bros. movies that launched on the platform.[38]

> However, the huge debut marked a significant moment for Peloton. In the first episode, one of the major stars of the show, Mr. Big, dropped dead of a heart attack after a spin on his Peloton. Throughout the episode, the love affair Mr. Big has with his bike and his appreciation for the instructor provide the major plotline to the show. This led to the question, How would the character's death affect Peloton?

Product placement has always been a significant public relations initiative of consumer product companies. The *James Bond* franchise traditionally partners with well-known brands for placement in the movies and use by the popular cultural icon. The use of real products helps connect the consumer to the movie. It is usually a boon to the brand, and the movie benefits from the more realistic quality the product adds to the movie.

In the case of Peloton and Mr. Big, Peloton did not pay for the placement, but they did agree to the brand's use in the show. According to a spokesperson for the company, the plotline was a complete surprise.[39] So how does the show recover from "death by Peloton"?

Enter a new parody advertisement developed by Ryan Reynolds and Maximum Effort. When Reynolds created the ad for Aviation Gin that poked a little fun at Peloton and its "body-shaming" commercial, the actor became

connected with the marketing arm of Peloton. It was time for a new parody. In this go-around, the focus would be on Peloton and Mr. Big. Actor Chris Noth, who played Mr. Big in the television show *Sex and the City* and the reboot *And Just Like That*, agreed to appear in the ad. Less than 48 hours after the show debut and the death of Mr. Big, Noth made an appearance in a Peloton ad, which shows him very much still alive. The big win all around is for Peloton and its significant increase in brand awareness.

The response from Peloton to the death of the main character Mr. Big on *And Just Like That* was to create an advertisement showing him very much alive—a clever approach and certainly an effort that gained Peloton brand recognition. Watch his death on the television show, and watch the commercial response here.

And Just Like That/Sex And The City - Big Dies (https://openstax.org/r/justlikethat)

YouTube Video (https://openstax.org/r/chrisnoth)

Case Questions

1. How did Peloton reach audiences with its message about the advantages of at-home exercise on its bike and corresponding trainer subscription services?
2. How was Peloton able to discern the effectiveness of its advertising when it debuted the 2019 commercial that was dubbed "body-shaming"?
3. What are some of the ways Peloton has generated brand awareness through publicity?
4. Peloton became the subject of the first episode of the show *And Just Like That*, a reboot of the hit show *Sex and the City*. What are the advantages and disadvantages to the product placement of Peloton in the show's premiere episode?

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15

The Promotion Mix: Personal Selling and Sales Promotion

Figure 15.1 Hilton Hotel utilizes a personal selling process with its HGV product. (credit: modification of work "Hilton Hotel @ Riverwalk Shopping Mall" by Thank You (22.5 Millions+) views/flickr, CC BY 2.0)

Chapter Outline

15.1 Personal Selling and Its Role in the Promotion Mix
15.2 Classifications of Salespeople Involved in Personal Selling
15.3 Steps in the Personal Selling Process
15.4 Management of the Sales Force
15.5 Sales Promotion and Its Role in the Promotion Mix
15.6 Main Types of Sales Promotion
15.7 Ethical Issues in Personal Selling and Sales Promotion

In the Spotlight

Since 1919, when Conrad Hilton bought his first hotel, Hilton Hotels and Resorts has been providing a good night's sleep to travelers around the world. With over 6,800 hotels within its portfolio (including several sub-brands), Hilton has a hotel to meet the needs of just about any traveler. Hampton Inn is a beloved brand for road-weary business travelers as well as families. The Conrad is one of the luxury brands for Hilton. And DoubleTree is another favorite brand for business travelers, known for the gooey, warm chocolate chip cookies presented at check-in. To reward travelers, Hilton offers several tiers of Hilton rewards: Silver, Gold, and Diamond. Reward members are able to trade their points for various perks, including free nights. During off-peak travel, Hilton offers a variety of sales promotions; for example, one program it offers is 3X points on every stay for three nights or more.

Consumers who travel often are able to increase their points through certain purchases and promotions that Hilton will offer to spur more travel. Hilton also connects with customers through Hilton Grand Vacations (HGV). HGV is a time-share within the Hilton portfolio of properties and rooms. When customers join HGV, they are buying ownership in the exclusive club properties.

To increase the sale of the HGV properties, Hilton runs promotions to sign Hilton customers for a tour of a new property and a presentation about the benefits of ownership. In exchange for participating in a tour of HGV properties, customers are offered incentives, such as three nights and four days of a Hilton hotel stay for a

discounted price. In exchange for the discounted rooms, customers agree to a tour and to sit through a sales presentation.

HGV sales professionals are typically real estate agents who understand how to structure vacation rental properties and time-share sales. Every sales professional selling the HGV properties is well-versed in the cost of vacations, how to structure real estate deals, and the benefits of being a member of HGV. Once a customer agrees to the tour and the sales presentation, the sales representative is tasked with making sure the decision makers are present, and when possible, the goal is to have customers make their decision before the tour is over. These strategies have been very effective at generating continuous streams of income from HGV members.

15.1 Personal Selling and Its Role in the Promotion Mix

Learning Outcomes

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

- LO 1 Define personal selling.
- LO 2 Discuss the role of personal selling in the promotion mix.

Personal Selling Defined

Personal selling is the one-on-one interaction between a company representative (salesperson) and the buyer (customer or prospect). The interaction is intended for the salesperson to uncover the needs and wants of the prospect and discuss how the product or service will help to satisfy the customer's needs and wants. The salesperson works to develop a relationship with the prospect with the intention of having them buy the company's product and become a customer.

The Role of Personal Selling in the Promotion Mix

The promotion mix includes the marketer's tactics for communicating with consumers. Determining how to use the promotion mix is dependent on the goals and objectives of the overall marketing strategy as well as the nature of the product, the market segments being targeted, and the message the marketer wishes to send.

Generally, marketers will use a combination of the promotion mix tactics to create an integrated approach to connecting with customers. Out of all the promotion mix strategies, personal selling is the strategy that connects directly with the customer in a one-on-one setting and focuses on building relationships. Personal selling is ideal if the product is more complex in nature, higher in price, and customizable according to a customer's needs.

Relationship Selling

Relationship selling is a method of personal selling used to better understand the needs and wants of the buyer. If the product is relatively high in price and has some customizable attributes, the salesperson will strive to become a trusted advisor to the customer. This allows the salesperson to develop a relationship that will create trust and ultimately fit the best product with the customer to fulfill their needs and wants and solve a problem they are having that put them in the market for the product. TalEx, a fast-growing human resource company, works with its clients to find the right talent for open positions at a variety of companies. Sales representatives for TalEx work as trusted advisors to collaborate with clients to help find the right staffing solutions for growing companies.

When to Use Personal Selling

Personal selling is best utilized as a promotional strategy when the products are higher in price, variable in nature, and require some explanation or education. Hilton Grand Vacations (HGV) employs real estate agents to sell club memberships. Due to the variety of membership purchase levels, the explanation and education of

how to use the membership, and the higher price of the time-share vacations, the sales force spends time educating clients about the product. Typically, personal selling is used for products that are also in the introductory stage of the product life cycle and for products that require significant follow-up after the sale. Business-to-business (B2B) strategies are largely reliant on personal selling as a primary promotional strategy.

LINK TO LEARNING



Personal Selling

Watch this video to learn more about personal selling. Learn when personal selling is most relevant, the cons, and what types of products it is most suited for.

Marketing - What is Personal Selling? (https://openstax.org/r/whatispersonalselling)

Watch this personal selling role-play to gain insight into a sales call situation, and read this guide for the advantages, the disadvantages, the process, the strategies, and examples of personal selling (https://openstax.org/r/salespersonalselling).

Personal Selling Role Play (https://openstax.org/r/personalsellingroleplay)

Knowledge Check

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

1. Companies typically use personal selling as the promotional strategy of choice when which of these is true?
   a. The product is higher in price.
   b. The product requires the sales professional to spend significant time educating the customer.
   c. The product has a lot of variation.
   d. All of these statements are true.

2. Personal selling is _____.
   a. unpaid advertising to consumers
   b. a method of increasing sales in the short term
   c. one-on-one interaction between a sales professional and a potential buyer/customer
   d. used for handling routine purchases

3. If a company has a higher-priced product that requires some variation according to the customer's needs and wants, which method of promotion is best?
   a. Direct marketing
   b. Personal selling
   c. Advertising
   d. Public relations

4. Which of the following is NOT a reason for personal selling to be used?
   a. When the product is complicated
   b. When the product has a lot of competition
   c. When the product needs to be demonstrated
   d. When the product is highly technical

5. Jasmine works for a Honda dealership. Jasmine has spent considerable time listening to a potential customer talk about what features they are looking for in a new car. Jasmine is able to identify the best

Honda automobile to meet the needs of the customer. What feature of sales is Jasmine demonstrating?

a. One-on-one interaction
b. Meeting the needs and wants
c. Personal communication
d. All of these features are correct.

15.2 Classifications of Salespeople Involved in Personal Selling

Learning Outcomes

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

LO 1 List the various roles involved in personal selling.
LO 2 Describe the differences between the various personal selling roles.

Order Takers

Within the role of personal selling, there are various types of selling functions. Many organizations utilize more than one type of personal selling. Various sales personnel within an organization may fulfill several of the roles. The type of personal selling is dependent on the nature of the product as well as the customer.

In many sales situations, the salesperson is responsible for prospecting to find new customers as well as working to match the right products with the customer needs and wants. However, some organizations have sales personnel that are only responsible for taking orders from customers, called **order takers**. They work to identify the customer and find the right product fit. Within the role of the order taker, there are typically two different types of order takers, inside and outside.

Inside Order Takers

An **inside order taker** is the person who talks with a customer when they walk into the business to place an order, or they are the one who is answering the phone, responding to an online inquiry, or responding to an email to accept customer orders as they are placed. Often the inside order taker may have to answer questions or discuss details of the product order. Their role is to serve as the liaison between the customer and the company. They make sure the right product is ordered according to the requests of the customers.

Restaurants typically replenish inventory on a weekly basis. When a sandwich shop calls its supplier to order more paper products and cleaning supplies, it calls the inside order taker. For some businesses, the inside order taker may be referred to as an inbound customer service agent. In this case, the inside order taker will make sure they have the order submitted correctly and will typically communicate about any out-of-stock products or any variation of the typical order.

Another type of inside order taker is in the business-to-consumer (B2C) market, where a consumer will shop at a store and pick a product. An example of this would be the cashier at Walmart or other retail outlet. When the consumer is ready to pay for the product, and if they choose to check out with a cashier rather than the self-checkout option, they are checking out with the inside order taker. In the role of inside order taker, the cashier carefully scans each of the products and completes the sale. For online retailers, the inside order taker is the one making sure the products ordered from the online shopper are in stock and available for fulfillment. They may contact the customer if the product is unavailable or if there are questions about the order.

Outside Order Takers

Outside order takers work with customers who routinely buy products, and their role is to take in and process those orders. The outside order taker is not required to persuade a customer to purchase, but rather they are a resource for the customer in fulfilling orders. In addition, they are a resource to their customer and may offer insight and advice on inventory patterns and expected delivery times.

Your neighborhood hair salon is a good example of a business that relies on an outside order taker. Hair salons

typically have both a supply of the products they use on their customers and a supply of products they sell to their customers for home use. The beauty products sales force consists of multiple sales roles. However, the outside order taker routinely checks in with the salon owner and will fill out the order sheets to replenish product stock that is low.

Order Getters

The role of the **order getter** is critically important to the revenue of many businesses. The order getter is responsible for finding customers and persuading them to purchase. They might also be responsible for increasing orders from current customers. The order getter is typically well versed in their products and has superior knowledge about the industry. Additionally, successful order getters are often viewed as a trusted advisor by the customers they serve. Many businesses rely heavily on the order getter to work with them to solve their problems through the products they represent.

The order getter must be able to listen to the customer and respond with solutions that will be mutually beneficial to both companies. In the role of the order getter, it is not uncommon to work with a customer for a year or more before ever making a sale. iSalus is a perfect example of this. In an effort to get the company's cutting-edge patient engagement software into health systems, the sales force must identify the decision makers within the health system as well as work with those who will be using the software. Educating and engaging with a variety of teams within the health system, as well as waiting on budget approvals, can take anywhere from 6 to 18 months. Laying the foundation can be a lengthy process but can be very rewarding when everything comes together and the sale is made.

Support Personnel

A typical sales force includes various **support personnel** that help facilitate the sales process. Support personnel can take on many functions in the process of making the sale, including marketing, prospecting, setting appointments, educating customers, building goodwill, checking inventory and order status, as well as providing service after the sale. There are two primary types of support personnel utilized in the sales process: missionary salespeople and technical specialists.

Missionary Salespeople

Missionary salespeople are often employed by manufacturing firms to represent the company and call on retailers in an effort to inform or persuade them to buy the firm's products. In some cases, they may also be referred to as a detailer. It is the job of the missionary salesperson to inform customers about new products and promotional specials and to encourage new orders and reorders. Missionary salespeople are most common with manufacturing, pharmaceutical, and software companies. A salesperson for McKesson Corporation's pharmaceutical products will work with physicians in their territory. Typically, they meet with the physicians, provide education on new products, leave samples, and connect with the physician's practice on a regular basis to keep the company's products in use.

Technical Specialists

A **technical specialist** serves as an assistant to a firm's existing customers. Their role is to advise on many aspects of the product, such as technical specifications, application, design, and installation. As the name implies, this job is highly technical and often requires formal training. Many people in the role of the technical specialist have backgrounds in science or engineering. The types of products and the applications for the products determine the need for and training of the technical specialist.

Team Selling

Many of today's customers and products are complex. The more expensive and high-tech the product, the more important it is to have a team of people to assist the client in making sure the product meets their needs and wants. Team selling is a sales approach that can improve the likelihood of a good experience that meets or exceeds the customer's expectations. **Team selling** involves the lead salesperson bringing in other functional

support people from within the organization. Other functions that are often involved include finance, engineering, and accounting. These various functions can assist with the skills and knowledge to address specific customer problems or issues and work through objections or special circumstances that may be required to make the sale. Bringing extra skills and knowledge to the situation can make for a better product fit and a good outcome whereby the client sees the company and products as invaluable.



CAREERS IN MARKETING

Personal Selling

Personal selling is a technique used by sales professionals to make a connection and possible sale with customers. There are several techniques and tips for personal selling, and you can read about them in this Indeed article (https://openstax.org/r/careerdevelopmentpersonalselling).

There are many types of sales jobs. If a career in sales interests you, spend time learning about the different kinds of sales jobs and how they differ. Start by reading this article to learn about the things to consider (https://openstax.org/r/typesofsalesjobs) in a sales job, types of sales job titles, and job types. Read this article from Indeed about all the various (https://openstax.org/r/findingajob) types of sales jobs to explore.

There is a lot to explore when learning about sales jobs. Check out these resources to learn more:

- Indeed: "10 Sales Skills Reps Should Have (https://openstax.org/r/salesskillsforreps)"
- ResumeGenius: "Top 12 Sales Skills for Your Resume + Examples (https://openstax.org/r/resumehelp)"
- Brainshark: "17 Sales Skills All Reps Need (https://openstax.org/r/keysalesskills)"
- LiveAbout: "Important Sales Skills That Employers Value (https://openstax.org/r/salesskillslist)"
- HubSpot: "How to Understand & Thrive in Digital Sales" (https://openstax.org/r/salesdigitalsales)
- HubSpot: "The Best Sales Job Boards for Finding or Filling a Sales Job (https://openstax.org/r/searchforsalesjobs)"

A career in sales can be fast-paced, exhilarating, and competitive. If sales interests you, be sure to do your homework so that you're sure to find a position and industry you're passionate about.

Knowledge Check

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

1. The practice of using call centers, where employees receive calls from customers and provide service by taking orders and answering queries, is called _____.
   a. customer response marketing
   b. guerilla marketing
   c. reactive marketing
   d. inside order taking

2. The management of Javier's Bicycles has an approach where the call center makes appointments and the sales professionals go out to meet with the potential customers and discuss the various products available. This is an example of _____.
   a. inside order takers
   b. team selling
   c. technical specialists
   d. internal marketing

3. Special-Lite makes industrial doors for many commercial applications. Once the sales professional meets with the customer to discuss the products they wish to buy, the sale moves into production, and a special person within the company is assigned to make sure the doors meet the requirements specified in the blueprints. This person is a(n) _____.
   a. order getter
   b. order taker
   c. technical specialist
   d. telemarketer

4. Pfizer uses sales professionals to visit with physician offices and inform the physicians of the new medications and the uses for the medications and to encourage them to prescribe the new medications to their patients. This form of sales professional is often called _____?
   a. technical specialist
   b. order taker
   c. order getter
   d. missionary sales

5. 84 Lumber has personnel who work to set appointments and check inventory levels. What type of person does this for the sales force?
   a. Support personnel
   b. Missionary sales
   c. Technical specialist
   d. Order getter

15.3 Steps in the Personal Selling Process

Learning Outcomes

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

LO 1 List the steps in the personal selling process.
LO 2 Describe each step in the personal selling process.

Step 1: Prospecting and Qualifying

The **selling process** is a seven-step process (see Figure 15.2) used for selling a product. The process can be multifaceted, lengthy, and complex, depending on the product and the prospect. While all salespeople are different, generally most sales professionals go through the same selling process.

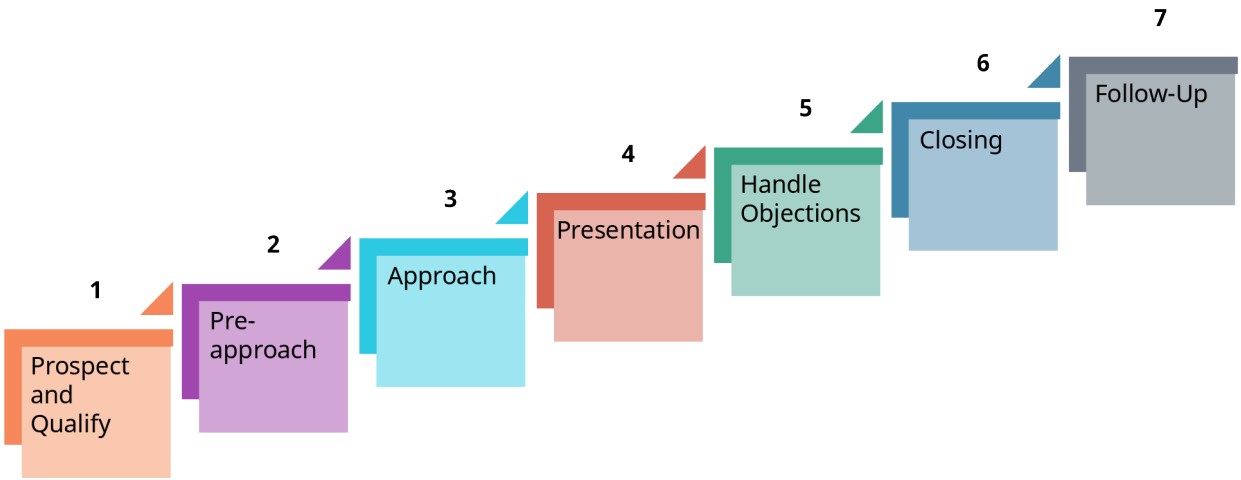

Figure 15.2 Steps in the Selling Process (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

The first step in the sales process is to find, or **prospect** for, strong potential customers. In prospecting, sales

professionals will work to create and develop a database of potential customers, called **sales leads** through lead generation. Getting the names and contact information for the database is the act of prospecting. Each business or company has its own methods of prospecting and qualifying. For some companies, the process is rigorous and lengthy; for others, it can be nothing more than a quick phone conversation.

There are many methods of lead generation. Utilizing digital strategies is one example. Many companies may prospect leads through a digital advertising campaign that triggers potential customers to sign up for information about a product. Other forms of prospecting can include meeting potential customers at trade shows, use of a referral program, or purchasing a list of customers from a third-party company that meets the criteria for the target market.

Once the sales professional has a database of leads, the next step is **qualification** of those leads. Not all names in a database may be the right candidates for a company's products. There are many reasons why a candidate may not be a good fit for a company's products. For example, some leads may have recently purchased a competitor's product, and others may not be in a financial position to afford the product. The sales professional wants to reduce the list to include only the leads who are a good fit and are more likely to be receptive to purchasing the company's products. Qualification may also include making sure the contact has the authority to make the purchasing decision.

You might be asking yourself how a salesperson or company tracks these leads and keeps all the various communication touch points organized. They typically have two software tools to help them: **sales force automation** (SFA) and **customer relationship management** (CRM) software. SFAs are used to acquire a customer, and CRMs are used to retain and manage customers after the sale.[1]

According to Salesforce, a company known for one of the most popular CRMs on the market, CRM software "is a technology for managing all your company's relationships and interactions with customers and potential customers. The goal is simple: Improve business relationships to grow your business."[2]

LINK TO LEARNING



Difference between CRMs and SFA

Check out this short article from SelectHub (https://openstax.org/r/sfavscrm) that outlines in more detail the difference between CRMs and SFAs.

Step 2: Pre-approach

The **pre-approach stage** can best be described as a thorough analysis or research of the potential candidate. It is in the pre-approach stage that the sales professional will conduct a very detailed study of the prospect, which will often include information about specific product needs, what current brands they might be using, brand awareness, who the decision makers are, and general knowledge of personal interests and financial standing. The research findings are meant to help the sales professional to find out needs and wants as well as the best way to approach the prospect for the sales presentation.

Some of the research that sales professionals seek to review as part of their investigation may include interviews with other clients, financial reports, credit histories, and any sources of public information. Most companies with a sales force and sales process will use robust customer relationship management (CRM) databases to collect, filter, and track prospects through the stages of the sales process. Information that is uncovered during the pre-approach will be added to prospect records in the CRM system.

Step 3: Approach

Information gathered in the pre-approach helps the sales professional during the **approach** phase. Utilizing

the insights they have gathered about the prospect, the sales professional seeks to contact the prospect to build rapport and gather more information on the needs and wants of the prospect. During this phase, it is very important for the sales professional to create a positive impression, ask the right questions, and begin building a relationship with the prospect.

A soft approach is generally the best strategy, as the goal is to build the relationship and not necessarily push product. Hard-sell tactics are often rebuffed during this early contact with the prospect. Ideally the role of the salesperson in this early stage is to ask questions and listen. It is through listening intently to the prospect that the salesperson can detect the fit for the product and ultimately the best way to sell the product. Information gathered during the approach will often be used in the presentation stage.

Step 4: Presentation

Once the prospect has made it through the approach stage, the sales professional is ready to present the product to the prospect. During the **presentation** stage, the goal is to showcase the features about the product that will be of most benefit to the prospect based on the needs uncovered during the pre-approach and approach stages. Often the presentation may include education on the aspects of the product that the prospect will find most beneficial to solve their problems. This is the time for the sales professional to highlight the benefits of the product and answer questions the prospect might have. For example, college admissions departments work with students to showcase the best of the university in an attempt to persuade them to enroll. Part of the presentation process includes tours of the campus, meetings with current students, attending classes, and experiencing campus life.

The best sales professionals are good listeners. Good listening strategies work to build rapport and create winning strategies. When you listen carefully to your prospects, they will tell you exactly how to sell to them. Using information provided by the prospect, a good sales professional will be able to turn it into a winning sale. Several methods of sale presentation include a stimulus-response format, formula selling, a need/satisfaction format, adaptive selling, and consultative selling.

Stimulus-Response Format

When a salesperson has done the research and they understand many of the issues that might be presented by the customer, they are able to provide a stimulus, and the customer provides a response. The skilled salesperson is able to counter every response with a new stimulus. The goal is to sell based on the response from the customer. To be effective, the salesperson must follow a script, which has been developed based on the pre-identified needs and wants of the customer.

Formula Selling Format

Advertising has typically been dependent on the customer going through a specific set of actions before responding. One of the most common consumer response models is the **AIDA model**, which encompasses attention, interest, desire, and action. Marketers often look to the AIDA model when putting together advertising campaigns. The AIDA model is also used for **formula selling**. The goal is for the salesperson to take the customer through the various stages of response until they get to the purchase of the product. The skilled sales professional will make sure they are providing stimuli and responses for each of the stages of AIDA.

Need/Satisfaction Format

The **need/satisfaction format** of selling is an approach where the sales professional opens the sales presentation by probing the potential customer with questions in an effort to uncover their needs. The sales presentation is then tailored to the customer by showing how the product/service will satisfy the customer needs.

For example, the owner of a busy café may be met with a question about scheduling from a salesperson who sells scheduling software. The salesperson may start with a question such as “This café is so busy; is it difficult

to schedule your staff?" Once the café owner talks about the challenges of scheduling, the salesperson now has information they need to custom tailor the sales presentation about scheduling software to the specific needs identified by the café owner.

Adaptive Selling

Adaptive selling is one of the most customer-centric sales methods available to the sales professional. Using the **adaptive selling** approach requires the sales professional to adapt their selling strategy and even the product to meet the needs and solve the problems of the customer. To fully utilize this approach requires that the sales professional rapidly customize their approach to meet the needs of different customers. Many sales professionals are taking advantage of the big data that is now readily available to better target customers. Armed with data about what is going on in the market, the salesperson can now adapt their presentation with real time information.

Consultative Selling

Perhaps this method was best exemplified in the movie *Miracle on 34th Street.* In the movie, the Macy's Santa Claus suggests a location, other than Macy's, where a mother can get a toy for her son. **Consultative selling** makes the sales professional a consultant who develops a relationship with the customer and takes on an advisory role to help the customer solve their problems. Generally, the problem will get solved through purchase of the product, but it can also be solved in various other ways. The sales professional becomes the anchor to helping the potential customer solve their problems.

Step 5: Handling Objections

Preparation during the qualification, pre-approach, and approach stages of the sale process, provide the sales professional with the information they will need to handle objections. In many situations, seasoned sales professionals are able to successfully present the product and answer questions without having objections. Good research on the customer and an understanding of how the product will help them and solve their problems allow the sales professional to avoid objections. However, when the customer does present an objection, the skilled sales professional will need to be agile at handling them.

Typically, strategies for handling objections include listening, restating the question, and responding with additional questions. Price is generally always voiced as an objection. Knowing the common objections and having a strategy to handle them prior to the presentation will help advance to the close stage.

Step 6: Closing

Asking for the order is perhaps the hardest step in the sales process for many sales professionals. Up to the point of the close, the sales professional has spent a tremendous amount of time and energy with the prospect. Much of the work of the sales professional has been around building a relationship with the prospect. Asking for the order is a source of tremendous fear for many sales professionals because this is the point where all of their work could unravel. What if the customer says no? Then what?

Many sales professionals fear the possibility of rejection. They also consider that they may get the timing wrong. However, if the sales professional has prepared, they know that asking for the order is the point where they make the prospect a customer. One way to eliminate the guesswork of timing is to do a trial close by talking about things such as financial terms or delivery of the product. The customer's response to the trial close questions will alert the sales professional to the prospect's readiness to purchase.

Step 7: Follow-Up

After the order is placed, the real work begins. Upon closing a sale and signing the prospect as a customer, the sales professional is now tasked with onboarding the customer and ensuring that everything progresses smoothly with the sale of the product. Because it is much more lucrative for a company to keep current customers happy than to go out and prospect for new customers, the follow-up is a major step in creating

lifetime customer value (LCV). Most salespeople would rather maintain their current clients than search for new clients. The follow-up after the sale is a critical step in getting repeat business, customer referrals, and upsells during the next order cycle.

Knowledge Check

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

1. Lucia works for ABC Home Centers. The company sells roofing and windows to customers looking to make home improvements. Lucia's main job with the company is to identify people who might be in the market for home improvement products. As part of Lucia's job, she calls people to see if they would be interested in finding out more about ABC's products. What stage of the sales process is Lucia doing?
   a. Closing
   b. Handling objections
   c. Presentation
   d. Prospecting and qualifying

2. Tony likes everything about the products from Supreme Restaurant Equipment. He is just about ready to purchase, but he has some questions about the payment methods and financing. At what stage of the selling process does the sales professional deal with Tony's questions?
   a. Handling objections
   b. Closing
   c. Pre-approach
   d. Qualifying

3. Shakira has been working with a customer for quite some time. She has a good rapport with the customer, and the customer often asks her a lot of questions regarding other matters in the industry. When Shakira is ready to work with the customer for an order, she talks with them about the pros and cons as well as other companies' products that might be a good fit. What type of selling approach is Shakira using?
   a. Adaptive
   b. Hard sell
   c. Stimulus-response
   d. Consultative

4. "Besides you, are there other decision makers that buy apparel?" This is a question that you might ask during what stage of the sales call?
   a. Pre-approach
   b. Close
   c. Approach
   d. Handling objections

5. Keith is with his prospect, and he is out on a test drive for the new Ford F-150. He is telling the prospect about the safety features of the truck. What stage of the selling process is Keith in?
   a. Approach
   b. Close
   c. Presentation
   d. Handling objections

15.4 Management of the Sales Force

Learning Outcomes

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

- LO 1 Identify the issues involved in managing a sales force.
- LO 2 List the various ways a sales force can be structured.
- LO 3 Describe the tasks involved in sales force recruitment and selection.
- LO 4 Discuss key metrics that can be used to assess sales performance.
- LO 5 Describe the tasks involved in supervising and evaluating a sales force.
- LO 6 Summarize the metrics that can be used for sales force performance evaluation.

Issues Involved in Managing a Sales Force

A sales force can be the lifeblood of an organization's revenue cycle, so it's important that they are incentivized to produce new clients, maintain current clients, and generate revenue for the organization. Proper management of the sales force includes setting goals, motivating, incentivizing, supporting, and monitoring.

Typical issues specific to sales include motivating and challenging the sales force. A sales force is always under pressure to meet sales targets, often linked to revenue goals, so a manger needs to constantly be working with their sales team to keep them motivated and hit the targets.

Finding the right person for the job is an important role for a sales manager. Sales managers often look for recent college graduates to fill sales positions. In addition, sales managers may look for someone already experienced in sales and then train them for the specific industry and products. Whatever set of skills a company might be looking for, finding the right mix of professionals can be challenging.

Sales Force Management Defined

Sales force management includes a very wide range of responsibilities. There are many tasks involved in sales force management, including the process of hiring, training, and motivating sales staff, as well as coordinating activities and implementing a sales strategy designed to increase sales revenue.

Setting Sales Force Objectives

For the sales force to be effective, they must understand what is expected of them. Establishing a clear set of objectives conveys to the sales force the expectation and how they will be evaluated. Sales force objectives can be set for the entire sales force as well as individual sales professionals. Objectives are usually set based on revenue goals, and they should be clearly established with measurement metrics and a time frame for completion. Typical sales force objectives include a mix of generating new customers and working with current customers.

Serving Existing Customers

Much of the work of a sales professional is around serving the existing customer. It is important to keep customers satisfied. Most organizations rely heavily on existing customers to provide good reviews, customer referrals, repeat purchases, and upsell of existing products. Sales professionals are expected to continue developing and building the relationship with existing customers to ensure they are satisfied. This can include checking on inventory, dealing with supply issues, and educating on product application. Objectives may include how often the sales professional is expected to keep in contact with the existing customer.

Developing New Customers

Growth is a key driver of most organizations, and growth comes through new sales to existing customers and also through sales to new customers. A sales force objective of obtaining a certain number of new customers is common. The sales force must have a lead pipeline of prospective customers they are constantly working to

turn into customers.

Increasing Market Share and Profit

Additional methods for companies to grow include obtaining more market share as well as more profitable sales. When there are sales objectives for market share, they usually focus on an increase in the proportion of the firm's sales as compared to the total number of products the firm sells overall in the industry.

Enhancing Customer Satisfaction

An important element of obtaining new customers as well as getting additional sales from existing customers is keeping customers satisfied. Satisfaction can mean good reviews, referral business, and lifetime customers. Objectives for customer satisfaction usually involve the sales force working with customers and obtaining reviews and endorsements.

Designing the Sales Force Strategy and Structure

There are many ways to design and develop a sales force. Careful thought to the customer is usually the best practice for establishing the right structure. Other factors in determining the best structure involve the company and its products. Sometimes organizations utilize all of the methods to structure the sales force.

For example, Pfizer has a neuroscience product and structures its sales force by product, customer type/size, and geography. The Pfizer pharmaceutical sales representative for the neuroscience product calls on neurologists, represents only one or two products so that they are an expert on the efficacy and uses, and has a very tight geographical territory, usually focused on a few zip codes depending on the number of neurological medical practices in a given area.

Territorial Sales Force Structure

Setting up a sales force territory is typically done based on the number of prospects and customers as well as the size of the customer and the potential revenue from the typical sale. The goal is to make the territories equitable for all of the sales force. Geographic territories are typical and take into consideration the amount of time spent in the field and how large the coverage area may be for the sales force.

Product Sales Force Structure

Firms typically want the sales force to be knowledge experts on the products they represent. It is common for a company to provide the sales force with a portfolio of products and to include continuous training on all aspects of the products they sell. In order to provide the best resources, companies create structure around product portfolios and have their sales force structured according to the products they sell. For example, in wine distribution, some sales representatives work with restaurants, the "on-premise" segment. Other sales reps would serve retail outlets, including supermarkets and independent wine shops.

Customer (Market) Sales Force Structure

In addition to knowledge of the products, the sales force needs to be knowledgeable about the customers and the industries they serve. Many companies structure their sales force according to the industry or customers. A company that sells products within the restaurant industry may be structured according to quick service, fast fresh, food truck, and fine dining.

Determining the Size of the Sales Force

Investing in a sales force is significant for any company. Sales professionals must be properly incentivized, and the pay and benefits packages can be quite high for experienced and well-trained employees. Companies must determine the number of potential customers as well as the time to nurture prospects into customers. The size of the sales force must be considered in relation to the complexity of the product, the profit margins on sales, and the size and number of customers in the markets served.

Recruiting and Selecting Salespeople

Hiring and training a sales force is a significant process and cost for companies. The sales manager must have a set of skill requirements and product knowledge that the right candidate must have in order to fill the available roles. There is significant agreement that good salespeople all possess the traits of self-motivation, time management, optimism, empathy, and the ability to network. Many salespeople make themselves valuable based on the network of contacts they are able to maintain.

Most recruiting starts with a job description detailing the requirements and the necessary skills that are needed to do the job. Finding the right candidates often starts through listing available job openings on many of the digital job boards, such as Indeed, CareerBuilder, and LinkedIn. Executive recruiting firms can also be instrumental in finding and matching the right job candidates.

Training Salespeople

Training of the sales force is a significant effort for most companies. Many organizations have a formal training program and spend considerable time and resources to keep the sales force knowledgeable on the products and industries served. Areas of training include sales strategies and how to sell, the products being sold, the industries served, and the company itself.

The best training programs are a combination of classroom activities and in-the-field training. Companies typically have their own training programs. New hires will spend a couple of weeks to a few months in training before they are given their own accounts and territories. Training, however, is not only for the newly hired sales professionals. Most companies have continuous training requirements for their sales force. Training for existing employees often includes company processes, information on products, and enhancing sales skills. Most top-performing sales teams spend time training with company managers as well as other sales professionals.[3]

Compensating Salespeople

Compensation of the sales force is typically focused on providing a fair wage as well as incentivizing and motivating. Many organizations combine a variety of compensation methods to meet both individual goals and the overarching organizational goals.

Commission Only

Using a **commission**-only compensation structure provides for the motivation and incentive to make sales. Seasoned sales professionals typically enjoy a higher commission or commission-only structure. They are confident in their ability to sell the products and want to recognize the significant compensation enjoyed by a high commission structure on the sales they make.

The advantages of a commission-only compensation structure are that the company is not burdened with the expense of the sales force, as it only pays the sales professional if they have made a sale. This structure provides incentive and motivation for the sales professional to make sales and work hard.

The disadvantages of this structure include potential burnout of the sales force as well as a possible situation where the sales force uses aggressive practices to make sales.

Salary Only

When an organization uses the sales force more as trusted, it tends to provide a salary structure. Using salary-only compensation provides for stability of the sales force and the inclination of the sales professional to spend significant time with the customers and prospects.

A new salesperson at a car dealership might start on salary for a few months while learning the business. Later, after gaining product knowledge, developing a prospect list, and gaining the trust of the veteran sales staff, that person might switch to commission only.

The advantages of the salary-only structure are that it gives the organization control over the sales expense and is easy to administer. There are, however, a few disadvantages. One of the major disadvantages is that there is no incentive or motivation to make a sale. Another major disadvantage is that when sales decline, the expenses remain the same.

Salary and Commission

Many organizations utilize a combination of salary and commission. This allows for control of the sales force and the activities while still providing the sales force with incentives and motivation.

The major advantage to the combination structure is that it provides a certain amount of financial stability for the sales force while also incentivizing them to make sales. A disadvantage to the organization is that it is difficult to administer, and it makes the selling expense less predictable.

Salary and Individual Bonus

Another form of compensation is a base salary plus individual bonuses upon meeting goals and objectives. The advantages are control over the selling expense and incentive to meet goals and objectives established for the sales force. The disadvantage is primarily in the administration of the structure to make sure the bonus is sufficient to provide motivation and incentive and to keep track of the bonus structure.

Salary, Commission, and Bonus

This is the most complex of all of the compensation methods, as it combines all elements: a base salary, commission based on sales, and bonus based on goal targets. The advantages for the employee are the security from the salary combined with an incentive through the commission and bonus. There are two levels of incentive and motivation to keep the sales force engaged and actively working on making sales. The disadvantages include the complexity of managing the structure and tracking commissions and bonuses.

Supervising and Evaluating the Sales Force

While most sales professionals are self-motivated, they still require supervision, and this will include methods of evaluation to make sure the predetermined objectives have been met. Sales managers are tasked with developing the objectives and goals as well as monitoring and evaluating the success of the sales effort. There are a number of methods used to supervise and evaluate.

Quantitative assessments focus on the items that can be measured. They are less subjective and allow the sales manager to focus on the goals and objectives set for the sales force. A quantitative assessment may include a scale to rank activities of the sales force. For example, Paychex may evaluate the sales force based on how many leads they have acquired in a given month, the number of meetings with prospects, and the number of communication touch points with existing clients.

Another key element of evaluation includes the behavioral aspects of selling. Behavioral evaluations tend to be subjective in nature; however, they can be very helpful in identifying the right actions for the sales force to be effective at selling. Typically, a sales manager may accompany a sales professional for a day. The goal of the sales manager is to see how the sales professional handles their day, communicates with clients, answers questions, and conducts follow-up activities.

Useful Metrics to Assess Sales Performance

There are many metrics utilized by sales managers to gauge the performance of the sales force. The metrics should align with the goals and objectives of the organization and the sales function. Ideally, sales managers rely on metrics to provide the sales force with clear targets to work toward.

Sales Metrics

Sales metrics include data that serve to measure the individual performance of the sales professional, the team as a whole, and the company's sales performance over a period of time. Sales managers use the data to

measure and evaluate areas that are doing well and those that need improvement.

Most sales teams have found that a few key metrics are instrumental in evaluating the overall success of the sales efforts. Every activity of the sales force needs to work toward making the sale. Metrics for sales productivity look to gauge the effectiveness of the efforts. Some typical productivity metrics include

- percentage of time spent on selling activities;
- percentage of time spent updating the CRM;
- percentage of lead follow-up; and
- percentage of leads generated.

Time is of the essence in connecting with "warm" leads, or potential customers who have expressed interest in the product. **Lead response time** measures evaluate the responsiveness of the sales force to the leads generated. Most sales programs seek an acceptable time frame for response. Some examples include

- time to contact a new lead;
- time to respond to a customer question;
- time to prepare a new prospect presentation; and
- time to create a proposal.

The **opportunity win rate** is a good measure to gauge the effectiveness of the sales force. It is important to know how many leads the sales force is given and how many leads become prospects. Knowing the opportunity win rate will help to determine where the sales force might need extended training on closing sales; it will also help to determine how many leads are needed in order to convert to clients.

Knowledge Check

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

1. Lev is the sales manager for John Paul Mitchell Systems. He is responsible for the North American sales division. Lev is currently reviewing the total number of salons and looking to estimate the size of his sales force. What sales force management function is Lev performing?
   a. Setting sales goals
   b. Looking at territories
   c. Estimating the number of sales professionals he will need
   d. Writing job descriptions

2. Part of Malika's job with H2O Pool Supplies is to identify potential new customers. She is required to spend 20% of her time working to bring in new customers. What type of objective is Malika working toward?
   a. Serving existing customers
   b. Increasing profits
   c. Enhancing customer satisfaction
   d. Developing new customers

3. Terra Cotta Landscape Supply is currently developing a two-day session for all sales professionals within the organization. During this two-day meeting, the sales professionals will be learning about new products and applications for their clients. This is an example of what element of managing a sales force?
   a. Compensating
   b. Training
   c. Recruiting
   d. Evaluating

4. Johnny has worked for Nestlé for 15 years. He is paid based on the sales he makes. What type of compensation is Johnny most likely making?
   a. Base salary

b. Bonus
c. Commission
d. Salary and commission

5. Ranee is concerned with making sure she has a set number of appointments with customers each week. Ranee is most likely being evaluated based on what?
a. Percent of time spent on selling activities
b. Percent of time spent generating leads
c. Time it takes her to develop a proposal
d. Percent of time working in the CRM

15.5 Sales Promotion and Its Role in the Promotion Mix

Learning Outcomes

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

LO 1 Define sales promotion.
LO 2 Discuss the importance of sales promotion in the promotion mix.

Sales Promotion

Sales promotion is a promotional strategy focused on inducing sales in the short term. Of all the promotional activities, sales promotion is solely focused on a direct call to action to buy something. Sales promotion can be targeted to intermediaries through a push strategy or directly to consumers through a pull strategy. Marketers often use sales promotion in tandem with other promotional strategies. When McDonald's advertises, for example, "Free fries on Friday when you purchase a menu item through the app," it is using advertising along with sales promotion to induce consumers to use the app and to increase sales on Fridays.

When products are at the introductory stage of the product life cycle, sales promotion can be effective at inducing trial of a product. The greater the competition, the more a sales promotion strategy becomes important for getting consumers to switch or try a new or different product. Product manufacturers often use sales promotion in-store to set apart the brand or product at the time of purchase. As you walk past the cheese aisle at the grocery store, you might see Sargento offering a buy-one-get-one (BOGO) deal. This is a sales promotion geared toward getting the customer to buy more of Sargento or possibly try Sargento for the first time.

Importance of Sales Promotion in the Promotion Mix

Many of the strategies in the promotion mix are informative in nature. However, when other strategies are combined with sales promotion, there is a direct and immediate call to action to purchase the product. Companies needing to create sales in the short term will benefit from sales promotion. Utilizing sales promotion is a very effective strategy for generating trial of a product in the introductory stages of the product life cycle (PLC).

Spreading of Information

Sales promotion is very effective at spreading information about new products and product modifications. Creating awareness of the brand to new markets and customers is another effective use of sales promotion.

When MyPillow has an advertorial during Fox News and provides a code for a reduced price of its renowned pillows, the advertorial serves to tell new customers about the products as well as provide an incentive to purchase the product immediately.

Stimulation of Demand

One of the key elements to good sales promotion is that it stimulates sales in the short term. Sales promotion

gives customers an immediate incentive to purchase a product.

Sonic Drive-In (see Figure 15.3) offers half-price drinks and slushes every day from 2:00 to 4:00 as a "happy hour" special. The use of this sales promotion tactic does two things: first, it incentivizes consumers to buy drinks, and second, it provides sales during the slow times of the day.



Figure 15.3 Sonic Drive-In uses a half-price sales promotion to stimulate sales during slow times of the day. (credit: "Sonic Drive In and Eat In Restaurant, Bristol CT 5/2014" by Mike Mozart, JeepersMedia/flickr, CC BY 2.0)

Customer Satisfaction

Today's customer is presented with thousands of messages. Companies are driven to get noticed, increase sales, and keep their customers satisfied. Sales promotions are one method a company may use to increase customer satisfaction. A survey from RetailMeNot "showed that coupons can affect brain chemistry and can make customers happier." The research concluded that an online shopper who received a $10 coupon was 11% happier and had 38% higher oxytocin levels than those who didn't get a discount.[4] Providing the occasional discount can chemically make a customer happier, resulting in a more satisfied customer, who may spend more in the future and may become a loyal shopper.[5]

Stabilization of Sales Volume

Sales promotion can also be used to help stabilize sales volume. Because sales promotion works to incentivize purchase of a product in the short term, companies often use this promotional tactic to drive sales and meet targets. Typical sales promotion tactics used to increase sales include buy-one-get-one-half-off and other specific discounts that are available when used by a certain time. The time element provides the company with the target for the sale, and the customer is provided with an incentive to purchase by a certain time.

MARKETING DASHBOARD

Cost of Customer Acquisition

We often think about profitability based on the difference between what we spend to create a product or service and the amount a customer pays for that product or service. However, we have to remember that there are costs to acquiring customers. In this chapter, you learned about two promotional activities that create costs to reach customers: sales and sales promotion.

Within the sales process, an organization pays a salesperson salary and/or commission to make sales. This is an example of a cost to acquire a customer. As you can imagine, we want our cost to acquire to stay low. For example, if we sold multimillion-dollar airplanes, it would be reasonable to spend thousands of dollars on a salesperson to make that sale. However, if we were selling several-hundred-dollar televisions, our cost

to acquire a customer must be much lower.

Sales promotion is another promotional expense. For example, if a pizza brand provides samples at Costco, this might encourage a customer to purchase pizza. And if that customer keeps buying pizza, the cost of the pizza sample was worth it for the value that the customer will bring over the life of the relationship. Other categories of promotional costs include advertising, public relations, social media, search, and direct marketing.

The formula for cost of acquisition is the total cost of marketing activities divided by number of customers acquired.

$$\text{Cost of Acquistion} = \frac{\text{Total Cost of Marketing Activities}}{\text{Number of Customers Acquired}}$$

In this formula, you will see an assumption that all customers are worth the same amount, but as savvy marketers, we know that this is untrue. This is why we need to use a variety of marketing metrics when evaluating campaigns.

Give the cost of acquisition calculation a try for yourself. What is the cost of acquisition in the example provided below?

Type of Promotion	Expense	Yield
Television Advertising	$1,250,000	400,000 customers
Catalog Mailing	$750,000	250,000 customers
Search Engine Marketing	$550,000	90,000 customers
Outdoor Activation	$1,500,000	70,000 customers
Ad Agency Fees	$600,000	0 customers
TOTAL	$4,650,000	810,000 customers

Table 15.1

Solution

$$\$5.74 \text{ per customer}$$

Formula:

$$\$4{,}650{,}000 / 810{,}000$$

What additional information do you need to determine whether the cost of acquisition is appropriate for the product or service?

Solution

The price of the product/service, total sales, expenses, and margins associated with the product or service

Let's suppose that this example is for a national bookseller. The bookseller has an average profit per customer of $90 over the customer's lifetime. Would the cost per acquisition that you calculated provide a good value for the bookseller? Why or why not?

Solution

Yes. It is worth it to spend $5.74 to acquire a customer worth $90 on average over the lifespan of the relationship;

$$\$90 > \$5.74$$

Knowledge Check

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

1. The retail store Ann Taylor is offering 75% off if you order online today and sign up to receive the newsletter. This is an example of what promotional mix strategy?
   a. Advertising
   b. Personal selling
   c. Public relations
   d. Sales promotion
2. When Starbucks has a happy hour special from 2:00 to 4:00 and drinks are half price, what is the purpose of the sales promotion?
   a. Lose money
   b. Stimulate demand
   c. Spread information
   d. Increase customer satisfaction
3. Rolex calls itself the "Official Timekeeper" of the Wimbledon and Australian Open tennis championships, by virtue of its sponsorships of the marquee events. What is the most likely objective for Rolex's sponsorship deal with these events?
   a. Lose money
   b. Stimulate demand
   c. Spread information
   d. Increase customer satisfaction
4. Sales promotion consists of a collection of incentive tools designed to do what for the product?
   a. Stimulate demand
   b. Create brand awareness
   c. Provide free publicity
   d. Inform
5. Sally loves to receive her coupons from American Eagle. She typically looks in her email every day to see what promotions the company will be sending. The American Eagle sales promotions are helping to accomplish which important task?
   a. Increased customer satisfaction
   b. Providing information
   c. Increasing brand awareness
   d. Developing junk mail

15.6 Main Types of Sales Promotion

Learning Outcomes

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

LO 1 Discuss the primary types of consumer-oriented sales promotion.
LO 2 Discuss the primary types of trade-oriented sales promotion.

Consumer-Oriented Sales Promotion

Sales promotion can be categorized in two ways. The first category of sales promotion is consumer-oriented, which focuses on the consumer pulling the product through the marketing channels. The second category is trade-oriented, which is intended to push the product through the channel to the consumer.

Consumer-oriented sales promotion provides the customer with an immediate inducement to purchase a product. The goal is to have the consumer seek out the product and "pull it" through the marketing channel. There are many common forms of consumer-oriented sales promotion.

Coupons

The goal of **coupons** is to reduce the price of the product and prompt the consumer to make an immediate purchase. The major goal is to increase sales quickly, attract repeat purchases, or try new versions of a product. Consumers using coupons recognize the savings when they relinquish the coupon at the time of purchase. Coupons come in many different forms, including printed, digital, and mobile. Because a coupon has to be redeemed to obtain the reward, manufacturers can determine the effectiveness of the coupon offer and the method of delivery.

The company HelloFresh sends a direct mail piece with a coupon for 16 free meals. When consumers sign up for the home delivery meal plan, this is a great example of how a coupon might be used to create brand awareness and acquire new customers. The direct mail might also include a code to use online for digital application of the offer.

Samples

Samples are most often used to induce trial of a new product. This tactic can be very effective to increase sales volume during the early stages of the product life cycle and to help with better distribution. Samples can be given out in stores, at events, or through the mail. This is an expensive form of sales promotion but can be highly effective at inducing purchase. Costco regularly has samples within its aisles and at the immediate point of sale as consumers are shopping. Another example is from the 2022 SXSW conference in Austin, Texas, when Creminelli Fine Meats distributed free mini packs of salami to showcase the company's line of "charcuterie-grade snacking" products. The makers of White Claw Hard Seltzer were corporate sponsors of the event; conference-goers were treated to free samples of new flavors, such as Passion Fruit.[6]

Premiums

Premiums are items offered free or at a minimum cost alongside the purchase of a product. Some of the most famous premiums include the McDonald's Happy Meal toys and Cracker Jack ("The more you eat the more you want") with a prize inside.[7] Premiums are very good for attracting new buyers and providing an incentive for customer loyalty. The use of the Happy Meal toy created significant customer loyalty among consumers who wanted to collect all the toys in a series.

Contests

Contests make consumers use their skills to compete for prizes. Using contests allows customers to engage with products and become invested in the process of trying to win something of value. Companies often use contests in coordination with other sales promotion tactics, such as coupons. Doritos regularly includes a contest as part of its advertising. Pepperidge Farm challenged consumers to #GoForTheHandful and create an Instagram duet with pro basketball player Boban Marjanović. The goal was to see if consumers could hold more Goldfish crackers in their tiny hands compared to the large hands of the pro basketball player. Winners were treated to Goldfish for a year and the title of Official Goldfish Spokeshand.[8] Contests are based on analytical or creative skills.

Sweepstakes

Where contests are based on skill, **sweepstakes** are based on chance. Companies use sweepstakes in order to

increase sales volume in the short term. Sweepstakes ask contestants to submit their names for inclusion in a drawing for prizes. Publishers Clearing House conducts one of the most well-known sweepstakes. The company ultimately wants consumers to order magazines; however, the purchase of a magazine is not necessary to enter and win the $1 million cash prize. However, Publishers Clearing House is able to add to its mailing list when consumers enter to win.

Loyalty Programs

Loyalty programs have increased in popularity. Most of today's loyalty programs are tied to a mobile app. The attractiveness of loyalty programs is that when consumers spend, they get points toward something free. For example, Wired Coffee Bar offers consumers $5 off of a product in-store when they spend $50.

Point-of-Purchase Displays

Point-of-purchase displays have been a hallmark in store aisles for decades. The point-of-purchase display allows manufacturers to showcase their products in a way that stands out from all the other products in the store. Companies typically utilize the point-of-purchase promotion method for new products that are being introduced to the market. Some common forms of point-of-purchase presentations include outdoor signs, window displays, countertop containers, display racks, and self-serve cartons. The key to good point-of-purchase is having a display that attracts customers and enhances the brand image of the product being offered.

Rebates

Rebates provide some type of reimbursement of the cost of a product when the consumer completes certain information about the time, place, and price of the product purchased. Typically, the consumer must submit the rebate form by a certain date and must include receipts or bar codes from the purchase. Rebates usually induce the consumer to buy the product as it is being offered at a perceived cheaper price. Consumers often fail to submit the required materials to receive the rebate, as they might see the process as too laborious.

MARKETING IN PRACTICE



Domino's



Figure 15.4 Companies will often use national days for sales-oriented promotions, like Domino's does on National Pizza Day. (credit: "Domino's Pizza delivery bikes" by Erica Fischer/flickr, CC BY 2.0)

Companies use sales promotion to generate more sales and to promote their brands. Setting up special days for certain products and causes can help bring focus and attention as well as boost sales or donations in the short term. For example, days such as National Coffee Day, National Pet Adoption Day, and National Pizza Day put a spotlight on the product or cause and can work to create a news story, which helps to generate consumer interest.

During National Pizza Day, companies selling pizza will run various promotions geared toward selling more pizza and getting consumers across the country to eat pizza. While Domino's Pizza regularly runs discounts and promotions, most of them are "deals" that consumers can use on a regular basis (see Figure 15.4). Pizza delivery companies regularly utilize sales promotion strategies as a way to deal with the highly competitive nature of the pizza delivery industry.

For National Pizza Day 2022, Domino's, a company known for fast pizza delivery, ran an unusual sales promotion offering cash back if consumers picked up their pizza instead of having it delivered. For a limited time, Domino's, the world's largest pizza chain, offered to give consumers back $3 when they opted to pick up their pizza instead of having it delivered. "The $3 coupon was redeemable the following week on another carryout order of $5 or more before tax and gratuity."[9]

Trade-Oriented Sales Promotion

Trade-oriented sales promotion is focused on the channel intermediaries: the wholesalers and retailers. The goal is for the intermediary to be incentivized to push the product to the consumer.

Allowances and Discounts

Manufacturers provide the retailers or wholesalers with allowances to pass along in the form of price breaks to the end customer. For example, Ford Motor Company might offer a $3,000 trade-in allowance for the new F-150. This is an incentive to come into the dealership and buy the F-150.[10] The dealer has the allowance from Ford and is able to pass the savings to the consumer as an incentive to come in and buy a new truck.

Cooperative Advertising

Advertising can be expensive for retailers. Typically, they advertise products they have in stock in an effort to induce consumers to come in and make a purchase. **Cooperative advertising** is a way for manufacturers to help with the cost of the advertising, in exchange for the retailer to advertise the products produced by the manufacturer. When supermarket chain Publix advertises Boar's Head meats and cheeses, Publix is using cooperative advertising from Boar's Head to run the ads featuring Boar's Head products.

Cash Bonuses

Some manufacturers provide bonus cash as an incentive for the retail sales associates to push the manufacturers' products. Bonuses can be given to the sales associate who sells the most or to the store that is the highest sales producer. It is then up to the store to determine how best to use the cash bonus.

Credit Terms

One way for manufacturers to help the retailers and wholesalers who sell their products is to provide them with favorable **credit terms**. Often these terms allow the wholesaler or retailer to sell the products long before actually having to pay for the product.

Dealer Conferences

When companies have dealers who distribute their products, they want to incentivize the dealer sales force to sell the product. Additionally, the dealer conferences are a good method of training and educating dealers to work with customers and ultimately sell the product to them.

Push Incentives

Push incentives work to create demand for a product through discounts that retailers pass on to customers. In the mobile phone industry, Apple may provide a discount on phones through one of its retail partners in an effort to encourage buyers to choose the iPhone through the distributor. Push strategies focus on selling directly to the customer. Typical tactics include point-of-sale displays and direct approaches from the retail store sales professionals to the customers.

Knowledge Check

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

1. _____ are certificates that entitle the bearer to a stated saving on the purchase of a specific product.
   a. Samples
   b. Coupons
   c. Rebates
   d. Premiums
2. Which of the following consumer promotion tools offers a free amount of a product or service delivered door-to-door, sent in the mail, picked up in a store, attached to another product, or featured in an advertising offer?
   a. Coupons
   b. Rebates
   c. Premiums
   d. Samples
3. Which of the following allows consumers to do things in order to have a chance of winning?
   a. Coupons
   b. Sweepstakes
   c. Contests
   d. Rebates
4. Which of the following is an example of a trade promotion?
   a. Allowances and discounts
   b. Coupons
   c. Loyalty programs
   d. Premiums
5. Which of the following elements of the marketing communications mix consists of a collection of incentive tools, mostly short term, designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade?
   a. Advertising
   b. Personal selling
   c. Public relations
   d. Sales promotion

15.7 Ethical Issues in Personal Selling and Sales Promotion

Learning Outcomes

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

LO 1 Discuss the ethical issues that may arise in personal selling.
LO 2 Discuss the ethical issues that may arise in sales promotion.

Ethical Issues in Personal Selling

The goal of sales is to create customer loyalty and repeat purchases. Developing the relationship with the customer is best done through honesty and integrity. Sales should always be conducted with a long-term goal of developing a lifetime customer and not just one sale.

However, with sales goals as the driving force behind the sales activities, the sales force can be pressured into practices that might be counter to building customer loyalty. Without proper regulation and a code of ethics, sales efforts can run afoul of ethical rules. Good sales managers seek to have control features built in to prevent the temptation to have a climate of dishonesty.

Ethical issues that can arise within the sales function of a company include dishonest claims about a product, slanderous comments about the competition, padding of company expense accounts and/or misuse of the expense account, artificially inflating sales data to meet goals and bonuses, and bribes and kickbacks.

Sales professionals are typically self-starters who are out in the field working with their customers. In a sales role, companies provide the sales professionals expense accounts and credit cards as a way to work with and build relationships with clients. Without close supervision and company policies and guidelines, the sales professional can be tempted to participate in unethical practices. If a code of conduct is not present, it is often hard to resist the temptations. Some of the most common practices and temptations include misuse of the company credit card, inflating sales to reach goals, and receiving kickbacks.

Misuse of Company Credit Cards or Expense Accounts

Misuse of company credit cards and expense accounts can happen with any employee, but given the solitary nature of the sales professional, it is typically prone to happen more often with them. Because the work of the sales professional is fairly independent from the rest of the organization, it can create situations where there isn't enough accountability. Misuse can happen through double billing, padding the expense account, or overcharging for expensed items.

To handle issues of expense misuse, it is best to have policies and procedures in place along with a record of accounting for expenses and providing receipts for all expensed items.

Inflating Sales Data

Because sales professionals are often given sales targets and expectations to meet the targets, they are at risk for finding methods of inflating their sales numbers to meet the targets. If the sales professional gets behind or feels pressure to meet goals, it can be appealing to find methods of showing goal achievement. The method of inflating sales can also be termed channel stuffing. This practice happens when a company forces more products through the distribution channel than the channel is actually capable of selling.

When the sales organization calculates the sales targets based on shipments of products, the method of channel stuffing helps to meet the targets in the short term. However, long-term sales targets are adversely affected, especially if the channel partners return the products.

An example of how this might happen can be explained through a company that sells over-the-counter medicines. If it has products with an expiration date in a few months, it may ship all of the products with the near-term expiration date. When the products don't sell within the expiration time frame, the products are shipped back for a return. The sales in the short term where high, and the targets were met. However, in the long-term, the company is faced with a large shipment of returned product.

In 2016, in an effort to meet sales goals and targets, Wells Fargo employees created millions of fraudulent savings and checking accounts for clients without their consent. Regulatory agencies such as the Consumer Financial Protection Bureau (CFPB) penalized the company and fined it $185 million for the illegal activity.[11]

Accepting Kickbacks

Another unethical practice is when sales professionals accept **kickbacks**. There are many forms of kickbacks. Companies that deal internationally are often at the biggest risk for kickbacks, as it is common practice in some countries. Sales professionals that have long-term relationships can be tempted to take advantage of the situation, particularly if both sides profit from the scheme. There are many types of kickback schemes. Primarily a kickback scheme involves two people who work together to change the pricing structure, and in turn they both generally pocket some profit from the sale. Under the 1977 Foreign Corrupt Practices Act (FCPA), it is unlawful to pay or promise to pay another person for the purpose of retaining their business.

COMPANIES WITH A CONSCIENCE

Tentree



Figure 15.5 Tentree runs consumer-oriented promotions in which it plants 10 trees for every purchase made. (credit: "Tree Near Barkisland" by Tim Green/flickr, CC BY 2.0)

Tentree is a sustainable clothing brand. Like many online stores and clothing brands, it regularly runs promotions, including a percent off of the purchase price when you sign up for their newsletter. But along with the typical consumer-oriented promotions, Tentree also plants 10 trees for every purchase (see Figure 15.5).

According to Tentree's Facebook page, "We believe that big change starts small. Small as in bringing your reusable tote to the grocery store, getting your coffee refilled in a thermos, and choosing to wear sustainably made T-shirts. These small choices add up (trust us, we've done the math), and we're here to celebrate each and every one of them. By planting 10 trees for every purchase, we hope to make big change accessible to everybody and show the lasting impact that one small choice can have."[12]

So far, the company has planted over 81 million trees. The clothing it manufactures and sells is designed to have a very small environmental impact. And consumers are incentivized to purchase from Tentree because for every item purchased, the company plants 10 trees. Tentree has a goal that customers are pushing to reach—1 billion trees planted by 2030.[13] Its earth-first philosophy is at the heart of every garment it sells.

Ethical Issues in Sales Promotions

When it comes to sales promotions, many ethical issues can arise. One of the most well-known issues with sales promotion happened with a popular McDonald's game (see Figure 15.6). For years, McDonald's ran its

Monopoly game as a method to increase the consumer purchase of meals along with Monopoly game pieces that could net customers winnings from the fast-food giant. Not only was the game popular with customers, but it did exactly what the sales promotion was supposed to do: it increased sales. Unfortunately, the head of security for the company that ran the promotion and printed the game pieces took out all the winning game pieces in a scam worth $24 million.[14]



Figure 15.6 McDonald's Monopoly game was an effective consumer-oriented promotion that resulted in a $24 million scam. (credit: "McDonald's Monopoly 2014" by Mike Mozart, JeepersMedia/flickr, CC BY 2.0)

Hidden Fees

One of the most common issues with ethics in sales promotion is in **hidden fees** that might be tacked on to the promotion. The travel and hospitality industry can be an example of the hidden fees often found in the fine print for the unwary customer looking for a "deal." An airline might have advertised prices, but upon booking, the traveler may realize the baggage and airport fees make the price higher than other advertised rates. This can also be a common practice with hotels and resorts. The advertised price may look appealing, and the sales promotion may seem like a good deal, but by the time resort fees are tacked on to the price, the promotional discount isn't as attractive.

Ambiguous Terms and Conditions

Legal documents have long been considered tricky to maneuver. A company may provide the terms and conditions and a link to click or simply acknowledge that you have read through the 15,000-word document for understanding. But does anybody really read the documents? Do consumers really understand what they are reading and agreeing to? Most likely, the legal jargon has gone unread, and the customer is typically unaware of what they have agreed to. However, it is in the best interest of the company to look out for the best interests of their customers. If the end goal is long-term customer satisfaction, all of the work of the company should be around making sure the customer is satisfied. Providing **ambiguous terms and conditions** does nothing to really protect the customer relationship.

Chapter Summary

This chapter covers personal selling and promotions, both integral components of marketing. Personal selling is defined as communication between a buyer and a seller and can be customized based on the product or service. Much of personal selling is enhanced when the salesperson engages in relationship development to build loyalty.

Personal selling involves inside and outside order takers and their primary responsibility to create a relationship with the buyer. Consider inside order takers as the clerks employed by a company to assist the customer and complete the final sale. Outside order takers are out making calls on customers and delivering inventory. Order getters are the highly trained salespeople, and missionary salespeople are the ones that facilitate experiences such as samples in the store. A technical salesperson is one that has extensive product knowledge that they use to present a product.

Personal selling is broken down into steps, It begins with identifying a qualified customer or prospecting; from this point leads are identified. This is then followed by an approach, a presentation, handling objections, closing, and asking for the order. There are many components involved in each step based on the product/service, customer, timing, and ability of the salesperson to close the sale. The final step is the follow-up.

Sales force management was covered, including the definition, purpose, and construction of compensation packages. Assessment of performance, using sales performance metrics for quantitative assessment, and qualitative goals are important functions of sale management.

The final section discusses promotion, which is a form of marketing communication that is used to inform target audiences of a good, service, brand, or issue. Considered a basic element of the marketing mix, promotion includes various tactics that encourage purchase. Examples include coupons, sweepstakes, rebates, premiums, special packaging, cause-related marketing, and licensing. Loyalty programs are increasingly used to build customer loyalty and repeat sales while at the same time generating valuable consumer information.

Additional incentives include push incentives, which cover a marketer's effort and expenditure to influence channel members stocking and promotional efforts. Pull incentives, on the other hand, cover a marketer's effort and expenditure to influence consumer and customer demand and preference for the marketer products, using advertising, coupons, and other forms of promotion.

Finally, ethical issues with personal selling and promotions were discussed. Fraud and misuse of funds for sales personnel can be closely monitored using software developed to track this information. With promotions, hidden fees, which are one-time add-ons that may not be fully disclosed to the consumer, will carry additional unfair costs. Where contracts are concerned, ambiguous terms and conditions are considered problematic, and customers as well as marketers should be aware and avoid these issues.

Key Terms

adaptive selling an approach to personal selling in which selling behaviors are altered during the sales interaction or across customer interactions, based on information about the nature of the selling situation

AIDA model the model consumers go through when becoming interested in a product. First the product must grab their attention, then they gain interest, they have a desire for the product, and they act to acquire the product

ambiguous terms and conditions when a contract is unclear and misleading

approach the stage of the sales process where the salesperson makes the initial approach to introduce the product to the customer

commission the compensation paid to salespeople based on a fixed formula related to the salesperson's activity or performance

consultative selling focuses on the expertise of a salesperson with problem solving

contest a marketing or consumer sales promotion technique that involves collection, matching, or use of

skill to complete a project or activity with the goal of a prize or reward for the player

cooperative advertising an approach to paying for local advertising or retail advertising whereby the details are handled by a local retail store but is partly or fully paid for by a national manufacturer whose product is featured in the ad

coupon a printed certificate entitling the bearer to a stated price reduction or special value on a specific product

credit terms credit terms of the agreement between the buyer and seller with length of time and payments to be made

customer relationship management the process sales personnel undertake to work with the customer to build the relationship and move into the role of a trusted advisor

formula selling an approach in which the sales presentation is designed to move the customer through the stages in the decision-making process, such as get the customer's attention, develop interest, build desire, and secure action

hidden fees also called undisclosed fees and are fees that are not made known to the buyer

inside order taker a salesclerk or order clerk that is employed for a company that address questions and complete the final sale

kickbacks illegal payment for preferential or improper service

lead response time the activity of evaluating factors through data analytics, demographics, buyer behavior, competitor analysis, and economics

loyalty programs a form of promotion focused on repeat purchases and frequently attached to a sales receipt, punch card, or stamp card

missionary salespeople individuals who have the power to influence the customer to purchase a product or service

need/satisfaction format a type of customized sales presentation in which the salesperson first identifies the prospective customer's needs and then tries to offer a solution that satisfies those needs

opportunity win rate the number of sales closed divided by the total number of opportunities created; calculates another opportunity to track sales

order getters highly trained salespeople who know their products, services involved, and competition across the street

order takers sales personnel that are responsible for taking orders from customers by identifying the customer and finding the right product fit

outside order takers salespeople out in the trenches, visiting customers and delivering inventory to retailers and wholesalers

personal selling communication between a buyer and seller. The primary responsibility is to build a relationship with the buyer.

point-of-purchase displays displays that allow manufacturers to showcase their products in a way that stands out from all the other products in the store

pre-approach stage the stage of the sales process where the salesperson will work to understand the needs of the customer and begin working with them to become a customer

premiums a promotional tool that is often defined in three forms: merchandise offered at a lower price or free; an item of value, other than the product; souvenir merchandise

presentation the stage of the sales process where the salesperson showcases the features about a product that will be of most benefit to the prospect based on the needs uncovered during the pre-approach and approach stages

prospect a potential qualified customer who has the willingness, financial capacity, authority, and eligibility to buy the salesperson's offering

qualification the process the salesperson undertakes to make sure the sales lead is a good fit for the product they are selling

quantitative assessments numbers driven and based on inputs and outputs of the sales cycle

rebates a form of promotion that rewards consumers for sending information to the company

relationship selling a method of personal selling used to better understand the needs and wants of the buyer
sales force automation a software tool that helps organizations acquire customers
sales leads a database of potential customers that sales professionals work to create and develop through lead generation
sales promotion a short-term way of enticing the consumer to purchase a product or service
samples providing consumers with a free sample of a product is a form of promotion
selling process includes all of the steps the salesperson will implement as they work with the buyer to become a customer
support personnel fulfill the responsibilities that assist the sales team in supporting the customer and completing the sale
sweepstakes a marketing or consumer sales promotion that involves the offering of prizes to participants, where winners are selected by chance and no consideration is required
team selling the practice of involving a group of people familiar with the viewpoints and concerns of a customer's key decision makers to sell and service a major account
technical specialist a salesperson who has extensive product knowledge and uses this knowledge as the focal aspect of the sales presentation

Applied Marketing Knowledge: Discussion Questions

1. Consider which of the sales positions you have engaged with in the last month. Would they be inside or outside order takers, order getter, missionary, technical, or a team? In what circumstances did you have this experience?

2. Explain in detail what happens in each of the steps in personal selling process.
    a. Prospecting and Qualifying
    b. Pre-approach
    c. Approach
    d. Presentation
    e. Handling Objections
    f. Closing: Asking for the Order
    g. Follow-Up

3. Partner with a fellow student, and practice the personal selling process. Take turns being the buyer and then the seller.

4. Define sales promotion and discuss its importance in the promotion mix.

Critical Thinking Exercises

1. Compose a paragraph (150–200 words) using all of the following terms as they relate to personal selling. The goal is to prove you understand the meaning of each term.

    Terms:

    Order takers
    Inside order takers
    Outside order takers
    Order getters
    Support personnel
    Missionary salespeople
    Technical specialists
    Team selling

2. Consider the promotions that you have participated in. List them and the product that they were used to promote. Did you buy the product based on the promotion? If you did, what was the selling point? If you did not, where did it miss the mark? Pick a product that you are familiar with, and create a promotion aimed at the consumer.
3. Identify a time you've read about or were personally involved in an unethical sales experience.

Building Your Personal Brand

Consider the concept of personal selling, and apply it to yourself. What information would you need? How would you go about crafting your message? First, gather the facts that you would like someone to know about you, and create a list. Next, craft the basic "elevator pitch" introduction (that is, you only have an elevator ride to tell someone your unique value). What would that pitch include?

Next, make a list of the situations where you might need an introduction (sales pitch) that is longer and contains more detail. Consider a job interview (much of this information should be on your resume), joining a club or professional organization, or volunteering. Each of these situations calls for slightly different information.

Create several different personal selling scripts for yourself, and have someone you know read them and provide feedback. Consider their feedback, and revise as you see fit. If requested, submit your scripts to your instructor.

What Do Marketers Do?

We are surrounded by personal selling encounters: cell phone, insurance, services in a bank, restaurant, and the list goes on. Pick a service that you would like to learn more about. Now find a person that holds the job of personally selling that service/product. Reach out to them; you can call, walk into a business, or make an appointment, any way that you choose. Introduce yourself, and tell them you are a student and would like to ask some questions.

1. Start with simple information. What does the job entail?
2. How did they get the job? How long have they been doing personal selling?
3. Do they enjoy what they do? What are the best parts and the worst parts of the job?
4. Do they think that there are skills that are needed to do the job well? If they do, what are they?
5. Can they discuss the compensation structure (they might hesitate, but explain you do not need specifics, just general information)?
6. Do they have the opportunity to move up into management if they would like?

Add any additional questions, or ask for clarification of something that you do not understand. End with thanking them for their time.

This exercise should provide you with firsthand information about this job; you can always choose another person that is in a totally different service/product category to compare the details of the job.

Closing Company Case

Cutco

In 1949, Cutco began manufacturing knives in Olean, New York. At the time, Cutco was making products for Wear-Ever Aluminum, a division of Alcoa. In 1982, the company went through a management buyout that made it a private company. The Cutco name was derived from the time under Alcoa, when it existed as the Cooking Utensil Company.

For the past 70 years, Cutco has been a family business that prides itself on being made in America.[15] The company has a deep-rooted commitment to providing American jobs. Through quality of craftsmanship, the

Cutco products are an American staple in many kitchens, and they are the reliable cookware of choice for many home cooks.

Through its commitment to service and quality, Cutco has one of the leading guarantees in the industry. All Cutco products are backed by The Forever Guarantee. No matter how the consumer acquired the product—self purchase or gift—the products come with a lifetime performance guarantee, which includes free sharpening. If at any time the customer is not satisfied with the performance, Cutco will correct or replace the product. Because Cutco relies on lifetime customers and word-of-mouth referrals, its primary responsibility is to customer satisfaction.[16]

While Cutco has 15 retail stores in the United States, it has long relied on its sales force through Vector Marketing. For years, Vector has hired and mentored a mostly collegiate sales force. In fact, 85 percent of the Vector sales force is comprised of college students.

Vector Marketing is a single-level direct sales company, and it sells only Cutco. The relationship between Vector and Cutco dates back to 1985. Early in the 1980s, Vector Marketing was an independent seller of Cutco. Because of Vector's success, Cutco bought it to replicate the success it was having with Cutco's product.[17]

The Vector Marketing home office is in Olean, New York—by its parent, Cutco. It also operates 250 independent locations throughout the United States, Canada, and Puerto Rico. However, during its busy summer months, when students everywhere are working to earn money for college, Vector Marketing has over 300 temporary locations.

Because of the weekly pay, flexible schedules, and superior sales training, tens of thousands of college students have experienced the joy of cutting a penny with the kitchen shears or slicing through a piece of extra-thick rope courtesy of the sharp Cutco blades. Hundreds of thousands of family kitchens across North America have watched the sales demonstration, asked good questions, provided referrals, and purchased a set of Cutco knives and kitchen accessories.

Vector Marketing works hard to recruit, educate, train, and incentivize its sales force. The hardworking Vector Marketing sales representatives know that up for grabs is a total of $40,000 to full-time undergraduate students who sell the most—the top 50 students get this award every summer. Vector also gives a guaranteed base pay and even pays the student for the appointment, regardless of whether they make the sale. The company doesn't want a reputation for high-pressure sales although they do pay commissions. Vector Marketing and Cutco realize only satisfied customers are repeat and referral customers.

When the Vector Marketing sales representative calls to set up the appointment, they courteously ask about when the customer can view the Cutco presentation. When you are in the presentation, the sales representative will go through a carefully scripted and rehearsed presentation, which will take you through the features and the related customer benefits afforded with ownership of your Cutco blades.

Throughout the presentation, the potential customer is asked if they have questions and, further, what they think of the various Cutco knives and accessories they have been shown. At the end of the presentation, the potential customer is intentionally asked which pieces they are going to buy, and they are encouraged to make the purchase by being offered an additional incentive Cutco tool as a gift with purchase.

Most of the prescreened customers have come to the Vector Marketing representative by way of a close friend or family member. Not only is Cutco an undisputed superior product with a lifetime guarantee, but the quality of the link from the customer back to the sales representative helps to solidify the sale. Saying no is very difficult. Almost all objections have already been eradicated.

After the presentation is over, the order has been placed, and the sales representative is closing up the meeting, they ask for 10 referrals. All good sales representatives know that the best customer is a word-of-mouth referral.

Check out the Cutco website (https://openstax.org/r/cutco) and the Vector Marketing website

(https://openstax.org/r/vectormarketing).

Case Questions

1. How would you classify the type of sales force utilized by Cutco?
2. What is the presentation style utilized in selling Cutco?
3. Describe the compensation structure for the Vector Marketing Cutco sales force.
4. Explain how the Vector Marketing sales team develops relationships with its customers?

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16

Direct, Online, Social Media, and Mobile Marketing

Figure 16.1 Social media marketing through Pinterest, Twitter, and other platforms is one way to reach consumers. (credit: "Growing Social Media" by mkhmarketing.wordpress.com/about/flickr, CC BY 2.0)

Chapter Outline

16.1 Traditional Direct Marketing
16.2 Social Media and Mobile Marketing
16.3 Metrics Used to Evaluate the Success of Online Marketing
16.4 Ethical Issues in Digital Marketing and Social Media

In the Spotlight

When Dominik Richter, Thomas Griesel, and Jessica Nilsson launched meal-kit provider HelloFresh in October 2011, they did what many successful entrepreneurs seek to do: disrupt a market. While the idea of not having to plan and shop for dinner meals seems enticing for consumers, changing consumer behavior is a challenging task.

HelloFresh needed to convince consumers to stop planning and shopping for meals the way they've always done it. The founders recognized that they needed the right combination of traditional direct and online direct marketing tools to persuade consumers to make a hard pivot.

It starts with the HelloFresh website (https://openstax.org/r/mealkitdelivery), which offers a beautifully designed, user-friendly experience that makes customizing meals, scheduling delivery, and placing orders easy and secure. HelloFresh also uses social media to drive visitors to respond to a variety of calls to action. For example, website visitors are presented with a variety of offers aimed at persuading them to try HelloFresh, including free shipping, surprise gifts, and free meals.

HelloFresh also recognizes the power of direct mail by sending offers similar to those presented on its website and social media to targeted consumers at home via the US Postal Service. It's clear that there is integration between HelloFresh's digital messaging and its direct mail pieces.

HelloFresh has certainly reaped the rewards of an excellent direct and online direct marketing strategy. In 2021, HelloFresh led the market with more than 7.2 million subscribers.[1]

Check out these additional resources about Hello Fresh:

- Hello Fresh Instagram (https://openstax.org/r/instagramhellofresh)
- Hello Fresh Twitter (https://openstax.org/r/twitterhellofresh)
- Hello Fresh LinkedIn (https://openstax.org/r/linkedincompanyhellofresh)
- Consumer Affairs Reviews (https://openstax.org/r/foodhellofresh)
- Taste of Home Review (https://openstax.org/r/articlehellofreshmeal)

16.1 Traditional Direct Marketing

Learning Outcomes

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

LO 1 List and describe the various forms of traditional direct marketing.

LO 2 Explain how the digital age has impacted direct marketing.

Forms of Traditional Direct Marketing

Direct marketing involves using communication tools to engage directly with individual consumers for the ultimate purpose of calling them to take some marketing action (see Figure 16.2). That action can be a consumer visiting a website or calling a phone number. Ultimately, the goal is to motivate the consumer to make a purchase. If you've received a catalog in the mail or caught yourself watching an entire infomercial about the newest kitchen gadget or gym equipment, you've experienced traditional direct marketing as a consumer.

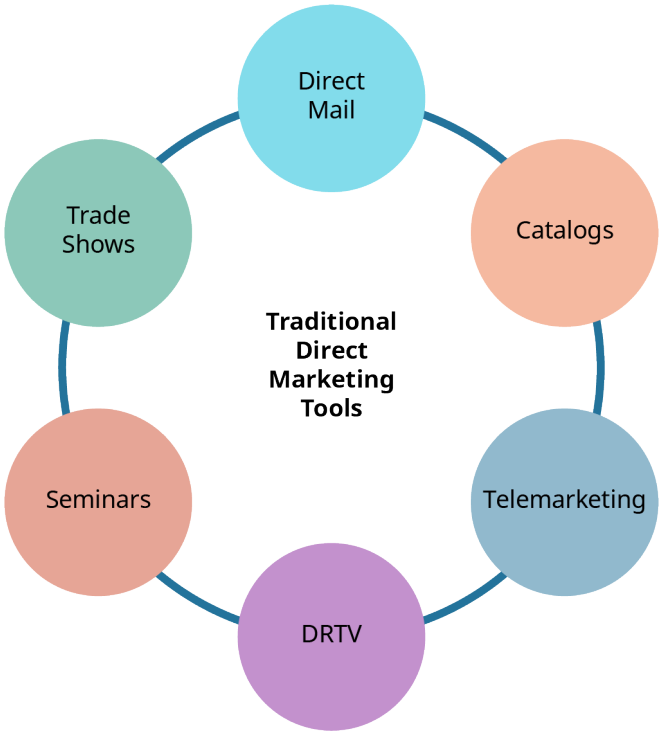

Figure 16.2 Types of Direct Marketing (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Direct-Mail Marketing

Direct mail arrives in people's homes every day and is typically delivered by the US Postal Service. When marketers use **direct-mail marketing**, they communicate promotional messages and offers directly to people's homes or places of business. Examples of direct-mail marketing include postcards featuring an offer, discount, or coupon code. Seasonal catalogs and glossy look books that present the latest fashions are additional examples.

Like all forms of direct marketing, direct mail is designed to call the consumer to take an action, whether it's to visit a website, scan a QR code, or call a phone number. It also is highly targeted in that companies can send mail based on demographic characteristics such as age, income, zip code, and buying behavior.

Direct mail has some key advantages over other forms of promotion. First, as consumers are inundated with digital messages, direct mail offers the opportunity to stand out and capture attention. Even mostly digital-facing companies like Warby Parker (see Figure 16.3) and Casper (mattresses) have added direct mail to their promotion portfolios in an attempt to stand out from other brands.



Figure 16.3 Warby Parker utilizes direct marketing as a way to reach consumers. (credit: "Warby Parker Sunglasses" by Christopher Fields/flickr, CC BY 2.0)

Direct mail also reaches an entire household of people. This is an important advantage for product categories where household members typically discuss and decide on a product together.

Finally, direct mail has the characteristic of lingering. Other forms of promotion, such as advertising and email marketing, don't have as long a life span as direct mail. According to RetailWire, the average life span of a direct mail piece is 17 days, which means that a household may review that message repeatedly over the life of the mail piece.[2]

The major disadvantage of direct mail is that many consumers consider it to be junk and throw it out without every reading the offer. Also, mail can take time to land in homes. Although the US Postal Service offers speedier delivery options, these come at an increased cost.

Catalog Marketing

Catalog marketing, also known as direct mail order, dates back to the 19th century and is one of the oldest forms of promotion. Catalogs typically include a variety of products that are often vividly displayed in a high-gloss magazine-like format.

Companies such as Lands' End and IKEA have long used catalogs to entice consumers to call the phone number or visit the website displayed on the catalog. The call to action is precisely what makes catalog marketing direct marketing. Consumers are presented with vivid product images and an offer such as free delivery or 20 percent off if the consumer responds to the call to action.

According to a 2020 article published in *Harvard Business Review*, catalogs are making a comeback. Consumers report being excited to receive a catalog. In fact, response rates for catalogs have jumped 170 percent over the last decade.[3]

Unlike emails and advertisements, catalogs remain in consumer homes long after they arrive. Companies like Target and Amazon have used catalog marketing to connect with customers and present featured products across the seasons.

Telemarketing

Telemarketing is a form of direct marketing that involves a company representative placing or answering customer calls for the purpose of guiding a consumer toward making a purchase. During the calls, the representative or agent typically communicates offers to potential customers. Like other forms of direct marketing, the goal is to motivate the consumer to take some action, such as making a purchase or setting up a follow-up appointment.

Telemarketing can be outbound or inbound. With outbound telemarketing, a company representative contacts the prospective customer directly by phone. With inbound telemarketing, demand for the product or service is generated through other channels such as advertising, email, or direct mail. In response to messages delivered through these channels, the customer is motivated to contact the company directly regarding the product or service.

Companies that manage large volumes of calls typically use a **call center**, which is a centralized space where agents answer inbound calls and place outbound calls. The call center serves as the centralized location where customer information is collected or confirmed and then the customer is directed to the right product or service representative. With the explosion in the use of smartphones to search the web, consumers can direct dial from any web page that presents a phone number for contacting the company. Many inbound calls are routed to agents who are located offshore in India and other countries.

Car dealerships often use telemarketing in combination with online direct marketing tools to connect with buyers who show interest in a vehicle listed in the dealership's online inventory. The dealership website may invite consumers to complete a form, after which a sales representative will call the consumer to set up a test drive appointment or answer questions about availability.

Telemarketing can be effective in cases where the consumer expects a phone call. The explosion of unsolicited phone calls from telemarketers, however, has led to a rise in regulation around this direct marketing tool. In 2003, the US government created the National Do Not Call Registry, which bans unsolicited telemarketing calls.[4] Consumers must opt in and give permission to be called by a company. Businesses that do not comply with the law face a hefty fine for violations.

Direct-Response TV (DRTV)

Direct-response television marketing is a type of direct marketing that is designed to compel viewers to take some immediate action, such as calling a phone number or visiting a website presented during a television commercial. The commercials typically involve a persuasive demonstration of a product, after which consumers are provided with a toll-free number or a website to order. The television stations QVC and HSN are excellent examples of DRTV, selling everything from apparel to appliances.

LINK TO LEARNING



DRTV in Action

This movie clip from the film *Joy* starring Jennifer Lawrence as real-life entrepreneur Joy Mangano shows DRTV in action.

Joy Movie CLIP - Calls (2015) - Jennifer Lawrence, Édgar Ramírez Drama HD (https://openstax.org/r/jenniferlawrence)

DRTV commercials often run 60 or 120 seconds but can be shorter. DRTV commercials that run for 30 minutes or longer are called infomercials. Dollar Shave Club has garnered 27 million views of its famous direct-response television commercial featuring founder Michael Dubin hilariously identifying all the problems with traditional shave products (see Figure 16.4). The commercial features the website domain several times and a clear call to action to the consumer to visit the site to learn more.



Figure 16.4 DRTV marketing compels consumers to take action and is used by the Dollar Shave Club, QVC, and HSN. (credit: "Shave of the Day, 08/21/09" by Dharion/flickr, CC BY 2.0)

Infomercials often feature a spokesperson promoting the benefits of a product. In many cases, there is a persuasive demonstration of the product, and viewers are called to "act now." Some of the most well-remembered infomercial products include the Snuggie, Magic Bullet, and Proactiv. A carefully executed commercial coupled with the right product can generate billions of dollars for companies. Proactiv, for example, which was rebranded as Alchemee in 2022, generated $1 billion in sales in 2020 from its famous acne skin-care line.[5]

Because it offers the advantage of capturing customers in real time and because it's easy to measure, DRTV continues to be an effective direct marketing tool.

Seminars

Seminars allow companies to share their expertise and knowledge related to a topic, issue, or industry. These can be done in person or virtually and are a great tactic for developing trust and building relationships with consumers. They have additional advantages that include building greater brand awareness and introducing new products or services, and they may ultimately lead to increased sales.

Trade Shows

Trade shows are exhibition events that provide companies the opportunity to present themselves and their products and services to industry peers. Trade shows are suited for the business-to-business (B2B) market and are sponsored and hosted by industry trade organizations. They are an excellent way for industry professionals to network and grow their businesses. They are also wildly popular. For example, one of the most popular trade shows, Consumer Electronics Show, or CES, attracts thousands of companies that showcase their latest technology. This trade show serves as an intersection for industry professionals in the health, gaming, and automotive spaces, and participants include tech companies such as Google, Microsoft, and E3, among others.

Companies that participate in trade shows can benefit in the following ways. First, trade shows allow company representatives to visit with existing customers to grow current sales and further solidify their partnership. They also give companies a chance to connect with and present to new buyers.

Every year, MailCon brings together marketing professionals, brands, and agencies to discuss the latest trends in email technology, strategy, and automation. Major brands like Wayfair, Girl Scouts of the USA, Ford Motor Company, and A&E Networks gather to network and learn about advancements in the email marketing space.[6]

LINK TO LEARNING



Digital Marketing

Digital marketing reaches customers where they are at—online. HubSpot answers some of the most common questions it gets about digital marketing in this article (https://openstax.org/r/marketingwhatisdigitalmarketing).

How Has the Digital Age Impacted Marketing?

The digital age has changed the way marketers engage with customers and build relationships. While the traditional channels of print, television, and radio certainly present advantages, the digital age has created opportunities for marketers to engage with consumers in a highly personalized and interactive way.

Online Direct Marketing Defined

While traditional forms of direct marketing center on engaging directly with consumers through channels like mail and television, **online direct marketing** uses a rich collection of digital tools to target individual consumers with an offer that requests a response or action. The online direct marketing tools covered in this section include website marketing, email marketing, content marketing, online video marketing, blogs, and online forums.

LendingTree is a great example of a fintech (financial tech) company disrupting the traditional banking industry. LendingTree has revolutionized the way consumers and banks participate in the lending process. It excels at matching consumers searching for financing with banks looking for qualified customers. It is LendingTree's digital marketing tools that make this matching process possible.

A consumer who searches the web and lands on LendingTree's website is invited to compare quotes and plans that are tailored to their age, income level, and location by filling out an online form. LendingTree then displays consumer-relevant plans and quotes based on their demographics and follows up with an email inviting consumers to view offers from financial institutions. If the customer is a Gmail user, consumers may then see digital ads later on sites like YouTube and in their Gmail inbox.

Direct Meets Digital: The Evolution of Direct Marketing with Technology

The explosion in internet usage and online shopping coupled with the evolution of digital technologies has resulted in the emergence of online direct marketing. While traditional forms of direct marketing remain important for engaging with consumers, the channel has evolved as technology has evolved. With 3.5 billion smartphone users worldwide, marketers recognize the value in engaging with consumers through mobile devices. In the United States alone, 65.6 percent of Americans report that they check smartphones 160 times a day.[7]

In response to the explosion in smartphones and internet usage, online direct marketing is getting a larger share of advertising spend. In 2020, advertisers spent $139.8 billion on digital marketing, and that number is expected to grow to $200 billion by 2025.[8]

Forms of Online Direct Marketing

There are several online direct marketing tools that can be used (see Figure 16.5). Let's take a look at each tool in the following section.



Figure 16.5 Online Direct Marketing Tools (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Website Marketing

Website marketing is the promotion of a website that results in driving traffic or visitors to the site to learn more about the product or company or to make a purchase. The purpose of website marketing is to attract online shoppers who may be interested in a company's product or service offering.

Developing a website is one of the most important steps a company can take to establish a digital presence online. Websites serve a variety of purposes. Some are designed to nurture consumers and guide them toward making a purchase while others are designed to facilitate transactions. For example, car manufacturers like Toyota and Honda use their websites to deliver details and options related to their product lines. Consumers can use interactive tools to change out features and colors based on their preferences; however, consumers would likely visit a dealership to make the actual purchase.

Amazon.com is designed to allow third-party sellers to share product details, reviews, and product comparisons. Its purpose is to facilitate a purchase transaction in which the consumer buys something directly from the site. Shopify has recently emerged as the "anti-Amazon" by offering sellers more than a dozen services ranging from e-commerce websites to inventory management and payment processing.

There are still other websites whose purpose is not transactional but that are designed to build community and engagement among customers. Bleacher Report's website offers sports articles, game scores, and live sports streaming. Fans are invited to comment and engage with one another regarding the latest sports news. The website also offers the option of signing up for its newsletter delivered to consumers' email inboxes. Whether it's to communicate information, facilitate a transaction, or build a community, websites should be designed with a positive user experience (UX) in mind.

Email Marketing

Email marketing is a type of direct marketing that is highly personal and designed to build relationships with consumers. Marketers use email to communicate promotions about products and share relevant content. It offers the advantage of connecting companies with highly targeted consumers at a much lower cost than other channels. Email usage statistics are also impressive, making this channel attractive as an online direct

marketing tool.

Email boasts over 4 billion daily users; 99 percent of people report checking their email on a daily basis.[9] Given the low cost and high usage rate, email marketing can be a profitable way to connect with customers. Marketers generally send two types of emails: transactional emails and marketing emails. A transactional email is a type of email that is sent to customers following a commercial transaction, such as a purchase or a return. When online shoppers purchase athletic apparel from Dick's Sporting Goods, they receive an email confirmation confirming the order.

Marketing emails are promotional in nature and typically involve a marketing offer. Old Navy sends marketing emails during major sales events. They feature relevant product categories based on past purchases and often include a coupon code or free-shipping promotion.

Buzzfeed provides another great example of a company that optimizes email marketing to reach subscribers. According to Campaign Monitor, it has created a collection of diverse and audience-catered newsletters that are tailored to the preferences of Buzzfeed's subscribers.[10] Emails feature relevant articles and funny GIFs that prompt subscribers to visit the site to read more. On average, subscribers who visit the site via email spend more time on the site than those website visitors who have come from other channels.

Regardless of their email marketing strategy, companies utilize email marketing platforms like Mailchimp to reach target audiences. Mailchimp is built for growing businesses, and in 2022 it launched a Super Bowl advertising campaign to promote its services.[11] As a martech (marketing technology) company, it offers small businesses tools for guiding consumers through a customer journey to a purchase. Mailchimp's automation tool, specifically, allows businesses to send email campaigns based on a consumer's interaction with an email message. The result is a highly personalized email conversation between the small business and the customer.

LINK TO LEARNING



Mailchimp

Learn how Mailchimp's CEO and cofounder, Ben Chestnut, built and grew the Mailchimp email platform in this podcast: NPR's How I Built This with Guy Raz (https://openstax.org/r/benchestnut).

Check out the 2022 Super Bowl commercial with DJ Khaled here.

Intuit QuickBooks and Mailchimp Super Bowl starring DJ Khaled. (https://openstax.org/r/quickbooksandmailchimp)

Email marketing is also known as permission-based marketing. Permission-based marketing requires that marketers get consent to send email and text messages to consumers prior to contacting them with a promotional message. Once a consumer opts in to receive an email or text message, they are given the option to opt out by clicking on an unsubscribe link or by reply texting a company to opt out of messages.

Consumers typically opt in to receiving emails when they place an online order so that they may receive order confirmation and shipping updates. In addition, consumers are also opting in to receive other value-added content, such as exclusive discounts, access to a webinar, a free trial, or some other type of value exchange.

Content Marketing

Websites, email, and other forms of online marketing are only as good as the content they carry. **Content marketing** involves creating and distributing content that is valuable and relevant to a company's target customers. New York–based Dotdash Meredith is a good example of this. The company's digital brands include Verywell, The Spruce, Byrdie, and others. Dotdash Meredith is a unit of Barry Diller's IAC. Company policy: no

pop-up ads!

As with other forms of direct marketing, content is about driving customers to take some desired action. Consumers would much rather consume a funny video clip, a highlight reel of their favorite athlete, and an inspiring quote or comment than see banner ads and pop-up ads. In order for content marketing to work, it must be useful, relevant, high quality, and engaging to the targeted audience.

When content is delivered through social media, blogs, and email, consumers have the opportunity to directly engage with the company and other content consumers. They can like, share, retweet, and mark as a favorite—all examples of actions taken in response to the content. Marketers can use the data created by these actions to perform sentiment analysis and generate other metrics. The challenge with content marketing is that it is constantly changing. Companies are tasked with constantly updating their content and continuing to tell stories that their audience wants to hear and engage with.

Online Video Marketing

Online video marketing involves creating videos that tell a story about a product, company, or brand that is designed to drive consumer engagement through activities such as liking, sharing, and retweeting. Video marketing is becoming increasingly popular as a marketing tool because the cost of creating video campaigns has dropped significantly in the last decade due to technological advancements. Biteable, for example, offers marketers a cost-effective way to create brand videos that are quick, simple, and customizable.

Along with the drop in cost to produce online videos, consumer demand for videos has increased. Because of this demand, Instagram, Facebook, and Twitter have pivoted to video-first platforms. Wyzowl's annual State of Video Marketing Survey revealed in 2021 that online video watching has doubled since 2018 and that online marketers "feel positive about the return on investment offered by video more than ever as it continues to strongly influence traffic, leads, sales, and audience understanding."[12]

LINK TO LEARNING



Wyzowl's Survey Found on HubSpot

Read more about the key data points learned by Wyzowl in its 2022 survey. You might be interested to learn that 86 percent of businesses use video as a marketing tool, 94 percent of companies believe videos help customers better understand their product, and 99 percent of video marketers said they will continue using video. You can find the full report here (https://openstax.org/r/videomarketingstatistics). There's a ton of interesting information!

Blogs and Online Forums

A **blog** is an online journal of interests, beliefs, or other topics published by a person, a group of people, or an organization. In its early stages, a blog was a personal journal that someone posted to the web. It's since evolved into an online marketing tool that is typically a website or a webpage and serves a variety of purposes.

First, a blog's purpose can be to share valuable and relevant information with targeted audiences. Ultimately, the goal is to attract visitors to the page or site and convert them to customers. In addition, marketers create blog content on sometimes a weekly or even daily basis so that consumers continue to visit the site or the page to access the new content. When the blog content is good, visitors will continue to engage with the articles produced by the company. Ultimately, this helps a company's organic ranking on Google. In Google, your page or website will rank higher on the Google search results page as it grows in popularity and consumers click on it.

Blogs are also a great way to create and nurture online communities, or groups of people with similar interests

connecting to one another online.

Customer relationship management company HubSpot is excellent at creating high-quality blog content for marketing and business professionals. It covers an array of professional topics, from marketing to human resources management to communicating effectively in the workplace. Its content ultimately drives visitors to its website, where they'll find a suite of programs designed for marketing, sales, customer service, and operations.

Blogging can be an integral part of a content strategy as long as marketers dedicate time and resources to continue updating the content. Visitors appreciate fresh and relevant information, and delaying the delivery of high-quality content may mean a loss of visitor interest.

LINK TO LEARNING



Content Marketing Tools

Learn more about the types of content marketing tools marketers have to work with by reading this HubSpot article (https://openstax.org/r/contentmarketingtypes). Included are the types you're probably more familiar with, like blogs and videos, but also discussed are the ones you may not have as much experience with like, white papers and case studies.

Advantages of Online Direct Marketing

There are several key advantages that make online direct marketing an attractive tool for marketers. First, online direct marketing is not restricted by geographical boundaries. The internet is readily available to most consumers globally, making it practical to market around the globe.

Second, online direct marketing is much less expensive than other forms of marketing when considering its global reach. Imagine how expensive it would be to send direct-mail catalogs to customers all over the world. Establishing an online presence by developing a website and creating video and blog content is relatively inexpensive compared to other forms of promotion.

Third, online direct marketing is easy to measure in terms of campaign performance. With advertising tools targeted to mass audiences, it's difficult to attribute a sale to a particular television or radio commercial. With online direct advertising, marketers can track the performance of their campaigns based on consumers' interaction with digital tools such as email, online videos, and a company's website. For example, when Nike creates online video content that is posted on YouTube and its website, Nike marketers can track consumers' engagement with that content, in addition to the consumer's online journey. Online direct marketing reveals real-time insights into the effectiveness of campaigns compared to more traditional forms of promotion.

Fourth, online direct marketing is highly targeted. Marketers can carefully focus promotion efforts on very specific groups of consumers based on their geography, their social media channel preferences, and other variables. Online direct marketing also allows for retargeting, which occurs when consumers visit different websites but are shown similar ads based on their online consumer behavior.

Finally, online direct marketing allows for real-time interaction between brands and consumers. Consumers may start with a Google search and end with the completion of an online purchase. Throughout the online consumer buying process, marketers have the opportunity to engage with the consumer in real time.

Traditional direct marketing and online direct marketing offer a variety of benefits in connecting marketers to targeted consumers.

CAREERS IN MARKETING



Digital Marketer

Digital marketers build and implement a company's online-related activities and sales. Review this job description (https://openstax.org/r/jobdescriptionsdigitalmarketing) and list of qualifications from Glassdoor for more details. There are several additional resources that will help you better understand the digital marketing job role and what it will take to get a job in this field:

- Ahrefs—A Source for Digital Marketing Tutorials: "How to Start a Career in Digital Marketing (Step-by-Step)"
  How to Start a Career in Digital Marketing (Step-by-Step) (https://openstax.org/r/startacareerindigitalmarketing)
- Neil Patel: "How to Get a Digital Marketing Job with No Experience"
  How To Get a Digital Marketing Job with No Experience (https://openstax.org/r/howtogetadigitalmarketing)
- Digital Marketing Institute: "7 of the Hottest Digital Marketing Jobs (https://openstax.org/r/digitalmarketinginstitute)"
- Indeed: "How to Get a Job in Digital Marketing in 7 Steps (https://openstax.org/r/careeradvicefindingajob)"
- Emerson College: "5 Reasons to Choose a Career in Digital Marketing in 2022 (https://openstax.org/r/marketinganalyticsemersonedu)"

Knowledge Check

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

1. Which of the following best describes the difference between traditional direct marketing and online direct marketing?
   a. Online direct marketing uses digital tools to individually engage with consumers and call them to take some desired action. Traditional direct marketing does not allow a quick call to action.
   b. Traditional direct marketing is more effective than online direct marketing.
   c. Online direct marketing allows marketers to target consumers based on factors such as their location, age, and income. Traditional direct marketing can also be based on demographic factors.
   d. Traditional direct marketing channels do not include a call to action, and online direct marketing channels do.

2. Which of the following best summarizes the cause for the emergence of online direct marketing as a promotion tool?
   a. The explosion of internet usage, online shopping, and smartphone usage and the advancement of digital marketing technologies best explains the emergence of online direct marketing.
   b. Consumers are spending less time watching movies and shows.
   c. Traditional direct marketing tools have gotten too expensive and are no longer effective at engaging customers.
   d. Traditional direct marketing doesn't offer the same degree of message relevance that online direct marketing does.

3. Which type of marketing involves creating and distributing content that is valuable and relevant to a company's target customers?

a. Website marketing
b. Blog marketing
c. Email marketing
d. Content marketing

4. Which form of online marketing is permission-based, meaning that consumers must consent to receiving online messages?
   a. Website marketing
   b. Blog marketing
   c. Content marketing
   d. Email marketing

5. Which of the following represents an advantage of using online direct marketing tools?
   a. Online direct marketing allows marketers to target consumers globally because of worldwide access to the internet.
   b. Online direct marketing is highly targeted in that marketers can reach customers through a variety of digital channels that are inexpensive compared to other promotion tools.
   c. Online direct marketing allows for easier measurement of ROI on campaigns.
   d. All of these are advantages of online direct marketing.

16.2 Social Media and Mobile Marketing

Learning Outcomes

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

LO 1 Discuss social media marketing and its opportunities and challenges.
LO 2 Discuss mobile marketing and its opportunities and challenges.

Social Media Marketing



Figure 16.6 Social media marketing has created an opportunity for marketers to reach consumers in real time through campaigns run on digital platforms such as YouTube, Instagram, and others. (credit: "Social Media Word Cloud" by cloudincome.com/flickr, CC BY 2.0)

As discussed in the previous section, internet and digital technology usage have surged across the globe, creating opportunities for marketers to engage with consumers in real time. Social media marketing has emerged as a powerful online marketing tool as consumer time spent on these platforms (see Figure 16.6) has grown substantially over the last decade. A growing share of Americans report that they use YouTube and

Facebook more than any other social media platform. In segments under the age of 30, the most popular platforms are Instagram, Snapchat, and TikTok.

Social Media Marketing Defined

Social media marketing is defined as using social media platforms to deliver content that drives engagement with your brand. Companies from PepsiCo to Home Depot to the pizza restaurant located in town use social media to connect with users, share content, and, ultimately, generate sales. Marketers can create brand profiles and sponsored content that they pay for.

Warby Parker uses Instagram to create high-quality content and showcase different styles of eyeglasses based on face shape. Users may click on the post, read and reply to comments, like it, mark it as a favorite, or share it on their own feed. If they are in the market for new eyewear, the social media post may drive them to the company's website, where they can virtually try on different styles of eyeglasses and ultimately make a purchase.

Social media marketing offers some advantages and disadvantages. The advantages include that it is highly targeted, it allows for engagement with and among users, it is a great tool for driving visitors to a company's website, and it is easily measured.

Uses of Social Media Marketing

Marketers recognize that social media presents an exciting opportunity to connect with consumers across a variety of platforms. Unlike some other forms of promotion, social media marketing allows marketers to precisely target audiences. Marketers can create social media campaigns that target demographic attributes such as gender, age, and location in addition to psychographic attributes such as interests and viewing behavior.

For example, Facebook allows marketers to upload a list of customers that includes the demographic and psychographic attributes of the company's target audience. Facebook then creates what's called a "lookalike audience" that matches those customer attributes to the attributes of Facebook users so that the company's ads will show up in the feeds of the lookalike audience.

Social media marketing also creates the opportunity for users to engage with one another and company content. It's an excellent vehicle for marketers to distribute their online video and blog content in addition to communicating promotional offers. Marketers can monitor engagement and participate in ongoing conversations with users who comment, like, and share content.

Harvard Business Review (HBR) provides a great example of how to use social media marketing effectively. HBR, a business management magazine published by the Harvard Business Publishing subsidiary of Harvard University, offers paid subscribers the latest research and articles on all things related to management.

During the pandemic, HBR gave people free access to all HBR content. The campaign ran on social media and resulted in increased traffic at the HBR website. This brings us to another important advantage of social media marketing. It can create traffic or visitors that link from the social media platform directly to the company's website.

Finally, social media marketing is highly measurable. Online marketers can evaluate key engagement metrics such as clicks, likes, and shares and optimize their social media campaigns so that they achieve the goals they set. For example, posting at 1:00 p.m. EST on Facebook results in getting the most shares while posting content at 3:00 p.m. EST results in getting the most clicks.

A major disadvantage of social media marketing is that brands don't have complete control over the message. Consumers can freely write comments that are harmful to a brand's reputation. Amazon's Jeff Bezos famously wished everyone a "Happy Earth Day" in a tweet that showed him dogsledding above the Arctic Circle in Norway. He received serious backlash from Twitter users who pointed out at the time that Amazon employees

were underpaid and overworked.[13]

In addition to losing control over the message, social media marketing requires a great deal of resources, including time and money. Content is key to creating engagement, and continuous creation of new and engaging content requires resources. Social media pages and posts also need to be monitored for engagement. For example, companies that are active on social media have a plan for reviewing and replying to sometimes hundreds of comments. Fortunately, there are great online tools to help automate replies to comments.

Facebook

Facebook, whose parent company was rebranded as Meta in 2021, is the largest social media platform, with over 2.9 billion monthly active users and $117.92 billion in revenue.[14] These numbers make this platform attractive for reaching a diverse, global audience. Facebook is facing the challenge that a growing percentage of its users are baby boomers (born between 1946 and 1964) while teens are using other platforms, like TikTok and YouTube, more frequently.

In addition, Facebook has been scrutinized because of how the company uses personal data. Six in ten social media users report that they've observed and temporarily believed something they've read on Facebook that turned out to be false information.[15]

In addition, there's a growing concern about the role that social media has played in dividing people. Fifty percent of users who are millennials say that Facebook fosters division, compared to only 38 percent of baby boomers.[16]

Facebook is still clearly the behemoth of social media platforms, and so long as it holds that position, marketers will continue to use it as a channel to deliver content and drive engagement with targeted customers.

Instagram

As a social media platform, Instagram's growth has exploded over the last decade. While not as large as Facebook in terms of users, it still boasts 1 billion active users every month. Instagram attracts a younger demographic, mostly people under the age of 30, which makes it attractive for brands targeting this audience.[17]

The company previously known as Facebook purchased Instagram in 2012. The union of Facebook and Instagram under one corporate entity has provided synergistic benefits to users, companies included. First, social media allows users to cross-post on the two platforms. And second, this has the advantage of increasing reach and repetition of messages more efficiently.

From a social media advertising perspective, the integration of Facebook and Instagram allows companies to manage and monitor campaigns across the two platforms easily. Furthermore, companies that have leveraged these integrative features have enjoyed stronger campaign performances in terms of clicks, views, and website conversions.

Spotify uses Instagram Stories brilliantly during its #yearwrapped campaign that drops every December. Instagram Stories lets users post photos and videos that disappear after 24 hours. It's become a very powerful sharing tool with more than 500 million users posting stories every day.

Spotify created a special webpage that presents visitors with their most listened to artists, songs, and other interesting insights related to their music habits over the year. Spotify gives visitors the option of sharing these highlights on other social platforms. This campaign has proved to be highly engaging, with more than 60 million Spotify users engaging with Spotify's Instagram Story and 3 billion #yearwrapped playlists streamed as a result of the campaign.

LinkedIn

For business professionals seeking networking, partnership, and employment opportunities, LinkedIn proves to be an excellent social media platform (see Figure 16.7). LinkedIn boasts 722 million users, who are known as members. Among social media platforms, LinkedIn is considered the most trusted, with 73 percent of members agreeing that LinkedIn protects members' privacy.[18]



Figure 16.7 LinkedIn is a business professional platform that is used by marketers to reach consumers. (credit: "LinkedIn Pen" by Sheila Scarborough/flickr, CC BY 2.0)

LinkedIn Live is the platform's live streaming feature, which allows companies to engage directly with community members. Vimeo leveraged the feature when it held a "Working Lunch" series. Using a seminar format, it brought together experts across the business, communication, and technology industries and interested members. The goal was to engage with the audience, provide relevant information, and drive use and engagement of the platform.

While not the largest social platform, LinkedIn most certainly serves as an important tool for connecting with business professionals in the B2B space.

Pinterest

With 478 million monthly users, Pinterest is a social platform that allows users to visually explore an endless array of ideas from recipes to home decor to crafts to personal style.[19] Users can use the platform's search bar to look for topics or people that interest them, which produces results related to search keywords.

For businesses, Pinterest offers a host of benefits as a social marketing tool. First, 97 percent of searches are unbranded.[20] Simply put, consumers aren't looking for brand-specific content when browsing the platform. This is music to the ears of companies that can place their ads in Pinterest feeds near relevant content. For example, a user may search for "image of vintage running shoes" on Pinterest, which would result in a host of profiles featuring content related to the search terms. A well-placed New Balance advertisement featuring its vintage 720 sneaker would be a strategic marketing move in this situation (see Figure 16.8).



Figure 16.8 A marketer could place a New Balance sneaker advertisement on Pinterest near unbranded searches. (credit: "New Balance Limited Edition Pink Ribbon 3190 Running Shoes" by slgckgc/flickr, CC BY 2.0)

Twitter

As a social platform, Twitter is a microblogging news and networking site where users typically post shorter messages known as tweets. After receiving complaints that 140 characters weren't enough room to express ideas, Twitter expanded its character limit from 140 to 270 in 2017. It has approximately 238 million daily active users, with about 14.5 million living in the United States. It has seen steady growth in international appeal.[21]

Similar to LinkedIn, Twitter is a popular B2B digital marketing tool, with 67 percent of all B2B businesses using the platform to reach business customers.[22] Twitter users have a high expectation that a company will respond to a tweet; therefore, marketers who choose this platform should be prepared to engage with users directly. Twitter's ownership and policy changes in 2022 led many people and companies to reconsider their relationship with the platform, but it will likely remain a major force in marketing and business for years to come.

Podcasts

Podcasts are often free, on-demand, downloadable audio recordings that cover a variety of topics and are typically made available on a weekly or monthly basis. Podcasts are distributed through applications such as Apple's Podcasts, Google Podcasts, Spotify, and Audible, but they can also be published on a company's website. Podcasting has been growing at a "hockey stick" rate—200 percent year-on-year growth.[23] Recognizing a huge opportunity, Spotify acquired podcasting company Megaphone in 2020.[24] The acquisition positions Spotify as the "go-to" platform for premium podcast content, which offers new opportunities for advertisers. In a world where people question information they are given, podcast hosts stand out because 52 percent of listeners trust advertising when endorsed by the host.[25] The hosts can offer brand endorsements and approvals in addition to stories that they bring to life via audio. Listeners take in what the host says and then build it out in their own minds. Podcast creators leverage social media platforms to drive traffic to applications and sites where the podcasts can be played or downloaded.

Podcasts can be an effective digital marketing tool when marketers want to hyper target a niche audience with relevant topics. They are typically created to share educational information and often result in a good return on investment because of the value they create for loyal listeners.

eLearning company Harappa Education produces the *Habits Matter* podcast, which focuses on topics about learning and personal growth. Listeners are attracted to the series because they want to learn something new without the noise of a marketing message. Podcasts are effective at creating value, building relationships, and engaging target audiences in a subtle way.

LINK TO LEARNING



Social Media Strategy

Social media marketing can be complex because of the variety of platforms and new features being added all the time. Check out this guide from HubSpot on how to develop a social media strategy (https://openstax.org/r/marketingsocialmediastrategy).

Also, check out the *Habits Matter* podcast. Hosted by Shreyasi Singh, the *Habits Matter* podcast explores humanity at work. Check it out here at Apple (https://openstax.org/r/podcasthabitsmatter) or here at Spotify (https://openstax.org/r/openspotifyshow).

Social Media Marketing: Opportunities and Challenges

When marketers are considering social media as a digital marketing tool, they need to weigh its opportunities and its challenges in order to determine if it's the right-fit channel for reaching targeted customers.

The major opportunities of social media marketing include reaching global customers, increasing brand awareness, engaging with targeted customers, and increasing website traffic. First, social media connects companies to billions of users across the globe. Because of this reach, companies can connect with new and existing customers in profitable ways.

In addition, because of the billions of active users on social media, brands can increase awareness of their existence with targeted consumers. For example, a five-year-old swimsuit and beachwear company, Cupshe, had little to no brand recognition among US consumers until it launched campaigns on Facebook and Instagram. In 2020, the company boasted $150 million in sales without a single storefront.[26] Consumers were exposed to the brand via social media ads, which then drove them to the company's website to browse styles and make purchases.

In addition to increasing brand awareness, social platforms help brands engage directly with consumers. Mass forms of promotion such as advertising only offer one-way communication from the company to the customer. Social media platforms allow for multidirectional communication between the company and users and brand communities.

Finally, social media drives traffic to company websites. Users see a sponsored advertisement in their news feed that is highly relevant to their interests and click on the content to learn more, browse inventory, and, ultimately, make a purchase.

The major challenge facing marketers who use social media to reach target audiences is that there is a growing distrust of social media platforms in terms of what they do with our private information. In addition, social media marketing requires dedicated campaign managers who can post fresh content frequently, monitor engagement, and respond to comments. The third disadvantage is that while multidirectional dialogue between consumers and the company is an advantage, the comments cannot be controlled. Users can tarnish the company's brand name if they share negative experiences or opinions about the brand.

LINK TO LEARNING



What Goes Viral?

Why do some things go viral and others don't? Learn from BuzzFeed's publisher Dao Nguyen and her TED Talk on the tactics her team uses to make things go viral.

Access multimedia content (http://openstax.org/books/principles-marketing/pages/16-2-social-media-and-mobile-marketing)

Integrated Social Media Marketing

Integrated social media marketing involves creating a clear, consistent, and synergistic message across all social media platforms. When consumers are presented with coordinated messages across social media platforms, brand awareness and purchase intention increase.

Mobile Marketing: Definition and Strategies

Mobile marketing is defined as the use of multiple digital marketing channels that are designed to reach consumers on their smartphones and tablets. Given the variety of digital tools that marketers use to engage with consumers, it's important to discuss how mobile device use impacts digital marketing strategies. Usage of mobile devices to access the internet and applications has steadily increased over the last ten years.[27] As mobile device technology and digital technology has improved, people are doing everything from refinancing their homes to buying cars online. Mobile device usage will continue to grow, and as consumers spend more time on mobile devices, marketers must adapt their strategies to meet consumers where they are.

There are currently 6.4 billion smartphone users worldwide, and usage is expected to continue to grow over the next decade.[28] In 2022, US mobile advertising spend is expected to reach $137.13 billion, where it was $100 billion in 2021.[29] Given these compelling statistics, companies must be prepared with an effective mobile marketing strategy. Marketing for mobile devices is not the same as marketing for desktops. Consumers expect a more personalized experience when they engage with brands on their smartphones.

Elements of a successful mobile marketing strategy should include responsive design, mobile-friendly emails, app development, and memorable URLs.

LINK TO LEARNING



US Mobile Advertising

To learn more about the predicted growth of mobile advertising in the United States, read this article from Oberlo (https://openstax.org/r/mobileadvertisinggrowth). It states that US spend is expected to grow 14 percent to $156 billion in 2023 and up to $174 billion in 2024.

Responsive Web Design

Responsive web design means that when people visit your website via their mobile device, the menus and content display in a way that is easy to read and engage with. Users don't need to pinch, expand, or scroll the screen to view content. Responsive web design became the standard in 2015 when Google announced that mobile-friendly websites would be prioritized over non-mobile-friendly designs in search results. Responsive web design is critical to ensuring that visitors have a good experience while navigating your website.

Mobile-Friendly Emails

Mobile-friendly emails are emails whose images, text, and links display in a user-friendly way when accessed via a mobile device. With 68 percent of emails being opened on mobile devices, responsive design is necessary to create a good user experience.[30] Similar to responsive web design, email content needs to display on mobile devices in a way that is simple for the user to consume.

One way that email marketers can meet mobile-friendly standards is to ensure that subject lines are between

41 and 50 characters. Subject lines should capture attention and paint a benefit for the subscriber. In addition, mobile-friendly emails often contain a pre-header, which is the first line of text in your email. It provides context for what the email contains. Finally, emails should be concise with a clear and easy-to-find call to action. Many emails contain buttons that link email viewers directly to the company's website. The button is typically rectangular and includes actionable language like "Get Started" or "Shop the Sale."

Developing an App

For some companies, developing a mobile app is an important element in their mobile strategy. Because a shocking 90 percent of people's mobile usage is on smartphone apps, marketers must consider the value in creating one.[31]

One benefit of developing a mobile app is that apps provide direct communication and engagement opportunities with customers at the touch of a button. Amazon's app, for example, makes it easy to search for and purchase products from mobile devices. The alternative is for users to open their browser on their phone, type in the Amazon URL, and search directly from the mobile site. Apps make it convenient for consumers.

Short/Memorable URLs

An internet site's address on the web is technically known as a uniform resource locator (URL). In the digital world, you could have a great website with great content and a strong social media presence, but visitors cannot reach your website without a well-constructed URL.

Having a shorter, memorable URL is an important marketing tactic for the following reasons. First, it's easy for people to remember. Second, shorter URLs are easier to share, whether it's through email, text, or social media. Finally, optimizing the length of a URL makes it much easier for Google to find and display in search results.

There are a number of applications, such as TinyURL and Bitly, that are capable of turning long URLs into shorter ones; however, the jury is still out on whether search engines perceive these URLs as trustworthy.

Mobile Marketing: Opportunities and Challenges

Mobile marketing presents clear opportunities for digital marketers. First, mobile device usage continues to grow as consumers stratify their time across various devices at once. In addition, mobile devices allow people to experience almost constant connectivity that ignores the boundaries that traditional marketing channels must observe, such as time and place. For example, Nothing Bundt Cakes' store hours of operation might be 10:00 a.m. to 6:00 p.m. However, accessing its website to place an order can happen at any time of day from any location.

The shift in mobile usage behavior provides a number of opportunities for marketers to connect with consumers in a place where they are spending more and more time. Additionally, consumers are using mobile devices to conduct product research, view customer reviews, and interact with brands on social media platforms.

In addition to mobile marketing opportunities, this channel also presents challenges to digital marketers. The first challenge is finding the right mix of mobile channels to reach your target audience. For some companies, SMS texting makes sense because customers are open to receiving promotional messages via text. If the company has a mobile application, it may consider sending push notifications that alert users to important information when they aren't engaging with the app. Understanding your target audience is key to determining which mobile tools make the most sense.

A second challenge with mobile marketing is measuring results. While companies can easily measure things like in-app purchases and emails opened and clicked, it's more difficult for marketers to see whether someone has seen a push notification or in-app message.

Knowledge Check

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

1. Which of the following is an advantage of social media marketing?
   a. Social media is highly targeted in its ability to reach segments of consumers who share common interests and demographics.
   b. With social media, marketers have complete control of the message.
   c. Social media is very easy to manage and requires few resources.
   d. Social media is the best channel for the B2B market.

2. Which of the following is a challenge that marketers face when using social media marketing?
   a. Social media marketing does not allow companies to target multiple audiences at the same time.
   b. Social media use is unpredictable, with users only logging in once or twice per week.
   c. Companies do not have control over the message.
   d. Social media does a poor job of driving traffic to websites.

3. Which of the following is a characteristic of a good mobile strategy?
   a. Mobile websites should have a responsive design so visitors have a good user experience.
   b. Emails should be sent to consumers on a weekly basis in order to stay engaged with mobile users.
   c. Avoid using push notification features to avoid overcommunicating with your users.
   d. Measure whether or not a mobile device user has seen a push notification.

4. When a company's website adapts to whatever screen consumers are using and users don't need to pinch, expand, or scroll the screen to view content, this is known as _____.
   a. website design
   b. responsive marketing
   c. content marketing
   d. responsive web design

5. Which of the following represents a challenge for mobile marketing?
   a. Mobile device usage is on the decline.
   b. It's challenging to measure mobile marketing campaigns.
   c. Responsive design is difficult to implement.
   d. People are using email less and less.

MARKETING IN PRACTICE



National Geographic

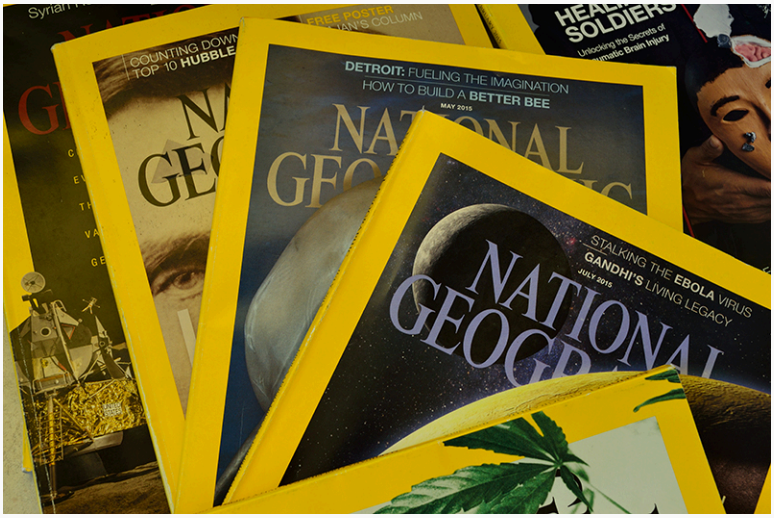

Figure 16.9 National Geographic has utilized Instagram for a promotional strategy as a way to share never-before-seen photographs. (credit: "National Geographic" by Open Grid Scheduler/Grid Engine/flickr, Public Domain)

National Geographic has over 220 million followers on Instagram, boasting the leading brand account on the site.[32] It shares stunning images of people, places, animals, and natural landscapes from all over the world. As a visual storyteller, *National Geographic* captures some of the most awe-inspiring, unfiltered images that the world has ever seen (see Figure 16.9).

Instagram has served as an effective vehicle for sharing these images globally. *National Geographic* has utilized the platform to drive engagement with followers. Its famous "Wanderlust" social media campaign invites amateur photographers from around the world to post the best photographs they've taken while traveling.[33] Followers use the #wanderlustcontest hashtag to connect with the *National Geographic* community of travelers. Its strategy to promote user-generated content was a great way to connect with followers and build continuous engagement.

In addition to its Wanderlust campaign, *National Geographic* uses Instagram and other social media platforms to share content that is central to the brand's values. For example, on "The Endangered Species Day" and "The Oceans Day," it pushes content related to wildlife and nature protection using powerful images and statistics.[34]

Through social media, *National Geographic* is able to share its passion for nature and wildlife with a community of like-minded people. As a tool, social media allows *National Geographic* to engage with followers in a personal way.

16.3 Metrics Used to Evaluate the Success of Online Marketing

Learning Outcomes

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

- LO 1 Discuss the role of marketing metrics in digital, online, social media, and mobile marketing.
- LO 2 List and describe the metrics used to evaluate the success of online marketing.

Types of Online Marketing Metrics

While online marketing tools have numerous advantages over traditional tools, it's important for marketers to pay close attention to metrics that indicate the performance of their online marketing campaigns. Metrics are goals that marketers are trying to reach through their campaigns, and they are typically quantitative in nature. For example, companies measure the performance of their social media campaigns by measuring how many likes, shares, or comments are posted in response to the content. While each online marketing tool has its own set of metrics, we'll focus on the following tools.

Website Traffic

Website traffic is the total number of visitors to a company's website. For some companies, website traffic can help move consumers further along the sales funnel and closer to making a purchase. A **sales funnel** is a visual representation of the customer journey from product awareness to product purchase. For e-commerce sites specifically, online marketers want to increase traffic to their website, which represents the top of the sales funnel, where most consumers will stop. The number of consumers will eventually dwindle until there is an actual purchase, which represents the narrow, lower part of the funnel (see Figure 16.10).

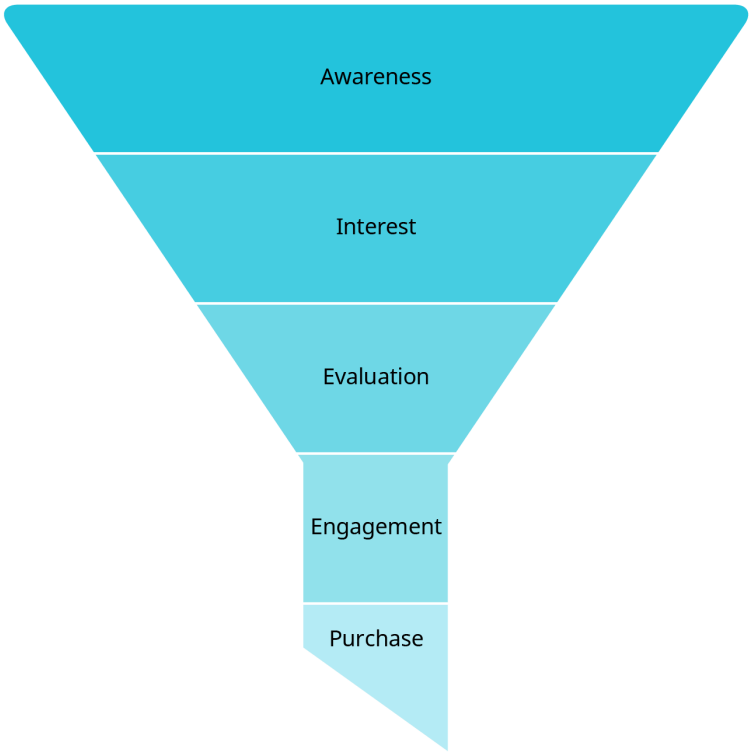

Figure 16.10 Sales Funnel from Awareness to Purchase (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Traffic by Source

Monitoring website **traffic by source** means paying attention to the site from which the website traffic came. For example, social media is famous for generating traffic to companies' websites. Online marketers can track this information by attaching a piece of tracking code to links on social media pages and other sources to assess where the visitor came from. In addition to social media, traffic sources can be email, paid search, organic search, paid social, and affiliates.

Paid search is a type of digital advertising where marketers pay search engines like Google and Bing to place their ads in sponsored spots at the top or bottom of a search engine results page (SERP). A **SERP (Search Engine Results Pages)** is the list of search results that displays on a search engine's page after someone enters key search terms into a search query box. Say, for example, a consumer is looking for a local company

to investigate and fix a leak in their ceiling. That customer would likely visit Google and type in the search terms "plumbers near me." Google then displays the SERP featuring sponsored companies in top positions on the page. Companies bid on key search terms like "fix leaky roof" in an auction with competitors. If their bid is high enough, they will secure a top position on Google's search results page. In turn, when users click on that sponsored add, they are directed to the company's website or landing page.

Organic search refers to the list of websites on a search results page that have not been paid for by marketers. Search engines use algorithms to deliver search results that are relevant to the key search terms that a visitor has entered. When someone is searching for a local plumber on Google and they click on an organic search listing, the company that appears organically in those search results does not pay for the traffic that visits its website.

Paid social is similar to paid search in that marketers pay social media companies to display sponsored digital advertisements to targeted customers on their platform. Social media users who click on a sponsored social advertisement are then directed to the company's website or landing page.

Affiliates are people or companies that earn a commission for driving traffic to another person's or company's website where they make a purchase. CJ Affiliate, formerly known as Commission Junction, provides affiliate marketers with a marketplace to connect with brands who pay affiliates for driving traffic and purchases online.

Conversions

Simply put, **conversions** happen when a company turns a visitor into a customer. When a consumer purchases a LEGO set on the company's website, that's a conversion. When a new user signs up for TikTok, that's a conversion. Conversions are important in measuring the success of online marketing campaigns and the consumers' purchase experience.

Bounce Rate

Bounce rate is a metric that online marketers use to measure what percentage of visitors visit the site, view one page, and then leave. Bounce rates can be examined for each page of your website. Online marketers want to aim for a bounce rate that is lower than 40 percent. Higher bounce rates indicate issues with pages, including the time it takes for them to load in a visitor's browser.

Search Trends

Search trends are data points that indicate how frequently a term is searched. Researching search trends provides insight into who a company's customers are and what they are currently interested in. Google Trends is a free tool that online marketers can use to gather this information. Monitoring search trends has some predictive benefits to online marketers, who can recommend changes to products, advertising, and budgeting based on what consumers are searching for. For example, marketers utilize keyword tools offered by companies like Semrush to gain insights into customer search activity. Semrush provides customers with information on the value of popular search terms.

New versus Returning Visitors

New visitors, or new users, are people who are just learning about your website. A new visitor is someone who is visiting your website for the first time. **Returning visitors** are visitors or users who have been to your website before. Analyzing new and returning user metrics provides online marketers with a sense of how effective the company is in attracting new visitors compared to returning visitors. If there's an increase in new visitors, online marketers may be able to conclude that they are successfully attracting new customers via the online marketing tools they are using.

Average Session Duration

A **session** is defined as a collection of interactions that occur on a company's website. For example, if someone

searches for Nike soccer cleats on Google, they'll likely click on a landing page that takes them to the Nike website's page related to soccer footwear. While on the page, the visitor may then click to browse different styles and colors and maybe watch a video of a famous athlete playing in the cleats. The visitor may then decide to make a purchase by selecting their size and clicking on a CTA (call-to-action) button such as "Add to Cart." This collection of activities equates to a session. Online marketers examine session duration as a way to measure engagement. If someone visits your shopping cart page after adding an item but then leaves within a few seconds (known as shopping cart abandonment), that may indicate issues with that page.

Page Views

Page views is a metric related to how many total pages have been viewed on your website. Websites typically have a home page, which is where visitors land when they type in your main URL. But depending on the company, its website could have many pages in addition to the home page. For example, e-commerce sites have pages that allow visitors to browse products. There might be review pages for each product and pages dedicated to blogs or articles about featured products. There's likely to be a customer support page and a terms and conditions page. The possibilities are almost endless. Online marketers use page views as a metric to gauge the success of their website pages.

Most Visited Pages

In analyzing page views, online marketers can gain important insights, such as which pages are most visited. If they identify content on their website that attracts a larger number of views, they can attribute those page views to a traffic source, such as social media or a blog.

Social Engagement

Social engagement relates to the number of actions that social media users take in direct relation to your company, brand, or product. Social engagement can be measured by the number of likes, shares, retweets, and comments made by account followers.

Click-Through Rate

When users visit Google and begin searching for something they are interested in, Google returns what are called search results. This is the list of solutions or answers to the search terms a user entered in the Google search bar. Some companies pay to appear at the very top of that search results page. As noted above, this is known as paid search. When users see the ad, this is known as an **impression**. The **click-through rate (CTR)** is the percentage of people who click on your ad. Measuring CTR indicates how successful their search advertisement is in attracting users to click. The ads are linked to a landing page, where the consumer is presented with additional information that is designed to lead them to a purchase. A high CTR leads to more traffic and ultimately conversions.

Cost per Click

Search engines like Google and Bing generate revenue by charging companies that pay for search ads to appear on search result pages. The **cost per click (CPC)** is the cost companies pay search engines for each click that a search advertisement receives. This cost is based on the keywords that a company bids on. Simply put, there are competitors in the auction who are willing to pay a certain amount to appear on the search results page when a user enters certain keywords. Depending on how competitive the auction is, CPC can fluctuate, and online marketers analyze CPC to ensure they don't overpay to have their search ads display.

Let's suppose that you wanted to purchase a Tampa Bay NFL jersey. You are interested in finding one at the lowest price possible. You're also interested in the team's home jersey. You may type in the search engine bar: Tampa Jersey in white. Retailers like Fanatics and NFLshop.com will appear at the top of the search results page next to the word "Ad." If NFLshop.com appears first, it won the auction over the search keywords you entered.

Online marketers set limits on how much they are willing to bid on certain keywords. If they bid too low, they lose the auction and may not get the impressions they need. If they bid too high, they risk overpaying for their search advertising. They should identify their goals and bid accordingly.

Cost per Acquisition

Cost per acquisition (CPA) is also known as cost per action or cost per conversion. It relates to the aggregate or cumulative cost of acquiring a customer. CPA can be measured by channel or campaign. The conversion could be a sale, a form completion, or a click.

The CPA formula is:

$$\text{Cost per Acquisiton (CPA)} = \frac{\text{Dollars Spent on Campaign}}{\text{Number of Conversions}}$$

For example, let's look at CPA for a paid search campaign. Fanatics uses paid search to reach customers interested in buying athletic apparel. Let's assume that Fanatics runs a search campaign for one month that costs the company $20,000. The campaign was responsible for driving over 1 million visits to the website and 32,000 conversions. 32,000 conversions at $20,000 would result in a CPA of $0.63, meaning that each customer conversion cost the company $0.63.

$$\text{Cost per Acquisiton (CPA)} = \frac{\$20{,}000}{32{,}000} = \$0.63$$

This calculation can be somewhat misleading, however, because it fails to account for the resources spent creating the ad and managing the search campaign. Nevertheless, online marketers monitor CPA because it helps them measure the effectiveness of their online marketing strategies. The lower the CPA, the more effective the campaign.

MARKETING DASHBOARD



Targeted Advertising

As a consumer, have you ever wondered why you see certain advertisements on social media but not others? The answer is targeted advertising. Targeted advertising allows marketing professionals to specify a target audience of their choosing. For example, you may see advertisements for winter boots if you have recently initiated a search with those terms. At the same time, a friend might see advertisements for winter tires for the same reason.

Targeted advertising can be expensive because it is tailored to a marketer's exact specifications. Therefore, marketing professionals calculate the cost every time a prospective customer clicks on a targeted ad through their website. This cost-per-click metric shows us how much the marketing professional pays every time a prospect clicks on an ad.

Cost per click has a role in search engine marketing as well. For example, if our advertisement is served up on a search engine results page (SERP) and a prospective customer clicks on that advertisement, the marketing team must pay the search provider.

As savvy marketers, we know that not every click results in a purchase. So, we have to be careful not to invest more in clicks than our profitability allows. We also need to consider the average revenue and profit per order and the customer lifetime value when determining the efficacy of a targeted advertising campaign.

The formula for cost per click is the total cost for the digital campaign/number of clicks.

$$\text{Cost per Click} = \frac{\text{Total Cost of Digital Campaign}}{\text{Number of Clicks}}$$

Give the cost-per-click calculation a try for yourself. What is the cost per click of each of the four campaigns for a pet store?

Campaign	Total Campaign Cost	Number of Clicks
Dog Food	$12,000	18,100 clicks
Cat Food	$10,000	20,200 clicks
Aquariums	$7,000	19,050 clicks
Bird Feeders	$5,500	5,000 clicks

Table 16.1

Solution
Dog food: $0.66/click

Cat food: $0.50/click

Aquariums: $0.37/click

Bird feeders: $1.10/click

What additional information would we need to know to determine whether the cost per click for each product is a good investment?

Solution
Average revenue and profit per order, percentage of people who click through who make a purchase, and/or customer lifetime value

Let's suppose that Najja found our pet store website on a targeted ad, clicked through, and placed a $70 order for bird feeders that had a 10 percent profit margin for our pet store. Was the click-through rate a good investment?

Solution
Yes. The pet store profited $7 on the single purchase at a click-through rate of just $1.10. In addition, Najja may purchase more in the future, making the click-through rate an even better investment.

Knowledge Check

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

1. Which of the following best describes why online marketing metrics are important?
   a. Online marketing metrics help marketers understand whether or not their products and services create value for consumers.
   b. Online marketing metrics are an important part of understanding the factors that influence consumer behavior.
   c. Online marketing metrics help marketers measure the effectiveness of marketing managers.
   d. Online marketing metrics help marketers measure the performance of their online marketing

campaigns.

2. An online automotive magazine is running a social media campaign to increase paid subscriptions. Which of the following would be an example of a conversion on its website given the campaign's goal?
   a. A visitor uses the search tool on the website to search "vintage European cars."
   b. A visitor enters their email address to receive updates.
   c. A visitor enters their payment information and contact information and clicks on "place order."
   d. A visitor downloads the app on their mobile phone.

3. The Warton Hotel is running an online marketing campaign and would like to measure the percentage of people who only visit its site one time. Which online marketing metric would be most helpful to the hotel in this situation?
   a. Counting new and returning customers who visit the site
   b. Counting page views
   c. Examining the bounce rate
   d. Counting unique users

4. Which of the metrics could be used to measure the performance of a social media campaign?
   a. Social engagement
   b. Page views
   c. Bounce rate
   d. Cost per click

5. Jax's Sushi House wishes to compare DoorDash's and Google's performance in driving traffic to the restaurant's website. Which of the following explains why Jax's Sushi House wants to compare sources?
   a. Measuring traffic by source provides insight to online marketers about the effectiveness of sources that best drive traffic to a company's website.
   b. Measuring traffic by source allows marketers to measure the effectiveness of the online shopping cart experience.
   c. Online marketers can determine the effectiveness of their home page by examining traffic by source.
   d. Evaluating traffic by source means looking at the total numbers of visitors to a website and comparing it to the total number of visitors from a source.

16.4 Ethical Issues in Digital Marketing and Social Media

Learning Outcomes

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

LO 1 Describe ethical issues with respect to digital marketing and social media.
LO 2 Explain why ethical issues exist.

Privacy, Transparency, and Awareness

While digital marketing tools and social media provide online marketers with effective ways to engage with customers, build relationships, and drive consumers toward a purchase, there are ethical issues that marketers must consider when utilizing these tools.

First, because of the highly targeted capabilities of digital and social media, companies have access to large amounts of personal data, including name, email address, phone number, as well as personal interests, social and political views, and shopping behavior. Consumers are increasingly concerned about data privacy. In a recent survey by KPMG, 86 percent of the respondents have a growing concern about data privacy, and 78 percent fear the amount of data being collected.[35]

Given this growth in distrust of how personal data is handled, some companies have responded with updated policies designed to be more transparent about how data will be used. Seventy-five percent of consumers

polled reported that they want increased transparency.[36]

In 2021, Apple released features for iPhone and iPad users that allow consumers to have stronger control of how their data is used.[37] Using pop-ups, Apple device users will be able to allow or disallow companies to track their activity across apps and the websites they link to. This move by Apple resulted in some back-and-forth commentary by Meta's Mark Zuckerberg and Apple CEO Tim Cook. Tech companies like Facebook and Google depend on being able to target the advertising on their applications to users using personal data. Giving greater privacy control to iPhone users presents a threat to the core of their business models.

Social media platforms in particular mine personal data and then use it to sell advertising space on news feeds of consumers who match the demographics and psychographics of a company's target market. With nearly 71 percent of social media users taking the time to check their privacy settings on social media, it's clear that this issue is front and center for a majority of users.[38] Companies can respect the privacy of their users by being transparent about what data they collect and how they use it.

Tracking Consumer Data

The reality is that it's not just social media companies and search engines that track consumer data. A majority of companies use tracking codes to follow consumers and data about them as they navigate the web. Zoho, a productivity and collaboration app, reported that in the B2B space, about 72 percent of businesses do not inform customers that they are being tracked by third parties.[39]

The Use of Client Reviews

Client reviews involve feedback that a customer or client posts directly to a platform that can accessed by consumers during the buying process. Companies that use client or customer reviews include Amazon.com, Wayfair, and Lands' End. Customers rate their experience with the product typically by assigning stars and commenting on their satisfaction.

Reviews can be helpful to consumers during the search phase of the buying process because reviews provide a real-world glimpse into the favorability of a product. For example, Wayfair invites customers to post pictures of items like sofas and end tables once a customer has styled the room. This provides shoppers a real-life view of the product, its color, and its size, among other things.

Beyond the reviews on e-commerce sites, Google serves as a major player in the customer review space. Consumers often rely on Google reviews when deciding on whether to hire a local business. In addition to Google, consumers can find reviews for travel on Tripadvisor, restaurant reviews on Zomato, and reviews of software programs on G2.

Marketers recognize the power of customer reviews as a digital promotional tool, as consumers report that they perceive reviews as more credible than messages created by the company itself.

COMPANIES WITH A CONSCIENCE

Apple's Taking Big Steps to Protect Privacy



Figure 16.11 Apple is employing several steps to further protect consumers and their personal data. (credit: "iPhone 5s Applications" by Marco Verch/flickr, CC BY 2.0)

In January 2022, Apple took one of its most impactful steps toward protecting the privacy of iCloud users, the iCloud Private Relay (see Figure 16.11).[40] When enabled on Apple devices, this feature hides a user's IP address from the websites they visit, essentially masking a user's entire online footprint.

The privacy feature is a game changer in the digital marketing space, as companies like Meta and Google depend on seeing a consumer's online journey to learn more about who they are and what interests they have. Tracking online activity allows companies to serve users with relevant marketing messages and offerings.

In addition to the privacy relay, Apple also released "Hide My Email," which allows Apple device users to enter a unique email address on websites without sharing their actual email address.[41] Emails that are sent to a randomly generated address are then forwarded to a user's inbox, thereby hiding a user's actual email address.

Finally, Apple has updated its Mail app such that it prevents marketers from tracking whether or not someone has opened an email.[42] Email marketers measure the percentage of people who open marketing emails to determine their level of engagement and the effectiveness of the email.

Apple appears to be taking consumer privacy to another level. By offering a collection of privacy-centric features, it is equipping consumers with tools to protect their personal information and navigate the web unseen.

Check out Apple's website to learn more about iCloud Private Relay (https://openstax.org/r/abouticloud). Also read about it in this *Wired* article (https://openstax.org/r/howappleicloud).

Chapter Summary

Direct, online, and social media marketing include a mix of useful tools that help marketers engage with targeted consumers in a way that is personalized and is designed to drive the audience to follow through on the desired marketing action. With the explosion in internet and mobile device usage coupled with advancements in digital technology, online marketing tools have been developed to help marketers meet consumers in the digital space. These tools are capable of connecting online marketers to carefully targeted individuals. With the development of these tools come ethical issues related to privacy. As consumer concern for privacy protection grows, companies will need to adapt their privacy policies to be more transparent about how they use consumer data.

Key Terms

affiliates people or companies that earn a commission for driving traffic to another person's or company's website where they make a purchase

blog an online journal of interests, beliefs, and other topics published by a person, a group of people, or an organization

bounce rate a metric that online marketers use to measure what percentage of visitors who visit the site, view one page, and then leave

call center a centralized space where agents or representatives answer inbound calls and place outbound calls

catalog marketing also known as direct mail order and is one of the oldest forms of promotion, which typically includes a variety of products often vividly displayed in a high-gloss magazine-like format

click-through rate (CTR) the percentage of people who click on an online ad

client reviews involve feedback that a customer or client posts directly to a platform that can accessed by consumers during the buying process

content marketing creating and distributing online content that is valuable and relevant to a company's target customers

conversions happen when a company turns a visitor into a customer

cost per acquisition (CPA) also known as cost per action or cost per conversion, relates to the aggregate or cumulative cost of acquiring a customer and can be measured by channel or campaign

cost per click (CPC) the cost companies pay search engines for each click that a search advertisement receives, which is based on the keywords a company bids on

direct marketing using communication tools that directly engage with individual consumers for the ultimate purpose of calling them to take some marketing action

direct-mail marketing a type of direct marketing that involves marketers sending mail directly to people's homes or places of business; for example, catalogs and postcards

direct-response television marketing a type of direct marketing that is designed to compel viewers to take some immediate action such, as calling a phone number or visiting a website presented during a television commercial

email marketing a type of direct marketing that is highly personal and designed to build relationships with consumers

impression when users see an online ad

integrated social media marketing involves creating a clear, consistent, and synergistic message across all social media platforms

marketing emails emails that are promotional in nature and typically involve a marketing offer

mobile marketing using multiple digital marketing channels that are designed to reach consumers on their smartphones and tablets

mobile-friendly emails emails whose images, text, and links display in a way that is easy to read when accessed via a mobile device

new visitors people who are first visiting your website, also known as new users
online direct marketing uses a rich collection of online tools, such as websites and email, to target individual consumers with an offer designed to compel consumers to take some action, such as visit a website or make an online purchase
online video marketing involves creating videos that tell a story about a product, company, or brand that is designed to drive consumer engagement through activities such as liking, sharing, and retweeting
organic search the list of websites on a search engine results page that have not been paid for by marketers
page views a metric related to how many total pages have been viewed on your website
paid search a type of digital advertising where marketers pay search engines like Google and Bing to place their ads in sponsored spots at the top or bottom of a search results page
paid social a type of digital marketing advertising where a company pays a social media company to display a digital advertisement to targeted customers on its platform
podcasts often free, on-demand, downloadable audio recordings that cover a variety of topics and are typically made available on a weekly or monthly basis
responsive web design designing a website that is configured to adapt to any device, making it easy for visitors to read and interact with its features
returning visitors visitors or users who have been to your website before
sales funnel a visual representation of the customer journey from product awareness to product purchase
search trends data points that indicate how frequently a term is searched
seminars a tool that allows companies to share their expertise and knowledge related to a topic, issue, or industry; can be done in person or virtually
SERP (Search Engine Results Page) the list of search results that displays on a search engine's page after someone enters key search terms into a search query box
session a collection of interactions that occur on a company's website
social engagement relates to the number of actions that social media users take in direct relation to your company, brand, or product
social media marketing using social media platforms, such as Facebook, Instagram, LinkedIn, and Twitter, to deliver content that drives engagement with your brand
telemarketing a type of direct marketing that involves a company representative placing or answering customer phone calls with the intention of guiding the consumer toward making a purchase
trade shows exhibition events that provide companies the opportunity to present themselves and their products and services to industry peers
traffic by source means paying attention to the site from which the website traffic came
website marketing The promotion of a website that results in driving traffic or visitors to the site to learn more about the product or company or to make a purchase
website traffic the total number of visitors to a company's website

Applied Marketing Knowledge: Discussion Questions

1. The Association of National Marketers (ANA) acquired the Data & Marketing Association (formerly the Direct Marketing Association (DMA)). This organization has several arms. One of them is the dmaconsumers.org. Visit the website, and see what services it has to aid consumers (https://openstax.org/r/dmaconsumers).

2. Choose three people that you know, each from a different generation. Explain the concept of online, social media, and mobile marketing. Ask the following questions: "Do you engage with these forms of marketing?" "Have you purchased anything from one of these forms?" "Do you have any concerns about using any of the marketing strategies discussed?" Then, explain whether anyone's answers surprised you.

3. When considering the privacy issue, where does the responsibility fall? Is it with the business, or is it with the consumer? Is it both? How can a consumer guard themselves? What can a company do to make sure it

is practicing ethical marketing?

4. The main goals of consumer protection laws and regulations are to protect consumers' privacy and identity and to protect consumers from unfair or deceitful actions. Research the following regulation and law to familiarize yourself with them: the Telemarketing Sales Rule and the CAN-SPAM Act.

Critical Thinking Exercises

1. Compose a paragraph (150–200 words) using all of the following terms as they relate to direct, online, social media, and mobile marketing. The goal is to prove you understand the meaning of each term.
2. List the positive and negative value of each of these forms of marketing: direct mail, social media, mobile, content and telemarketing. Think about products, messages, and delivery systems.
3. Now consider the target market for direct mail, social media, mobile, content marketing, and telemarketing. Does the chosen form of marketing present challenges in growing the target market? If so, how can those challenges be met and overcome?

Building Your Personal Brand

Goal-setting is the development of an action plan designed to motivate and guide an individual, group, or organization to reach a goal. There are several models of goal setting; one of the popular ones is SMART goal-setting. SMART stands for goals that are specific, measurable, action-oriented, realistic, and time-bound.

Consider a goal you might set for yourself that's SMART. For example, if your goal is to intern at a marketing firm ,you might establish the following SMART goals:

- Specific: Create a list of possible companies you want to target for an internship, and indicate why.
- Measurable: Quantify the number of contacts at each company you plan to make in a week, and map those to calendar dates.
- Action-oriented: Develop a plan for reaching out to and making appointments with those contacts.
- Realistic: Is what you're setting reasonable when you consider your work schedule, schoolwork, personal responsibilities, etc.? Set goals that are achievable.
- Time-bound: Consider all of the steps, and decide how much time it will take you to complete this goal.

Now set yourself two goals around building your personal brand. Is there a skill you wish to learn or a website you want to develop? Whatever your goals are, be sure to consider the SMART goal-setting model as you develop them.

What Do Marketers Do?

Check out the Association of National Advertisers (ANA) website (https://openstax.org/r/ananet), and scan the wealth of information available. It offers a content library, newsstand, marketing futures, blogs, and podcasts. Throughout this information, you will learn more about many aspects of current trends, future opportunities, and simply what it is that marketers are doing now. Being educated on the many associations and the information available can inspire you to look at marketing careers in a different light.

Navigate to the Content Library, then the Media Channels section. (In order to see the link to the Content Library, you need to hover over "Resources" at the top of the page.) From this section, review the various pieces of content available, and choose one to read. After reading, write a two-paragraph summary on what you learned, what you found most interesting, and why.

Closing Company Case

Publix

Founded in 1930, supermarket chain Publix started with one store in Winter Haven, Florida. It now has over

1,200 stores throughout the Southeast. The company was founded on the promise of superior customer service. With unwavering dedication to quality and value, Publix is now one of the 10 largest-volume supermarket chains in the country.

Publix is employee-owned, and the pride and dedication of its employees shows in the daily interactions with customers and the communities it serves. Walk into any Publix grocery store, and the spacious aisles and displays provide for ease and access. The brightly lit shelves and soft music make for a pleasant shopping experience. With a wide selection of quality products and its own Publix brand, customers are typically delighted with the availability of premium and well-priced items.

A hallmark of the Publix shopping experience is the checkout. Its friendly Publix cashiers and abundance of grocery baggers make shopping a pleasure. No matter how big or small an order might be, the baggers are always eager to help customers out to the car with their groceries.

As the company worked to develop the superior in-store shopping experience, consumer preferences for grocery shopping began to change. Amazon, a leader in online shopping, bought Whole Foods. Adding to its already "everything store" approach, Amazon was now able to deliver groceries within a two-hour window.

In 2016, Publix began a pilot with Instacart. Instacart is an online ordering and delivery platform, partnering primarily with grocery and drugstore chains nationwide. Publix had plans in place to launch Instacart with all Publix locations by 2020.

When COVID-19 began raging throughout the United States and economies were shuttered, demand for grocery delivery was high. Publix and Instacart rallied to meet the need. Each Publix location was tasked with getting its merchandise uploaded on its website, and Instacart was quickly hiring employees to shop for and deliver groceries to homes across its market area.

Using a mobile app, Publix consumers continue to use Instacart to shop for grocery delivery. Through the robust Publix website, consumers are able to place orders for party trays, bakery items, and whole-meal catering solutions. Publix regularly posts updates on food recalls and highlights of its sustainability efforts. Consumers who opt in can join the Publix Club to receive emails with coupons and weekly discounts on groceries.

Publix has an active social media presence. With over 3 million Facebook followers, loyal consumers often comment on their good finds, grocery deals, and favorite products. Publix provides its followers with favorite recipes and new products.

Through Instagram, Publix shares photos of some of its food products as well as ways it supports its communities and helps with environmental sustainability issues. Customers regularly like and comment on the Instagram posts featuring Publix food items and holiday meal ideas.[43]

To learn more about these companies, visit the Publix website (https://openstax.org/r/publix) and the Instacart website (https://openstax.org/r/instacart).

Case Questions

1. Describe the ways Publix is utilizing its website to connect with customers.
2. In what ways can consumers engage with Publix through digital media?
3. What are some of the methods Publix can utilize to determine success with its digital efforts?
4. How did Publix use digital resources to respond to consumer needs during the COVID-19 pandemic?

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17

Distribution: Delivering Customer Value

Figure 17.1 Marketers need to determine distribution strategies that gets their products in the hands of consumers, like the partnership between Whole Foods and Outstanding Foods. (credit: modification of work "Whole Foods Market Full Middle Eastern Food Shelves" by Raed Mansour/flickr, CC BY 2.0)

Chapter Outline

17.1 The Use and Value of Marketing Channels
17.2 Types of Marketing Channels
17.3 Factors Influencing Channel Choice
17.4 Managing the Distribution Channel
17.5 The Supply Chain and Its Functions
17.6 Logistics and Its Functions
17.7 Ethical Issues in Supply Chain Management

In the Spotlight

Have you ever had a great idea for a new food product? If so, do you have any idea where you would sell it to reach your target customers? Unlike traditional grocery retailers, Whole Foods specializes in selling high-quality natural and organic foods. Getting the green light to sell through its stores requires manufacturers to follow strict quality standards, including adherence to Whole Foods' banned ingredient list.

Founders Dave Anderson and Bill Glaser of Outstanding Foods and maker of PigOut, a vegan, bacon-flavored chip snack, recognized that in order to reach vegans and nonvegans with a plant-based, bacon-flavored chip, they need to retail at outlets that would attract such consumers.[1]

After testing their product, they opted for a nationwide launch and distribution strategy. Using a broker network, they selected distribution channels that aligned with both natural and mainstream grocery stores. This strategy would help secure the national target market coverage they were looking for. The product strategy of natural ingredients gave Outstanding Foods the green light it needed to meet Whole Foods' strict food standards. Through their partnership, Whole Foods and Outstanding Foods are able to create and deliver value to their vegan customer base who appreciate access to food products that are tasty and bring delight.

17.1 The Use and Value of Marketing Channels

Learning Outcomes

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

- LO 1 Describe the use of marketing channels.
- LO 2 Identify the different types of marketing channels.
- LO 3 Discuss how marketing intermediaries add value to products.

What Are Marketing Channels?

In addition to identifying ways to create value for consumers, marketers must also decide how to distribute market offerings. In this section, you'll explore the important role that marketing channels play in delivering value to targeted customers.

A **marketing channel** is a system of people, organizations, and activities that work together to make goods and services available to consumers to purchase. Along the marketing channel, ownership of these goods and services is transferred from one channel member to the next. The goal is to create and deliver value to the final consumer by distributing these goods and services. The **final consumer** is the end user of a good or service. It includes grocery store shoppers, movie stream viewers, app users, vacation-takers, and many more.

LINK TO LEARNING



Distribution

To learn more about how the distribution of products works and the decisions marketers must consider when choosing the right marketing channel, watch the Channels of Distribution in Marketing: 8 Distribution Channels to Consider video.

Channels of Distribution in Marketing: 8 Distribution Channels to Consider (https://openstax.org/r/channelsofdistribution)

Marketing Channels (Distribution Channels) Defined

It's not enough for companies to create, price, and promote products and services that deliver value. A company must also decide where and how consumers can access and purchase the company's market offering. Market offerings can include tangible goods, services, experiences, digital products, ideas, and information. All market offerings require a marketing or distribution channel to reach consumers.

Think of a channel like a stream or a river that carries a market offering to the consumer. **Distribution** describes how a company makes its market offering accessible for purchase. Local companies that sell to a smaller, more geographically concentrated set of consumers have a more simplified marketing or distribution channel compared to global companies.

The film industry provides a great example of the distribution decisions that marketers must make. Before a production company releases a new movie, it must decide which channels are best for distributing the movie to consumers. In today's market, movie producers have a slew of distribution options, including Netflix, HBOMax, and YouTube, to name a few. They also have the option of distributing through traditional movie theaters, such as AMC or Regal. Regardless of the marketing channel they pursue, their goal is to distribute their movie to the right customers at the right place and at the right time. Production companies will choose the marketing channel that is most efficient at helping them achieve this goal.

Marketing Channels for Consumer Products

Companies that use intermediaries to deliver value to consumers have a variety of marketing channel options. There are four major types of intermediaries: agents or brokers, distributors, wholesalers, and retailers (see Figure 17.2).

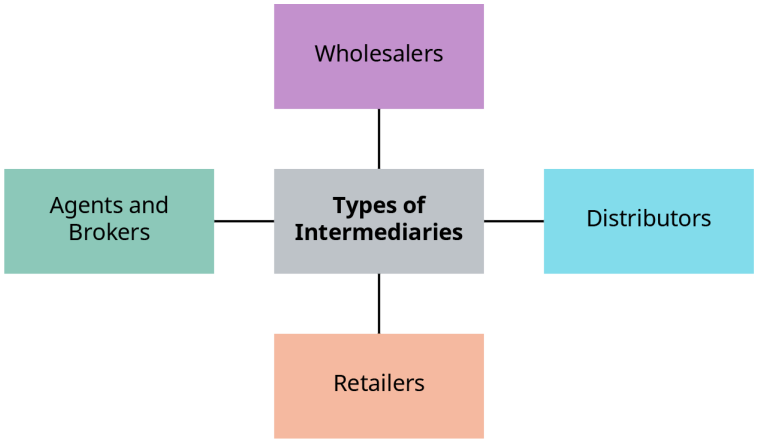

Figure 17.2 Types of Intermediaries (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

An **agent** or broker is someone who acts as an extension to the manufacturer. While they never take possession of the product or service they represent, they earn a commission or collect a fee for facilitating the transaction between the customer and the manufacturer. Auto insurance agents, for example, may sell Geico or Allstate auto insurance policies to consumers. The agent serves as a representative who answers questions, gathers information, and provides a quote on behalf of the insurance company.

A **distributor** takes ownership of the product and tends to align itself closely with a manufacturer. For example, Coca-Cola uses distributors who contract to distribute only Coca-Cola products, not PepsiCo products.

Wholesalers are similar to distributors in that they take ownership of products; however, they buy a variety of products in large quantities and bulk-break for the purpose of distributing an assortment of products to retailers in a quantity aimed at meeting the needs of end users or consumers. Let's examine how the different types of intermediaries depend on one another. AstraZeneca manufactures prescription medications that are made available to consumers by way of pharmacies such as CVS and Walgreens. Pharmacies are retailers in the marketing channel because they sell a wide variety of consumer products, from toothpaste to milk to medications.

Before AstraZeneca's medications reach retail pharmacies, they are purchased in bulk by wholesalers who partner directly with AstraZeneca. Wholesalers are an integral part of the marketing channel because they package and handle medications and manage the logistics of delivery to retail pharmacies. This creates value for the customer in that the right quantity of medications arrives at retail pharmacies safely and in good condition.

The fourth type of intermediary is the **retailer**. Retailers also take ownership of the product, and their sole focus is on reaching the end user or customer directly. They purchase a wide variety of products in smaller amounts that meet the wants and needs of consumers. Retailers include companies like Rite Aid, Walmart, Target, and Hallmark.

Intermediary Functions

The intermediaries' role is critical, and they perform a variety of functions (as shown in Table 17.1) that create value for other members in the marketing channel.

Intermediary Functions
Transactional: Buying, selling, and temporary risk-bearing
Logistical: Handling, packing, inventorying, and transporting
Facilitating: Financing and information sharing

Table 17.1 Intermediary Functions

Let's examine the three functions: transactional, logistical, and facilitating.

Transactional Functions

Intermediaries perform a variety of transactional functions that improve the efficiency of the channel. **Transactional functions** involve the buying, selling, and risk-bearing that accompany the movement of products along the marketing channel. Companies share the risk of ownership by temporarily possessing products before selling them to another channel member.

Imagine if a small bakery made the best oatmeal raisin cookies and decided to distribute them to consumers using local restaurants in the city. The bakery sells to the restaurant, who then sells to the customer. Temporary risk-sharing, in this scenario, means that at first the bakery assumes the risk in the making, storing, and transporting of the cookies, but that risk transfers to the restaurant once the restaurant buys the cookies. The restaurant then assumes ownership and responsibility for selling the cookies, which may involve placing them someplace customers can see them.

The transactional functions of buying, selling, and risk-bearing help add value in the marketing channel because the system allows for channel members to work together to move a product offering to consumers in an efficient and effective way.

Logistical Functions

In addition to transactional functions, intermediaries also perform **logistical functions**, which involve handling, packing, inventorying, transporting, warehousing, and ensuring the security of products as they make their way to the customer. In the earlier bakery example, the bakery must ensure the cookies are fresh and tasty in order to continue supplying restaurants with a product that consumers desire. In order to ensure that cookies meet the wants and needs of customers, both the bakery and the restaurant must ensure the product is handled safely in the marketing channel. That might mean selecting a trucking company that secures the cookies during transport to restaurants as well as packaging them so that freshness is sealed and quality is maintained.

Facilitating Functions

In addition to transactional and logistical functions, intermediaries also help in the facilitation of the purchase of products and services. **Facilitating functions** involve activities such as financing and sharing information with members of the marketing channel. Intermediaries may provide financing to one another and to the end user to help move the product along the channel. Financing involves one channel member allowing another channel member to pay over time.

In the bakery example, pretend that the restaurant purchases $12,000 in cookies each year. Instead of the bakery requiring the restaurant to pay for the order in full at the beginning of each year, it allows the restaurant to pay $1,000 a month over a 12-month period. This benefits the restaurant in that a large amount of capital isn't tied up in its cookie order payment but instead is spread out over time. While some companies require payment in full, others permit payment installments over time. The terms of payment are explicitly

stated at the start of the buying and selling relationship between companies.

Intermediaries also share information that can be used to improve marketing decisions. Intermediaries often share key data such as consumer feedback on a product or service, the shopping behavior surrounding that product or service, and historical purchase trends. The facilitating functions that intermediaries perform ultimately help marketing channel members make better distribution decisions and, in some cases, financially support the movement of these products and services in the name of delivering value to customers.

How Intermediaries Add Value to Customers

Intermediaries play a critical role in adding value to customers. They specialize in aspects of distribution that manufacturers don't wish to specialize in. They create efficiencies in the marketing channel by reducing transactions, sharing important information among partners, and matching the right quantity of the right product to customer demand. While manufacturers focus on creating value for customers, intermediaries focus on delivering that value.

Dove manufactures millions of units of body wash, bar soap, dry spray antiperspirant, and hair products. In turn, it sells large quantities of these products to wholesalers, who after buying in bulk, break these large quantities down into smaller assortments that are then sold to retailers. This allows consumers to buy a variety of products in smaller amounts. They can visit a Target, a CVS, or the Amazon website and purchase three bars of soap, one bottle of shampoo, and one bottle of conditioner.

Without intermediaries, customers would need to buy directly from every manufacturer producing the desired product. Imagine grocery shopping without intermediaries. Instead of shopping at one or two grocery retailers for bread, milk, cereal, fruit, and ice cream, shoppers would need to buy from individual manufacturers, making shopping extremely time consuming and difficult.

Intermediaries add value by reducing the number of transactions between companies and customers. As illustrated in Figure 17.3, there are nine transactions without intermediaries and five transactions with the use of intermediaries. Consider the inefficiencies if companies had to directly transact with individual consumers.

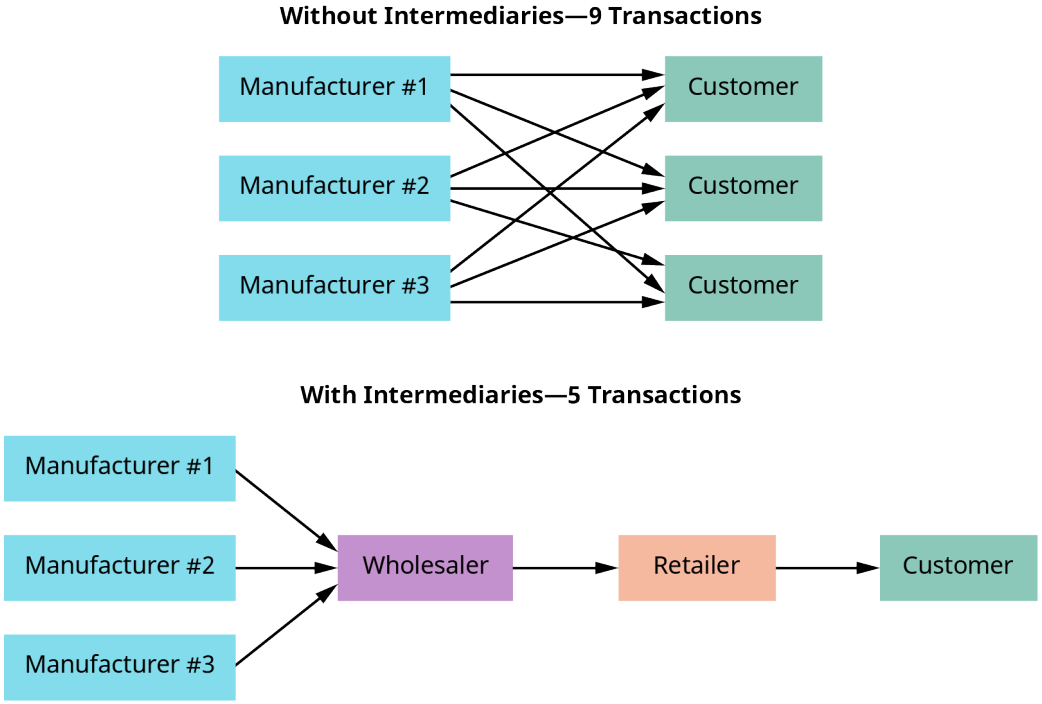

Figure 17.3 How Intermediaries Add Value by Reducing Transactions (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Providing Needed Information about Products and Services

Intermediaries share pertinent information about the products and services that move through the distribution channel. More specifically, intermediaries gather, analyze, and communicate information to other distribution partners to improve the effectiveness and efficiency of the channel. This flow ultimately helps marketers plan and optimize the distribution channel so that consumers get the right products and services at the right place and at the right time.

Adjusting for Discrepancy of Quantity

As intermediaries move products and services from manufacturers to consumers, they offer the valuable service of accumulating and bulk-breaking. **Bulk-breaking** is when an intermediary takes a large quantity of a manufacturer's product and breaks it down into smaller units to be distributed to retailers based on the consumer demand. Consumers desire to purchase in smaller quantities from retailers. Wholesalers buy in bulk from producers and break the bulk into the right size quantity for retailers, who ultimately meet the needs of consumers who want an assortment of products in small quantities.

Accumulating relates to intermediaries buying in bulk from different manufacturers. When buying in bulk, it is beneficial to the manufacturers because the risk is passed from manufacturers to intermediaries. The United States produces hundreds of millions of bushels of apples, oranges, and peaches each year.[2] These types of produce require different types of climates and care and are therefore grown in different states across the country. Wholesalers play a critical role in buying an assortment of this product in bulk from these producers and ensure that they are sold to retailers in the right quantity to meet the needs of consumers.

Together these activities allow intermediaries to offer retailers the right number of products to offer consumers, based on demand.

Adjusting for Discrepancy of Assortment

Intermediaries also add value by adjusting for the discrepancies of assortment between the manufacturer and the consumer. Discrepancy of assortment is the difference between the variety of products that a manufacturer produces and the variety that consumers want to purchase. **Adjusting for discrepancy of assortment** occurs when an intermediary buys from manufacturers, then regroups products into different assortments based on what consumers are demanding from retailers.

While manufacturers generally produce large quantities of one or a few types of products, consumers demand small quantities of an assortment of products. For example, when visiting the grocery store, consumers demand an array of different products in small quantities. Depending on the size of their household, consumers are generally shopping to meet the needs of one or a few people; therefore, they value the ability to buy a variety of products in smaller quantities. Intermediaries mitigate these differences by matching supply assortment to demand assortment.

Providing Credit to Customers

Intermediaries also provide credit to customers. Consumers can hardly check out at a cash register without being asked if they would like to sign up for a credit card. By extending credit to customers, retailers from Dick's Sporting Goods to furniture retailer Wayfair give customers the chance to spend now and pay over a period of time with interest.

While providing credit to customers is often accompanied by special email offers and direct mail coupon codes, the corresponding interest rates are often high. Nevertheless, providing credit to customers can create brand loyalty and provide retailers with insight into consumer purchases.[3]

CAREERS IN MARKETING



Distribution Management

Distribution managers determine when, where, and how much of a product is distributed. Learn more about the job role and what it entails in this video.

What is Distribution Management? (https://openstax.org/r/whatisdistributionmanagement)

Michigan State University provides insightful information (https://openstax.org/r/distributionmanagerdirector) on this career, including a sample job description, roles and responsibilities, salary, education, and training. When looking at your skill development and what you may need in order to obtain a job, check out ZipRecruiter's website. It indicates that while there are several skills needed in this job role, compliance and customer service are the most common. Read more about the needed skills (https://openstax.org/r/resumekeywordsandskills) on the Zip Recruiter website.

Knowledge Check

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

1. A(n) _____ is a group of people, organizations, processes, and activities that work together to deliver products and services to the consumer.
   a. wholesaler
   b. manufacturer
   c. intermediary
   d. marketing channel

2. A(n) _____ is someone who acts as an extension of the manufacturer. While they never take possession of the product or service they represent, they earn a commission or collect a fee for facilitating the transaction between the customer and the manufacturer.
   a. retailer
   b. wholesaler
   c. distributor
   d. agent

3. Without intermediaries, the number of transactions between the total number of manufacturers and the total number of consumers would _____.
   a. decrease
   b. stay the same
   c. increase
   d. decrease temporarily

4. What do intermediaries do to add value in the marketing channel?
   a. They perform important activities that manufacturers are not experts at performing.
   b. They increase the price of products and services for customers.
   c. They increase the amount of time it takes for products and services to reach consumers.
   d. They make improvements to the product so that it functions better.

5. As intermediaries move products and services from manufacturers to consumers, what key services do they offer?
   a. Pricing and promoting across geographical areas

b. Surveying customers to ensure they are satisfied with their product or service experience
c. Competing with one another to reduce prices for consumers
d. Accumulating, bulk-breaking, adjusting for assortment discrepancies, and providing financing

17.2 Types of Marketing Channels

Learning Outcomes

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

LO 1 Identify the types of marketing channels that exist for consumer products.
LO 2 Describe the types of marketing channels that exist for business/industrial products.
LO 3 Discuss vertical, horizontal, multichannel, and omnichannel marketing systems.

Types of Marketing Channels

When determining the most effective and efficient way to reach consumers with products, companies have two options. Companies can either sell and distribute their products directly to consumers, known as a **direct channel**, or they can partner with intermediaries who can assist with the distribution, known as an **indirect channel**.

Direct Channel: From Producer to Consumer

In some cases, manufacturers decide that a direct marketing channel makes sense. A **direct marketing channel** does not use intermediaries but rather involves the manufacturer distributing its market offering directly to consumers. When consumers purchase pizza from their locally owned and operated pizza shop, the distribution of that pizza passes from the restaurant directly to the consumer. There are no intermediaries between the pizza shop and the customer.

Indirect Channels: From Producer to Intermediary to Consumer

An indirect channel involves the utilization of one or more intermediaries to distribute a market offering to consumers. Continuing with our pizza shop example, if a local pizza shop offered pizza that was delicious enough to package, freeze, and sell through local grocery stores in the frozen food aisle, that pizza shop would be adding an indirect channel of distribution.

In some cases, manufacturers or producers sell to retailers without the use of wholesalers or distributors, called the **producer to retailer to consumer channel**. A local Ace Hardware, for example, sells fishing lures made by the local scout troop. The troop purchases the supplies necessary to make the lures then sells them to Ace Hardware, which sells them to customers.

With producer to wholesaler to retailer to consumer—a more complex marketing channel—multiple types of intermediaries are needed. Procter & Gamble, the maker of Crest, Gillette, and Pampers, relies on an intricate network of intermediaries composed of wholesalers and retailers that work interdependently to ensure the right mix and quantity of products reach consumers. Consider all the places a consumer can purchase Procter & Gamble products all over the world.

For some industries, the distribution network is complex, and agents represent the manufacturer in marketing channel negotiations. Health insurance agents, for example, represent major insurance carriers such as Aetna and Blue Cross by providing consumers with information about health plans in their state. In these situations, the agent does not take ownership of the product like other intermediaries but rather is paid a fee by the insurance carrier.

For companies with a diverse product category that spans the globe, indirect channels of distribution make the most sense. Procter & Gamble sells hundreds of different products across many product categories worldwide. Indirect channels are necessary in such cases. Figure 17.4 illustrates the difference between a direct and indirect channel of distribution for consumer products.

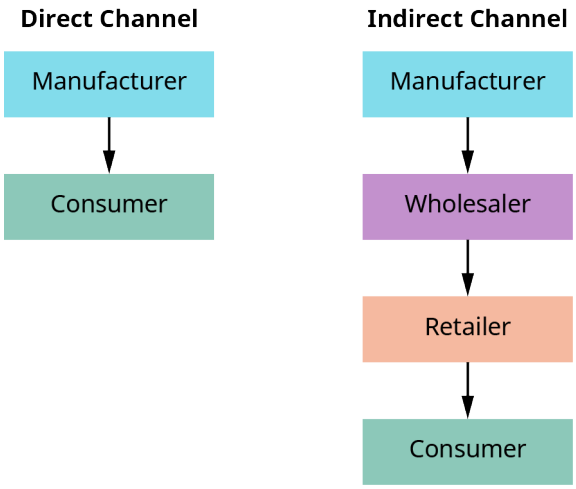

Figure 17.4 Channels of Distribution for Consumer Products (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Marketing Channels for Business/Industrial Products

The **business-to-business (B2B)** market is comprised of companies who buy from and sell to other companies. In the B2B space, businesses are not distributing to final consumers but rather to other businesses. Companies in the B2B market buy, sell, and use materials, resources, and technology from one another to create products, where a business is the final consumer or destination.

Within this market, there are agents, brokers, distributors, and wholesalers who specialize in moving industrial products along the marketing channel to the final business consumer. Figure 17.5 illustrates an example of a distribution channel for business products.

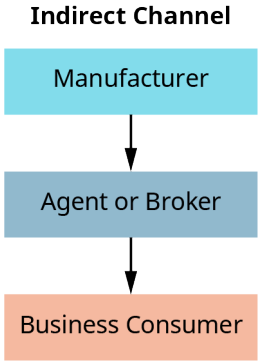

Figure 17.5 Channel of Distribution for Business (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Direct Channel: From Producer to Business/Industrial User

Much like the **business-to-consumer (B2C)** space, when a company sells products or services directly to a final consumer or end user, the B2B marketing channel can be direct without the use of intermediaries. The direct channel is typically used when the nature of the product is complex, is expensive, or requires intensive resources to move the product from the manufacturer to the business customer. Airplane manufacturers like Boeing and Airbus produce and sell aircraft directly to airlines like Delta Air Lines and American Airlines, who then offer flights to consumers. Given the expense and complexity of distributing airplanes, the direct channel makes the most sense.

Indirect Channels: From Producer to Intermediaries to Business/Industrial User

Industries often rely on the expertise of intermediaries to reach business users with their products and services. The advantages of the indirect channel in the business-to-business (B2B) space are similar to those in the business-to-consumer (B2C) space. For some industries, intermediaries perform important functions along

the business marketing channel that they themselves are not experts in. Let's explore the different indirect marketing channels.

With producer to industrial distributor to business/industrial user channels, car manufacturers like Toyota and Honda rely on tens of thousands of different parts, which are manufactured by parts producers. **Producers** are companies that supply the raw materials that manufacturers need to create consumer products. Parts producers such as the car seating and E-Systems engineering company Lear rely on distributors to move their products and technology to automobile manufacturers. Using a distributor allows Lear to focus on its center of excellence—researching, designing, and building innovative seating technology solutions for vehicles.

Agents in the B2B space represent companies who produce industrial products and services and serve as an intermediary between the producer and the business user. The value of the agent is similar in the B2B space as it is in the B2C space. Agents add value by addressing product- or service-related questions and concerns. They typically earn a commission or a fee off the sale of the industrial product.

For more complex industrial marketing channels with global business users, producers will work with agents who partner directly with distributors to move products. For example, the automobile industry relies on agents and distributors to reach business users. According to Global Fleet, the largest fleet vehicle management company in the world, of the 313 million vehicles driven in the United States and Canada, about 9 million are corporate cars.[4] Element Fleet Management, based out of Toronto, Ontario, manages corporate vehicle fleets across the United States, Canada, and Mexico. Companies whose operations reach global markets typically rely on a much more complex channel that involves multiple layers of intermediaries to distribute products and services to business customers.

Other Marketing Systems

Manufacturers or producers along with their intermediary channel partners work in a system to move products and services to consumers. There are four major system types: a vertical marketing system, a horizontal marketing system, a multichannel marketing system, and an omnichannel marketing system. We'll explore each of these systems next.

Vertical Marketing System

A **vertical marketing system** (VMS) is a system in which companies in the marketing channel work together in a coordinated, collaborative, and customer-centric way. Unlike conventional systems, vertical marketing systems are less concerned with their profit margins and have a laser-like focus on working together to deliver value to consumers.

A VMS is unique in that all members of the marketing channel work as one unified group. Producers, wholesalers, and distributors share the common goal of creating and delivering value to consumers. In contrast, a conventional system is one in which each intermediary works as a distinct company, each trying to maximize profits at the expense of other channel members. VMS has grown in popularity over the conventional system because it results in fewer channel conflicts and increased customer value.

LINK TO LEARNING



Marketing Systems

To learn more about how marketing systems work, check out these videos:

- What Is a Channel System?
  Marketing - What is a Channel System? (https://openstax.org/r/whatisachannelsystem)
- What Is a Vertical Marketing System?

Marketing - Vertical Marketing System (https://openstax.org/r/whatisaverticalmarketing)

In Figure 17.6, observe the structural differences between the conventional marketing system (part A) and the vertical marketing system (part B). In the conventional model, the manufacturer sells to wholesalers, who then sell to retailers, who then sell to consumers. In the vertical marketing system, channel members are working together as strategic partners to distribute products to consumers.

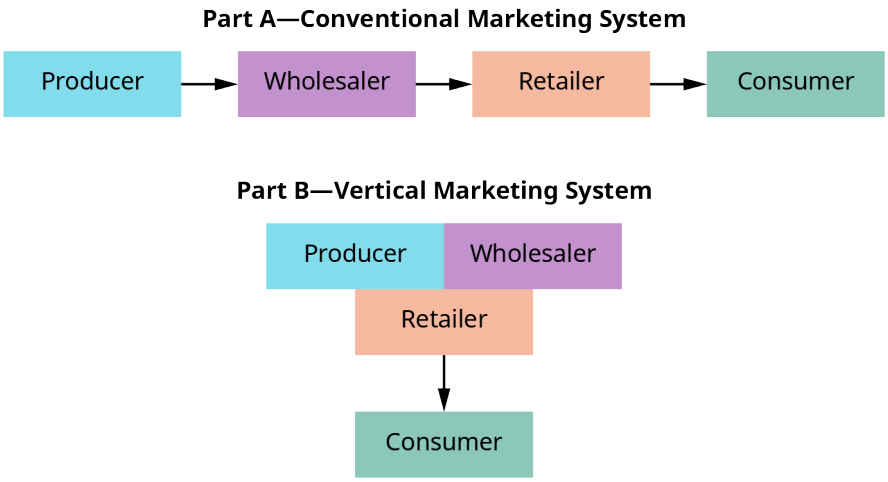

Figure 17.6 Structural Differences between Conventional and Vertical Marketing Systems (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

There are three types of vertical marketing systems: corporate, administered, and contractual (see Figure 17.7). In a **corporate VMS**, one member of the distribution channel owns the other members. For example, Walmart manufacturers its own private label brand of beauty and health products under the name Equate. Walmart not only controls the manufacturing of products under the brand but also owns and operate the wholesaler that distributes Equate-branded products to Walmart stores all over the world. Walmart reduces risk by owning and thus controlling the various channel members in its VMS. The corporate VMS approach allows for a unified system of creating and delivering customer value.

In an **administered VMS**, there is no ownership of channel members. However, there is one member who is large and powerful enough to coordinate and manage the distribution activities of other channels members. For example, Procter & Gamble manufacturers 65 brands in over 10 product categories. Given its size and power, it requires a high level of cooperation among wholesalers and retailers.

In a **contractual VMS**, there are independent companies that have joined together by contract for a mutually beneficial purpose. Each company operates independently of the others but integrates its activities to achieve its goals. An example of a contractual VMS is a franchise organization, such as Chipotle or McDonald's, in which the companies contract with a wholesaler to distribute products to the franchisees.

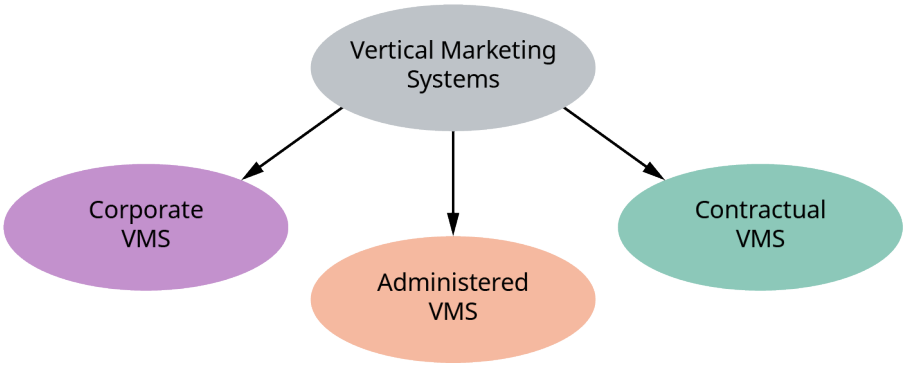

Figure 17.7 Types of Vertical Marketing Systems (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Horizontal Marketing System

In a **horizontal marketing system**, unrelated companies partner to offer products and services in a shared space. For example, J.Crew and New Balance have partnered together for the last decade to sell a unique line of New Balance–branded sneakers that can only be found on J.Crew's website. In a horizontal system, companies partner to leverage the value they create for customers in a collaborative way.

Multichannel Marketing System

A **multichannel distribution system** is where a single company sets up multiple distribution channels to reach customers. For example, Nike has brick-and-mortar stores across major cities. Customers can visit the store, try on shoes and apparel, and make a purchase. In addition to physical stores, Nike also distributes its shoes and apparel through its online store Nike.com, through e-tailers like Amazon.com, and through other brick-and-mortar stores like Kohl's and Foot Locker.

Omnichannel Marketing System

An **omnichannel marketing system** is a multichannel approach whereby companies give consumers a variety of ways to purchase, receive, and return products. For example, in addition to purchasing products online and in-store, Dick's Sporting Goods offers customers a variety of options for receiving a product. Consumers can buy online and pick up in-store. They can also buy online from one of the store's kiosks and have it delivered to their home or some other location. Omnichannel marketing systems are designed to offer consumers a seamless buying experience, which further creates and delivers value.

LINK TO LEARNING

Omnichannel

To learn more about an omnichannel marketing system, check out these videos:

- Ted Talk: Omnichannel: Retail (R)evolution
  Omnichannel: Retail (R)evolution | Kilian Wagner | TEDxHSG (https://openstax.org/r/retailrevolution)
- Teredata: Omni-Channel Retailing
  Omni-Channel Retailing (https://openstax.org/r/omnichannelretailing)

Knowledge Check

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

1. A(n) _____ marketing channel does not use intermediaries but rather involves the manufacturer

distributing its market offering directly to consumers.
a. indirect
b. direct
c. omnichannel
d. multichannel

2. A(n) _____ marketing channel partners with intermediaries including distributors, wholesalers, agents, or retailers to sell and distribute its products.
a. omnichannel
b. indirect
c. multichannel
d. vertical channel

3. In the B2B or industrial space, manufacturers or producers sell products and services aimed at reaching a(n) _____ end user.
a. consumer
b. agent
c. business
d. wholesaler

4. In a(n) _____, one member of the distribution channel owns the other members.
a. administered vertical marketing system
b. corporate vertical marketing system
c. horizontal marketing system
d. multichannel marketing system

5. What is the difference between multichannel and omnichannel marketing systems?
a. Multichannel marketing systems are designed primarily for online distribution.
b. Omnichannel marketing systems are designed primarily for in-store distribution.
c. Omnichannel marketing systems are more flexible and seamless in how consumers can buy and receive products and services.
d. Multichannel marketing systems are more flexible and seamless in how consumers can buy and receive products and services.

17.3 Factors Influencing Channel Choice

Learning Outcomes

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

LO 1 Identify the factors that influence channel choice in distribution.
LO 2 Describe the different types of target market coverage.
LO 3 Discuss the buyer requirements influencing channel choice.
LO 4 Explain the product-related factors influencing channel choice.
LO 5 Describe the cost factors influencing channel choice.

Target Market Coverage

Target market coverage is defined as having the resources and capabilities to reach and serve consumers in a company's target market. Companies of all sizes must determine precisely how they will reach consumers with their products and services. Smaller companies tend to focus on smaller, more local markets, while larger companies must meet the consumer demand of larger, even global markets. A company's decision about which channel is best for meeting the needs of consumers involves a number of considerations.

The first factor that plays an important role in channel choice is target market coverage. Companies must

analyze the size of their target market and their budget and ensure they have the appropriate coverage. For example, a small local bakery may only target towns in its area; therefore, its target market coverage is rather small. Kohlberg & Company, the owner of the Sara Lee and Thomas' brands, on the other hand, reaches global consumers and therefore requires far greater market coverage.

Depending on the size of their target market and the products and services they sell, companies must decide between an intensive, selective, or exclusive distribution strategy.

Intensive Distribution

Intensive distribution is a strategy that entails distributing a company's market offering through all possible intermediaries. With an intensive distribution, a consumer is able to find a company's product virtually everywhere. Intensive distribution makes sense for products that compete in a competitive market where consumers can easily choose an alternative if a company's product isn't available.

Coca-Cola and Kraft, for example, use intensive distribution so that consumers around the world can access their products everywhere and anywhere they'd shop for food and beverages.

Selective Distribution

Selective distribution is a strategy that includes choosing more than one, but fewer than all possible intermediaries to distribute a company's market offering. Companies choose selective distribution when they don't need the expansive coverage that intensive distribution provides but still need to reach their target market at specific retail outlets. Large appliance companies such as Whirlpool and General Electric use selective distribution by making their products available through their dealer networks and at selective large retailers like Lowe's and Home Depot.

Exclusive Distribution

In direct contrast to an intensive distribution strategy, some companies intentionally use an exclusive distribution strategy. **Exclusive distribution** is a strategy that involves allowing a limited number of intermediaries to distribute a company's market offering. Luxury brand Rolex, for example, allows a limited number of retailers to sell its luxury watches. The exclusivity of these retailers reinforces Rolex's distinctive position of being a luxurious, hard-to-get brand.

Fulfillment of Buyer Requirements

In addition to determining target market coverage, companies must also consider a channel's ability to fulfill the requirements of buyers. Consumers have specific product and service expectations that must be fulfilled in order to satisfy their wants and needs. For example, when consumers purchase bottled water, they expect the bottle to be filled to the top, the cap to be sealed before opening, and the water to taste fresh and clean. With these buyer requirements in mind, companies who make bottled water must ensure that they work with channel members who are able to fulfill these buyer requirements because these requirements are critical to the perception of consumer value.

Information

Companies who recognize that buyers require information to make a decision between competing products may work with channel members who can provide these services. Consumers with limited knowledge of a product, for example, may be more likely to purchase that product after an in-store demonstration, for example. Grocery retailers like Whole Foods will often host in-store demonstrations of new food products for shoppers to sample (see Figure 17.8). Providing this service makes Whole Foods a desirable channel partner for start-up food brands looking to break into a highly competitive market. In another example, Ace Hardware may be a perfect channel partner for a new brand of tools because of Ace Hardware's reputation for being "the helpful place." Working with a channel member who can provide the service of in-store demonstrations creates value for the consumer and thus is a factor in determining channel choice.



Figure 17.8 Whole Foods uses in-store demonstrations as a way to share product information with consumers. (credit: "Whole Foods Market Ann Arbor" by Andypiper/flickr, CC BY 2.0)

Convenience

In some cases, buyers demand convenience and will only purchase products and services that are in close proximity to where they live, work, or shop. Companies must consider whether their target customers value convenience. For example, buyers shopping for chewing gum likely value convenience much more than buyers shopping for skis. Companies whose buyers require convenience should choose retail outlets that are convenient and hassle-free.

Variety

Companies must also consider how their target market values variety. Imagine walking into a pet supply store and only seeing one type of pet food. Buyers generally have a desire to choose from a variety of competing products. Petco and PetSmart recognize that consumers appreciate variety in everything from pet food to pet supplies such as toys, leashes, and bedding. For companies who compete in a crowded market where buyers have many options, selecting outlets that offer a variety of similar and competing products makes the most sense.

Pre- or Post-Sale Service

Pre-sale service entails all the activities that help a buyer make a purchase decision, while **post-sale service** entails all the activities that help a buyer recognize the value of the product. A pre-sale service can be observed at a car dealership where shoppers are invited to test-drive a vehicle and apply for financing. Post-sale service in this same example would be the offering of vehicle services, such as free oil changes and tire rotations for the life of the vehicle.

For some companies, the service that's provided before and after the sale is critical to customer-perceived value. **Customer-perceived value** is the overall perception that a consumer has about a company, brand, or product and is measured by what the consumer is willing to pay in return for the features and benefits in the market offering. Companies that sell large appliances and furniture, for example, understand that consumers value haul-away services. For example, for an additional fee, Lowe's offers customers the option of having their old appliance hauled away and their new appliance installed. These complementary services are important because they add value to the customer's product experience (see Figure 17.9).



Figure 17.9 Lowe's appliance haul-away program provides a post-sales service as a value-add item to influence potential consumers. (credit: "Show-Me Green Tax" by Rachel Gleason/KOMU News/flickr, CC BY 2.0)

Product-Related Factors

In addition to target market coverage and requirements of the buyer, there are product-related factors that can influence channel decisions. Product-related factors include things like unit value, perishability, and the bulk and weight of a product. These factors can influence the distribution decisions that companies make (see Figure 17.10).

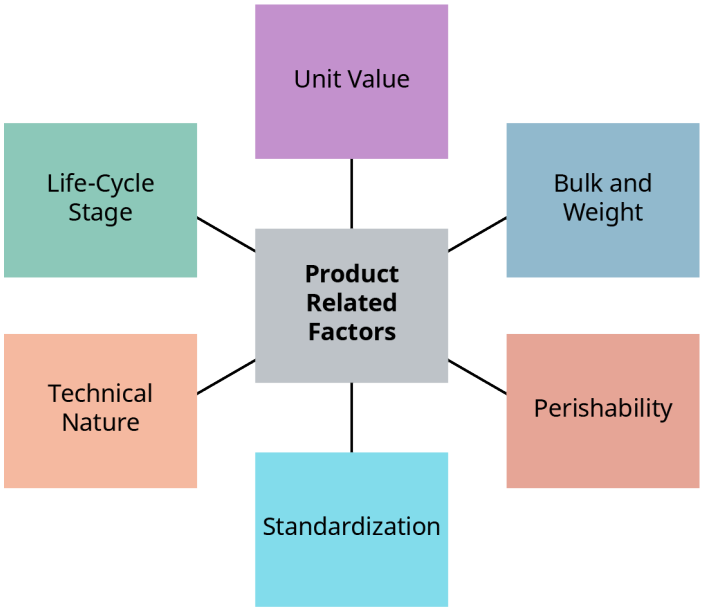

Figure 17.10 Product-Related Factors (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Unit Value

A product's **unit value**, or the price that a company charges for one unit or item, can influence channel length decisions. **Channel length** relates to the number of intermediaries in the marketing channel. For example, products with high unit values, such as cars, boats, and airplanes, will have a much shorter distribution channel than nonperishable products, such as crackers, bandages, and tissues, which have a low unit value. Because of the complexities and costs of moving heavy or awkward products, companies seek a shorter distribution channel to mitigate these factors. There are companies that specialize in moving more expensive and complex products.

Perishability

Perishability relates to the likelihood that a product will spoil, decay, or expire if not used in a timely manner. A product's perishability also influences channel decisions. For example, orange-juice maker Tropicana's marketing channel looks much different than Nabisco's Ritz Crackers' channel. Because orange juice must be kept cold throughout the distribution process, Tropicana makes channel decisions that allow it to protect the integrity of the product throughout the distribution process. Working with channel partners who are experts at storing, handling, and moving perishable products is one of the most important factors for companies who manufacture perishable products.

Alongside unit value, perishability can also influence channel length. Companies marketing perishable goods such as milk, cheese, and meat products require a shorter distribution channel because these products have a limited shelf life.

Bulk and Weight

Much like a product's unit value, the bulk and weight of a product influence channel length. The **bulk and weight** of a product is the density and heaviness of one unit of product. Companies that sell larger and heavier items are more likely to use a direct or short distribution channel to avoid issues that arise when too many intermediaries handle a product. For example, because hot tubs or personal spas are bulky and heavy, they are more prone to product damage during distribution. Furthermore, there are typically fewer intermediaries between the manufacturer and the customer in order to mitigate the high costs associated with distributing hot tubs.[5]

Standardization

The standardization of a product also impacts channel decisions. Products that are **standardized** have no differences in how they are manufactured. Standardized products are uniform and consistent. Agricultural products, such as grain and corn, are standardized. Consumers are unable to tell the difference between these products because of their standardization. Standardized products have a longer channel length than customized products. Customized products are adapted depending on the customer's needs. They typically require a shorter distribution channel. Companies must consider the impact of standardization before making channel decisions.

Technical Nature of a Product

Products sold in the tech space are typically more complex and often require an onboarding process. For example, the customer-relationship management firm Salesforce offers companies a cloud-based application that allows it to manage millions of contacts or people as they move along the sales cycle from lead to prospect to customer. Products with a technical component often have a short channel length, meaning there is no intermediary between the company and the business consumer. They are distributed directly to business consumers (or B2B) because of the onboarding, implementation, training, support, and maintenance aspects of the product. Companies that use Salesforce have access to a customer relationship management expert who ensures that the program is being used and managed effectively in order for the customer to get the most out of the product.

Product Life-Cycle Stage

A product's life-cycle stage may also impact channel decisions. **Product life cycle** refers to the various stages that a product goes through from its introduction phase, to its growth and maturity phase, and in some cases to its decline phase. For example, during the introduction phase of a product's life cycle, where profits and consumer knowledge of a product are low, companies may make more conservative channel decisions. As the product enters the growth stage, companies may expand distribution to meet consumer demand. As the product enters the maturity stage and ultimately the decline state, a company must ensure that its distribution strategy aligns with its changing consumer demand.

Profitability

The profitability of a channel can also influence channel decisions. Profitability relates to the amount of money that stands to be gained after a company pays its expenses. A simple way to calculate profitability is to subtract these expenses from the revenue generated.

Companies must evaluate not just the revenue generated by working with channel partners but also the channel member's ability to operate profitably. Channels that are not able to manage distribution costs effectively are less attractive for companies seeking to earn a profit. Companies ultimately have an obligation to be profitable, and choosing channel partners that help them achieve their overarching goals is more desirable than those who cannot.

Knowledge Check

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

1. Which of the following overarching factors can impact channel choice in the distribution of products and services?
   a. Target market coverage, fulfillment of buyer requirements, and profitability
   b. Intensive, selective, and exclusive distribution
   c. The technical nature of the product and its fixed and variable costs
   d. The profitability of the channel and its members' abilities to meet consumer needs

2. ABC Toys desires to distribute products across global markets. It is likely using what type of distribution strategy?
   a. Exclusive
   b. Selective
   c. Unlimited
   d. Intensive

3. Total Appliance offers buyers installation services for refrigerators, dishwashers, washers, and dryers for $50. In addition, it also offers buyers a free annual tune-up of any major appliance purchased through its retail outlet. Which buyer requirement does Total Appliance fulfill?
   a. Variety
   b. Post-sale service
   c. Pre-sale service
   d. Convenience

4. MilkyIce markets ice cream products through grocery retailers in the United States. Which of the following product-related factors would have the biggest impact on MilkyIce's channel choice?
   a. Standardization
   b. Bulk and weight
   c. Perishability
   d. Unit value

5. Which overarching factor involves analyzing the revenues and costs associated with a channel?
   a. Unit value
   b. Fixed costs
   c. Variable costs
   d. Profitability

17.4 Managing the Distribution Channel

Learning Outcomes

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

- LO 1 Describe how channel members are selected.
- LO 2 Explain how channel members are managed and motivated.
- LO 3 Discuss how channel conflict is handled.
- LO 4 Summarize the metrics used for channel member evaluation.

Selecting Channel Members

After a manufacturer has evaluated its distribution channel options, it now needs to select the right channel members and manage and motivate them to operate effectively and efficiently. In addition, the manufacturer must also address any conflicts that may arise in the marketing channel. A **channel member**, also known as an intermediary, is a company that works in a network with other companies to help move products from manufacturers to final consumers. Channel members perform a variety of important tasks that collectively create value for the consumer.

The channel members that a company selects depends entirely on the company's evaluation of the channel member alternatives. Manufacturers should examine each channel member's years in business and experience carrying product lines. They should also evaluate each member's reputation and its profitability. PetVivo, maker of biomedical devices for pets, selected Vetcove to distribute a device for pets with osteoporosis. Because PetVivo needed to reach veterinary hospitals and clinics across all 50 states, Vetcove was the right choice because of its experience serving over 13,000 veterinary hospitals and clinics. Its expertise and reputation were attractive characteristics for PetVivo.[6]

Managing and Motivating Channel Members

After channel members have been selected, manufacturers must continuously manage and motivate members to work together to achieve their collective goals. It's similar to a partnership or relationship where companies depend on one another to marshal the product along the marketing channel.

The qualities of an effective channel relationship include collaboration, transparency, and cohesion. When members work together toward a common goal of delivering value to the consumer, the channel is more effective. Companies like L'Oréal and Procter & Gamble must work harmoniously to build mutually beneficial relationships with their distribution network because it's critical to meeting the needs of their consumers. Failure to do so could be detrimental to channel members if customer value declines because of conflict.

In addition to managing relationships, manufacturers must also find ways to reinforce channel member performance. Manufacturers can provide incentives, such as bonuses and other types of rewards, when channel members meet the manufacturer's goals. In addition to incentives, manufacturers can also listen to and support channel members by providing them with helpful sales materials, product samples, and the right messaging.

Evaluating Channel Members

Manufacturers must systematically evaluate channel member performance to ensure that each member is meeting standards. Failure to evaluate performance can lead to inefficiencies in the channel and a decline in customer-perceived value.

Handling Channel Conflict

Sometimes channel members experience conflict during the distribution process. **Channel conflict** is when companies in the distribution channel have disagreements due to a competitive versus collaborative mindset. For example, a channel member may cause conflict because its focus isn't on creating value but on driving

down costs at the expense of the customer. This could create conflict in the channel if channel partners and ultimately consumers are impacted by an excessive profit orientation.

Vertical Conflict

A **vertical conflict** is a conflict that exists between different levels of a vertical channel. When the goals of manufacturers, wholesalers, and retailers aren't aligned in the marketing channel, the customer will ultimately suffer, either by paying more for a product or experiencing a product shortage.

Disintermediation is the process of removing an intermediary from a marketing channel. It occurs when manufacturers have discovered an opportunity to sell directly to end users or final consumers. It can also occur if a manufacturer pivots from its traditional distribution strategy to something completely different. In a classic example, the birth of Apple iTunes essentially put traditional outlets for purchasing music out of business. In another example, traditional movie theaters are experiencing disintermediation as streaming services like Netflix and HBOMax are releasing new films that 10 years ago would have been released only in theaters.

Horizontal Conflict

A **horizontal conflict** is when there is disagreement among firms at the same level in the marketing channel. For example, Holiday Inn has a variety of locations in New York City. If one Holiday Inn drives its prices down to outcompete its partners, that could cause conflict among the other Holiday Inn locations that perceive it as stealing customers through pricing tactics.

The Use of Metrics in Evaluating Channel Members

In order to evaluate channel performance, companies use key metrics including inventory turnover rate, order accuracy rate, time to ship, total units in storage, and percentage of on-time shipments. By monitoring these metrics, companies can assess their performance and make adjustments as needed. Figure 17.11 presents key metrics used in evaluating channel member performance. Let's look at each of these more closely.

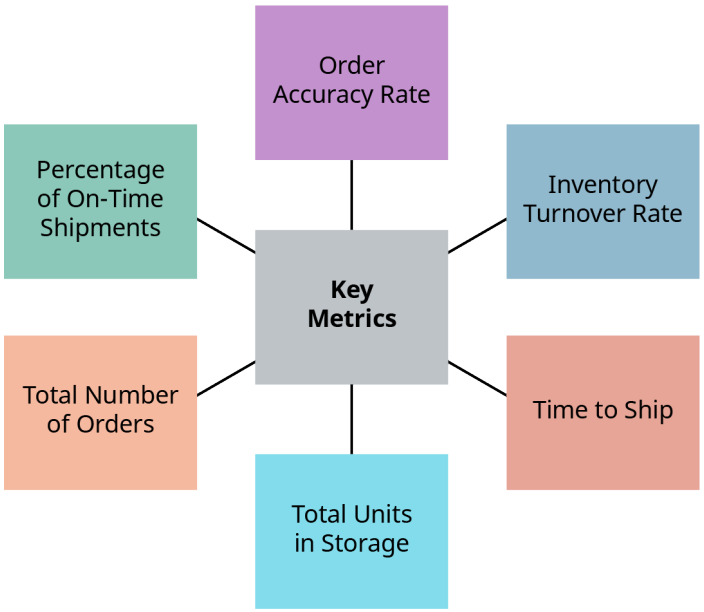

Figure 17.11 Performance Metrics (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Inventory turnover rate is a metric that measures how quickly inventory is turned over or sold. Trader Joe's faced a dilemma with the COVID-19 pandemic as consumers stocked up on nonperishable goods like pasta and rice. As consumer demand increased, Trader Joe's supply warehouses were virtually empty as they waited for new inventory to come in. When metrics fall outside what a company considers normal or acceptable, it can then make adjustments, such as introduce new products to fill demand as in the case of Trader Joe's.[7]

Order accuracy rate is an important ecommerce metric. It measures the percentage of orders that are processed, fulfilled, and shipped to consumers without any errors. If you've purchased a pair of sneakers and the wrong size arrives at your home, this constitutes order inaccuracy. These errors can be costly to companies, who then need to process, fulfill, and send another order.

Time to ship, also known as order cycle time, is the length of time from when a customer places an order to when it reaches them. Amazon has redefined consumer expectations related to shipping. With high expectations that purchased items will arrive quickly, online shoppers say that delivery time influences their purchase decision. The time-to-ship metric is a useful tool to measure how quickly a manufacturer can get its products through channel members to consumers.

Total units in storage is a metric used to evaluate warehouse efficiency. This is a real-time metric that changes as items are sold and leave the warehouse and new inventory moves in. This metric also provides insight into warehousing and inventory costs as well as the number of SKUs, or stock-keeping units, a warehouse is managing at any given time. SKUs are unique numbers assigned to every single product in a warehouse.

The **total number of orders** is an important metric. The total number of orders is the sum of all orders that a company received in a given time period. It provides insight into consumer demand and helps manufacturers to plan accordingly. For seasonal products like winter coats and pumpkin-flavored cookies, the total number of orders may fluctuate throughout the year. Evaluating the total number of orders over time helps manufacturers watch for fluctuations and plan accordingly.

Percentage of on-time shipments is a metric used to evaluate how well a channel member meets its promise of delivering goods on time. This metric is especially important to industries that market perishable goods like meat and dairy. Imagine if the Greek yogurt manufacturer Chobani (see Figure 17.12) worked with an intermediary that only met its delivery date 50 percent of the time. This would directly impact the shelf life of the product at the retail level and cost everyone in the channel money.



Figure 17.12 Percentage of on-time shipments is an inventory turnover metric used by companies like Chobani to evaluate a distribution channel's effectiveness at meeting product need. (credit: "Blood Orange Yogurt" by tbiley/flickr, CC BY 2.0)

Alongside time to ship, measuring average delivery days looks at the average number of days it takes shipping carriers to deliver purchased goods to consumers. This is important to consumers who value the timely delivery of products purchased online. Manufacturers may choose to work with a company like Amazon because of its core competency of fulfilling and delivering products to consumers relatively quickly.

Knowledge Check

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

1. XYZ Appliance is evaluating wholesalers to determine which one would be the right match for its distribution strategy. Which of the following wholesalers would be the best match for XYZ Appliance?
   a. Wholesaler A is brand new to the large appliance market.
   b. Wholesaler B has 20 years of experience in wholesaling food products and is the most expensive.
   c. Wholesaler C has five years of experience in the large appliance market, has a solid reputation, and is profitable.
   d. Wholesaler D has two years of experience in the small appliance market and is the cheapest.

2. DirectDocumentaries is a streaming service that provides subscribers with access to documentaries. It currently works with three production companies that it continuously manages to ensure timely production and delivery of new documentaries. Which of the following scenarios is an example of good channel management?
   a. Production Company A distributes its documentaries through DirectDocumentaries but has also set up an additional domain on the web to distribute directly to viewers. DirectDocumentaries does not know about this additional streaming outlet.
   b. Production Company B has only been operating for one year. DirectDocumentaries is skeptical about Production Company B's capabilities so shares limited information with it. DirectDocumentaries offers little to no support in Production Company B's development.
   c. Production Company C is a powerhouse, producing 30 to 40 documentaries a year. DirectDocumentaries and Production Company C work closely together to ensure that documentary releases occur at strategic times. They also openly share information about what's working and what's not. They have a common goal in reaching customers with innovative ideas.
   d. Production Company D is rarely happy. It feels that DirectDocumentaries favors other producers and rarely features its productions on a subscriber's homepage. Production Company D has complained several times.

3. _____ occurs when manufacturers cut out intermediaries and sell directly to end users or final buyers. It can also occur if a manufacturer pivots from its traditional distribution strategy to something completely different.
   a. Horizontal conflict
   b. Vertical conflict
   c. Intermediary conflict
   d. Disintermediation

4. Which of the following is a key metric that assesses the percentage of orders that are processed, fulfilled, and shipped to consumers without any errors?
   a. Order accuracy rate
   b. Inventory turnover rate
   c. Total number of orders
   d. Average delivery days

5. _____ measures the length of time from when a customer places an order to when it reaches them.
   a. Average delivery days
   b. Time to ship
   c. Inventory turnover rate
   d. Total number of orders

17.5 The Supply Chain and Its Functions

Learning Outcomes

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

- LO 1 Define supply chain management (SCM).
- LO 2 Explain the role of marketing in supply chain management.
- LO 3 Describe the various functions of supply chain management.

Supply Chain Management (SCM) Defined

A **supply chain** is the entire process of distribution from acquiring the raw materials needed to make products to delivering final goods to consumers. Companies with high-performing supply chains recognize that it starts with a customer-centered mindset. All activities must be managed with the end goal of creating and delivering value to the target consumer.

Supply chain management (SCM) is the process of managing all the members and activities from the procurement and transformation of raw materials into finished goods through their distribution to targeted consumers.

The Role of Marketing in Supply Chain Management

Marketing plays an integral role in the management of the supply chain. Marketing entails creating and delivering products that meet the needs of customers all while building relationships through customer engagement. Companies ensure that they deliver on their value proposition to consumers through the features and benefits of the product itself. Ensuring fulfillment of a company's value proposition starts with working with the right suppliers who provide the materials and ingredients to help companies fulfill their promise.

For example, Dave's Killer Bread (DKB) has positioned itself as the maker of "the best bread you've ever tasted, power-packed with organic whole grain nutrition." The promise to consumers starts with selecting suppliers who are certified organic and who can consistently deliver high-quality ingredients. DKB's promise to consumers starts as far back as the grains selected by DKB's suppliers.

Functions of Supply Chain Management

Supply chain management has five major functions. These include purchasing, operations, logistics, resource management, and information workflow (see Figure 17.13). Good supply chains perform these functions in a way that meets the wants and needs of final consumers efficiently.

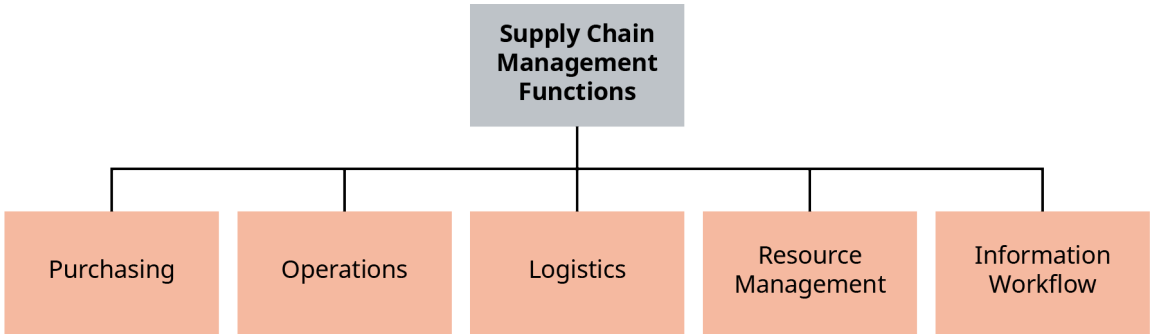

Figure 17.13 The Five Major Functions of Supply Chain Management (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Purchasing

Purchasing is the process of buying materials needed to manufacture products. These materials are purchased from suppliers, who must be able to deliver them in accordance with the manufacturer's timeline.

Therefore, the manufacturer's companies and suppliers must communicate and coordinate to ensure timely delivery of materials.

For example, Ben & Jerry's ice cream flavor Mint Chocolate Chance has cream, skim milk, sugar, egg yolks, white flour, cocoa powder, soybean oil, and vanilla extract, among other ingredients. Ben and Jerry's must forecast the number of ingredients it needs to purchase so that these amounts match the demand for this particular flavor. The company, in turn, assesses things like total number of orders and inventory turnover for its Mint Chocolate Chance product to help forecast the quantity of ingredients it will need from suppliers.

Operations

Operations is everything a company does on a day-to-day basis to run a company. Before a company purchases the needed materials and begins production, it must forecast demand for its products. Forecasting involves anticipating or projecting how many units of a product will be sold during a given period. Accurate forecasting must align with inventory management and production schedules to ensure that the company is operationally positioned to manufacture the right amount of product to meet the needs of consumers.

Logistics

Logistics is a function that involves the coordination of all supply chain activities, such as warehousing, inventory management, and transportation. Companies along the supply chain must communicate effectively to ensure that products reach consumers in a timely and efficient way in the precise form that the consumer expects. For example, when consumers eat McDonald's French fries, they expect the fries to taste a certain way. Suppliers and intermediaries along the channel work together to ensure that those expectations are met. Good logistical management helps ensure this.

Resource Management

Resource management is the planning, organizing, and controlling of resources. Resources include the labor, the raw materials, and the technology that are required to move products from their raw material phase to finished goods available for consumption. Effective supply chain management requires the right allocation of these resources to the right supply chain activities to optimize the entire system.

Information Workflow

Information workflow is a supply chain management function that relates to what and how information moves between members of the supply chain. If information doesn't flow effectively or communication is poor, the entire process can suffer as a result of disruptions, delays, and mistakes. Employing a systematic approach to sharing information across the supply chain ensures that the right companies have the right data to make the right decisions at the right time.

LINK TO LEARNING



Supply Chain Management

To learn more about how supply chain management works, review the following article and video: IBM and Supply Chain Management (https://openstax.org/r/supplychainmanagement).

Knowledge Check

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

1. _____ entails managing all the members and activities from the procurement and transformation of raw

materials into finished goods through their distribution to targeted consumers.
a. Logistics
b. Integrated logistics management
c. Supply chain management
d. Warehousing

2. Which of the following best demonstrates the role that marketing plays in supply chain management?
a. In order for companies to deliver on their value proposition to consumers, they must ensure that the activities and members in the supply chain share the common goal of delivering value to consumers.
b. Companies need to raise the price of their products with the supply chain in mind so that they earn a profit.
c. Companies must market their products to supply chain members in order to win partnership with them.
d. Companies should only work with supply chain members who can save time and money in the distribution of products. Savings are most important to customers.

3. Companies that manufacture goods rely on raw materials to produce the products they sell. This describes the function of _____.
a. inventory management
b. supply chain management
c. transportation
d. purchasing

4. _____ include(s) the labor, the raw materials, and the technology that are required to move products from their raw material phase to finished goods available for consumption.
a. Purchasing
b. Logistics
c. Forecasting
d. Resources

5. _____ is a supply chain management function that relates to what and how information moves between members of the supply chain.
a. Information workflow
b. Forecasting
c. Logistics
d. Resource management

17.6 Logistics and Its Functions

Learning Outcomes

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

LO 1 Define and describe logistics.
LO 2 Explain the functions of logistics.
LO 3 Describe logistics information management.
LO 4 Describe integrated logistics management.
LO 5 Characterize third-party logistics (3PL) providers.

Logistics Defined

An important function of the supply is logistics, which includes all the activities involved in the flow of products from manufacturers to consumers. Logistics is the planning, organizing, and controlling of the movement of raw materials and ultimately finished goods from manufacturers to final consumers.

For example, the logistics involved in getting orange juice to consumers includes a variety of activities, such as packing and transporting. It is critical that there is a coordinated effort between all channel members involved in that process. The functions or purpose of logistics is explored next.

Functions of Logistics

Getting products from manufacturers to final consumers requires the coordinated efforts of all channel members. These efforts require an understanding of key activities that need to occur as products flow through the marketing channel. The major functions of logistics explored next include warehousing, inventory management, and transportation.

Warehousing is the stocking, maintaining, and controlling of products while they await the next step in their journey to the final consumer. Warehousing requires receiving and storing new stock, picking and packing ordered items, and shipping products off to their next destination. Depending on the product, warehousing may also involve maintaining control of the warehouse's temperature to ensure that perishable goods or food that needs to be held at a certain temperature don't spoil.

Inventory management is a function that involves identifying the type of inventory and how much a company has on hand at any given time. Managing inventory is a critical logistics function because it ensures that there isn't too much or too little on hand.

Transportation is the physical movement of products by either road, water, or air (see Figure 17.14). Companies must determine which method or methods of transportation make the most sense given the nature of the product, the location of the target market, and costs associated with each method. Transportation also involves all the activities such as the generation of shipping documents, the calculation of delivery time, and the need for additional resources like technology or special equipment. For example, an ice cream manufacturer would need to ensure that the transportation methods it selects to distribute its products are temperature controlled to maintain the integrity and safety of the products.



Figure 17.14 Shipping containers are used by transportation companies in the distribution channel to move products by ship. (credit: "LARS MAERSK" by Bernard Spragg.NZ/flickr, Public Domain)

There are three factors that companies must consider in selecting a mode of transportation. First is the product itself. Products that are hazardous, perishable, or problematic to handle may impact transportation methods. Location is a second factor that can impact the mode of transportation. Companies must consider shipping origin, which is the location where the product is shipping from. They must also consider the shipping destination, or the location where the product must land. A company transporting products from China to the United States, for example, needs to select transportation methods that allow it to move products over large bodies of water. The third factor impacting transportation methods is any special considerations related to time or urgency. Companies need to consider how quickly they need products moved from origin to destination. There are a variety of transportation methods available, including trucking, rail, water carriers, air

carriers, or some combination of these.

In Table 17.2 different modes of transportation are presented along with their relative speed of delivery, cost, and accessibility. Accessibility means how readily available or convenient the mode of transportation is. For example, trucking is an accessible mode of transportation because of the strong road infrastructure in the United States. Let's compare the different modes of transportation based on these characteristics.

Trucking or road transportation makes the most sense for companies that are transporting between destinations that are connected by land. It is highly accessible, meaning that trucking is readily available to companies looking for a low-cost mode of transportation.

Rail is a second mode of transportation that is best suited for moving goods in cases where speed of delivery is not urgent and low transportation costs are important. Similar to rail, water carriers offer an even slower mode of transportation at an even lower cost than rail, making it a popular mode for moving consumer goods from China to the United States.

For some companies, more than one mode of transportation is needed. Multimodal transportation involves companies using two or more types of transportation to move goods from origin to destination. For example, Apple may use air to ship iPhones to European airports but then trucks to continue the journey in getting iPhones to warehouses or distribution centers and retailers.

Mode	Speed	Cost	Accessibility
Trucking	Moderate	Low	High
Railroads	Slow	Low	Moderate
Water Carriers	Very slow	Very low	Moderate
Air Carriers	Fast	Very high	Low
Digital	Very fast	Very low	Very High

Table 17.2 Modes of Transportation and Relative Factors

Logistics Information Management

For a supply chain to be effective, manufacturers, suppliers, channel members, and customers need useful logistical information that can help them make informed decisions. Logistics information management is the recording and reporting of useful information that channel members can analyze and validate during the process of moving products.

Channel members use a system to access and manage logistics information in real time. This information allows members to develop demand forecasts, where they predict what and how much consumers will demand in the future, which in turn helps them to make decisions about how much raw materials and other supplies they need to meet consumer demand.

Integrated Logistics Management

Integrated logistics management means that every element of logistics works cohesively to ensure that products flow from manufacturer to final consumer in an efficient and effective way. Companies must first begin by defining the objectives of logistics management. For example, in the procurement and distribution of agricultural products, the supply chain might collectively set objectives that everyone along the chain commits to. They may, for example, set objectives to minimize costs, meet delivery times 95 percent of the time, and

communicate openly and honestly about product availability and product flow in a consistent and systematic way. Or they may strive cohesively to manage inventory more effectively to reduce the possibility of shortage or surplus.

Whatever objectives they set for the supply chain, each member strives to integrate its activities and information with the activities and information of other members to ensure cohesive and synergistic handling of products for the ultimate purpose of meeting the wants and needs of the consumer.

Third-Party Logistics (3PL) Providers

A **third-party logistics provider** is a company that is contracted by a channel member to handle one or more of the functional areas of logistics. 3PL providers can be warehouses, distribution centers, or fulfillment centers that have expertise in managing certain logistical activities.

The advantages of working with 3PL providers is that logistics is their core competency, it is less expensive to outsource, and they offer flexibility. Owning warehouses and trucking systems requires a great deal of capital. Companies would much rather work with a 3PL provider than assume the financial risk of owning and operating their own transportation and warehousing systems.

Imagine if pet food maker Purina had to purchase its own warehousing and trucking business to store and move its goods all over the United States. It would be very costly and require a large capital commitment. In addition, 3PL providers offer the advantage of strategic location. They often market themselves as being located in the precisely right zones that a supply chain needs to reach targeted consumers.

The downside of using 3PL providers is the loss of control. Manufacturers are essentially turning over logistics responsibilities to other companies, who assume control of communication and interaction with suppliers. To combat this, manufacturers should continuously analyze performance metrics and communicate with 3PL providers.

Knowledge Check

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

1. _____ makes the most sense for companies who need to transport products quickly.
   a. Trucking
   b. Air transportation
   c. Rail transportation
   d. Water transportation

2. _____ is the planning, organizing, and controlling of the movement of raw materials and ultimately finished goods to end consumers.
   a. Supply chain management
   b. Logistics
   c. A marketing channel
   d. Transportation

3. Which of the following best explains the importance and use of logistics information?
   a. Companies use logistics information to sell to other companies that target similar consumers.
   b. Companies use logistics information to market additional products to consumers.
   c. Companies use logistics information to develop demand forecasts, conduct supply planning, and optimize supply chain effectiveness.
   d. Companies rarely use logistics information to guide decision-making.

4. _____ ensures that every element of logistics as part of the entire supply chain is part of a system that works cohesively to ensure that the wants and needs of final customers are met.

a. A marketing channel
b. Information management
c. Integrated marketing communication
d. Integrated logistics management

5. Which of the following explains why companies would use a third-party logistics (3PL) provider to distribute products?
   a. 3PL providers have the expertise, flexibility, and cost efficiencies that manufacturers do not possess in logistics.
   b. 3PL providers understand how to promote a product more effectively than a company does.
   c. 3PL providers own warehouses to help store and manage inventory.
   d. 3 PL providers own and operate their own transportation system.

17.7 Ethical Issues in Supply Chain Management

Learning Outcomes

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

LO 1 Discuss the issue of the carbon footprint versus the speed of shipping.
LO 2 Discuss the issue of sourcing sustainably.

Carbon Footprint versus the Speed of Shipping

As companies strive to deliver the right products to the right customers at the right time, they are faced with the competing interest of protecting the environment in which they operate.

LINK TO LEARNING



Environmental Responsibility in the Supply Chain

To learn more about environmental responsibility in the supply chain, watch the following video: Value, Speed, Environmental and Societal Impact – HP's Supply Chain.

Value, Speed, Environmental and Societal Impact | HP's Supply Chain | HP (https://openstax.org/r/valuespeedenvironmental)

Sustainability is a company's effort to reduce its impact on the environment as products move from source procurement through production through distribution to final consumers. Companies that practice sustainability balance their goal of speedy delivery with a commitment to reducing their carbon footprint. While traditional marketing channels focus on speed and cost, a sustainable channel also factors in goals aimed at mitigating the harm the supply chain causes to both humans and the environment.

Sourcing Sustainably

Sustainable sourcing is the process of considering suppliers' social, ethical, and environmental performance. The benefits of sourcing sustainably are improved reputation, brand protection, and an opportunity to attract new consumers and reach new markets. When a company claims it sources sustainably, it means that it is both transparent and ethical regarding the raw materials it uses in its products. It is not only transparent and ethical in its sourcing of materials but also environmentally conscious about its manufacturing process.

The shoe company Allbirds has sought to use natural instead of petroleum-based synthetic materials, which is what a majority of footwear is made from. By 2025, it aims for 75 percent of its shoes to be sustainably sourced using both natural and recycled raw materials.[8]

COMPANIES WITH A CONSCIENCE

Allbirds



Figure 17.15 Sustainability is a core part of the Allbirds mission and marketing message. (credit: "Allbirds Shoes" by Guillermo Fernandes/flickr, Public Domain)

For decades, the footwear industry has missed the opportunity to look to Mother Nature for more sustainable footwear materials. Tim Brown, the founder of Allbirds, believed it was time to think differently (see Figure 17.15). With most shoe companies using petroleum-based raw materials, Brown sought to think more sustainably about offering a shoe that was both comfortable and environmentally friendly. Along with Joey Zwillinger, a product engineer and renewables guru, Brown developed a revolutionary wool fabric designed for footwear. Allbirds uses SweetFoam, a shoe sole material made from plant-based leather. To increase the durability of the shoe, it also uses recycled synthetics where needed, which helps extend the life of the product. It is continuously researching and developing ways to innovate around the sustainable sourcing of shoe materials with the goals of not only doubling the lifetime of its products but also reducing its carbon footprint related to raw materials by 25 percent in 2025.[9]

Sustainability is at the core of everything Allbirds does. While it is certainly interested in offering consumers a comfortable shoe, it also cares deeply about the process and materials involved in making that shoe comfortable.[10]

Chapter Summary

In this chapter, the functions and benefits of marketing channels are explored. Marketing channels play an important role in moving products from manufacturers to final consumers. Channel members, also known as intermediaries, specialize in specific activities that help the flow of products. They play a transactional role by bringing manufacturers and consumers together. They also help with the logistical distribution of products by sorting, storing, and bulk-breaking so consumers can purchase what they want in the desired quantity. Finally, they facilitate the flow of goods by doing things like offering consumers credit to make purchases. Channel members can include manufacturers, wholesalers, distributers, retailers, agents, brokers, and ultimately final consumers.

In addition, the types of marketing systems are also explored. Vertical marketing systems can include corporate, administered, and contractual. In addition, some companies use a horizontal, multichannel, or omnichannel marketing system. Factors that dictate the type of channel a company chooses include target market coverage and the selection of an intensive, selective, or exclusive distribution channel.

Fulfillment of buyer requirements such as information, convenience, variety, and service pre- and post-purchase are also important determining factors. In addition, product-related factors such as perishability, product life-cycle stage, value, and the technical nature of a product are also to be considered when choosing a marketing channel. Lastly, the profitability of the channel is a huge consideration given that companies aim to operate efficiently while delivering value to consumers.

Selecting, managing, and motivating channel members require a strategy to handle channel conflict. Evaluating channel members requires the use of metrics and includes inventory turnover rate, accuracy rate, the time it takes to ship, units that have to be stored, number of orders processed in a given period of time, the percentage of on-time shipments, and the average number of delivery days.

The functions of supply chain management include purchasing, operations, logistics, resource management, and information workflow. Any or all of these functions can be outsourced. The decision requires careful consideration and evaluation of the cost/benefit ratio. The functions of logistics, such as warehousing, inventory management, and transportation, can also be outsourced.

Finally, the ethical issues in supply chain management were discussed. They include carbon footprint vs. the speed of shipping and sourcing sustainably.

Key Terms

accumulating relates to intermediaries buying in bulk from different manufacturers

adjusting for discrepancy of assortment occurs when an intermediary buys from manufacturers, then regroups products into different assortments based on what consumers are demanding from retailers

administered VMS one type of vertical marketing system where there is no ownership of channel members but instead one member who is large enough to coordinate and manage the distribution activities of other channels members

agent a type of intermediary who acts as an extension to the manufacturer

bulk and weight the density and heaviness of one unit of product

bulk-breaking occurs when an intermediary takes a large bundling of a manufacturer's product and breaks it down into single units to be distributed to retailers based on the retailer's order

business-to-business (B2B) a market comprised of companies who buy from and/or sell to other companies

business-to-consumer (B2C) a market comprised of companies that manufacture and sell products or services directly to a final consumer or end user

channel conflict disagreements between companies in the marketing channel due to a competitive versus a collaborative mindset

channel length relates to the number of intermediaries in the marketing channel

channel member (intermediary) a company that works in a network with other companies to help gets products from manufacturers to final consumers
contractual VMS independent companies that have joined together by contract for a mutually beneficial purpose
corporate VMS when one member of the distribution channel owns the other members
customer-perceived value the overall perception that a consumer has about a company, brand, or product and is measured by what the consumer is willing to pay in return for the features and benefits in the market offering
direct channel when companies sell and distribute their products directly to consumers
direct marketing channel when a manufacturer does not use intermediaries but rather involves the manufacturer distributing its market offering directly to consumers
disintermediation the process of removing an intermediary from a marketing channel
distribution the process of making products and services available and accessible to consumers to purchase
distributor a type of intermediary that takes ownership of the product and tends to align itself closely with a manufacturer
exclusive distribution a strategy that involves allowing a limited number of intermediaries to distribute a company's market offering
facilitating functions activities such as financing and information sharing in the marketing channel
final consumer the end user of a good or service
horizontal conflict when there is disagreement among firms at the same level in the marketing channel
horizontal marketing system a group of unrelated companies that offer products and services in a shared space
indirect channel involves the utilization of one or more intermediaries to distribute a market offering to consumers
intensive distribution a distribution strategy that entails distributing a company's market offering through all possible intermediaries
inventory management a function that involves identifying the type of inventory and how much a company has on hand at any given time
inventory turnover rate a metric that measures how quickly inventory is turned over, or sold
logistical functions the handling, packing, inventorying, transporting, warehousing, and ensuring the security of products as they make their way to the customer
logistics the coordination of all supply chain activities, such as warehousing, inventory management, and transportation
marketing channel system of people, organizations, and activities that work together to make goods and services available to consumers for use
multichannel distribution system where a single company sets up multiple distribution channels to reach customers
omnichannel marketing system multichannel approach whereby companies give consumers a variety of ways to purchase, receive, and return products
order accuracy rate a metric that measures the percentage of orders that are processed, fulfilled, and shipped to consumers without any errors
percentage of on-time shipments a metric used to evaluate how well a channel member meets its promise of delivering goods on time
perishability relates to the likelihood that a product will spoil, decay, or expire if not used in a timely manner
post-sale service all activities provided by a company that reinforce the value of the product or service for the buyer
pre-sale service all activities provided by a company that help a buyer make a purchase decision
producer a company that supplies the raw materials that manufacturers need to create consumer products
producer to retailer to consumer channel when manufacturers or producers sell to retailers without the use of wholesalers or distributors

product life cycle the various stages that a product goes through from its introduction phase, to its growth and maturity phase, and in some cases to its decline phase
purchasing the process of buying materials needed to manufacture products
retailer a type of intermediary where retailers take ownership of the product and their sole focus is on reaching the end user or customer directly
selective distribution a strategy that includes choosing more than one, but fewer than all possible intermediaries to distribute a company's market offering
standardized products that have no difference in how they are manufactured
supply chain a network between a company and its suppliers to produce and distribute a specific product to the final buyer
supply chain management all members and activities from the procurement and transformation of raw materials into finished goods through their distribution to targeted consumers
sustainability a company's effort to reduce its impact on the environment as products move from source procurement through production through distribution to final consumers
sustainable sourcing the process of considering suppliers' social, ethical, and environmental performance
target market coverage resources and capabilities needed to reach consumers in a company's target market
third-party logistics (3PL) provider a company that is contracted by a channel member to handle one or more of the functional areas of logistics; often warehouses, distribution centers, or fulfillment centers that have expertise in managing certain logistical activities
time to ship also known as order cycle time, the length of time from when a customer places an order to when it reaches them
total number of orders the sum of all orders that a company received in a given time period
total units in storage a metric used to evaluate warehouse efficiency that changes as items are sold and leave the warehouse and new inventory moves in
transactional functions buying, selling, and risk-bearing that goes along with the movement of products along the marketing channel
unit value the price that a company charges for one unit or item
vertical conflict a conflict that exists between different levels of a vertical channel
vertical marketing system companies in the marketing channel that work together in a coordinated, collaborative, and customer-centric way
warehousing the stocking, maintaining, and controlling of products while they await the next step in their journey to the final consumer
wholesaler similar to distributors in that they take ownership of products; buys products in large quantities for the purpose of distributing an assortment of products to retailers



Applied Marketing Knowledge: Discussion Questions

1. What are the methods used to evaluate channel members? Why is this important?
2. Explain the various forms of marketing systems. What factors go into the decision regarding which system is best suited to the given organization?
3. Target market coverage is broken down into intensive, selective, and exclusive distribution. Evaluate which form of coverage works for what category of products, why, and give an example of each form.
4. List the different forms of transportation for moving goods. What are the positives and negatives for each form? Can you think of a way to reduce the risk?



Critical Thinking Exercises

1. Create a strategy for managing channel conflict within a marketing channel.

2. Considering what we have learned in the last several years about supply chain interruption, along with what we have covered in this chapter, what are some of the strategies that a company can use to reduce risk?
3. Evaluate alternatives and incentives that companies/marketers can offer customers to manage the speed of shipping while reducing the carbon footprint.

Building Your Personal Brand

Consider what sustainability and social responsibility mean to you. How do they impact your life and your activities? Is it in a positive, negative, or neutral way?

Let this information guide you in creating your authentic self. Develop your awareness of the ways that you can support the movements that speak to you. For instance, if you have strong beliefs in helping to create a cleaner environment, find activities that support that. Think clean stream, neighborhood beautification, or teaching children recycling, all the while making sure that you are genuine in upholding those concepts in your life. The list of opportunities is multilayered and unlimited.

Write 200–400 words outlining your personal brand as it relates to sustainability and social responsibility. How is your personal brand impacted by these concepts now? With these concepts in mind, how would you like your personal brand to evolve?

What Do Marketers Do?

Contact one of the following businesses and ask to speak to a person in the supply chain or logistics department. You might have to go through several people to actually get to the one that can best answer your questions. The goal with this exercise is to ask questions regarding the logistics in these companies to better understand the complex process. Every logistics department is involved in the movement of goods (the coming and/or going), but they vary in how they go about it.

- A local warehouse
- UPS
- FedEx
- An Amazon.com warehouse (they have multiple layers that you can contact as well as their logistics partner program)
- A trucking company

When you speak to the professional, be prepared with questions that will help you understand this position. Here are a handful of questions to get you started:

1. What is your job title and function?
2. How would you describe your department?
3. How did you obtain your position?
4. What skills, background, or degree are needed to do this type of work?
5. What are the main challenges faced by the department in the job?
6. Are you aware of differences in how you run your operations versus a similar company? If yes, can you outline examples?

Marketing Plan Exercise

Complete the following information about the company and products/services you chose to focus on as you develop the marketing plan throughout the course. You may need to conduct research in order to obtain necessary information.

Instructions: Using the Marketing Plan Template file you created from Marketing and Customer Value

assignment and expanded upon in Strategic Planning in Marketing, Market Segmentation, Targeting, and Positioning, Marketing Research and Market Intelligence, Products: Consumer Offerings, Pricing Products and Services, and Integrated Marketing Communications, complete the following section of your marketing plan:

- Marketing Strategy: Distribution

Submit the marketing plan to your instructor for grading and feedback.

Closing Company Case

Global Containers & Custom Packaging Inc.

It happens without much thinking—you go online, click on the item, add it to your cart, pay for it, and then wait for it to arrive, usually in just a few days. And although you don't give it much thought, there is a lot going on when making a purchase. It may appear that the product "just arrives" at your location, but it's not quite that simple. The manufacturer must decide how to best ship the product, whether it be by truck, ship, air or some combination of all three of them. Also, depending on the size of the company that is purchasing the product and the size of the order of the product, it might make a stop at a wholesaler before ending up on retail shelves or in your mailbox.

One company that is working "behind the scenes" to ensure that your package arrives intact and on time is Global Containers and Custom Packaging (https://openstax.org/r/globalcontainers). Global Containers and Custom Packaging is a full-service logistics company. It offers logistics and warehouse management, packaging distribution, and quality inspection and sorting.[11]

Strategically headquartered along the US-Mexico border in El Paso, Texas, Global Containers and Custom Packaging offers local packaging distribution services that provide value and solutions to the retail and maquiladora market. Customers include companies like Amazon.com, Hewlett Packard, Honeywell, Align Technology (the makers of Invisalign system for straightening teeth), and ASO (a leader in consumer first-aid products).

Started in 2009, the company was founded to provide a full-service logistics solution. José Ochoa, one of the company's founders, started off as an industrial engineer and saw a need for a full-service logistics solution offering a high level of customer service. Some of the solutions that the company offers are just-in-time inventory management, report management, flexibility in hours (it will receive a truck or ship a product after hours or on the weekend with no extra cost to the client—a service that is practically unheard of in this industry), traceability of consumption behavior, and coming soon, accepting crypto payments.

Managing all of the pieces of a logistics solution can be tricky, especially in an environment with unprecedented shipping delays. Global Containers and Custom Packaging takes a proactive approach in managing its clients' business—it will advise customers on upcoming delays on products that it doesn't currently have in inventory. By staying in constant contact with the client, it has been able to keep delays and bottlenecks because of missing items to a minimum. All this is accomplished while the industry has seen shipping delays skyrocket.

It's not surprising given the company's proactive approach to managing delays, offering superior customer service and comprehensive offerings, that it has received the prestigious Bridge Accelerator Award, an award focused on businesses that are looking for ways to grow and innovate in the Paso del Norte region.[12]

Case Questions

1. Is the marketing channel a direct channel or indirect channel in this case? Why?
2. Global Containers and Custom Packaging provides trucking shipping solutions primarily between Mexico and the United States. What are the six factors impacting the choice of channel? Which have the most important impact in this case?

3. What are the main product-related factors that have an impact on the choice to ship products via truck from the United States to Mexico?
4. Name the different supply chain management levels that Global Containers and Custom Packaging provides.

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18

Retailing and Wholesaling

Figure 18.1 There are numerous retail and wholesale channels, including brick-and-mortar stores. (credit: modification of work "Athens, Ohio" by Dan Keck/flickr, Public Domain)

Chapter Outline

18.1 Retailing and the Role of Retailers in the Distribution Channel
18.2 Major Types of Retailers
18.3 Retailing Strategy Decisions
18.4 Recent Trends in Retailing
18.5 Wholesaling
18.6 Recent Trends in Wholesaling
18.7 Ethical Issues in Retailing and Wholesaling

In the Spotlight

It is no surprise that retailing has changed over the years. In the 1980s and 1990s, big-box retailers such as Walmart began opening stores in small towns and forcing local mom-and-pop shops out of business. In the 2000s, with the rise of Internet shopping, more brick-and-mortar retailers closed their doors. The COVID-19 pandemic resulted in another wave of retail closures. While future prospects for a number of retail operations appear bleak, many retailers—both new and established—are finding innovative ways to attract customers back into the stores.

Precycle is a grocery store in the Bushwick neighborhood of Brooklyn, New York. In order to differentiate her store from other local shops, Precycle owner Katerina Bogatireva decided to focus her efforts on serving a niche market of consumers who are committed to protecting the environment. Shoppers at Precycle can find a wide variety of spices, fruits, grains, pastas, toothbrushes, and many household basics. But what shoppers won't find at Precycle is plastic. Bogatireva opened the store in an effort to reduce the amount of plastic that is used in retailing. All the items in Precycle are not only free from plastic and sold in bulk, they are locally sourced.[1]

Similar types of stores have been popping up throughout the United States. Consumers are more and more aware of the ongoing problem that plastic creates for our oceans and general environment. Additionally, more consumers are becoming locavores, people who purchase food that is locally grown.[2] Local and more

traditional brick-and-mortar retailers are ideal to meet these consumer demands. Post-pandemic, we may see increased numbers of brick-and-mortar retailers responding to these new consumer demands. Only time will tell.

18.1 Retailing and the Role of Retailers in the Distribution Channel

Learning Outcomes

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

LO 1 Define retailing.

LO 2 Discuss the functions of retailers in the distribution channel.

Retailing Defined

When marketers plan their distribution strategies, they must determine which channel is best suited to get their goods and services into the hands of consumers. A distribution channel is a set of businesses that move the product or service from the manufacturer to the end user or buyer.[3] Figure 18.2 outlines the most common types of distribution channels for consumer goods. These businesses, often called intermediaries, play important roles in the distribution of goods and services. **Intermediaries** are companies that act as liaisons between the buyer and seller. These companies can take on a variety of roles to facilitate the transfer of products and services from a manufacturer to the end user. The path that a product or service takes from seller to buyer, including the intermediaries, is called the distribution or marketing channel. The length of the channel—short or long—will depend on many factors, including the product itself.

When you first glance at Figure 18.2, it might seem logical for producers to simply provide goods and services directly to the consumer. Imagine that you were thirsty and wanted a cold can of Pepsi. However, you did not have any at home, and retailers did not exist. How would you get your Pepsi? Well, without retailers, you would have to rely on either going directly to the closest Pepsi bottling plant or requesting a Pepsi employee to deliver a can to your home. Can you imagine how costly that would be for PepsiCo? Now imagine doing that for every single product you wish to purchase. Obviously, this seems implausible—and almost laughable. While many companies have traditionally utilized longer channels to distribute their products, companies today often use more direct (shorter) channels or multiple channels. When a manufacturer utilizes multiple channels to distribute its product, it's known as an **omnichannel strategy**. Amazon, for example, uses multiple distribution channels. Some products are sold directly to the consumer, while other products come from independent retailers, who then fulfill the order.

Consider another example: You are planning a trip with your friends. You have found a Marriott hotel that suits your needs. You may choose to book directly with Marriott through its website or reservation phone number. Alternatively, you may choose to book through a third party, such as Hotels.com, or even by calling your travel agent. Marriott is utilizing multiple channels for its service, so it is utilizing an omnichannel distribution approach.

Today, even social media plays a role in the distribution channel. Looking at the above example, Marriott might consider utilizing social media as yet another point of contact for the organization's employees and customers to interact. Customers can often book a room and receive customer service directly through the company's social media platforms.[4] As you will learn later, the choice of which distribution channel to use depends largely on the type of product and the manufacturer's strategy.

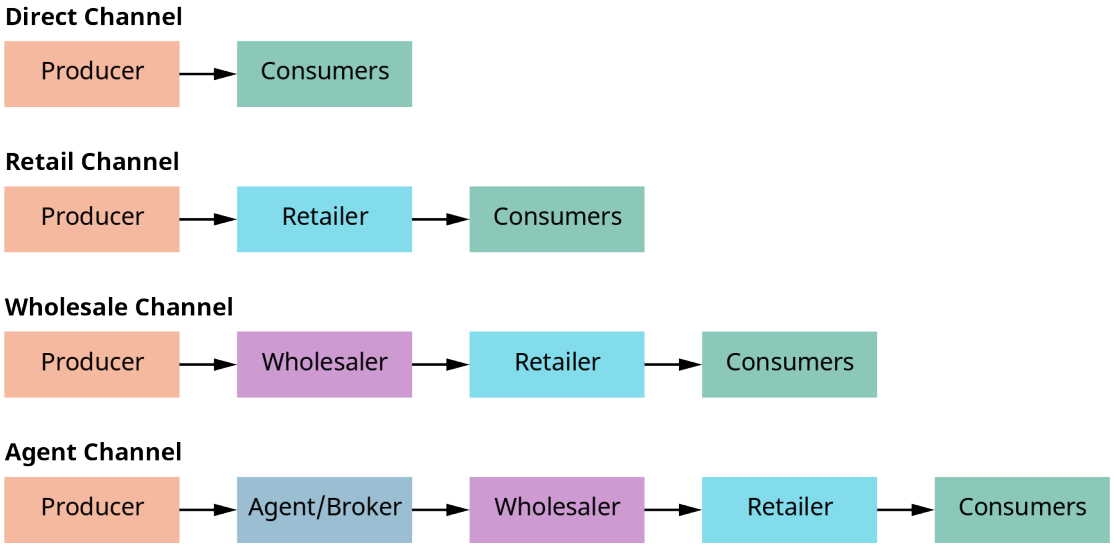

Figure 18.2 Distribution Channels for Consumer Products (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Regardless of how many channel members are included in the distribution channel, retailing is the final stop in the channel before products and services reach the consumer. **Retailing** is the process of selling goods and services to consumers. As it relates to the distribution channel, retailers do not often manufacture the goods being sold. Rather, retailers buy products from the manufacturing firms or wholesalers and resell them to the consumer. While the number of traditional brick-and-mortar retail establishments has declined drastically over the past few decades, retailers remain an important part of the distribution channel. Retailing entails *all* activities involved in selling the goods and services to the consumer; in other words, retailers have their own marketing mix plan to accomplish their goals. Because retailing is the final link between the manufacturer and consumer, retailers have as much incentive to sell products as those who produce the product.

The Functions of Retailing in the Distribution Channel

Retailing has many important functions in the distribution channel. Consider Target, a general-merchandise retailer with stores in all 50 states and the District of Columbia, as well as locations across the globe.[5] Target offers a wide variety of consumer goods in each of its large brick-and-mortar locations. In addition to what we, as consumers, see when shopping at Target, there are many other important functions for Target and other retailers in the distribution channel (see Figure 18.3). Let's look at these functions in detail.



Figure 18.3 Functions of Retailers (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Provide Assortment

Retailers provide assortment for consumers. Assortment simply refers to the number of options in a given product category or the number of products offered. Consider the Pepsi beverage example from earlier in the chapter. What if you weren't sure which drink you wanted? Rather than go directly to a Pepsi bottling plant, you decide to go to Target where you will find an assortment of drink varieties and brands to choose from.

Target also offers a wide variety of other products. So, while you are there, you decide to purchase your drink and some home furnishings and groceries. The assortment of brands and products in general gives the consumer options and convenience—something most consumers value in their busy lives.

Many large retailers also offer their own brand of products. This allows the company to provide competing options to consumers at different price points, typically lower than the name brands. For example, Walmart offers various name brands of acetaminophen, one being the more popular brand Tylenol and the other a lower-priced, comparable product labeled Great Value. By providing multiple purchase options, the retailer is able to target more than one consumer market.

Buy in Bulk

Because retail establishments are often large and have ample storage, they are able to purchase and sell items in bulk. Consider the quantity of one product, such as Pepsi 12-packs, that Target has on its shelves. In addition, the store has stock in the back room for when the shelves are empty. Target's ability to buy in bulk allows it to serve a large number of consumers at any given time.

From a broader standpoint, consider the number of Pepsi 12-packs that the entire Target store network purchases in a given week. Target's ability to purchase such large quantities allows it to negotiate lower prices with PepsiCo (and other channel members). In turn, retailers can provide consumers with lower prices than if the consumer purchased directly from Pepsi.

Store Inventory

The ability of retailers to hold inventory allows them to quickly restock shelves or, in the case of Internet retailers, get the product shipped quickly. This allows consumers the convenience of being able to get an item as quickly as possible.

Provide Convenience to Consumers

Retailers provide a considerable amount of convenience to consumers. Consider the distance from your home or work to your closest retailer. For most consumers, retailers are within a few miles. This proximity makes retailers convenient. The process of choosing a retail location for development has become somewhat of a science in recent decades. There are companies that specialize in partnering with retailers to determine the best locations for store placement. To determine locations, things like traffic patterns and demographics are collected and analyzed.[6]

A second service that retailers provide is convenient hours of operation. Consider Walmart, which has locations that are open 24 hours, or grocery stores that are open on Thanksgiving morning for last-minute food purchases.

Retailers also allow consumers to more closely evaluate a product for purchase. For example, some consumers would much rather purchase clothing items from a brick-and-mortar retailer rather than online because they can feel the texture of the cloth and try the item on to determine if it fits and looks good.

Providing Services to Customers

Most retailers provide services to consumers that are not a core product offering. For example, you can purchase groceries and household essentials at retailers such as Walmart or Kroger, but you can also purchase stamps, buy a lottery ticket, refill your prepaid phone minutes, drop off mail, and in some locations get a haircut or an eye exam and deposit a check at the bank.[7] With the convenience of multiple services, retailers make other tasks more convenient for consumers.

While there is an added value to the consumer to have all these services in one location, it's also a benefit to the retailers. For example, the hair salon located inside Walmart has the added benefit of the higher foot traffic inside the store. Since so many consumers are already in the store, they may be more apt to stop in for a haircut. Furthermore, while hair salon owners or individual stylists pay rent on the space inside Walmart, they don't have the overhead that might come with a standalone building. The advantage of this partnership for Walmart is that it receives additional income through the rent paid by the hair salon. The company also may build consumer loyalty since it is providing its consumers with additional convenience by offering these services.

Collecting and Providing Feedback

An important factor in any distribution channel is that of member relationships. Remember that all parties in the distribution channel have a stake in one another's success. Because retailers are the last link between the product and the consumer, they have a unique opportunity to collect feedback from customers and share that with other channel members. This can take many different forms. For example, if you use a loyalty card at your favorite grocery retailer, your purchases are tracked. The data collected is a wealth of information that informs a retailer's strategy and decisions. For example, the company may use the data to inform the type of promotions to run or coupons to offer.

Retailers also provide customer feedback to their channel partners. This feedback can let suppliers know the demand for products and if products are being offered at the right time and the right place. If products are not selling well in a retail establishment, the retailer and channel partners can look to customer feedback to determine the issue and resolve it.

CAREERS IN MARKETING



Distribution

There is much to consider with distribution channels. Learn more about the distribution channel types, impact of the digital age, and choosing a distribution channel and read examples of making distribution channels work (https://openstax.org/r/learningcentresales) in this article. Learn in this article how to use distribution (https://openstax.org/r/salesoptimizeddistribution) to a sales advantage. And while we want everything to run smoothly, it rarely does all the time. Learn about how things could go wrong (https://openstax.org/r/saleschannelpartner) and options for managing these situations.

Now that you've had a chance to understand what distributors do, does a career in distribution interest you? There are several types of jobs in distribution. Do your research and learn about the types. Start by reading this article to learn the differences between a distribution manager, industrial production manager, and a purchasing manager. (https://openstax.org/r/articlescareersindistribution) You will learn about the needed degree of study, necessary skills, potential job growth, and median salary. Run a Google search on distribution careers, and you'll be shown numerous job postings. This is a great way to gain insight into the career specifics with multiple companies.

Knowledge Check

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

1. Channel members that generally do not manufacture goods but rather buy them from another channel member and sell them to the consumer are said to be practicing _____.
   a. manufacturing
   b. wholesaling
   c. retailing
   d. inventory

2. Which of the following is NOT a function of retailing?
   a. Buying in large quantities and selling to other businesses for the purpose of reselling them to consumers
   b. Providing assortment and variety of products
   c. Holding inventory
   d. Providing convenient location and store hours

3. As a new entrepreneur, you are deciding whether to offer your customers a loyalty card that is linked digitally to technology. Which function of retailing would you be engaged in?
   a. Providing services to consumers
   b. Holding inventory
   c. Providing convenient location and hours of operation
   d. Providing consumer communication

4. A company that utilizes more than one channel in its distribution is using which type of strategy?
   a. Direct channel
   b. Direct-to-consumer channel
   c. Omnichannel
   d. None of the above is correct.

5. Schwan's Company prepares frozen foods to be delivered to the door of the consumer. Which of the

following is the most likely distribution channel for Schwan's?

a. Manufacturer – Agent – Wholesaler – Retailer – Consumer
b. Manufacturer – Retailer
c. Manufacturer – Consumer
d. Manufacturer – Wholesaler – Retailer

18.2 Major Types of Retailers

Learning Outcomes

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

LO 1 Characterize various store retailers.
LO 2 Characterize various non-store retailers

Retailers, in some form or another, have been around for most of human history. As early as 800 BCE in ancient Athens, Greece, businesspeople sold their goods in developed markets at the city's center.[8] Throughout history, this type of business has grown and become more specialized based on the needs of customers and the ability we now have to travel fairly easily. Today, retailers are often defined by their product lines—a group of products that are related to one another. Retailers are broken into two main categories, store or non-store retailers, which are further broken into retail types. Retail types are defined by their product lines. See Table 18.1 for a breakdown of retail types, the typical product focus for that retail type, and examples of retailers that fall into that type.

Retail Type	Product Focus	Example
Store Retailers		
Specialty Store	Single product line	AutoZone
Department store	Wide variety of product lines	JCPenney, Kohl's
Supermarket	Multiple product lines; focused mostly on grocery with limited services	Publix, Kroger, Save A Lot
Superstore	Combination of supermarket and department store	Target, Walmart
Convenience Store	Limited range of everyday items	7-Eleven, Speedway
Category killer	Very large superstores with wide product lines within a category	Best Buy, Lowe's, Home Depot, Staples, Office Depot
Discount store	Broad range of products with few or no services	Dollar General, Dollar Tree, Family Dollar
Off-price retailer	Brand name overstock, irregulars, and closeouts	T.J.Maxx, Ross

Table 18.1 Types of Retailers

Retail Type	Product Focus	Example
Factory outlet	Overstock or over-manufactured brand-name items, usually clothing; typically in a mall setting with other factory outlets	Sawgrass Mills Factory Outlet, Indiana Premium Outlets, Osage Outlets; Hanes Outlet, L.L.Bean Outlet
Warehouse club	Bulk items at discount for paid membership	Sam's Club, BJ's, Costco
Non-store retailers		Vending machines, direct-mail catalogs, television home shopping online, telemarketing, direct selling
Automatic vending	Unmanned with very limited product line located in places store retailers are not	Snack and beverage machines in a hospital waiting room
Direct mail and catalogs	Limited product lines advertised through the mail	Tiffany & Co.'s Blue Book, L.L.Bean, Fingerhut
Television home shopping	Limited product lines advertised on television	Home Shopping Network, QVC
Online retailing	Can be wide or limited product lines of products offered for sale via the Internet	Amazon
Telemarketing	Very limited product line sold via the telephone	
Direct selling	Very limited product line sold by salespeople who are very knowledgeable about the product and sell directly to a business or end user; used in B2C, but more often in B2B	Kirby Vacuums (B2C) Publishing companies (B2B) Technology companies (B2B)

Table 18.1 Types of Retailers

Store Retailers

Retailers tend to be the easiest of the channel members to identify because we see them everywhere we go, both in person and online. A **store retailer** is a traditional brick-and-mortar establishment where products are displayed for customers to purchase. Store retailers can be categorized in many ways based on their strategy mix, which includes a combination of store hours, location, product assortment, and prices.[9]

As the number of store retailers has decreased significantly over the years due to their higher operating costs, some companies have found more innovative ways to provide their products in a similar setting. For example, Amazon Go is a store retailer that allows customers to shop in-store, but has eliminated the use of cashiers (and long lines). As customers choose the products they want, the automated store keeps track of the purchase and charges the customers when they exit the store.[10]

Specialty Stores

Specialty stores focus on selling a single type of product or a single product line. The employees of specialty stores are often very knowledgeable about the products they sell and offer high levels of customer service. For example, when you need a new battery in your car, you may head straight to AutoZone, a retailer specializing in vehicle parts. When you arrive, an associate will be able to assist you in choosing the correct battery for the make and model of your car, and sometimes, they may be able to install it for you.

Department Stores

Department stores are typically larger than specialty stores and have separate areas or departments for similar product lines. For example, areas could include shoes, kids' clothing, housewares, and so on. Each compartmentalized area may mimic the look and feel of a specialty store to make for a more intimate experience, but often the sales associates are not highly trained in each area. For example, Kohl's, a department store chain in the United States, has separate departments containing women's fashion, shoes, kitchenware, and toys.

Supermarkets

A **supermarket** is defined as a store that mostly focuses on a product mix of grocery items but also carries household and personal items and offers limited services. One example is Publix, an employee-owned supermarket chain that opened in 1930 and has nearly 1,000 stores in the southeastern United States.[11] Publix's average retail size is roughly 32,000 square feet, and more than 50 percent of its shelves are dedicated to grocery items. The other 50 percent consists of cleaning items, toiletries, over-the-counter medicines, beer/liquor, and personal hygiene products. Like most supermarkets, Publix also offers a deli, a bakery, hot food bars, a pharmacy, some apparel, and sometimes even pool supplies, toys, and other nonfood items.

Convenience Stores

Named for their convenient location, a **convenience store** is a small retail business that stocks a limited range of everyday items, such as groceries, snacks, soft drinks, tobacco, toiletries, and lottery tickets (see Figure 18.4). In the United States, convenience stores are most often linked to gas stations. Convenience stores offer consumers the convenience of stopping to fill up their tank and running inside for a few essential items without having to drive to a supermarket or other retailer. The first convenience store in the United States opened in Texas in 1927 and later became known as 7-Eleven. In 2020, there were approximately 150,000 convenience stores in the United States.[12]

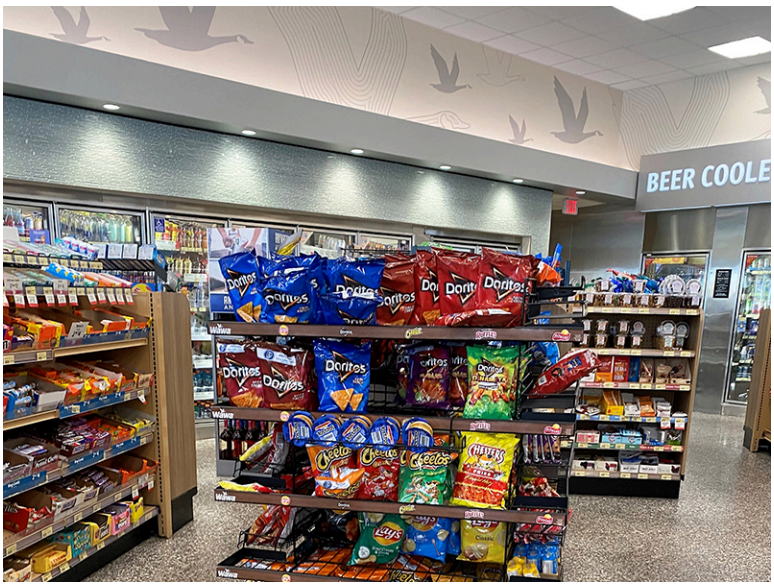

Figure 18.4 A convenience store is a type of retail store that is conveniently located and carries limited items. (credit: "Wawa Miami"

by Phillip Pessar/flickr, CC BY 2.0)

Superstores

Superstores are very large retailers that have characteristics of both supermarkets and department stores (see Figure 18.5). Like supermarkets, they sell a wide range of grocery items. But they also have considerable space dedicated to nonfood departments, as do department stores. Target operates 1,927 retail stores in the United States. Some of its stores are considered superstores, where consumers can purchase not only (nearly) everything on their grocery list, but also clothing, household goods, electronics, toys, and sporting equipment.



Figure 18.5 Target is a type of superstore that sells a wide variety of personal and grocery items. (credit: "Target" by Mike Mozart, JeepersMedia/flickr, CC BY 2.0)

Category Killers

Category killers are large superstores or big-box retailers that are bigger, cheaper, and more convenient than other types of stores. Because of their sheer size, they have the advantage of buying products in very large quantities, which gives them a strong negotiation position for the price they pay to distributors. In turn, they can then offer discounted prices to consumers. These stores are called category killers because they often put nearby specialty stores out of business. Home Depot and Lowe's are considered category killers because of their exhaustive inventory selection and low prices. The popularity of this big-box format means that smaller hardware stores may find it difficult to compete.

Discount Stores

During the 2008 recession, many retailers began closing their doors. But Dollar General was one retailer that saw exponential growth during this time.[13] Dollar General and competitor Dollar Tree are **discount stores**—stores that sell a broad range of products at lower prices than competitors. While discount stores offer lower prices and often less variety than competitors, they often also offer fewer services and little customer service. As inflation put pressure on household budgets in 2022, shoppers from a range of income levels turned to dollar stores to save money on everyday necessities.

LINK TO LEARNING

Dollar Stores and the Community

Learn more about the impact dollar stores have on the community and commerce. It's not always positive. Experts speak in this video about the potential negative impact and issues.

Deal or no deal? The expansion of Dollar Stores (https://openstax.org/r/dealornodeal)

Off-Price Retailers

Retailers that provide high-quality, name-brand goods at deeply discounted prices are considered **off-price retailers**. These retailers often purchase brand names that are irregular, closeouts, overstock, and off-season. While these retailers offer goods within more than one product line, often consumers cannot be guaranteed to find the same brand or item(s) in a store twice. T.J.Maxx, one of the largest clothing retailers in the country, utilizes this strategy. The company's buyers purchase over-ordered or over-manufactured products from distributors at deeply discounted prices. This merchandise is then offered to the consumer at lower prices than can be found in department stores.

Factory Outlets

In some ways, **factory outlets** are similar to off-price retailers (see Figure 18.6). The goods found in factory outlets are typically over-manufactured and sold at lower prices. However, factory outlet goods are sold directly from the manufacturer rather than through a third party. Many clothing manufacturers have factory outlets, which are typically clustered together in a factory outlet mall, a space where numerous factory outlets are located. For example, you may see Coach, Gap, or Lands' End stores in outlet malls. Sawgrass Mills Factory Outlet, located in Sunrise, Florida, is the largest factory outlet mall in the United States. It houses over 350 factory outlet stores, including Adidas, LEGO, and Zales.[14]



Figure 18.6 Factory outlet stores offer lower-priced items sold directly from the manufacturer. (credit: "DSCF1532.JPG" by jkonrath/flickr, CC BY 2.0)

Warehouse Clubs

Warehouse clubs (see Figure 18.7) are a type of retailer that sells goods in bulk at discounted prices to members only. Shoppers must first become members of the warehouse club before they are allowed to purchase. Costco and Sam's Club are two of the largest warehouse clubs in the United States, and both offer a limited variety of perishable and nonperishable goods. Warehouse clubs operate out of enormous, no-frills, low-cost facilities that resemble warehouses.



Figure 18.7 Costco is a warehouse club that offers bulk items at a discount; consumers can only enter if they are paid members. (credit: "Costco (East Lyme, Connecticut)" by jjbers/flickr, CC BY 2.0)

Non-store Retailers

Non-store retailers are those retailers that operate outside of the traditional brick-and-mortar location. There are six main types of non-store retailers, and we will examine each in the following sections.

Automatic Vending

Also referred to as vending machines, **automatic vending** is the use of an electronic device that dispenses a product (see Figure 18.8). There is no direct human contact in the transaction. Traditionally, automatic vending machines would dispense items such as potato chips, candy, and soft drinks. However, more recently, companies have found automatic vending to be successful with other items, from cell phones to hot meals to automobiles. Carvana is an automatic vending non-store retailer. Using Carvana, consumers can purchase their cars online, complete with financing, and pick up their vehicles at one of its vending machines or have it delivered with little or no human interaction needed. Debuting its 27th car vending machine in Atlanta, Georgia, in 2020 Carvana now has a location that is 12 stories high and holds 43 vehicles.[15] The company unveiled its first car vending machine in 2012, taking automobile shopping—and automatic vending—to a whole new level!



Figure 18.8 Carvana features automobile vending machines that allow consumers to purchase cars online and have them delivered. (credit: "Carvana Delorean Back to the Future Time Machine" by zombieite/flickr, CC BY 2.0)

Direct Mail and Catalogs

Direct mail involves solicited or unsolicited advertising of products and services to prospective customers through the mail (Figure 18.9). Direct mail and catalogs are likely the oldest form of non-store retailing. The first mail-order catalog in the United States was Tiffany & Co.'s *Blue Book* in 1845.[16] The company still uses catalogs in addition to store retail locations, and the catalogs feature some of the rarest diamonds and jewels in the world. A more popular mail-order catalog that began in the 1800s was the Sears Roebuck and Co. catalog, the "big book," which came to feature hundreds of pages of products offered by the company; the last was published in 1993. With the rise of the Internet, catalogs and direct mail are not as prevalent in marketing today, but it is still a retailing strategy that works for many companies.

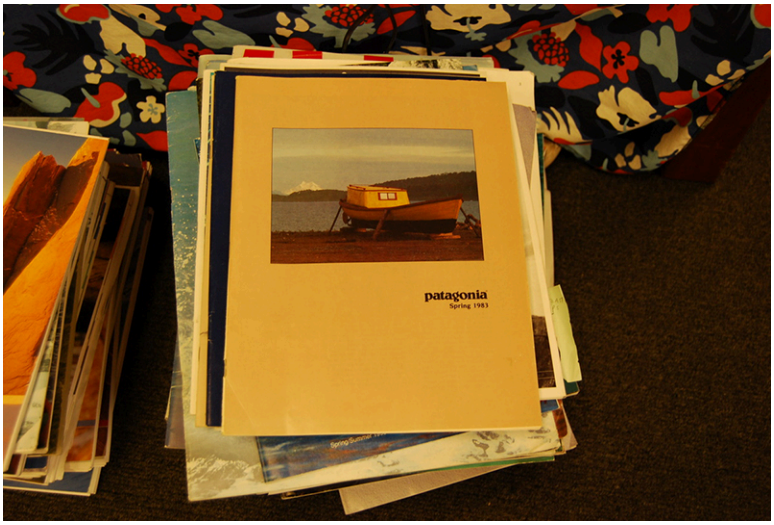

Figure 18.9 Direct mail offers products to consumers via advertisements sent through the mail. (credit: "Catalog" by Nicolás Boullosa/flickr, CC BY 2.0)

Television Home Shopping

Another example of a non-store retailer is television home shopping. **Television home shopping** primarily targets women over the age of 40 and is a business practice in which products or services are sold via television. There are some cable network stations that are dedicated solely to home shopping 24 hours a day, 7 days a week. One example is QVC, which stands for Quality, Value, and Convenience. The company was founded in 1986 and purchased its rival Home Shopping Network (HSN) in 2017. It generated $14.1 billion in profits in 2018.[17] The 2015 Hollywood movie *Joy*, starring Jennifer Lawrence, showcases real-life entrepreneur Joy Mangano and the power of QVC as a non-store retailer.

Similar to online shopping, consumers can order products directly from a company via telephone or the Internet. Unlike the Internet and direct-mail catalogs, however, viewers can see the product being demonstrated or modeled in real time. While QVC hosts are demonstrating products, control room employees are able to monitor sales in real time as they are placed.

Online Retailing

Online retailing allows consumers to search and purchase products remotely over the Internet. Although the Internet's public birthday is debatable, online retailing started shortly thereafter. Though Amazon (started by Jeff Bezos in 1995 as a book retailer) was not the first online retailer, its inception prompted thousands of companies to follow suit. In 2021, US consumers spent $5.4 trillion at online retail stores, a figure that is expected to increase. It is anticipated that, by 2023, online shopping will make up 22 percent of retail sales across the globe.[18]

Telemarketing

Telemarketing is the attempted sale or marketing of goods and services to potential customers via telephone. The telephone has been used as a sales tool since shortly after its invention. The 1970s, however, was the decade when technology became advanced enough that call centers—a centralized location or department that handles calls from customers—became an economical way of contacting potential customers. Over the next few decades, telemarketing became a staple in marketers' strategies. But this resulted in consumers being annoyed with these calls and a rise in scamming calls, particularly those targeting the elderly. In 1991, the Federal Trade Commission (FTC) addressed this problem with new rules for telemarketers, but it was not until 2003 that the Do Not Call Registry was created.[19] Even with these changes, legitimate and non-legitimate telemarketing finds its way onto phones. While many (legitimate) companies still utilize this form of non-store retailing, telemarketing is generally used (and more widely accepted) in business-to-business (B2B) settings.

Direct Selling

Direct selling is selling products and services directly to the consumer in a non-retail setting. Direct selling typically consists of a salesperson attempting to sell a product or service to a potential customer at their residence or place of employment. This practice was very popular in the 1950 and 1960s when women were often stay-at-home mothers and/or homemakers. Salespeople would bring the product—a vacuum, for example—to the consumer's home and demonstrate its benefits in an attempt to make a sale. With the rise of two-income families and the Internet, direct selling is not used frequently today in the consumer market. It is, however, still a widely used practice in B2B. However, it remains effective for some companies, such as Kirby, which still sends salespeople door-to-door to sell its vacuums.

Knowledge Check

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

1. After class, Drue realized that the cafeteria was closed, so instead he purchased a candy bar and soft drink from a vending machine. Which type of retailing did Drue utilize?

a. Factory outlet
b. Automatic vending
c. Warehouse club
d. Direct mail

2. Of the following, which retailing strategy would be most appropriate for customers who are neither tech-savvy nor able to shop at store retailers?
a. Automatic vending
b. Television home shopping
c. Warehouse clubs
d. Online retailing

3. After school, Adrian decides to stop at the local Costco. Unfortunately, the store won't allow him in unless he first purchases a membership. Which type of retailer has Adrian entered?
a. Factory outlet
b. Warehouse club
c. Discount store
d. Superstore

4. Retailers providing high-quality goods at discounted prices are called _____
a. superstores
b. discount stores
c. off-price retailers
d. warehouse clubs

5. Some manufacturers operate their own retail locations; when they are left with excess inventory, they often provide these to what type of retail locations?
a. Factory outlets
b. Warehouse clubs
c. Department stores
d. Discount stores

18.3 Retailing Strategy Decisions

Learning Outcomes

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

- LO 1 Describe how pricing affects retail strategy decisions.
- LO 2 Explain how location is a factor in retail strategy decisions.
- LO 3 Discuss the importance of retailer communications.
- LO 4 Explain how merchandise affects retail strategy decisions.

Retailing Strategy Decisions

Retail marketers and other retail business leaders need to determine which retail strategy will work best for the products they sell. Recall that retailers often buy in bulk, break down that bulk into smaller units, and sell to the end consumer. As you may also recall, *value* refers to a perceived worth of a product based on its service, price, and utility provided. As marketers are determining the optimal strategy for the products and services being offered, value again becomes an important factor.

The three most important items to consider in retail strategy that factor directly into value are pricing, location, and merchandise (see Figure 18.10). Because retailers sell goods and services often produced by another company, communication with channel members is another important topic. Let's look at retail strategy decisions more closely.

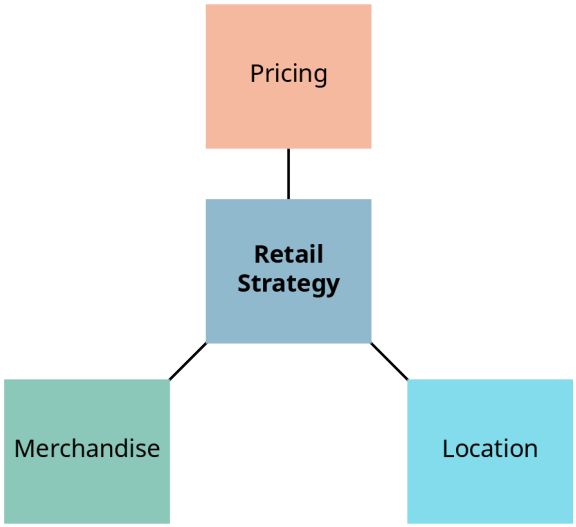

Figure 18.10 Retail Strategy Decisions (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Retail Pricing

Retailers will determine the price for their product based on many factors, including their cost to purchase the product, shipping, storing, and other overhead expenses associated with the business. For store retailers, overhead expense is typically much higher than it is for online retailers considering the brick-and-mortar location, decoration of the store, storage, employee salaries, shrinkage (loss due to spoilage and theft), and other factors. The goal of the retailer, just like any for-profit business, is to make money; therefore, retailers must consider not only their own cost of doing business, but what consumers are willing to pay for the products and services they sell.

Markup

Markup is the additional amount added to the price retailers purchase goods for. Often conveyed as a percentage, markup is the retail selling price minus the initial purchase price, divided by the initial purchase price, times 100. Here is the formula:

$$\text{Markup Percentage} = \left(\frac{\text{Selling Price} - \text{Purchase Price}}{\text{Purchase Price}} \right) \times 100$$

For example, say you manage a footwear retailer. You are interested in selling a new line of tennis shoes that you purchase for $50 a pair. You decide to sell these new sneakers to consumers for $75 a pair. What is your markup?

Your markup is 50%, as shown here:

$$\text{Initial Markup} = \left(\frac{\$75 - \$50}{\$50} \right) \times 100 = 50\%$$

The easiest way many retailers choose a markup is to use a strategy that doubles the wholesale price, known as **keystone pricing**. Generally speaking, retailers tend to mark up prices somewhere around 50%. However, this can vary greatly from industry to industry. For example, retail grocers have a markup of around 15%, while clothing is generally marked up anywhere from 100% to 300%.[20]

Original and Maintained Markup

There is a difference in markup from when it's originally set to what is actually realized when the product sells. Using the shoe retail business example, you determined your markup is 50%. This is known as the **original markup**, the markup that you have decided upon at the *onset* of placing the shoes for sale, which includes the original price to purchase the shoes and the cost of the shoes to the consumer. Using the above shoe store

example, your original markup percentage is 50%.

What price the product actually sells for is considered the maintained markup. In your shoe store, let's say you anticipated selling 100 pairs of shoes this month, but you only sold 75. As such, your original markup has been decreased. The **maintained markup** is the *actual* markup realized on the product that is sold to the consumer. It is the difference between the cost of goods sold and the *actual* retail price of the goods when sold. It is based on actual sales, not planned sales.

Markdowns

Maintained markup also accounts for markdowns, which were not factored into the original markup. A **markdown** is a price decrease for a product that is at the end of its life cycle or season. Markdowns assist retailers in selling through inventory by increasing temporary demand for products through a lower-price offering. If there is low demand for the 25 pairs of tennis shoes remaining in your inventory, you may consider marking them down to $60, then again to $50, and so on. Ideally, markdowns will, at the very least, cover the wholesale cost of the goods. Markdowns lower the maintained markup and the retailer's gross profit.

Gross Margin

Gross margin refers to the actual sales dollars received (net sales) minus the cost of goods sold. It is the amount of profit made before deducting selling, general, and administrative cost and is calculated as a percentage. Let's say that you sold 75 pairs of shoes at $80 but had to mark down the remaining 25 pairs to $50 a pair. To determine your gross margin, you calculate net sales and deduct the cost of goods sold. Here is the net sales formula:

$$75 \text{ pairs of shoes} \times \$80 = \$6{,}000 \text{ in net sales}$$
$$25 \text{ pairs of shoes} \times \$50 = \$1{,}250 \text{ in net sales}$$
$$\textbf{Total net sales} = \textbf{\$6,000} + \textbf{\$1,250} = \textbf{\$7,250}$$

The cost of goods sold (COGS) calculation is as follows:

$$\text{COGS} = 100 \text{ pair of shoes} \times \$40 = \$4{,}000$$

The gross margin calculation is as follows:

$$\text{Margin} = \$7{,}250 \text{ total net sales} - \$4{,}000 \text{ cost of goods sold}$$

That is your gross profit.

Then Gross Profit of $\$3{,}250 \div \text{total net sales } \$7{,}250 = 0.4483 \times 100 = 44.83\%$ Proft Margin

Store Location

An age-old saying in retailing and real estate is that the three most important variables in choosing where to establish a business are location, location, and location. If consumers cannot find or easily access a store retailer, they will not spend their time looking but instead will take their business elsewhere.

Retailers will look at location selection from many angles, including how far away a competitor is located, how many of the same store (for chain stores) are within a certain driving distance, how many miles the average consumer would have to drive to reach the location, and how easy it is to access the location. For example, if you live in a smaller, rural town, there may be a regular Walmart but not a Walmart Supercenter. Why? Consider the population size of your town, the number of competitors, and how close the nearest Walmart Supercenter is located. Retailers such as Walmart know exactly the distance consumers are willing to drive to do their shopping. Perhaps there is a Walmart Supercenter within the distance they know consumers are willing to drive, so they have no need to add one to your town.

In determining location, retailers also must decide if their business is better suited to a freestanding location, a business district or strip mall, or another type of location. Let's examine several types of locations.

LINK TO LEARNING

Success in Small Towns

With the rise of large retailers such as Walmart, smaller mom-and-pop stores have struggled to compete in the last few decades. In small towns and rural areas, this has presented an economic problem. However, some retailers are finding new success in locating in these areas. Watch this clip on how Dollar Stores is finding its niche in towns where many other retailers have closed their doors.

Deal or no deal? The expansion of Dollar Stores (https://openstax.org/r/dealornodeal)

Central Business District

A **central business district** (CBD) is the commercial and business center of a given city or town (see Figure 18.11). While it is usually centrally located, its chief characteristic is its proximity to the largest number of people. Manhattan is the world's largest central business district. One of New York City's five boroughs, Manhattan is home to dozens of neighborhoods and hundreds of businesses, tourist attractions, and retail establishments. It has the highest retail rent in the world.[21] In smaller towns and cities, these downtown areas slowly started to decline with the growth of larger nearby cities. However, many cities are now working hard to restore their downtown and town square areas and turn central business districts into thriving areas once again.



Figure 18.11 A central business district, like downtown Chicago, is the commercial center of a city or town. (credit: "Aerial View of High-Rise Buildings in Chicago's Gold Coast and Magnificent Mile Areas" by Marco Verch/flickr, CC BY 2.0)

Regional Shopping Centers

Regional shopping centers, commonly referred to as shopping malls, offer general merchandise or fashion-oriented products and services (see Figure 18.12). They are enclosed buildings with access to retailers through a common walkway. Most regional malls have one to four anchor stores—large, well-known department stores—and numerous smaller specialty stores, as well as restaurants and activities. This blend of shopping and entertainment is sometimes known as retailtainment. For example, the Mall of America, located in Minneapolis, Minnesota, houses not only department and specialty stores, but also numerous restaurants, a cinema, an aquarium, and a theme park.[22]



Figure 18.12 Regional shopping centers, also known as shopping malls, provide access to retailers through a common walkway and often have one to four anchor stores. (credit: "Lisboa/Lisbon/Lisbon (Explore)" by Bert Kaufmann/flickr, CC BY 2.0)

Regional shopping centers typically service consumers who live anywhere from 5 to 15 miles away.[23] Regional shopping centers are becoming scarcer due to retailers moving into strip malls, an increase in Internet shopping, and the effects of the COVID-19 pandemic. It is not unusual to see regional shopping centers primarily deserted (sometimes called "zombie malls") or transformed into non-retail office space.

Strip Malls

Strip malls are classified by an attached row of retail stores offering both products and services (see Figure 18.13). Consumers enter stores from outside the building, and unlike in regional shopping centers, there is no internal walkway that links storefronts.[24] Rather, there is a sidewalk running in front of and connecting the individual stores. Strip malls often service neighborhoods within one mile of their location, and stores are generally the same size as one another.



Figure 18.13 A strip mall is a collection of retail stores that consumers enter from outside the building. (credit: "20091112_001" by jarchie/flickr, CC BY 2.0)

While strip malls are as old as regional shopping centers, they did not become more popular than regional centers until the late 1990s. The biggest draw to strip malls for consumers was that they did not have to walk through an entire regional shopping center to reach one store, yet could shop at multiple stores if desired. Department stores, factory outlets, and off-price retailers are often found in strip malls, along with specialty

stores, service-oriented retail businesses, and restaurants.

Freestanding Retail Location

Freestanding retail locations are those store retailers that are not attached to any other retailer or establishment. Freestanding locations are more prevalent in smaller, less-populated areas (due to space). Gas stations, convenience stores, and superstores often occupy freestanding locations because they do not need anchors to pull consumers in. Freestanding locations are often less expensive to buy or lease as they are not anchored to established prime retail. In addition, retailers that choose a freestanding location often have fewer restrictions on design of the location, unlike those required of strip mall operators. On the other hand, these locations lack the foot traffic that may be gained from other types of retailers.[25]

Aside from the physical location of the retailer, decisions about exactly how the store is laid out and where products will be shelved is equally important. When you enter a grocery store, for example, you may note that the customer service center is often toward the front, allowing quick access to the services provided. You may also note that the milk, one of the most-purchased products in grocery stores, is often located in the back of the store. If it is purchased so frequently, why put it in the back? Most likely consumers will grab a few other items on their way to or from the back of the store, increasing the dollars spent.

Even the atmosphere of the retail location has been studied by retailers over the years. What does it smell like? What is the temperature? What music is playing? How is it decorated? Each of these considerations plays an important overall role in developing a retailing strategy based on the target market.

Omnichannel Marketing

Omnichannel marketing refers to an integrated approach and cooperation by the various channels to ensure a consistent brand message to customers.[26] Consider Starbucks and its mobile app. The Starbucks mobile rewards app is designed for customers to have a similar experience to that of walking inside the store or even visiting its website. Utilizing an omnichannel strategy provides many advantages to both the consumer and company that might be otherwise more difficult to achieve. Omnichannel marketing provides increased access to products and improved brand visibility and allows for more personalization. This provides customers with a consistent experience with the brand regardless of where they experience it.

Customers continue to look for ways to order products online, particularly as the world became more accustomed to purchasing from home during COVID-19 lockdowns. This has required the companies within distribution channels to reassess the way products and services get to the consumer. An omnichannel approach allows organizations to maximize the shopping experience for the consumer by integrating multiple delivery and engagement options.[27]

LINK TO LEARNING



Omnichannel Revolution

Consumers have high expectations of their online and in-person retailers. Learn from this TED Talk about the future of retailing from an eyewear company that is looking to revolutionize the retail experience.

Omnichannel: Retail (R)evolution | Kilian Wagner | TEDxHSG (https://openstax.org/r/retailrevolution)

Also read about how you can use omnichannel experiences (https://openstax.org/r/serviceomnichannel) to create profits and the difference between omnichannel and multichannel experiences.

Retailer Communication

Retailers communicate to both their consumers and other channel members. The communication to

consumers must be clear and concise to let potential customers know exactly what is being offered. While retailers develop communication strategies to directly reach their consumers, they will also collaborate on communication strategies with channel partners. For example, a Target commercial may feature a sale on Kellogg's cereal. The retailer and the manufacturer have worked together on a joint message for the consumer. Consider a second example. When you walk into a bookstore and see the latest release of a popular author's book in the front of the store display, the bookstore and the publisher have collaborated on all elements of that display: signage, how the book story is conveyed, display setup, etc.

This upward flow of communication is also important in a distribution channel. Retailers are on the front line of the exchange with consumers. Therefore, they can relay communication regarding products upward to other channel members. Assume a product that is sold primarily at retailers is being returned frequently because consumers are confused about how to use it. This information can be relayed back to the manufacturer, and the two can work together to overcome this challenge. It's important to remember that every member of the channel is in business to make money and add value to other channel members, so the more communication and cooperation the channel members have with one another, the more likely it is that they will all enjoy success.

Merchandise

Coupled with location and price, the choice of retail strategy will largely depend on the type of merchandise being offered to the consumer. **Merchandise** is simply the goods that are being offered for sale by a retailer. For large superstores, merchandise can include hundreds or thousands of pieces of merchandise, while smaller specialty stores stock narrow but deep product lines.

Retailers pay close attention to their choice of merchandise in terms of category management. **Category management** refers to a grouping of similar products into categories based upon consumer usage. The concept allows marketers to decrease competition between similar products and also buy similar product bundles at lower cost. Most retail chain stores use category management as a way to lower costs. For example, suppose a retailer has 20 stores across the country. Rather than having a buyer from each location analyze prices and find the best supplier for their location, a centralized group of people negotiates prices and contracts for all retail locations. The time and money that the retailer saves add up when done for all or most products carried.

Knowledge Check

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

1. After trying to sell a line of clothing at your retail location, you decide to change the price from $25 to $15. Which pricing strategy have you used?
   - **a.** Markup
   - **b.** Original markup
   - **c.** Maintained markup
   - **d.** Markdown

2. A superstore chain is planning to open an establishment in the town Levi lives in. Which of the following would be the most likely location for this superstore?
   - **a.** Central business district
   - **b.** Strip mall
   - **c.** Freestanding location
   - **d.** Regional shopping district

3. You are interested in opening a small retail location that sells handmade jewelry in the small, rural town you reside in. Which of the following would be your best choice of location?

a. Department store
b. Regional shopping center
c. Central business district
d. Automatic vending

4. Pablo is trying to determine their gross margin at the end of the quarter. Which is the correct equation?
a. Units sold times selling price
b. Units purchased times purchase price
c. Net sales less cost of goods sold
d. Unit cost plus the sale price

5. Which of the following has had the most impact on a customer's access to product, brand visibility, and personalization?
a. Omnichannel marketing
b. Freestanding retail locations
c. Retail communication
d. Strip malls

18.4 Recent Trends in Retailing

Learning Outcomes

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

LO 1 List major trends and developments in retailing.
LO 2 Discuss the reason for these trends and developments.

Trends in Retailing

As consumer behavior changes and as technology advances, marketers must make changes to stay relevant in the minds of their target market. During the late 1800s, the department store began the transition away from small mom-and-pop stores. In the 1920s, the first supermarket opened. In the 1950s, door-to-door selling was in full swing. In the 1980s, infomercials became mainstream. In the 1990s, online shopping got its start. In the 2000s, traditional brick-and-mortar stores began online sales. The rise of social media began in 2007, which created new selling opportunities (see Figure 18.14). Then, in 2017, the United States saw a slight shift back toward traditional store retailers. But, alas, in 2020 as the COVID-19 pandemic arose, that shift reversed again to online. These are just a few examples of how retailing has evolved with the times in the last century. As consumers get busier with their work and social lives, retailers find new ways to create value with the products they are selling. Let's take a deeper look at some of the more recent trends in retailing.



Figure 18.14 Social media created new selling opportunities for marketers. (credit: "Social Media Mix 3D Icons - Mix #1" by howtostartablogonline.net/Blogtrepreneur/flickr, CC BY 2.0)

Social Commerce

Social commerce is the blend of e-commerce and social media. With the rise of social media, brands have found new ways to engage and create lasting relationships with consumers. Many brands use social media as an additional marketing tool to engage more personally with customers. Retailers can do so in a variety of ways, from shoppable posts to influencer videos and everything in between.

Let's take a look at Macy's, an iconic American department store chain founded in 1858. Macy's has weathered many changes in the retail landscape, and today it utilizes social commerce in a variety of ways. In 2020, the company opened its ambassador program to people outside the company—influencers who would promote Macy's products through affiliate links or shoppable videos on social media.[28] The pay is 5 percent commission on sales. Why this shift to working with influencers? Simple. Consumers tend to trust the opinion of influential individuals over company-created marketing. And for Macy's and numerous other retailers, the strategy has worked because social commerce grew 30 percent from 2019 to 2020.[29]

As social media has grown since the inception of Facebook in 2004, marketers and social media apps alike have taken advantage of the ability of consumers to interact with brands and to purchase products directly in-app. For example, Instagram's Shop and Checkout feature allows consumers to purchase products immediately without ever leaving the app.[30] With the onset of the COVID-19 pandemic, the ability of consumers to purchase products while staying sheltered in place resulted in a change in behavior that is likely to endure in the coming years.

Online Stores in Offline Spaces

Have you ever purchased something online and picked it up at the store? This is what is referred to as online stores in offline spaces. While this practice was slowly gaining traction among larger retailers, the COVID-19 pandemic accelerated this trend drastically throughout nearly every industry. Retailers that already had the technology in place and/or were already testing such practices made a fairly easy transition to this new demand. Others closed their doors forever or scrambled to update their strategies to include some form of online sales.[31]

Walgreens, the second-largest pharmacy chain in the United States, was extremely successful in making such changes on the fly. In 2019, the company began allowing customers to order items online and pick them up at the drive-through window, which was previously primarily used for prescription pick up. Because the drive-through window was already established at Walgreens, it put them at a unique advantage to transition quickly

to offer online orders in offline spaces.[32]

Same-Day Delivery

While most might think of Amazon Prime as the originator of same-day package delivery, the concept has actually been around for decades but was less prevalent in retail. Companies that offer legal and financial services have long had same-day delivery of their documents. In addition, restaurants have been offering guaranteed on-time delivery for some time. Florists have also offered one-day service for many years, particularly for funeral arrangements. And while Amazon Prime made the practice much more widespread throughout retailing, the now-defunct company Kozmo.com likely pioneered the practice in 1998.[33]

Kozmo was an online retailer that promised one-hour delivery of "videos, games, DVDs, music, mags, books, food, basics & more," including Starbucks coffee.[34] The company was popular with young professionals and college students, but it couldn't stay afloat and closed in 2001. The company likely inspired the US Postal Service Metro Post, which allowed Amazon to offer same-day delivery of packages in San Francisco in 2012.[35] Fast-forward to today, and many retailers, including Amazon and Walmart, offer same-day delivery in larger, well-populated areas.

The Emergence of Digital Wallets

Digital wallets are software-based systems that allow for secure transactions. Digital wallets were first used in the late 1990s, but today they offer more security and allow users to save numerous passwords and payment methods. The system allows users to quickly make online purchases without having to remember passwords or dig through their physical wallets to get cash.[36] They also allow users to pay for products and services in-store directly from their phones, allowing for touchless payments.

If you are familiar with the Apple Store or the Google Play Store, you've likely used digital wallets. When you purchase online on one of these devices, an automated display will come up asking if you would like to save your log-in and payment information. Once saved, each time you log in to the same website or begin to make a purchase, the digital wallet will auto-fill your information. While digital wallets are a huge time-saver for consumers, they also benefit retailers by capturing a sale that might have been lost due to inconvenience.

Knowledge Check

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

1. Which of the following trends in retailing grew considerably during the COVID-19 pandemic?
   a. Social commerce
   b. Online stores in offline spaces
   c. Digital wallets
   d. All of the above trends grew considerably.

2. Cam posts numerous times on TikTok and Instagram. As a result, she is asked to work as an influencer for a major retailer. Which trend in retailing is Cam a part of?
   a. Online stores in offline spaces
   b. E-commerce
   c. Social commerce
   d. Same-day delivery

3. Software-based systems that allow for secure transactions by storing passwords and payment information are known as _____.
   a. e-commerce
   b. online stores in offline spaces
   c. social commerce
   d. digital wallets

4. Of the following, which is the most likely reason for an increase in online shopping?
   a. A pandemic
   b. The shift from two-income to one-income families
   c. More people retiring than ever before
   d. The rise in regional shopping centers

5. Which of the following is TRUE of social commerce?
   a. Social media is on the decline.
   b. Very few brands and companies utilize social media.
   c. Social media is one way to incorporate omnichannel marketing.
   d. Social media decreases personalization with customers.

18.5 Wholesaling

Learning Outcomes

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

LO 1 Define wholesaling.
LO 2 Identify different types of wholesalers.

Wholesaling Defined

Wholesaling is the business of buying goods in bulk at a discount from a manufacturer or other distribution channel member and selling them to retailers for a higher price. Wholesalers are often referred to as middlemen because they are the entity that links the producer to the retailer. Unlike retailers, wholesalers generally do not interact with customers or have physical locations for them to visit. Wholesalers engage in a variety of business practices including buying, storing, selling, and marketing.

Wholesalers are integral marketing intermediaries, responsible for getting the right product to the right place at the right time and creating additional value for the customer and other channel members. Furthermore, wholesalers actually make the final price for consumers less because they purchase in bulk, whereas some smaller retailers could not afford do so. There are several types of wholesalers, and each has its unique importance in the distribution channel.

Types of Wholesalers

In addition to the general importance noted above, each type of wholesaler plays a specific and integral role in getting products from a manufacturer to the end user. The decision of which type of wholesaler a retailer will utilize—or which type of wholesaling a wholesaler chooses—will largely depend on the type of product, the additional services needed, and often, the industry as a whole. The following section examines the types of merchant wholesalers (see Figure 18.15).

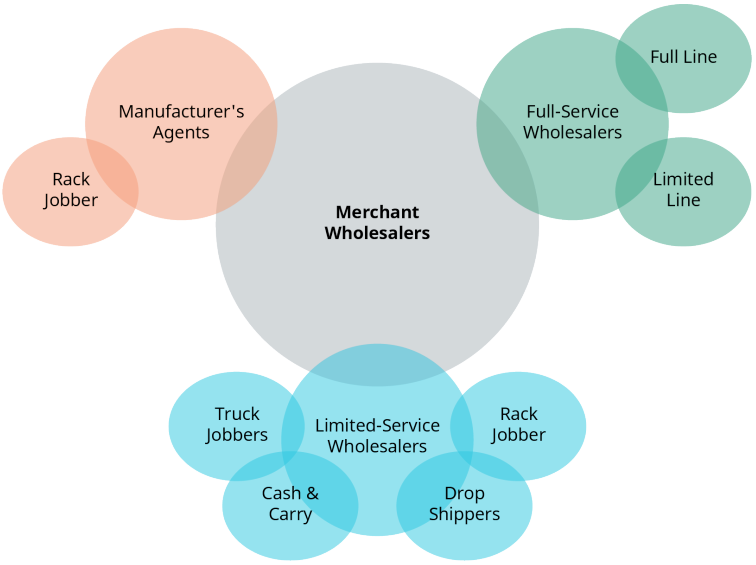

Figure 18.15 Types of Merchant Wholesalers (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Merchant Wholesalers

Merchant wholesalers engage in buying, storing, and physically handling products in large quantities and selling those products in smaller quantities to retailers.[37] Merchant wholesalers are the most common form of wholesaling and can take on many responsibilities in the distribution channel to assist retailers. Merchant wholesalers are classified by the level of service they provide to retailers and include full-service wholesalers, limited-service wholesalers, and manufacturer's agents. Retailers and manufacturers will choose which type of wholesaler to work with based on their needs. Some large retailers, such as Walmart, may need fewer services from wholesalers than smaller specialty stores will need. As you continue to read, remember that wholesalers are a business—so they are in business to make money, but they also take on risk in doing so.

Full-Service Wholesalers

Wholesalers that take on the most risk are full-service wholesalers. **Full-service wholesalers** offer retailers the most complete range of services, such as buying, selling, storage, transportation, sorting, and financing. This type of wholesaler likely has its own salespeople to assist retailers, and some assist in the stocking of the products on retailers' shelves. They often provide retailers lines of credit to purchase products now and pay at a later date. Merchant wholesalers focus on either general or specialty merchandise.

Full-service wholesalers that offer an extensive list of merchandise for sale are known as **general-merchandise (full-line) wholesalers**. Retailers are able to purchase most, if not all, of their inventory from one wholesaler. For retailers, general-merchandise wholesaling is convenient because it provides for greater availability and flexibility with product quantities. However, retailers need to be cautious in utilizing only one wholesaler for all of their needs as they may find themselves in predicaments they cannot contractually be protected from—such as higher prices.

Unlike general-merchandise wholesalers, which focus on an extensive line of products, **specialty wholesalers** focus on a limited line of products. For example, Sysco, one of the country's largest food-service wholesalers, focuses on limited product lines, such as food and food-service supplies.[38] The company's target market includes hospitals and nursing homes, schools and colleges, and other entities that offer food service on a large scale. You might be surprised to learn that your high school cafeteria or college commons is served by Sysco.[39] The company offers a host of services to its customers, such as financing, consultation, menu assistance, and food production.

Limited-Service Wholesalers

As the name suggests, **limited-service wholesalers** offer a limited range of services to retailers. These

wholesalers often compensate for the lack of services by offering lower prices than full-service wholesalers. For example, a limited-service wholesaler may not be able to offer retailers financing or stocking services, but it may purchase excess inventory from full-service wholesalers or manufacturers at a deeply discounted rate and in turn offer a better price to retailers. Limited-service wholesalers offer retailers many services to increase value.

Rack jobbers are companies that work with retailers to display and sell a product in-store. These items are often not products that the retailer would ordinarily stock and are budget-friendly items. For example, when you enter a gas station and see a rack of cell phone chargers and accessories, it is likely that they are from a rack jobber. The rack jobber stocks and maintains the cell phone display, and the gas station receives a portion of the sales. The advantage to the retailer is that it is not responsible for ordering products or maintaining and stocking displays; it is almost like passive income. The biggest disadvantage to retailers is that rack jobbers may over- or under-order products or fail to maintain displays as frequently as needed.

Cash-and-carry wholesalers are those that offer a limited line of fast-moving goods that they sell to retailers for cash. Because these wholesalers do not have to have massive amounts of storage space and do not offer services, they are able to offer products at lower prices. They also do not often deliver products, so they do not have overhead related to transportation. The advantage to the retailer is lower prices. But the disadvantages include no guarantee of product, the expense of transportation, and the demand for cash payment.

Drop shippers are retailers that use suppliers to ship products directly to the end consumer. In this case, retailers sell the product to the consumer, but they don't actually ever take possession (stock on a shelf, have inventory, etc.) of the product. The retailer only pays for the product after the consumer pays for and receives the order. Drop shipping is advantageous to retailers because they do not assume much risk since they do not take possession of the product. However, the profit margins for drop shippers are usually lower than utilizing other wholesalers because the wholesaler assumes all the risk.

Truck jobbers are wholesalers that make calls to retailers carrying goods on a truck. They carry a small inventory of the same product or small product lines, such as milk or bread. Because they have inventory in the truck, they can stop at a retailer, take the order, and deliver it within the same call. Truck jobbers are most often used for perishable foods that cannot sit in a warehouse waiting to be ordered.

Manufacturer's Agents or Representatives

The final, and perhaps least common, type of wholesaler is a manufacturer's agent or manufacturer's representative. Unlike the other types of wholesalers mentioned above, agents do not take possession of any product at any time. Rather, **manufacturer's agents** are independent contractors who act as salespersons for multiple manufacturers to sell similar (but not competing) products to retailers. The agent provides advantages to both to the manufacturer and the retailer. This is particularly true for smaller manufacturers where the expense and management of a sales force would likely not be feasible. Rather, an agent can take on the responsibility of working with the retailers or wholesalers to sell the product.[40]

Knowledge Check

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

1. Which of the following best describes wholesalers?
   - **a.** Businesses that buy in bulk at discounted prices and sell to retailers
   - **b.** Online stores in offline spaces
   - **c.** The final link between manufacturers and consumers
   - **d.** Businesses that produce goods and services

2. Your friend Jesus wants to start a retailing business but doesn't think he can afford space, nor does he wish to travel and make sales calls to retailers. Which of the following might be the best warehousing

option for Jesus?
a. Rack jobber
b. Specialty wholesaler
c. Cash-and-carry wholesaler
d. Drop shipper

3. The type of wholesaler that offers the most complete range of services is known as a _____.
a. rack jobber
b. cash-and-carry wholesaler
c. limited-service wholesaler
d. general-merchandise wholesaler

4. Which type of wholesaler utilizes independent contractors as liaisons between manufacturers and retailers?
a. Manufacturer's agents
b. Rack jobbers
c. Truck jobbers
d. Full-line wholesalers

5. _____ are companies that agree with retailers to display and sell products in-store.
a. Rack jobbers
b. Cash-and-carry wholesalers
c. Drop shippers
d. Truck jobbers

18.6 Recent Trends in Wholesaling

Learning Outcomes

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

LO 1 Explain the impact of growing competition and global dynamics.
LO 2 Discuss the complexity of regulatory requirements.
LO 3 Discuss the challenges of technology evolution.

Growing Competition

Prior to 2019, most of us did not give much thought to the supply chain or its channel members. We went to the store and were welcomed with endless aisles of the products we were used to purchasing. However, when the COVID-19 pandemic hit, the entire country became more in tune with channel members. Wholesalers were not unaffected by the disruption that the pandemic caused channel members, and new trends are on the horizon for wholesalers. Let's take a look at these recent trends that affect wholesaling.

Wholesalers are a central link in the economy and supply chain. The industry is facing tough competition with new as well as nontraditional wholesalers entering the market. Just as consumers are demanding more convenient shopping experiences and increased value in products and services, retailers are demanding the same from their intermediaries. Wholesalers must find innovative and competitive business models to compete.

The Impact of Global Dynamics on the Supply Chain

Globalization has been integrating global markets for the past several decades. And supply chains have had to adjust to keep up with these changes. With products available from around the world at lower costs and retailers demanding faster deliveries, many wholesalers have expanded their operations in response to the rise of the global economy. This comes with its own set of challenges, such as an expanded sales force and the need to understand other economies, cultures, and languages.

More recently, it has become apparent in the United States and around the world that supply chain participants were not prepared for disruptions such as those seen during the COVID-19 pandemic. Shortages of workers, products, containers, and long-haul truck drivers have proven to the industry that some major changes need to occur.

Regulatory Requirements and Complexity

With advancements in technology (and the need for consumer security) as well as the growing global economy, regulatory requirements also increase—and become more complex. Wholesalers must understand such requirements in order to conduct business legally. For example, wholesalers need a special license to distribute restricted goods, such as alcohol, controlled drugs, firearms, and pesticides. Depending on the type of transportation mode being used—such as tractor-trailers hauling containers—special licensing may need to be obtained.

Wholesalers also have a large responsibility when it comes to disposing of waste. More specific government regulations in regard to wholesalers include the Sale of Goods Act, which requires goods sold to be safe and include clear directions.[41] The government has also enacted various rules to protect consumers and to be able to trace products.

Consumer Protection

Caveat emptor (Latin for "let the buyer beware") was a long-standing motto in commercial transactions, one that implies the buyer purchases at their own risk. However, consumer protection laws are now woven into the fabric of the economy. Regulations help keep sellers honest and consumers protected. In general, consumer protection regulations exist to prevent unethical or dangerous business practices throughout the distribution channel. These practices range from false advertising to predatory lending to scams and frauds.[42] Some of these will be discussed later in the chapter.

Product Traceability

Product traceability refers to the ability to track all processes for a product, from the procurement of raw materials to production, consumption, and disposal. Increasing numbers of consumers want to know exactly where their products are coming from and whether they are ethically sourced.[43] Aside from consumer demand, it is a crucial part of the distribution channel as product recalls become more common.

For example, on January 6, 2022, the US Department of Agriculture (USDA) announced a recall of over 25,000 pounds of ground beef.[44] Because of product traceability, the specific ground beef under the recall was able to be traced to a specific location, production date, and lot. Without product traceability, there may have been no way of knowing where the ground beef came from, forcing consumers to discard purchases of product that was not tainted. Additionally, product traceability helps combat counterfeit products by finding the originating source.

LINK TO LEARNING



Traceability Standards

The GS1 Global Traceability Standard defines what is minimally acceptable for full supply chain traceability. It establishes a full system that traces products end to end. Read more about the standards and see how it's applied (https://openstax.org/r/howtraceability) to food.

Challenges of Technology Evolution

The advancement and increased use of technology has brought about both challenges and opportunities for

wholesalers. Product traceability has become increasingly easier, for example. Orders are easier to make and track. However, technology is expensive and comes with a learning curve for new users. The increased demand of consumers and retail customers requires wholesalers to keep up with technological advancements to stay competitive.

Knowledge Check

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

1. What does *caveat emptor* translate to in English?
   a. Buyer beware
   b. Manufacturer beware
   c. Retailer beware
   d. Consumer protection

2. Justia saw on the news that chicken was recently recalled by the US Food and Drug Administration (FDA). The news anchor specified which sell-by dates, manufacturer, and retailers were affected. Justia doesn't understand how the FDA can know, with such specificity, which chickens were affected. How would you describe to Justia this specificity?
   a. Increased competition
   b. E-commerce
   c. Caveat emptor
   d. Product traceability

3. Which of the following is NOT an advantage of product traceability?
   a. It makes it easier to trace counterfeit goods.
   b. It makes it easier to trace tainted food.
   c. It creates less work for distribution channel members.
   d. It makes it easier for consumers to know where products come from.

4. Which of the following is NOT a growing trend in wholesaling?
   a. Decreased government regulations
   b. Increased competition
   c. Increase in globalization
   d. Increase in technological advances

5. Which regulation requires goods sold to be safe and include clear directions?
   a. Sale of Goods Act
   b. Food and Drug Act
   c. Caveat Emptor
   d. Better Business Bureau

18.7 Ethical Issues in Retailing and Wholesaling

Learning Outcomes

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

LO 1 Discuss ethical issues in retailing.
LO 2 Discuss ethical issues in wholesaling.

Ethical Issues in Retailing

As with any business entity, ethical issues arise in both retailing and wholesaling. It can be easy to find oneself in an ethical dilemma while trying to meet consumer demands and stay competitive. There are several

prominent ethical issues that arise specifically with retailing and wholesaling.

Because retailers are the final link between manufacturer and consumer, ethical issues often arise in the practices used toward consumers. Common issues in retail include deceptive or misleading marketing, poor treatment of consumers, and misleading sales tactics.

Unethical Practices Used by Retailers

Although there has been a considerable rise in the number of consumers and advocacy groups calling out unethical business practices, many retailers still attempt to use tactics to sway consumers into purchasing products. Truly Organic, a retailer based in Miami Beach, Florida, came under attack by the Federal Trade Commission (FTC) in 2019 for misleading consumers into believing their products were 100 percent organic, which wasn't entirely true.[45] The case stated that Truly Organic was guilty of **false or misleading advertising**, an unethical marketing practice by which consumers are given false or misleading information about a product or service.

Misleading or manipulative sales tactics is another common unethical practice used by retailers. Misleading sales tactics involve misleading the consumer with untrue information regarding a product or service. Subscription services used to be notorious for misleading sales tactics as they offered a service or product for a free trial but did not include in the promotion that the consumer would be charged every month after a free trial. There are many regulations that require such companies to disclose this information.

Ethical Issues in Wholesaling

Just as retailers may face the temptation to be unethical toward consumers, wholesalers often find themselves in an ethical dilemma with their retail customers. Two common ethical issues that arise in wholesaling surround fairness and pricing.

Fairness and Billing

Fairness can certainly be a subjective term. What you and your sibling may each deem as fair is based on your individual perspectives and opinions. In wholesaling, and commerce in general, the government has enacted regulations to maintain fairness in business practices. You have probably heard the term "monopoly." In the United States, monopolies are considered unfair business practices and thus are largely against FTC regulations. If one or a few businesses control all of an industry, the laws of supply and demand cease to exist because one company controls both. In the wholesaling industry, the same rules apply. If a wholesaler requires a retailer to sign very specific contracts that they will use no other wholesaler, the retailer is at the mercy of the wholesaler when it comes to everything surrounding their business's livelihood.

Just as with fairness, wholesalers also need to pay close attention to their billing practices. Wholesalers and retailers agree on the billing method to be used in their contract. However, it is unethical for wholesalers to bill retailers for product never shipped or received, damaged product without recourse, or product not ordered.



COMPANIES WITH A CONSCIENCE

Trader Joe's

In 1967 in Pasadena, California, the first Trader Joe's was opened. Today, the retail grocery chain has 505 stores in over 42 states as well as an online presence. Trader Joe's has always been committed to improving sustainability in its channel. Unlike many competitors in the grocery industry, Trader Joe's donates 100 percent of its unsold products. It does not allow certain controversial products in the manufacturing of its private-label goods and continues to make organic products more accessible. Additionally, the company has removed more than 6 million pounds of plastic from packaging and continues to have high rates of

employee satisfaction.[46] The ethical decisions of Trader Joe's involve relationship building throughout the supply chain to ensure that each channel member upholds the high ethical standards that help enhance the customer experience.

There are other supermarkets known for ethical practices. These include Natural Grocers, Sprouts, Costco, and Whole Foods.[47]

Chapter Summary

This chapter explores two important members of the distribution channel and value delivery system: wholesalers and retailers. Both add value to the product by ensuring assorted merchandise is available when and where customers want it and at an acceptable price. Retailers buy products from manufacturing firms or wholesalers and provide them for sale to the consumer.

Retailers buy in bulk, hold inventory, offer convenient hours for shoppers, supply services, and collect and share feedback from consumers with other members of the distribution channel. Retailers may have a storefront; non-store retailers usually sell through direct mail and catalogs, vending machines, direct selling, online sites, TV home shopping, and telemarketing. Retail strategy includes identifying target audiences, choosing location(s), providing a product assortment, and pricing.

Wholesalers buy goods in bulk at a discount from a manufacturer or other distribution channel member and sell them to retailers for a higher price. They are often called "middlemen" because they link the manufacturer to the retailer. Unlike retailers, wholesalers do not interact with the final consumer, and they do not have highly visible physical locations accessible to end consumers. Wholesalers engage in a variety of business practices including buying, storing, selling, transporting, financing, and even marketing.

Just as in all marketing strategies, retailers and wholesalers contend with changes in consumer behavior and expectations, technological advances, complex regulations, channel member availability, and international dynamics. Of the regulations, most are intended to protect consumers from unethical or dangerous products and business practices.

Key Terms

automatic vending the use of an electronic device that dispenses a product
cash-and-carry wholesalers wholesalers that offer a limited line of fast-moving goods that they sell to retailers for cash
category killers large superstores, most often chains stores, that are bigger, cheaper, and more convenient than competitors
category management grouping similar products into categories based on customer usage
central business district (CBD) the commercial and business center of a given city or town
convenience store a small retail business that stocks a limited range of everyday items such as groceries, snacks, soft drinks, tobacco, toiletries, and lottery tickets
department stores larger retailers that have separated areas—or departments—for similar product lines
digital wallets software-based systems that allow for secure transactions
direct mail solicited or unsolicited advertising of products and services to prospective customers through the mail
direct selling a marketing strategy that involves selling products and services directly to the consumer in a non-retail setting
discount store retailer that sells a broad range of products at lower prices than competitors
drop shippers a wholesaler business model where retailers use suppliers to ship products directly to the end consumer
factory outlets retailers that offer overstocked merchandise at discounted prices
false or misleading advertising an unethical marketing practice by which consumers are given false or misleading information about a product or service
freestanding retail locations store retailers that are not attached to any other retailer or establishment
full-service wholesalers wholesalers that offer retailers the most complete range of services, such as buying, selling, storage, transportation, sorting, and financing
general-merchandise (full-line) wholesalers wholesalers that offer an extensive list of merchandise for sale
gross margin net sales minus the cost of goods sold

intermediaries companies that act as liaisons between the buyer and seller
keystone pricing a pricing strategy that doubles the price from the wholesaler or manufacturer
limited-service wholesalers wholesalers that offer a limited range of services to retailers to increase value
maintained markup the actual markup on the merchandise that is sold to the consumer
manufacturer's agents independent contractors who act as salespeople for multiple manufacturers to sell similar (but not competing) products to retailers
markdown a price decrease for a product that is at the end of its life cycle or season
markup the amount added to the cost retailers purchase goods for
merchandise the goods that are being offered for sale by a retailer
merchant wholesalers wholesalers that engage in buying, storing, and physically handling products in large quantities and selling those products in smaller quantities to retailers
non-store retailers retailers that operate outside of traditional brick-and-mortar locations
off-price retailers retailers that provide high-quality goods at lower prices
omnichannel marketing utilization of multiple distribution channels
omnichannel strategy manufacturer strategy that uses multiple distribution channels to distribute a product
online retailing a business model that allows consumers to search and purchase products remotely over the Internet
original markup the markup a business has decided upon at the onset of the offering, which includes planned sales and overhead
product traceability the ability to track all processes for a product from the procurement of raw materials to production, consumption, and disposal
rack jobbers wholesalers (or manufacturers) that agree with retailers to display and sell a product in a retail store
regional shopping centers commonly referred to as "malls"; collection of stores that offer general merchandise or fashion-oriented offerings
retailing the process of selling goods and services to consumers
social commerce a blend of e-commerce and social media
specialty stores retailers that focus on selling a single type of product or a single product line
specialty wholesalers wholesalers that focus on a limited line of products but carry the line in some depth
store retailer a traditional brick-and-mortar establishment where products are displayed for customers to purchase
strip malls classified by an attached row of retail stores offering both products and services
supermarket retailer that mostly focuses on a product mix of grocery items but also carries household and personal items and offers limited services
superstores very large retailers that have characteristics of both supermarkets and department stores
telemarketing the attempted sale, or marketing, of goods and services to potential customers via telephone
television home shopping a business practice in which products or services are sold via television
truck jobbers wholesalers that make calls to retailers carrying goods on a truck
warehouse clubs retailers that sell goods in bulk at discounted prices
wholesaling the business of buying goods in bulk at a discount from a manufacturer or other distribution channel member and selling them retailers for a higher price

Applied Marketing Knowledge: Discussion Questions

1. Define direct consumer marketing channels and indirect consumer marketing channels. List an example of each type and explain the difference between them.

2. The shift to online shopping has challenged many retailers who had only a brick-and-mortar location. One of the industries hit hardest by changes in consumer behavior is travel agencies because travelers can access much of the necessary pricing information themselves and then purchase tickets directly from the

airlines. Name two additional store retailers that have virtually disappeared because of non-store retailing.

3. *Markup* is a term used by retailers to explain how much revenue comes from the difference between the cost of acquiring a product and the price it is sold for. Why do florists usually mark up their products 80% while grocers generally mark up their products 15%?
4. How does location matter for a wholesale business?
5. Is it ethically acceptable for a jewelry store to advertise $50 diamond-studded heart necklaces for Valentine's Day and then tell customers who come to the store that the $50 necklace is out of stock but a $75 option is in stock?

Critical Thinking Exercises

1. According to PR Newswire, more than 40 percent of the overall revenue from the multimodal distribution market is due to roadway logistics. Give three reasons why retailers and wholesalers depend largely on roads—rather than rail, air, or water—to send and receive products. Why do roads create the greatest transportation-based revenue for businesses and lowest costs for consumers?
2. Thanks to retailers and wholesalers and their strategies, products may be distributed in various ways. What are two examples of consumer products that are sold by retailers, and what is the corresponding distribution strategy?
3. Most firms today take advantage of multimodal transportation, especially those that source and distribute products internationally. List three reasons why multimodal transportation makes sense financially for a retailer like Amazon that operates in a time-sensitive marketplace.

Building Your Personal Brand

Have you ever worked in a grocery store stocking shelves, worked at your campus bookstore, or waited on customers at a restaurant or drive-through? Working in retail is a fantastic resume booster. Not only have you advanced your knowledge of the business world, but you have also worked closely with demanding customers and management in a retail environment. Learning to serve customers, following training and rules, being part of a successful job interview, and holding a job outside of school are all highly coveted experiences. According to the Skills You Need website, the most important employability skills include "getting along with and working well with other people" and "being reliable and dependable: doing what you say you will by the deadline you have agreed [to] and turning up when you are meant to be there."[48] Create or revise your resume to include the applicable skills.

What Do Marketers Do?

C.H. Robinson is a third-party logistics provider headquartered in Eden Prairie, Minnesota. Many businesses outsource elements of distribution, warehousing, and fulfillment services to companies such as C.H. Robinson. Like wholesalers, logistics providers, also an intrinsic part of the value delivery system, operate largely outside of the public eye.

Reach out to one of the 297 C.H. Robinson locations and ask if you can speak to someone about recent supply chain trends for a college course assignment. Your questions may include the following:

- How does technology impact the supply chain?
- What is the biggest industry you work with that depends on supply chain partners?
- How has the COVID-19 pandemic impacted product availability and distribution efforts?
- What does a typical day at C.H. Robinson consist of?
- What special training do I need to work in supply chain logistics?
- What is a typical salary for a professional new to C.H. Robinson?

- Do you have an internship program?

Marketing Plan Exercise

Complete the following information about the company and products/services you chose to focus on as you develop the marketing plan throughout the course. You may need to conduct research in order to obtain the necessary information.

Instructions: Using the Marketing Plan Template file you created from the Marketing and Customer Value assignment and expanded upon in Strategic Planning in Marketing, Market Segmentation, Targeting, and Positioning, Marketing Research and Market Intelligence, Products: Consumer Offerings, Pricing Products and Services, Integrated Marketing Communications, and Distribution: Delivering Customer Value, complete the following section of your marketing plan:

- Budgeting
- Action Programs
- Controls to Monitor Progress

Submit the marketing plan to your instructor for grading and feedback.

Closing Company Case

Ace Hardware

With annual sales of more than $400 billion in the United States, the home improvement market has no shortage of eager shoppers. While Home Depot and Lowe's dominate the market in terms of sales, Ace Hardware dominates by number of locations and customer satisfaction.[49]

What started in 1924 as a way for the independent hardware retailer to buy inventory like the "big guys," saving money based on volume, has grown into one of the largest and most well-known retailer-owned cooperatives. Founded by a group of Chicago hardware store owners who wanted to save money and enable the smaller hardware store to compete, is now a worldwide leader in home improvement.

Ace prides itself on being the local neighborhood hardware store. Its major niche in the market is to provide the best service to customers. To this end, Ace has always hired knowledgeable staff to help answer questions, locate products, and provide advice. Ace buys inventory according to the needs and wants of its local consumers, but its real niche is in customer service. Generally, a customer isn't in the store for more than five minutes before a friendly, red-shirted Ace employee is asking if they need help.

Early on, Ace wanted to set itself apart based on its helpful and friendly service. Playing on this value proposition and looking to build brand awareness, Ace crafted a very catchy ad campaign, which has solidified the Ace brand. Back in the 1970s and 1980s, Ace became known by its famous jingle, "Ace is the place with the helpful hardware man." This jingle is still being used today, and you can see it here.

Ace 'Hardware Man' Commercial (1978) (https://openstax.org/r/hardwareman)

Because retailers must execute well on all the marketing mix variables, for a retailer like Ace to be successful, it needs to understand its customers in the local market. In doing so, it can also identify the best location for the store in order to meet the needs of those customers and how they travel around town. Ace knows the customers well, so it is able to set prices and provide products according to local needs.

One of the founding principles of Ace is that each store should be locally owned and operated. Because of this, Ace is embedded in the communities they serve. You will often find the local Ace team stepping in to help with community projects or sponsor local sports teams. The stores work with independent producers to stock locally made products.

Over the past decade, retailing has seen significant changes in how consumers shop. Amazon has swiftly

transformed and dominated retailing. Many independent brick-and-mortar retailers have been unable to compete with the convenience of online ordering and at-home delivery.

And with the onset of the COVID-19 pandemic in 2020, retailers everywhere were scrambling to adapt. Ace quickly transformed into an online as well as in-store retailer. Through a quick revamp of its website, Ace was able to offer its customers the ability to order and pay online with options to either pick up at the store or have the product(s) delivered to their home. Home delivery was fulfilled by the local Ace Hardware employees.

Another advantage to Ace Hardware is the services it provides. Making keys, sharpening lawn mower blades and chains for chain saws, repairing screens, and mixing customer paint have allowed Ace to go the extra mile for items customers must come to the store for.[50]

Case Questions

1. Ace fulfills many of the marketing mix variables. What are some of the marketing activities of a local Ace Hardware store?
2. What is the retail classification of Ace Hardware?
3. How does Ace Hardware differentiate itself from the big-box stores like Lowe's and Home Depot?
4. How was Ace Hardware able to adapt to the digital age and work with consumers who were not shopping in-store during the height of the COVID-19 pandemic?

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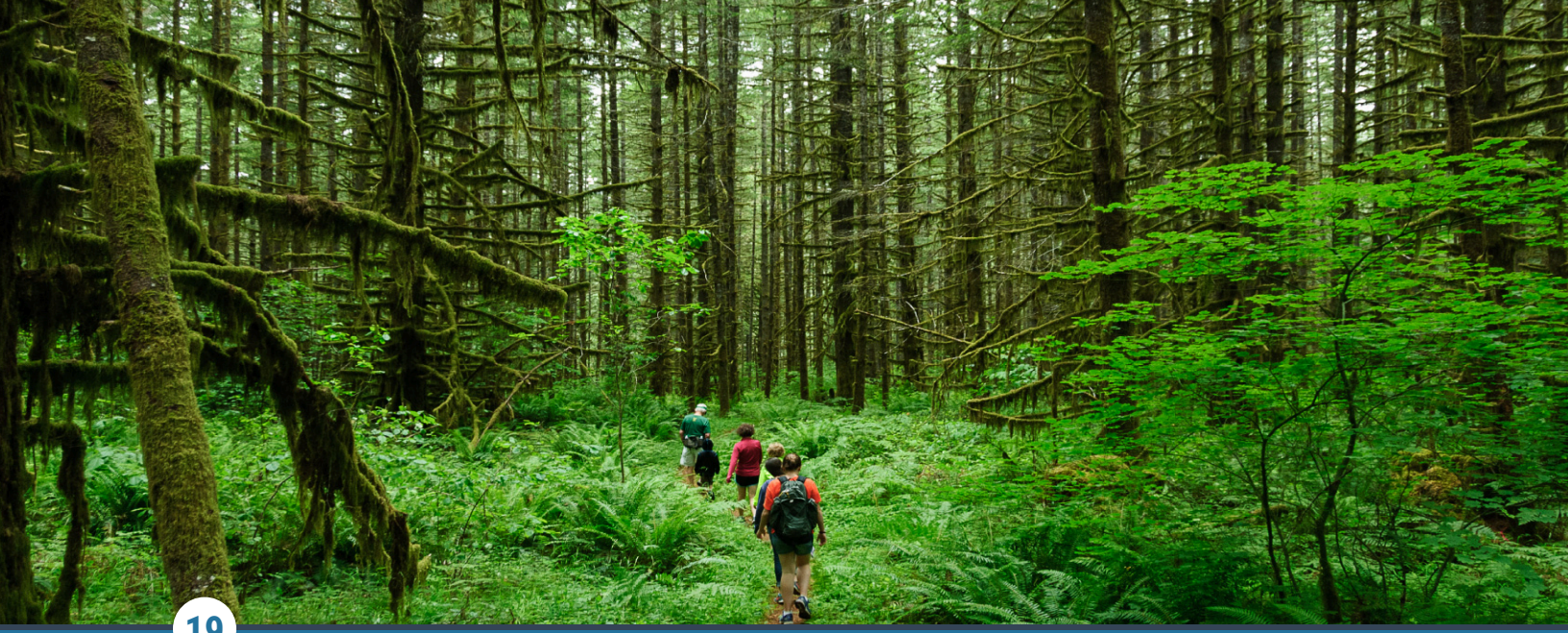

19

Sustainable Marketing: The New Paradigm

Figure 19.1 Sustainability marketing, which takes into account present consumers' needs without harming the future, is growing in importance as consumers shift to being more environmentally conscious in their purchasing decisions. (credit: "Hike" by Loren Kerns/ flickr, CC BY 2.0)

Chapter Outline

19.1 Sustainable Marketing
19.2 Traditional Marketing versus Sustainable Marketing
19.3 The Benefits of Sustainable Marketing
19.4 Sustainable Marketing Principles
19.5 Purpose-Driven Marketing

In the Spotlight

According to Accenture, a global professional services company, "Sustainable organizations are purpose-led businesses which inspire their people and partners to deliver lasting financial performance, equitable impact, and societal value that earns and retains the trust of all stakeholders."[1] Sustainability is about doing business without negatively affecting society. Without sustainable practices, companies may negatively contribute to issues in the environment, inequality, and social injustice.[2] Consumers, employees, and other interested parties are now holding businesses to higher standards: 74 percent of consumers agree that conducting ethical practices is an important reason to support a company or brand; 65 percent of employees believe that businesses should leave their employees better off through work; and 81 percent of sustainable investment indexes outperformed comparable benchmarks in 2020.[3] According to John Streur, CEO of Calvert Research and Management, "In 2021, we see companies almost competing with one another on sustainability."[4] The proof is in the pudding. A 2021 report by the Weinreb Group found that "there were more chief sustainability officers, or CSOs, recruited in 2020 than in the previous three years combined."[5]

Barron's, a respected source on financial news, creates a 100 Most Sustainable Companies list each year. In 2021, the popular kitchen supply store Williams-Sonoma stood out above others because its board consisted of 67 percent women.[6] Williams-Sonoma, Inc.'s 2021 impact report outlined that, at the time of publication, 46 percent of the company's products supported one or more of its environmental and social initiatives, and the company aims to increase that amount to 75 percent by 2030.[7] In 2020, Williams-Sonoma joined the United

Nations (UN) Global Compact and aligned its corporate goals with the UN Sustainable Development Goals.[8] To learn more about Williams-Sonoma's sustainablity efforts and plans, review its 2021 impact report (https://openstax.org/r/impactreport), its corporate responsibility web page (https://openstax.org/r/sustainabilitywilliams), and the sustainability section of its website (https://openstax.org/r/williamsonoma).

Williams-Sonoma is just one example of a company with a vision and a commitment to sustainability. Other companies known for their sustainability commitments and practices include Microsoft, VMware, Intuit, Apple, and Mastercard.[9]

In the future, all global companies must commit to, assess, and validate the goal of sustainability; as you'll learn in this chapter, it's becoming a significant factor in how businesses evaluate success. Those companies that fully embrace this commitment will stand out most to consumers and achieve business success.

19.1 Sustainable Marketing

Learning Outcomes

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

- LO 1 Define sustainable marketing.
- LO 2 Explain the three pillars of sustainable marketing.

Environmental Sustainability

Consumers increasingly demand purpose over profits from the brands they work for, shop for, invest in, and allow within their communities. In fact, an IBM study on consumer behavior indicated that 57 percent of consumers would alter consumption habits to be more environmentally conscious, and nearly 80 percent of survey respondents indicated that sustainability is essential.[10] Therefore, sustainability is a business imperative. As defined by Philip Kotler, Professor Emeritus at Northwestern University, "the concept of sustainable marketing holds that an organization should meet the needs of its present consumers without compromising the ability of future generations to fulfill their own needs."[11] In other words, products and services consumed today should not harm consumers of tomorrow.

Sustainable marketing infuses purpose into socially conscious brands, products, and services. Marketing seeks to differentiate the brand based on mission. Sustainable brands define a purpose, orient to consumers' and related groups' values, align purpose with strategy, and reflect sustainability in marketing. This business strategy gives brands an edge with those who seek brands that align with their values.

The three pillars of sustainable marketing include environmental sustainability, social good, and economic return (see Figure 19.2). You may have heard the term "planet, people, and profits," which describes the three pillars of sustainable marketing. Businesses meet the needs of the marketplace without sacrificing the future viability of the world. Companies are increasingly following an **environmental, social, and governance strategy** and use these **ESG pillars** to guide their work. The topic extends beyond sustainability into doing what's right socially and ethically. Companies report their quantitative and qualitative results in annual disclosures to share the impact of ESG efforts.

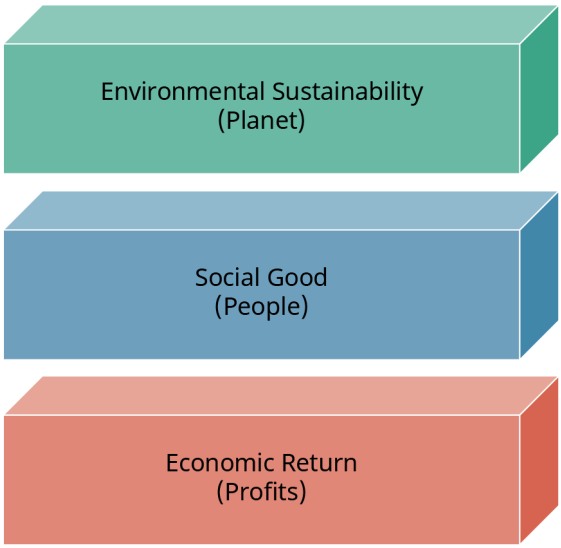

Figure 19.2 Three Pillars of Sustainable Marketing (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

LINK TO LEARNING

ESG

Are you interested in learning more about the elements of ESG? Here are several sources where you can read more:

- Global advisory firm, PwC (https://openstax.org/r/socialandcorporategovernance)
- Finance company, NerdWallet (https://openstax.org/r/esginvesting)
- HubSpot 2022 sustainability report (https://openstax.org/r/hubspotsustainability)
- Accenture (https://openstax.org/r/sustainabilitycreatingvalue)

The **environmental pillar** focuses on reducing a company's impact on the environment. For example, companies may reduce their environmental impact through recycling, reusing, minimizing waste, and increasing energy efficiency. Stonyfield Organic has a commitment to the environmental pillar with its plans to cut carbon emissions by 30 percent by 2030. In addition, it plans to focus on energy conservation, waste reduction, and sustainable packaging and logistics.[12] Additionally, Subaru of Indiana Automotive operates a "green lean" manufacturing facility that is designed as zero landfill. Subaru recycles or composts 98 percent of its manufacturing waste, and the remaining 2 percent is incinerated as waste to fuel.[13]

The **social pillar** considers a company's consumers and employees and creates a more inclusive environment for its community. Much of the work in the social pillar occurs through responsive programs for employees that increase well-being. However, companies can also reach beyond their walls to impact their communities.

LINK TO LEARNING

The Story behind State Bags

There are many examples of companies that work to support their communities. One example is State Bags. State Bags donates a bag filled with school supplies for each bag purchased. It also partners with nonprofits such as Seeds of Peace, Time's Up, and Bottomless Closet to support women and children from

underserved communities.[14] You can learn more about State Bags and its work by visiting the company's website (https://openstax.org/r/statebagspages) or following the State Bags Instagram account (https://openstax.org/r/instagramstatebags).

Adobe is another example of a company that works inside and outside its organization to effect social change by partnering with local nonprofits in the communities in which its employees live and work. Adobe has a rich diversity, equity, and inclusion initiative within its organization that empowers diverse voices. For example, Gen Create is a digital space for diverse thinkers and creators to collaborate to change the world for the common good. Finally, Adobe provides access to its software to underserved communities to work toward greater equity regardless of location.

LINK TO LEARNING



Adobe Gen Create

Check out Adobe's Gen Create program (https://openstax.org/r/resourcefornextgeneration), a place for young creators to collaborate and effect change.

The **economic pillar (governance pillar)** of sustainability concerns profitability and business ethics. Businesses cannot be sustainable if they are not profitable, which is a clear key sustainability performance indicator. Companies can demonstrate success in the economic pillar through proper governance structures, risk management, and compliance. Proper governance over voting, legal compliance, and accounting standards shows people that companies are following their obligations. Governance also includes business ethics, anticompetitive practices, and tax transparency. At the end of the day, is the company doing the right thing for its investors and all of its interested parties?

Governance structures can be examined to ensure diversity of leadership that aligns with the company's various interested and influential groups. Fortune and Refinitiv partnered to develop a Measure Up initiative that aims to bring transparency to businesses diversity, equity, and inclusion work of the Fortune 500. The initiative reviewed measures such as policies, employee resource groups, percentage of minorities in board or leadership positions, and salary parity to determine a score for companies. Companies such as Microsoft, Target, and Gap rated highly on the criteria, demonstrating advanced diversity, equity, and inclusion.[15] Amazon publishes its representation statistics sorted by job level to illustrate how it is making progress on creating a more diverse workforce.

LINK TO LEARNING



Measure Up

Learn more about the Measure Up initiative (https://openstax.org/r/partnershipmethodology) to help businesses build fair and inclusive work spaces. In its work, it ranks companies based on their diversity, equity, and inclusion (DEI) disclosure and performance metrics.

Knowledge Check

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

1. If a brand develops a diversity, equity, and inclusion initiative, which pillar of sustainability is addressed?
   a. Environmental
   b. Social
   c. Economic
   d. All of the above are correct.

2. How does sustainable marketing differentiate from other types of marketing?
   a. It is more expensive.
   b. It is only for people who care about the environment.
   c. It is a business imperative.
   d. It is rooted in purpose.

19.2 Traditional Marketing versus Sustainable Marketing

Learning Outcomes

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

LO 1 Explain how the parties in traditional and sustainable marketing are different.
LO 2 Define the different objectives in traditional and sustainable marketing.

Differences between Traditional and Sustainable Marketing

Traditional marketing takes a customer approach and focuses on product, price, place, and promotion for a target audience. Sustainable marketing takes a "stakeholder approach" and considers customers, shareholders, employees, vendors, interest groups, media, and the general public. These groups are interested in the brand's sustainability agenda, which becomes the focus of the marketing effort.

Costco is an example of a company that takes this kind of approach to its sustainability marketing. Costco describes its sustainability agenda this way: "Sustainability to us is remaining a profitable business while doing the right thing." Costco honors three sustainability principles: "For Costco to thrive, the world needs to thrive. We are committed to doing our part to help. We focus on issues related to our business and where we can contribute to real, results-driven positive impact. We do not have all of the answers, are learning as we go and seek continuous improvement."[16] These principles demonstrate a commitment to all of Costco's interested parties. For example, Costco pays its employees above market rates to honor its commitment to support its employees and communities.

LINK TO LEARNING



Costco Sustainability Commitment

Costco publishes its commitment to sustainability on its website as a way to be fully transparent about its sustainability strategy. The company shares its code of ethics, mission statement, sustainability principles and responsibilities, and development goals. You can read more about its commitment here (https://openstax.org/r/sustainabilityintroduction).

Traditional business strategy indicates that shareholder return is the primary obligation of companies. However, a sustainable business strategy suggests that companies have a **corporate social responsibility (CSR)** to use their platforms to improve the world and not cause harm. Furthermore, an environmental, social, and governance (ESG) strategy holds companies accountable for their sustainability work. An ESG strategy uses an organization's influence to make positive change and develop metrics to show how purpose is measured.

Businesses have always been required to comply with environmental laws, but sustainable companies put the environment in the center, designing for the environment. New Belgium Brewery in Fort Collins, Colorado, is a foremost example of a company designed around the environment. The brand is committed to clean energy to combat climate change. New Belgium Brewery has three principles woven into its business model to keep management accountable for its sustainability goal of becoming carbon neutral by 2030. Those principles are to

- reduce emissions by creating electricity from wastewater, collecting heat while brewing to reuse, and earning LEED certification on its properties;
- work with interest groups to advocate for improved climate policies; and
- improve recycling in the United States through its cofounded glass recycling coalition.[17]

LINK TO LEARNING



New Belgium Brewery Commitment to Climate

Learn more about New Belgium Brewery sustainability strategies by reading about its commitment to climate (https://openstax.org/r/companymissionclimate).

Knowledge Check

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

1. Traditional marketing takes a customer approach, while sustainable marketing takes a(n) _____ approach.
   a. shareholder
   b. value
   c. economic
   d. cost-savings

2. In sustainable marketing, companies innovate now and do which of the following for the future?
   a. Earn money
   b. Ensure viability
   c. Save money
   d. Earn profits

19.3 The Benefits of Sustainable Marketing

Learning Outcomes

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

LO 1 Describe the various benefits of sustainable marketing.
LO 2 Explain why sustainable marketing is a business imperative.

Purpose-Driven Strategy

A **purpose-driven strategy** is when companies work to make a difference in their community through their decisions and support of environmental programs. There are numerous benefits to developing a purpose-driven business strategy, including enhanced brand recognition, reduced costs, improved effectiveness, easier regulatory compliance, waste minimization, and enhanced return on investment (ROI) (see Figure 19.3).

Harvard Business School Professor Rebecca Henderson indicates that businesses must adopt a shared value

orientation. Doing well and doing good are mutually dependent. Companies cannot do good if they are not doing well. Companies with strong ESG programs outperform the market long-term despite the short-term investment.[18]

PepsiCo developed its sustainability program under former CEO Indra Nooyi. Nooyi understood the benefits of purpose to planet, people, and profits. PepsiCo focuses on agriculture, water, packaging, product, climate, and people to create systemic change within PepsiCo and the broader environment. The results of this work are outlined in an annual sustainability metrics report that holds PepsiCo accountable for its purpose. The company earned over $70 billion in net revenue in 2020, illustrating the shared value opportunity.[19]

LINK TO LEARNING

PepsiCo and Its Purpose-Driven Strategy

Read more about PepsiCo and its commitment to sustainability in its 2021 ESG Report (https://openstax.org/r/sustainabilityandesgtopics) and its ESG Performance Metrics report (https://openstax.org/r/sustainabilityandesgtopics2021).

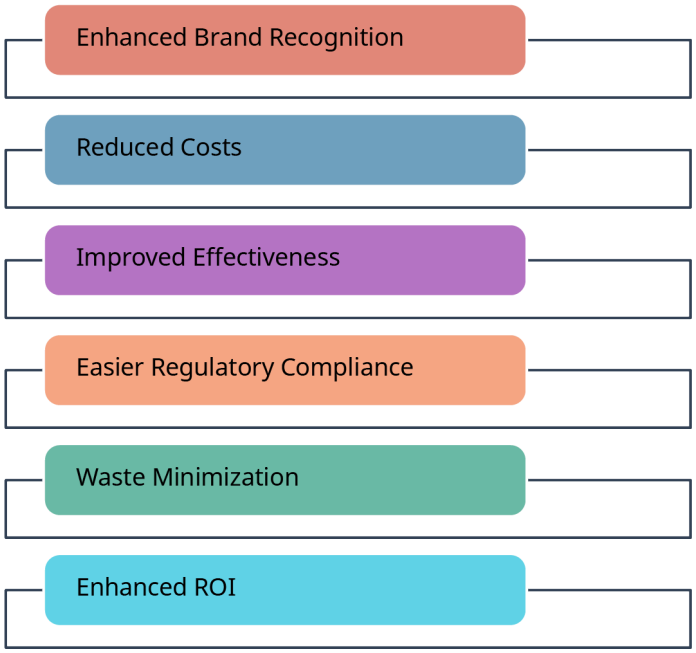

Figure 19.3 Benefits of Sustainable Marketing (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Enhanced Brand Recognition

Brands that incorporate purpose earn enhanced brand recognition for that work, which can become a competitive advantage and result in higher profitability. Patagonia is a prime example of a company known for its sustainability programs. Its founder, Yvon Chouinard, envisioned the company as a pillar of sustainability and set the stage for other companies to follow. Patagonia sells outdoor wear that is durable and designed around sustainability. The brand will repair its goods to avoid customers purchasing new ones when they reuse them. It also donates 1 percent of annual sales to good causes worldwide. Finally, Patagonia facilitates an Action Works website that connects interested parties with local environmental protection groups to promote activism.[20] These sustainability activities are critical to ensuring that Patagonia is a brand with a purpose.

Reduced Costs

Sustainability practices often carry an up-front investment; however, over time, these costs typically return a cost reduction. A survey by Bain & Company indicates five times revenue growth among all brands scoring highest on sustainability.[21] This is possible because sustainability programs mean reduced materials, recycling programs, and lower use of natural resources, which are all good for the planet and reduce production costs.

For example, Ben & Jerry's stopped using plastic straws and spoons in its stores.[22] This reduction strategy was good for the planet while also decreasing expenses for the business, demonstrating that planet and profits can be mutually beneficial. Founders Ben Cohen and Jerry Greenfield set forth a product, economic, and social mission for the business. In response to the success seen from Ben & Jerry's, the "triple bottom line" mission has been adopted by many organizations that seek to align profit, planet, and people.

Improved Effectiveness

Sustainability practices can improve organization effectiveness. For example, investing in human capital is an area of importance because potential new employees consider purpose, well-being, culture, diversity, equity, and inclusion when deciding where to work. Mastercard is an organization that prioritizes its people, and it sees improved effectiveness as a result. Mastercard saw an average annual profit growth of nearly 19 percent in the 10 years it connected purpose to profits.[23]

The Anya Hindmarch company brought attention to the excessive use of plastic bags in 2007 with its "I Am Not a Plastic Bag" campaign.[24] The campaign sought to replace plastic bags with an eco-friendly alternative that reuses existing materials. Since 2007, companies have followed suit with reusable tote bags that serve as both a sustainability measure and a means of advertising their brands.

LINK TO LEARNING

Anya Hindmarch and Antidote

Anya Hindmarch's "I Am Not a Plastic Bag" campaign was a collaboration with Antidote, a creative agency, that gained loads of press coverage. That publicity contributed to the U.K. decision to charge for plastic bags. Read more about the campaign from the Anya Hindmarch website (https://openstax.org/r/imnotaplasticbag) and Antidote's website (https://openstax.org/r/antidote). When you're finished, take a moment to be inspired by Anya Hindmarch and her recent sustainability fashion product, a collection of biodegradable leather bags (https://openstax.org/r/hindmarchlaunches).

Easier Compliance with Regulators

In addition to returning value to shareholders, companies are also responsible for following international, national, and local laws. A sustainability agenda goes beyond companies' legal obligations and extends to serving the world better. This strategy eases compliance by going above and beyond what is expected by government agencies. For example, the US Environmental Protection Agency (EPA) provides regulatory information by sector to provide businesses with clear regulatory compliance criteria.

LINK TO LEARNING

EPA Regulatory Information

If you're interested in learning more about the EPA's regulatory information and its compliance criteria per industry, check out this regulatory information by business sector (https://openstax.org/r/

regulatoryinformation).

Waste Minimization

Environmental measures can reduce waste, creating a healthier planet. Many organizations are focused on waste minimization to demonstrate a commitment to the Earth. For example, McDonald's has set a waste minimization goal of having 100 percent guest packaging derived from renewable, recycled, or certified sources by 2025. This is impactful because single-use plastics are a known source of waste, particularly in the oceans where plastic outnumbers fish in some regions.[25]

Enhanced Return on Investment

As with any business strategy, goals and metrics are also important with a sustainability strategy. Organizations expect a return on investment when resources are committed, even with sustainability work. Organizations can look at several factors to determine the financial return on sustainability efforts. They will evaluate the increased interest from investors, changes in brand value, and revenue. Additionally, organizations can consider the well-being of their employees, their impact on the planet, and their efforts to improve the world as another key measure of success (see Figure 19.4).



Figure 19.4 Factors to Consider in Evaluating ROI with Sustainability Strategies (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Knowledge Check

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

1. Which of the following is the sustainability strategy benefit when a company becomes known for its sustainability efforts and it becomes a competitive advantage?
   a. Increased brand recognition
   b. Reduced costs
   c. Waste minimization
   d. Enhanced return on investment
2. Which benefit of sustainability occurs when brands show their shareholders an economic return on

sustainability programs?

a. Increased brand recognition
b. Reduced costs
c. Waste minimization
d. Enhanced return on investment

19.4 Sustainable Marketing Principles

Learning Outcomes

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

LO 1 List the principles of sustainable marketing.
LO 2 Explain how these principles are put into practice.

Consumer-Oriented Marketing

Consumer-oriented marketing is a solution focused on a customer's need. The product is designed to solve a problem, distributed for convenience, and promoted as a solution to the consumer's needs. A consumer-oriented marketing strategy requires extensive marketing research to understand the consumer's needs. Organizations then must design the four Ps around those needs. Finally, a consumer-oriented marketing strategy requires customer service and feedback to ensure that consumer needs are met. Zappos is known for having a customer-oriented marketing strategy. With its strategy, it focuses heavily on customer service and has assembled an extensive team that solves any issue a consumer may face with an order.

LINK TO LEARNING



Consumer-Oriented Marketing

Numerous companies are well-known for their consumer-oriented marketing approaches. Read this succinct summary on what Starbucks, Patagonia, Zappos, Amazon, and Nordstrom are specifically doing to understand their customer's journey and build customer loyalty (https://openstax.org/r/marketingevolution).

For a deeper look into Zappos' strategy, read this article from Entrepreneur (https://openstax.org/r/entrepreneur) that outlines nine steps to Zappos' exceptional service.

Customer-Value Marketing

Customer-value marketing seeks to provide the customer with maximum utility compared to competitors. Customers make a value exchange when purchasing a product, so they naturally ask themselves whether the cost is worth the value of the transaction. This does not mean that all customer-value products and services are inexpensive. In fact, the high price of a product might be an intentional choice by the company to attract a specific target audience. For example, Tiffany & Co. has created a luxury brand around its jewelry's value to customers.

Innovative Marketing

Innovative marketing uses media as a method for capturing shoppers' attention and converting them into customers. The ever-changing digital landscape offers myriad possibilities to engage an audience in an innovative marketing strategy. For example, Shedd Aquarium in Chicago took its penguins on a field trip to meet their aquatic roommates for a virtual event in 2020. During the field trip, the Aquarium broadcasted on social media and delighted animal lovers worldwide while promoting the aquarium.

Mission Marketing

Mission-driven marketing aligns purpose and brand. With mission-driven marketing, a company uses its core mission and purpose as the focus of its marketing strategies.

A mission-driven organization can be a for-profit or nonprofit, governmental or nongovernmental, public or private, or religious entity.

Charity: Water is an outstanding example of a mission-driven organization that uses marketing to inspire its audience. Its mission is to bring clean water to communities that face a clean water crisis. The founder, Scott Harrison, has his own story that inspires the mission, and storytelling is integral to implementing charity: water's marketing strategy.

LINK TO LEARNING



Charity: Water

Charity: water has raised more than $640 million and funded more than 91,000 water projects in 29 countries. Watch this video about Scott Harrison's journey and witness his storytelling abilities as he shares his personal experience around the impact of dirty water.

Scott Harrison's Mission to Eradicate the Global Water Crisis (https://openstax.org/r/scottharrisonstory)

Societal Marketing

Societal marketing is most akin to the sustainability strategies discussed in this chapter. A societal marketing strategy fulfills social responsibility obligations while satisfying customer needs. Athleta, a Gap company, sells premium-priced performance apparel to female athletes. Its product is designed for a target audience of women in motion. Athleta launched a *Power of She* campaign to celebrate the diversity of women and serve as a societal marketing effort. Additionally, approximately 70 percent of Athleta's apparel is manufactured from recycled and sustainable materials.[26]

Knowledge Check

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

1. _____ uses media as the lead for awareness building.
   a. Consumer-oriented marketing
   b. Customer-value marketing
   c. Innovative marketing
   d. Mission marketing

2. Which of the following puts a purpose at the center of marketing and is implemented most often using storytelling?
   a. Consumer-oriented marketing
   b. Customer-value marketing
   c. Innovative marketing
   d. Mission marketing

19.5 Purpose-Driven Marketing

Learning Outcomes

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

LO 1 Understand issues related to purpose-driven marketing.
LO 2 Articulate best practices in purpose-driven marketing.

Brand Purpose

Brands satisfy many people, from employees to investors, to customers, to suppliers, and to the communities that they serve. These parties ask for more than a good product at a fair price. They ask for a brand to stand for something more than the product or service being offered. Brand purpose is developed deep in the DNA of an organization and should be infused in everything the brand says and does.

Accenture conducted a global survey of 30,000 consumers about brand purpose. It found that 62 percent of customers want companies to take a stand on issues such as sustainability, transparency, or fair working conditions. Furthermore, the brand purpose should align closely with the consumer's values to create an optimal purchase choice. Consumers are willing to switch brands if their values do not align.[27]

The challenge runs deep. People expect brands to connect to a deep purpose; however, they are intolerant of brands who do so inauthentically. Walmart is an example of a company that received backlash from customers because of what they felt was not authentic. In May 2022, Walmart launched an ice cream flavor for the upcoming Juneteenth holiday. Consumers felt that Walmart was trying to sell a product rather than honor an important day in history.[28] This example demonstrates the importance of holding a purpose at the center of the brand instead of using it as a means of selling a product.

Bombas knows how to build purpose into its DNA. The innovative, purpose-driven brand built its business on donating socks and underwear to homeless shelters with each purchase. As of this writing, Bombas has donated over 5 million items with the help of 3,500 impact partners in every state.[29] Its message is simple: you buy socks, they give socks. Purpose is at the heart of Bombas's organizational mission, and it will share it with anyone who will listen.

LINK TO LEARNING



More about Walmart and Bombas

There are numerous articles about Walmart and the Juneteenth backlash. Here are two worth reading so you can gain better insight into the customer's perspective:

- CNN, *Walmart Apologizes for Selling Juneteenth Ice Cream* (https://openstax.org/r/walmartjuneteenth)
- New York Daily News, *Walmart's Juneteenth Ice Cream Leaves a Bad Aftertaste* (https://openstax.org/r/icecreamcontroversy)

CNN Business interviewed the founders of Bombas to learn more about their work to provide homeless people with socks. Check out this video about how Bombas integrates purpose and business (https://openstax.org/r/bombassocksfresh).

Brands That Put Purpose First

The brands that put purpose at the center create ways for their customers to experience purpose. Dove was a pioneer in brand purpose when it developed its Campaign for Real Beauty. Marketing research uncovered that young girls were impacted by media's standards of beauty. Dove took this insight and decided to tackle a

systemic societal problem. This multi-decade campaign led to a celebration of all types of beauty, redefining how we think of women and impacting self-esteem. Customers could experience purpose because the Campaign for Real Beauty was all about them. The Campaign for Real Beauty was more than just advertising; it reflected who Dove wanted to be in the world.[30]

LINK TO LEARNING



Dove's Campaign for Real Beauty

Dove's campaign included several ads and commercials. Seeing examples of how companies focus on purpose will help your creativity in future marketing jobs. Explore the commercials created by Dove:

- Real Beauty Sketches, a commercial that artistically compares the gap between self-perception with perception from others
  Dove -- Real Beauty Sketch Commercial (https://openstax.org/r/doverealbeauty)
- Anti-photoshopping film *Evolution*, a very popular and viral commercial of a behind-the-scenes look at what happens with beauty ads
  No. 1 Dove: Campaign for Real Beauty (https://openstax.org/r/campaignforreal)
- Reverse Selfie, a commercial about the impact of social media on young girls' self-esteem
  Reverse Selfie: Social Media's Impact on Girls' Self-Esteem | Dove (https://openstax.org/r/reverseselfie)

Why was this campaign so successful? There are numerous articles and opinion pieces that provide insight into its success. Read these two out for a sampling:

- Global Brands, *The Success of Dove's Real Beauty Campaign* (https://openstax.org/r/thesuccessofdoves)
- Digital Marketing Institute, *Dove: A Spotless Approach to Digital Marketing* (https://openstax.org/r/doveaspotless)

Purpose-driven brands speak up, even when it's difficult or costly to do so. If you read the news, you may see brands taking a stand on social issues. Russia's war on Ukraine in 2022 urged several American companies to cease operations in Russia. It can be costly to cease operations in a country as large and populous as Russia, but companies such as Starbucks and McDonald's decided that their purpose was more important than their profits in this case.

Brands with purpose are intentional about inclusion. While exclusivity can be an effective marketing tactic for luxury brands, purpose-driven brands know that inclusivity is paramount. Procter & Gamble is known as a company that weaves inclusion into the fabric of its organization, from its hiring practices to the use of its paid media.

LINK TO LEARNING



Procter & Gamble Prioritizes People

Visit Procter & Gamble's (P&G) "Explore Our Stories" web page (https://openstax.org/r/equalityandinclusion) to view how the company prioritizes inclusion and creates opportunities for all people. Read three to five stories and consider what P&G is saying about who and what it values. Also, look at the partners that P&G collaborates with to create change in its communities.

Knowledge Check

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

1. Which of the following concepts are related to purpose-driven marketing?
   a. Transparency
   b. Sustainability
   c. Fair working conditions
   d. All of the above are correct.
2. Which of the following is a best practice of purpose-driven brands?
   a. Standing up for what's right
   b. Good advertising
   c. Telling everyone about their purpose
   d. Being profitable

Chapter Summary

Sustainable marketing is an effort by companies to run their business to serve the customers of today while preserving the world for the customers of tomorrow. Companies are increasingly following an ESG, or environmental, social, governance, structure to bring transparency to their sustainability efforts. Sustainable marketing uses the main drivers of traditional marketing such as customer satisfaction, but it considers a broader set of impacted groups. There are myriad benefits to sustainable marketing as it relates to brand equity, financial measures, and government compliance. Purpose-driven brands stand for something more than what they sell, and they build their organization around that stated purpose.

Key Terms

consumer-oriented marketing marketing strategies focused on customer needs and solving their problems
corporate social responsibility (CSR) sustainable business strategy where companies use their platform to do good, improve the world, and be socially accountable to their customers and other interested parties
customer-value marketing marketing strategies in which a company works to provide the customer with maximum value compared to competitors
economic pillar (governance pillar) the sustainability pillar that concerns profitability and business ethics
environmental pillar the sustainability pillar that focuses on reducing a company's impact on the environment
environmental, social, and governance strategy a strategy that holds companies accountable for a sustainability strategy
ESG pillars the three pillars of environmental, social, and governance that guide corporate sustainability work
innovative marketing marketing strategies that use media as the method for capturing prospects' attention and converting them into customers
mission-driven marketing marketing strategies that align purpose and brand by using the corporate core mission and purpose as their focus
purpose-driven strategy strategy in which companies work to make a difference in their communities through their decisions and support of environmental programs
social pillar the sustainability pillar that focuses on creating an inclusive environment for the community
societal marketing a marketing strategy focused on fulfilling social responsibility obligations while also satisfying customer needs
sustainable marketing a marketing strategy that infuses purpose into socially conscious products and services

Applied Marketing Knowledge: Discussion Questions

1. If we agree with the notion that products and services of today should not harm people of tomorrow, how would you redesign your favorite snack food to be more sustainable?
2. The three pillars of sustainability are environmental sustainability, social good, and economic return. Why are these three pillars intertwined? What would happen if you had one without the other two?
3. Research New Belgium Brewery. How do the company's sustainability practices benefit the environment, communities, and its financial bottom line?
4. Waste minimization is a key sustainability strategy. Take a look in your kitchen cabinets and describe the products that could be made with less waste.
5. Review the trailer for "This is a True Story" on Charity: Water's website (https://openstax.org/r/charitywaterorg). How has the nonprofit gamified its mission?

Critical Thinking Exercises

1. Design a sustainability campaign. Select a product or service that is not currently sustainable and redesign it to be sustainable. Consider how you would change the form, function, packaging, distribution, and/or target audience.
2. Evaluate a purpose-driven brand. Review the website for the footwear company Allbirds (https://openstax.org/r/allbirdssustainablepractices). Describe how sustainability is at the heart of its mission as a company.
3. Review the Edelman Trust Barometer (https://openstax.org/r/2022trustbarometer). What does this research tell you about the importance of brand trust? Discuss the brands you trust and describe the actions that they take to invoke that trust.

Building Your Personal Brand

A workplace study by Blue Beyond Consulting shows that 8 in 10 employees say that it's important that their employer's values align with their values. Furthermore, more than 75 percent of respondents indicated that they expect their employer and business to be a force for good.[31]

Consider what you value and how you would like your future employer to honor those values. Research a few organizations to find an employer that closely aligns with your values. Write about how you might integrate your personal purpose with that of your employer to make the change that you wish to see in the world.

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Answer Key

Chapter 1

1.1 Knowledge Check

1. **c.** Place utility addresses convenience in terms of where a consumer can purchase your company's product.
2. **b.** Marketing is a complex activity and includes creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.
3. **a.** Employees are internal parties.
4. **a.** Customer equity is the total potential profits a company earns from its current and potential customers.
5. **d.** The aim of successful customer relationship management is to produce high customer equity.

1.2 Knowledge Check

1. **d.** The 4Ps of marketing are product, price, place, and promotion.
2. **b.** Price is the amount consumers pay for a product or service.
3. **c.** Place—sometimes known as distribution—involves focusing on how and where to deliver the product to consumers most likely to buy it.
4. **d.** Place— sometimes known as distribution—involves focusing on how and where to deliver the product to consumers most likely to buy it.
5. **d.** In the realm of promotion advertising, direct mail, social media communications, trade shows, events, coupons, and media choices are among the many aspects considered.

1.3 Knowledge Check

1. **a.** Materials considers the availability of the resources needed for product. It is the element that looks at the supply.
2. **b.** Market intermediaries are retailers, wholesalers, and others in the distribution channel who help deliver products to the end user.
3. **a.** The competition has to be assessed to see how well and to what degree the need you hope to fulfill is currently being addressed.
4. **b.** The technological domain is responsible for emerging production technologies as well as the creation of new innovations that make possible new products.
5. **d.** The social and cultural domain is concern with such things as social trends, attitudes, and opinions.

1.4 Knowledge Check

1. **a.** The product concept is concerned most with the quality of the product a company intends to sell.
2. **c.** The societal marketing concept involves meeting consumers' and businesses' current needs while simultaneously being aware of the environmental impact of marketing decisions on future generations' ability to meet their needs.
3. **c.** The goal of the selling concept was simple: beat the competition. Customer needs and satisfaction took a back seat to beating the competition.
4. **a.** This order accurately represents the evolution of marketing.
5. **b.** During the societal era, it was recognized that society as a whole, had to be considered in all activities.

1.5 Knowledge Check

1. **d.** A delight need is an added value you may get from the seller without prior expectation or request for the same.
2. **c.** The customer is the individual or business that purchases the product or service. The consumer is the user of the product or service.
3. **d.** The value that a product promises to deliver is called the value proposition.
4. **a.** The benefit(s) to the customer or consumer relative to the cost is known as value.

5. **c.** The exchange process is designed to allow for the transaction to occur without either party feeling like the other has benefitted at its own cost.

1.6 Knowledge Check

1. **d.** All the other choices are ways of achieving customer relationship management. Offering the lowest price of all companies on the market is not.
2. **b.** Customer relationship management (CRM) is the means through which companies track, manage, and analyze customer interactions.
3. **b.** Customer loyalty is a customer's willingness to repeatedly return to a company to conduct business.
4. **d.** Collaborative CRM is sharing customer data with outside companies. It can give the company a fuller perspective on customers by collaborating with other companies in order to obtain data to which it would not otherwise have access.
5. **a.** A customer loyalty program offers rewards, discounts, and other special incentives designed to attract and retain customers.

Chapter 2

2.1 Knowledge Check

1. **b.** The mission statement sums up in a few sentences what the company does, who it serves, and what differentiates it from its competitors.
2. **c.** Corporate-level strategy covers the entire business in a complex organization in which there are multiple businesses, divisions, or operating units.
3. **d.** A business's overall strategy encompasses the plans, actions, objectives, and goals that outline how the business will compete in its chosen markets given its portfolio of products or services.
4. **b.** A gap analysis is an internal analysis of a company or business unit used to identify deficiencies that may hinder its abilities to meet its goals.
5. **d.** Goals should be realistic and have a reasonable chance of being met.

2.2 Knowledge Check

1. **a.** The fact that the health club is the only facility in the area to offer water aerobics classes would be categorized as a strength in terms of a SWOT analysis.
2. **a.** The BCG matrix captures the market share and market growth of products in a portfolio of offerings.
3. **c.** A cash cow has high market share in a low-growth industry.
4. **c.** Opportunities are openings for something positive to happen if you can capitalize on them.
5. **d.** A company that pursues a product development strategy introduces new (and/or improved) products into the market to replace existing ones in order to improve its competitive position and sales.

2.3 Knowledge Check

1. **d.** In this paragraph of the executive summary, you would describe the current marketplace and industry sectors in which you sell your products and/or services, the trends affecting and influencing them, and the innovations currently taking place within the market.
2. **c.** In a SWOT analysis, strengths and weaknesses are factors that are internal to the organization.
3. **c.** A perceptual map suggests where your product or service stands in relation to the competition.
4. **b.** A SWOT analysis identifies key internal influences (strengths and weaknesses) and external influences (threats and opportunities).
5. **d.** Within the current marketing situation of your marketing plan, you should include a competitive analysis and a discussion of how competitors fare in the marketplace.

2.4 Knowledge Check

1. **d.** KPIs consist of a very focused selection of core variables that allow us to monitor the health/

performance of the organization. We need enough indicators to evaluate the various critical aspects of the organization. We need to avoid having so many that the clutter obscures symptoms that should be highlighted.

2. **a.** We should always monitor KPIs on a continuous basis. Some information is only available periodically when financials are produced and production statistics are rolled up. The use of real-time dashboards can make it possible to monitor KPIs in real time. The faster we can get the data, the faster we can make adjustments (when required).
3. **a.** To calculate the CSAT score, take the total number of satisfied customers and divide that by the total number of responses. Then multiply that number by 100 to obtain the percentage. In this scenario, you add 500 and 300 to get 800. Then divide that by 1,825 to get .438. Multiple that by 100 for 44%.
4. **d.** A single data point in isolation tells us very little. However, we can compare the data point to other data points (for example, historical results, forecasts, operating tolerances, or industry averages) to judge our effectiveness.
5. **d.** We discussed the concept of lifetime customer value (LCV) in the text. Customer acquisition can be very expensive, especially with a missionary sell (e.g., convincing a customer that they have a need for an unknown product or service). Repeat purchases may not require any additional promotional expense. Happy customers also serve as brand ambassadors that spread the word about a company's products/services. Negative reviews from brand ambassadors can be extremely damaging—we want to uncover any problems right away.

Chapter 3

3.1 Knowledge Check

1. **c.** Complex buying behavior involves high involvement in the buying decision and the perception of significant differences between brands.
2. **b.** Marketing stimuli are those generated by the marketer and are comprised of the 4Ps of marketing—product, promotion, price, and place.
3. **d.** Purchase timing is the outcome of the thinking that takes place in the buyer's black box. Samantha is stimulated to buy the mattress during the holiday weekend in order to take advantage of the sale.
4. **b.** Habitual buying behavior has low involvement in the purchase decision and doesn't perceive much brand differentiation. If your regular brand isn't available or another brand is on sale, you'll probably buy the other brand.
5. **c.** Consumer buying behavior encompasses the actions you take before buying a product or service.

3.2 Knowledge Check

1. **c.** Situational factors influencing consumers are external factors that affect how consumers encounter and interact with a product, forming their opinions at that moment in time. Environmental factors such as aroma, lighting, music, and noise can either encourage or discourage the purchase of a product.
2. **a.** Culture refers to the values, ideas, and attitudes that are learned and shared among the members of a group.
3. **b.** The safety and security level of Maslow's hierarchy of needs reflects the need to be safe from physical and psychological harm.
4. **d.** Selective distortion is the tendency of people to interpret information in a way that fits their preconceived notions.
5. **b.** The behavioral intention aspect of an attitude is what you as a consumer plan to do—buy the brand or not buy the brand.

3.3 Knowledge Check

1. **c.** They are evaluating the "bundle of attributes" of each venue.
2. **a.** Ra'Shana has detected a difference between her actual state (not having a functional car) and her

desired state (having a car that runs).

3. **c.** Having identified that he needs a new laptop, Jason is searching for more information about different laptops and their capabilities.
4. **b.** Heuristics are types of preexisting value judgments that are used when people make purchase decisions.
5. **c.** It appears that Nathan and his husband have already done an information search and are now evaluating their new car alternatives.

Chapter 4

4.1 Knowledge Check

1. **c.** Derived demand is a market demand for a good or service that results from a demand for a related good or service.
2. **a.** A B2B (or "business-to-business") transaction is one that is conducted between one business and another.
3. **c.** B2B purchasing is more likely to involve complex negotiations concerning price, delivery schedules, technical specifications, etc., so personal selling plays a vital role.
4. **c.** The B2B market is more geographically concentrated in areas based on cost, access, and availability of resources.
5. **d.** DaVonte's purchase of the lumber in connection with his business is a B2B transaction; the purchase of batteries for the smoke detector in his house is a B2C transaction.

4.2 Knowledge Check

1. **c.** Government markets make up the largest single business and organizational market in the United States.
2. **a.** A straight rebuy is making a routine purchase of a standard product or products with no modifications from a familiar supplier.
3. **c.** In a modified rebuy, the purchaser is buying goods that have been purchased previously but changes either the supplier or certain elements of the previous order.
4. **c.** The initiator is the individual within the buying center who first suggests the idea of purchasing a new product or service.
5. **d.** Buyers are those who have authority within the organization to select suppliers and negotiate and arrange the purchase terms.

4.3 Knowledge Check

1. **c.** The goals and objectives act as a major element as to what the business purchases.
2. **a.** Legal factors include laws, rules, and regulations with which a business or individual must comply.
3. **d.** Conditional factors include the present financial condition of the organization, as well as product/service availability.
4. **b.** Economic factors include the level of primary demand, the economic outlook, and the cost of money (i.e., interest rates).
5. **d.** The availability of the product or service plays a significant role in the buying decision, and availability is a conditional factor.

4.4 Knowledge Check

1. **c.** The purpose of a product specification is to provide a description and statement of the requirements of a product, the components of a product, the capability or performance of a product, and/or the service or work to be performed to create a product.
2. **d.** Stage 5 of the B2B buying process is proposal solicitation, in which qualified vendors are asked to submit proposals.

3. **b.** In Stage 2: Need description, the buying center will work to put some parameters around what needs to be purchased and develop a bill of materials.
4. **d.** In Stage 7: Order-routine specification, the B2B buyer negotiates the order, listing the technical specifications, the quantity needed, the expected time of delivery, etc.
5. **a.** Similar to consumer buying, the first stage in the B2B buying decision process occurs when someone identifies a problem that can be resolved through a purchase.

Chapter 5

5.1 Knowledge Check

1. **c.** Starbucks researches the culture of the countries in which it operates so that beverages appeal to local tastes.
2. **a.** Psychographic segmentation divides consumers into different groups based on internal characteristics like personality, values, and beliefs.
3. **c.** Demographic segmentation groups consumers by focusing on traits such as age, gender, income, etc.
4. **c.** Garnier has segmented the market based upon the benefits sought by the consumer.
5. **d.** Just like our in-text example of Mirror, Peloton speaks to the personality of people who want to work out but can't find the time to go to the gym.

5.2 Knowledge Check

1. **c.** Firmographics segments customers based on sets of characteristics such as industry, location, size, legal structure, and performance.
2. **a.** Technographic segmentation is based on the various hardware and software used by B2B customers.
3. **c.** Value-based segmentation (sometimes called tiering or profitability segmentation) groups customers according to the potential value they may bring to a business.
4. **c.** Firmographics segments customers based on sets of characteristics such as industry, location, size, legal structure, and performance.
5. **d.** Needs-based segmentation is based on the premise that a marketer should focus their limited resources on those customers that need the product and have the ability to purchase it.

5.3 Knowledge Check

1. **b.** Societies with a high degree of uncertainty avoidance compensate for this uncertainty by establishing rules, policies, and procedures, whereas societies with low uncertainty avoidance more readily accept change.
2. **a.** Infrastructure is the basic physical systems of a nation, such as roads, sewage treatment, communication, water treatment, etc.
3. **d.** In countries with a high masculinity ranking, men are intended to lead; women are supposed to follow.
4. **c.** Economic factors consider things like inflation, per capita income, unemployment, etc.
5. **b.** Masculinity/femininity assesses "masculine" values (such as achievement, ambition, and acquisition) versus "feminine" values like quality of life and service to others.

5.4 Knowledge Check

1. **d.** A market segment should be measurable—that is, you should be able to accurately determine the size of the market segment in terms of sales value or number of customers so you can decide whether, how, and to what extent you should focus your efforts on that segment.
2. **c.** A market segment should be substantial because it's inefficient to waste resources to market the product or service to a segment too small to justify a company's time.
3. **a.** Accessibility refers to the ability to reach customers in the chosen segment at an affordable cost, given the strengths and abilities of your marketing department.
4. **d.** Accessibility refers to the ability to reach customers in the chosen segment at an affordable cost, given

the strengths and abilities of your marketing department.

5. **c.** A measurable market segment means that you can accurately determine the size of the segment in terms of either sales volume or number of customers.

5.5 Knowledge Check

1. **c.** Undifferentiated marketing treats all buyers or potential buyers as a homogenous group and creates one message for an entire audience.
2. **a.** A buyer persona is a semi-fictional representation of your ideal customer based on market research and real data about your existing customers.
3. **c.** Concentrated marketing (or niche marketing) is a subset of a market on which a particular product or service is focused. In Lefty's case, it is focusing on left-handed people.
4. **c.** A differentiated marketing strategy focuses on the differences between segments and designs a specific marketing mix for each segment.
5. **d.** A niche market (or concentrated marketing) channels all marketing actions toward one well-defined segment of the market. In this case, the subset is people over the age of 55 who are in the market for an active adult lifestyle.

5.6 Knowledge Check

1. **c.** A positioning statement defines where your offering fits in the marketplace and why it is better than competitors' offerings.
2. **a.** The STP process is an acronym for segmentation, targeting, and positioning.
3. **b.** Differentiated positioning is based on the differentiating characteristics or qualities that make your product/service/brand better than those of your competitors.
4. **c.** Determinant attributes are those attributes or factors that a customer uses in making their purchase decision.
5. **d.** A perceptual map is a visual diagram that shows how the average target market consumer perceives your product versus those of your competitors.

Chapter 6

6.1 Knowledge Check

1. **d.** Marketing research is the process of collecting information from a variety of sources in order to make a good managerial decision.
2. **b.** A marketing information system is a collection of data that an organization uses to make marketing decisions.
3. **b.** Individuals uploading personal data into social media is part of the volume, velocity, and variety of data that makes up big data.
4. **a.** Although marketing research is helpful in providing the data necessary for successful business ventures, there is no guarantee that it will cause customer satisfaction.
5. **c.** Although a competitor's information is interesting, your company would not have access to it, and therefore it would not be considered marketing research.

6.2 Knowledge Check

1. **c.** A response to a customer service survey by a customer would be external information.
2. **a.** Of the available answers, pricing of the competition would be a good source of information to have before setting Xin's price.
3. **d.** A marketing information system is not a source of information—it is where the information is stored within a business.
4. **d.** A competitor's website is an opportunity to learn more about the company and its resources, products, promotional plans, and pricing.

5. **b.** Internal data is data that already exists within a company's database. Internal data includes sales records, product research, pricing comparisons, and other data compiled previously.

6.3 Knowledge Check

1. **d.** Deciding who to include in the research study is part of designing the sample.
2. **a.** A mailed survey can be sent to all households easily through a postal service.
3. **c.** The collection of data includes both primary (focus group and survey data) and secondary (journal articles and syndicated data).
4. **d.** A frequency analysis shows how many people reported each answer on a survey.
5. **a.** A cross tabulation shows the relationship of two different variables, so the researcher can see if there is correlation between the two.

Chapter 7

7.1 Knowledge Check

1. **a.** Global market opportunities refer to the favorable conditions that allow companies to choose to expand globally.
2. **c.** Cultural barriers are a hindrance to international trade.
3. **a.** Cultural sensitivity involves a person's ability to be aware of and appreciate cultural differences.
4. **d.** This advice to Ashia could not only be offensive to her dinner guest but would also cause poor business relationships.
5. **b.** Business politics vary greatly across cultures. Businesspeople must decide how far they are willing to adapt to the local expectations.

7.2 Knowledge Check

1. **a.** An exchange rate is the rate at which one country's currency can be exchanged for that of another country
2. **c.** As stability increases in a country, the economy often improves.
3. **a.** Stereotypes are assumptions or generalizations made about an entire group of people.
4. **d.** An embargo is a complete halt of trading with a specific country or of a specific good.
5. **b.** The USMCA is a trade bloc agreement between the United States, Mexico, and Canada.

7.3 Knowledge Check

1. **a.** McDonald's is a franchise.
2. **c.** Exporting is the easiest way in which to begin an international business.
3. **a.** Licensing is an agreement whereby one company can legally use the copyrighted material of another for a royalty fee.
4. **d.** A joint venture is a business arrangement whereby two or more companies create a single enterprise or project.
5. **b.** An international firm has centralized decision-making, meaning decisions are made in the home country headquarters.

7.4 Knowledge Check

1. **a.** A standardized strategy employs the same strategy for every market.
2. **c.** The degree to which a promotion strategy should change depends on the market.
3. **a.** "Real Magic" is Coca-Cola's slogan in New Zealand.
4. **d.** The whole channel refers to all distribution channel members, including manufacturers, retailers, transportation, and wholesalers.
5. **b.** Singapore has the highest automobile prices due the country's small size and limited infrastructure.

Chapter 8

8.1 Knowledge Check

1. **a.** Choosing between standardization and adaptation strategies includes balancing internal capabilities like operations, sales, and customer service with external forces like competition and consumer demographic changes.
2. **d.** Constrained standards do not increase flexibility. Constraints, instead, limit options for companies and consumers.
3. **d.** A marketing adaptation strategy involves adjusting a company's efforts, as well as its marketing mix, to increase its appeal and respond to consumers' specific needs, tastes, or expectations. This must be done according to the company's abilities and resources.
4. **c.** Adaptation strategies can increase production costs instead of reducing them.
5. **b.** Increasing a company's customer base is a benefit associated with diversity marketing as an adaptation strategy.

8.2 Knowledge Check

1. **d.** Diversity marketing includes identifying different subsegments of consumers that share cultural and sociodemographic characteristics and creating advertisements to connect with them.
2. **a.** Diversity marketing is important because today's marketplace is changing dramatically everywhere.
3. **c.** For companies to be successful in any market, the focus of diversity marketing should be consumer centric. This means putting targeted customers first regarding any decisions about a company's goods, services, or experiences to create satisfaction and strengthen loyalty.
4. **d.** Diversity in market research is a good idea because it can help companies win over people from different segments of the population by providing better cultural and social information. This can reduce wrong assumptions and avert public relations missteps.
5. **b.** Tech-savvy and digital natives are not a sociodemographic segment; they are behavioral segments. Hispanic, Black, Asian, American Indian, and Alaskan Native people are among multicultural segments. Gen Xers, Zoomers, and consumers with disabilities are among sociodemographic segments.

8.3 Knowledge Check

1. **d.** Culture is described as all of these statements.
2. **c.** Values and attitudes are not examples of external expressions of culture. They are examples of internal expressions of culture.
3. **b.** Marketers must be careful using symbols as cultural expressions because they can have different meanings among different cultures.
4. **c.** An advertisement that speaks to personal accomplishments, independence, and assertiveness is appealing to individualism.
5. **a.** An advertisement that is visually appealing and emphasizes quality of life, people, and relationships is an example of femininity.

8.4 Knowledge Check

1. **c.** The Hispanic population is the largest multicultural segment in the United States based on 2020 US Census data.
2. **b.** A person from Puerto Rico or of Puerto Rican descent is both Hispanic and Latino/Latina. *Hispanic* is a language-based term describing somebody from a Spanish-speaking place, while Latino/Latina is a location-based term that identifies gendered individuals whose families originate in Latin America.
3. **b.** Acculturation is the process by which a person's family cultural patterns change because of direct and constant contact with a different culture.
4. **d.** An overwhelming majority of Black people believe that race and community engagement are a major part of the Black identity.

5. **a.** Success requires connecting with each demographic on a personal and intimate level. This inevitably means that one must understand the cultural identities and the context within each population segment. Being successful with diversity marketing includes various multicultural and sociodemographic segments.

8.5 Knowledge Check

1. **d.** Sociodemographic marketing is a subcategory of diversity marketing. It intentionally targets certain audiences with attractive advertising and promotions based on shared social and demographic variables. Overlaying these two factors has several worthwhile benefits for marketers.
2. **a.** For marketers, focusing on the societal experience around belonging (acceptance, welcoming, support, and inclusion) is key for reaching the growing number of LGBTQIA+ consumers.
3. **d.** All of these are important steps to consider to be more successful in advertising to consumers based on their generations.
4. **c.** Use an approach that ensures the company's efforts express humanity, authenticity, and inclusivity, which can involve consulting or hiring individuals who have a disability rather than using actors or models who do not.
5. **b.** It is projected that consumer spending will continued to be dominated by baby boomers. While this isn't a new trend, it is certainly a trend that will continue through the 2030s as this generation ages out.

Chapter 9

9.1 Knowledge Check

1. **a.** A haircut is a service because it cannot be touched, owned, or stored for later use.
2. **c.** An experience combines marketing, technology, and service to alter the consumer's perception.
3. **a.** A convenience product is widely available, has a low cost, and does not require a lot of consideration.
4. **d.** A bag is a supply that does not retain value on a balance sheet.
5. **c.** The customer seeks both the core product (the bike) and the online classes, warranty, customer service, and support (the augmented product) in order to stay fit.

9.2 Knowledge Check

1. **b.** Oreo's selection of flavors represents a product line because it encompasses multiple similar products.
2. **c.** A product mix contains all the products that a company sells.
3. **a.** An addition of a type of pizza would represent product line depth.
4. **d.** Product line depth refers to the number of products in a product line. Products must be similar or complementary to be part of the same product line.
5. **b.** Product line filling has the benefit of protecting a brand from competitors that might enter the market with a similar offering and utilizes the brand's capacity to produce more products.

9.3 Knowledge Check

1. **d.** While profitability is measured along the product life cycle, it is not a stage of the product life cycle.
2. **c.** The product life cycle follows a product's sales and profitability.
3. **b.** The growth stage is characterized by a rapid increase in sales.
4. **c.** Stable sales and profitability characterize the maturity stage.
5. **c.** Brands that are a fad are typically introduced, grow rapidly, and decline quickly.

9.4 Knowledge Check

1. **b.** The growth stage of the product life cycle is characterized by increasing distribution channels.
2. **a.** Pricing strategies are most common during the introduction stage of the product life cycle.
3. **d.** Harvesting and divesture are most common during the decline stage of the product life cycle.
4. **c.** Product and market modification are most common during the maturity stage of the product life cycle. LaToya is engaging in both product and market modification.

5. **b.** Expanding distribution, improving product quality, and messaging are most common during the growth stage of the product life cycle.

9.5 Knowledge Check

1. **b.** Brands often evoke positive feelings that allow a company to charge more for its product or service.
2. **d.** Brand value is the financial asset associated with a brand.
3. **c.** Brand equity is the additional value that a brand has over its competitors, while values, benefits, and attributes are all associated with brand positioning.
4. **b.** Whole Foods uses the 365 brand as a private label for its products.
5. **d.** The two brands collaborated on one offering.

9.6 Knowledge Check

1. **b.** Domino's is leveraging its brand to a new category of products.
2. **a.** A line extension retains the product category and brand.
3. **a.** Customers who frequently change brands are switchers.
4. **d.** Hard-core loyal customers primarily purchase one brand in the category.
5. **c.** Brand preference measures intended behavior.

9.7 Knowledge Check

1. **c.** Colors, fonts, and logos can capture attention.
2. **d.** A package as product indicates usability.
3. **c.** Packaging can provide safety from personal harm from the product.
4. **c.** The package displayed value to the consumer.
5. **b.** Customer experience is created when the package adds to the experience of consuming the brand.

9.8 Knowledge Check

1. **d.** Typically, wood is not used in grocery packaging.
2. **d.** Natural resources are part of the biological cycle.
3. **c.** Companies are trying to reduce packaging to only the necessary parts in their sustainability efforts.
4. **d.** Discarded packaging can be found in water sources, in landfills, and on the ground.
5. **d.** Biodegradation turns the product back into a natural resource that becomes a nutrient for plants.

Chapter 10

10.1 Knowledge Check

1. **c.** With dynamically continuous innovation, some changes in consumer habits are necessary, but the changes aren’t as dramatic as with discontinuous innovation and are not as insignificant as in continuous innovation.
2. **b.** Remember, new-to-the-firm products aren’t new to the world, but they are a new product venture for the firm.
3. **d.** The laundry detergent is supposedly a current product made better.
4. **b.** With continuous innovation, the existing product undergoes only marginal changes and doesn’t alter consumer habits.
5. **d.** Revenue streams are the different sources from which a business earns money from the sale of its goods or services.

10.2 Knowledge Check

1. **c.** A prototype is an early model of a new product that R&D develops in order to be able to test the design.
2. **b.** Concept testing is a research method that involves determining how customers feel about the new product before actually launching it.

3. **d.** Commercialization is where the "rubber hits the road" and the company introduces the product to the market on a full-scale basis, involving production, marketing, distribution, and customer support.
4. **b.** In sales-wave research, consumers are initially allowed to try the product at no cost. They are then reoffered the product (or a competitor's product) at a reduced price a number of times (i.e., sales waves). The point of this research is to see how many consumers select the new product and record their reported levels of satisfaction with the product.
5. **d.** The first stage in the new product development process is idea generation.

10.3 Knowledge Check

1. **d.** Product metrics are data measurements that businesses use to evaluate the success of a product.
2. **b.** Current year percentage of sales is a "quick and dirty" way to estimate the product's future value.
3. **c.** Return on investment (ROI) is a performance measure used to evaluate the profitability of new product development.
4. **c.** Time to value is a critical metric that measures how long it takes new users to recognize the value of your product.
5. **d.** Annual recurring revenue (ARR) is the annual value of revenue generated from subscriptions and contracts.

10.4 Knowledge Check

1. **c.** Technological synergy is how much of a match there is between the existing technological skills of the firm and the technological skills needed to execute the new product initiative.
2. **a.** The study found that new product failure rates varied among industries, ranging from 35 percent for health care products to 49 percent for consumer goods.
3. **b.** The prolonged delay of a new product can have many implications: changing customer needs/wants, an economic downturn, rising unemployment rates, or even the evolution of different market segments.
4. **d.** In an effort to bring "something new" to the market, companies often include features that make the product more costly to produce.
5. **a.** Products that deliver real and unique benefits to customers are typically more successful than products that have few positive points of differentiation compared to existing products on the market.

10.5 Knowledge Check

1. **d.** Innovators typically buy new products as soon as they hit the market.
2. **a.** Product awareness is the first stage in the consumer adoption process, in which a company creates awareness that the product is available.
3. **d.** Communicability is the extent to which the benefits of a new product are likely to be noticed and discussed by consumers.
4. **c.** Laggards are more in tune with the past than the future, and they are skeptical of new ideas.
5. **d.** Consumers in the late majority category are typically slow to catch on to the popularity of new products or services.

Chapter 11

11.1 Knowledge Check

1. **c.** The concept of service perishability states that services (such as airline tickets) cannot be stored in inventory for future use or sale.
2. **a.** Service intangibility refers to the fact that you can't see or touch a service before it is performed.
3. **c.** Service variability may be defined as the changes in the quality of the same service provided by different service providers.
4. **c.** People-based services are those in which people, rather than equipment or machinery, play the major role in delivery, and within this classification, people-based services can be broken down further into

services provided by unskilled labor (e.g., parking lot attendant), skilled labor (e.g., plumber), and professionals (e.g., attorneys and accountants).

5. **d.** Equipment-based services are those in which machinery or other forms of technology are used to perform the service tasks required by customers. Since there is no person involved in the parking service, the parking meter is considered an automated equipment-based service.

11.2 Knowledge Check

1. **c.** According to the service-profit chain model, customer loyalty drives profitability and growth.
2. **a.** Employee satisfaction is the extent to which employees are happy and/or content with their jobs and work environment.
3. **c.** According to the model, customer satisfaction (Step 5) and customer loyalty (Step 6) are related and directly linked.
4. **c.** Interactive marketing occurs when employees and customers interact. It is there where the promises made during external marketing are either kept, broken, or exceeded by employees.
5. **d.** According to the service-profit chain model, employee satisfaction is inversely related to employee turnover (i.e., an increase in employee satisfaction results in a decrease in turnover).

11.3 Knowledge Check

1. **c.** The knowledge gap represents the difference between what customers expect and what the company *thinks* they expect.
2. **a.** The policy gap is the difference between management's perception of the customer's needs and the translation of that understanding into service delivery policies and standards.
3. **c.** The customer gap is the difference between the customer's expectations of the service and their perception of the experience itself.
4. **c.** According to the model, the five dimensions that would result in service excellence and lead to higher customer loyalty are reliability, assurance, tangibles, empathy, and responsiveness.
5. **d.** Tangibles represent the physical facilities, employees' appearance, equipment, machinery, and information systems.

Chapter 12

12.1 Knowledge Check

1. **a.** Artificial time constraints tell the consumer they will miss out if they don't purchase right now.
2. **c.** To determine profit, total costs (fixed and variable) are subtracted from total revenue.
3. **a.** Perceived value is perceived benefits less perceived costs.
4. **d.** Price anchoring is a strategy that utilizes a psychological theory that buyers frame their price reference around the first piece of information they see.
5. **b.** The value that a buyer receives from an exchange takes into account the perceived benefits and costs of making the purchase.

12.2 Knowledge Check

1. **c.** Channels of distribution include the importance of understanding the value of a product through the lens of suppliers and retailers.
2. **d.** Compatibility refers to the consistency of pricing decisions with the other marketing mix elements.
3. **a.** Analyzing the critical Cs of pricing will help ensure the pricing strategies are set appropriately.
4. **b.** Cost does not only include the materials needed to produce a produce, but all other costs associated with doing business.
5. **d.** The five critical Cs of pricing include cost, customers, channels of distribution, competition, and compatibility.

12.3 Knowledge Check

1. **c.** The demand curve describes the relationship of demand and price for most goods and services.
2. **b.** Fixed costs do not change based on the number of units produced.
3. **d.** As demand declines for a product, it is generally expected that prices will also decrease.
4. **a.** Total costs are equal to fixed costs + variable costs.
5. **d.** Cross-elasticity of demand refers to the increase in demand for a substitute product when the price of a product increases.

12.4 Knowledge Check

1. **c.** Penetration pricing is setting an initially low price to capture as much market share as possible.
2. **d.** The break-even unit formula is Fixed Costs / (Unit Price + Variable Unit Cost)
3. **a.** $Break\ Even\ in\ Units = Fixed\ Costs/(Unit\ Price - Variable\ Unit\ Cost) = 100/(2.00 - 0.25)$
4. **b.** Price skimming sets an initially high price to capture the portion of the market willing to pay the price.
5. **d.** Penetration pricing attempts to capture the greatest market share possible when introducing a new product.

12.5 Knowledge Check

1. **c.** Bundle pricing is a tactic that has a lower price for a bundle of items than when those items are purchased separately.
2. **a.** Captive pricing is a tactic used when there is both a core and a captive product.
3. **a.** Odd-even pricing is a tactic used to illustrate value or quality to a customer through pricing.
4. **b.** Price skimming sets an initially high price for *new* products to capture the portion of the market willing to pay the price.
5. **d.** Economy pricing is a tactic in which products are priced much lower than their name-brand competitors.

Chapter 13

13.1 Knowledge Check

1. **a.** The goal of IMC is to communicate a clear and consistent message through various promotional mix methods that will reach the various segments of the target market.
2. **b.** The promotional mix method of advertising is a paid form of nonpersonal communication.
3. **c.** Advertising is a paid form of nonpersonal communications meant to reach a large audience.
4. **a.** Sales promotion includes coupons that help to induce sales in the short term.
5. **b.** Public relations encompasses nonpaid activities that promote a product, service, idea, or person.

13.2 Knowledge Check

1. **a.** The celebrity is the paid spokesperson of the company, and they are the sender of the message.
2. **b.** Noise is anything that gets in the way of the sender and the message intended for the receiver.
3. **c.** Television advertising is the medium through which the message is delivered.
4. **a.** Encoding is the process of taking ideas and information and putting them into symbolic form.
5. **a.** The Tennessee Department of Tourist Development sent the message, so it is the source.

13.3 Knowledge Check

1. **c.** The combination of product placement, paid advertising, and the screening of the film on the British Airways flights is an example of integrated marketing communications.
2. **a.** Integrated marketing communications seeks to have all of the promotions send a consistent and unified image to the customer.
3. **c.** Sally's ability to recall and think of Taco Bell to fulfill her needs is a benefit of improved brand awareness.
4. **d.** Because Tina is satisfied and educated on all the ways to shop at Walgreens, she is exhibiting customer

satisfaction.

5. **c.** Using multiple promotional methods to send a consistent message is the goal of integrated marketing communications.

13.4 Knowledge Check

1. **c.** The process should begin with a complete understanding of the target audience for the promotional efforts.
2. **d.** Jennifer is acting on the promotional method Panera Bread used to reach her in the customer journey.
3. **b.** With continuity scheduling, an advertiser is showing its advertisement on a continuous schedule without variation.
4. **b.** Nestlé Tollhouse is working to create an emotional connection with the consumer.
5. **c.** Wendy's would be using all that their budget could afford for the marketing promotions.

Chapter 14

14.1 Knowledge Check

1. **a.** One media channel used in advertising is commercials.
2. **c.** This is an example of institutional advertising.
3. **a.** Advertising has a low per-exposure cost.
4. **d.** Product advertisements focus on one product from an organization's product mix and/or comparing it with competitors.
5. **b.** Advertising is still one of the costlier elements of the promotion mix.

14.2 Knowledge Check

1. **a.** Posttests are utilized after a campaign has launched.
2. **c.** The first step in advertising planning is determining objectives.
3. **a.** Millennials are more likely to see advertisements in digital form, such as social media, rather than more traditional media.
4. **d.** *Reach* refers to the estimated number of potential customers that can be reached with an advertising campaign.
5. **a.** Assessment is the final step of the advertising plan.

14.3 Knowledge Check

1. **a.** ROAS = $500/$20 = $25
2. **c.** Brand recognition involves recognizing a brand based on a picture or logo.
3. **a.** Return on ad spend (ROAS) calculates the revenue generated for each advertising dollar spent.
4. **d.** KPIs, or key performance indicators, measure the effectiveness of an advertising campaign.
5. **b.** Impressions = Rating × Target Population × Number of Ads. In this scenario, Liam is missing the rating information.

14.4 Knowledge Check

1. **a.** Public relations is earned.
2. **c.** Lobbying involves attempts to influence public policy and law.
3. **a.** Events are a type of public relations in which a company participates to increase brand awareness.
4. **d.** Press relations is the part of public relations that creates and maintains positive relationships with the press.
5. **b.** Public affairs involves creating relationships with public officials.

14.5 Knowledge Check

1. **a.** The company's donation and the public relations surrounding it has created sales and leads.

2. **c.** Public relations is often not under a company's direct control.
3. **a.** The company had no direct control over whether the press release would be picked up by news stations.
4. **d.** Public relations is free, and it has no guaranteed results.
5. **b.** Taco Bell was hoping that the campaign would outweigh the negative brand image caused by the lawsuit (and it worked).

Chapter 15

15.1 Knowledge Check

1. **d.** Personal selling is used by companies when they have a product that needs explanation and education, it is higher in price, and it can be varied according to the needs of the customer.
2. **c.** Personal selling is the one-on-one interaction between a sales professional and the potential customer.
3. **b.** Personal selling allows for the sales professional to adjust the product to meet the needs and wants of the customer.
4. **b.** Most products in the market have a lot of competition. The level of competition has nothing to do with the use of personal selling.
5. **d.** Jasmine has effectively demonstrated the personal selling skills of one-on-one interaction with the customer, meeting the needs and wants of the customer, and having personal communication with the customer to satisfy their needs and wants.

15.2 Knowledge Check

1. **d.** When customers call into a company to place an order an inside order taker is the person answering and taking the order.
2. **b.** When several people within the organization are responsible for making the sale, this is considered a team selling approach
3. **c.** The person who is responsible for making sure the product meets the needs of the customer is the technical specialist.
4. **d.** Missionary sales is responsible for educating and informing while also encouraging the use of a product.
5. **a.** Companies often have support personnel to assist with elements of the sale. This can include checking on inventory and setting appointments for outside sales professionals.

15.3 Knowledge Check

1. **d.** Lucia is trying to find the qualified people to buy the products.
2. **a.** When customers have questions and the sales professional is ready to answer the questions, this is typically considered handling objections.
3. **d.** Shakira is acting more as a consultant to help her customer have the best fit for their needs.
4. **c.** During the approach phase, the sales professional gathers insights and seeks to contact the prospect to build rapport and gather more information on the needs and wants of the prospect.
5. **c.** Keith is demonstrating the product and telling about the features that are important to the prospect. Keith is doing the presentation.

15.4 Knowledge Check

1. **c.** Lev needs to know how many sales professionals he will need to hire.
2. **d.** Malika is focused on bringing in new customers.
3. **b.** Companies regularly need to inform and educate their sales professionals about the products they are selling.
4. **c.** Nestle is most likely paying Johnny a commission on the sales he makes.
5. **a.** Ranee needs to spend time on selling activities.

15.5 Knowledge Check

1. **d.** This is an example of sales promotion geared toward generating an immediate sale.
2. **b.** The sales promotion is structured to stimulate demand for more product.
3. **c.** Rolex wants to spread information about its products to the target market of customers that will be present at the events.
4. **a.** Sales promotion is primarily to stimulate demand in the short term.
5. **a.** Sally is happy and satisfied when she gets email and promotions from American Eagle.

15.6 Knowledge Check

1. **b.** Coupons provide a saving off of the purchase of a specific product.
2. **d.** Samples provide for a free amount of product.
3. **b.** Sweepstakes give consumers a chance to win when they purchase something or follow the rules of the sweepstakes.
4. **a.** Allowances and discounts are typically provided to the trade and used to push the product to the customer.
5. **d.** Sales promotion is a short-term incentive to consumers and the trade.

Chapter 16

16.1 Knowledge Check

1. **a.** Online direct marketing includes digital tools such as email, websites, online videos, and blogs to communicate and engage with individual consumers and elicit a desired consumer response or action.
2. **a.** As consumers are more connected to the internet via their mobile devices and digital technologies have evolved, online direct marketing has emerged as a practical promotion tool for reaching consumers.
3. **d.** Content marketing involves creating and distributing content that consumers find meaningful and valuable. With content marketing, marketers must anticipate what type of content their audience wants and tell their story in a way that the audience can relate to.
4. **d.** Email marketing is permission-based marketing. Consumers must opt in to receive messages from companies. This typically occurs when a consumer purchases a product or service and asserts that they would like to receive messages from the company from which they've purchased.
5. **d.** Advantages of online direct marketing are that it has global reach, is highly targeted, and can be much easier to measure ROI.

16.2 Knowledge Check

1. **a.** An advantage of social media marketing is that companies can concentrate their promotional efforts on very specific groups of consumers who share common interests and demographics.
2. **c.** Lack of control over the message is a challenge for social media marketers. Consumers who are dissatisfied with the company can use social media to make negative comments that could hurt brand reputation.
3. **a.** An important element of a good mobile strategy is ensuring that your website has a responsive design. Simply put, this means ensuring that menus and content are easy to read and that the user has a good experience on the site regardless of the device.
4. **d.** Responsive web design is a website development approach that results in a website's display dynamically changing to adapt to whatever device a consumer uses. This approach is important to ensuring that consumers have a good user experience regardless of the device they are using.
5. **b.** Measuring mobile campaigns can be challenging because it's difficult to measure whether a consumer has seen a push notification or in-app message.

16.3 Knowledge Check

1. **d.** Online marketing metrics help marketers measure the performance of their online marketing

campaigns.

2. **c.** Because the goal of the campaign is to increase paid subscriptions, a visitor who enters their payment information and contact information and clicks “place order” would be a conversion.
3. **c.** The bounce rate measures the percentage of times visitors leave your site after visiting only one page.
4. **a.** Social engagement relates to the actions that users take when they engage with content on social media. Online marketers measure clicks, likes, shares, and comments to help online marketers assess the quality of their content.
5. **a.** Jax’s Sushi House will learn which source is more effective at driving traffic to the restaurant’s website.

Chapter 17

17.1 Knowledge Check

1. **d.** A marketing channel is a collection of people, organizations, processes, and activities that work together to deliver products and services to the consumer.
2. **d.** Agents serve as representatives of manufacturers. While they never take possession of a product or service, they earn a commission or collect a fee for facilitating the transaction between the customers and the manufacturer.
3. **c.** When intermediaries are removed from the marketing channel, manufacturers must then be solely responsible for distributing products directly to all customers. Thus, the number of transactions would increase.
4. **a.** Intermediaries add value by performing important activities that manufacturers are not expert at performing. This helps create efficiency in the marketing channel, which helps meet the wants and needs of targeted customers.
5. **d.** Accumulating, bulk-breaking, adjusting for assortment discrepancies, and providing financing are the valuable services that intermediaries provide.

17.2 Knowledge Check

1. **b.** A direct marketing channel sells and distributes directly to the consumer without the use of intermediaries.
2. **b.** An indirect marketing channel relies on a partnership with intermediaries to sell and distribute its products.
3. **c.** In the B2B or industrial space, manufacturers or producers sell products and services aimed at reaching a business end user.
4. **b.** In a corporate vertical marketing system, one channel member owns one or more other channel members.
5. **c.** Omnichannel marketing systems allow consumers to buy and receive products and services seamlessly across a variety of channels, including online and in-store.

17.3 Knowledge Check

1. **a.** The three overarching factors that impact channel choice include target market coverage, fulfillment of buyer requirements, and profitability.
2. **d.** An intensive distribution strategy is used when a company wants to distribute through every possible retail outlet where a consumer might find its products.
3. **b.** A post-sale service is a buyer requirement that is fulfilled after the purchase of a product.
4. **c.** Perishability is an important factor in channel decisions for companies who sell products that have a short shelf life.
5. **d.** Profitability is a factor that companies consider when choosing a distribution channel. Companies are attracted to channels that help them maximize profits and operate more efficiently.

17.4 Knowledge Check

1. **c.** Manufacturers should select channel members based on years of experience, reputation, experience within the market, and profitability. In the scenario above, selecting a channel member based on experience, reputation, and profitability makes the most sense.
2. **c.** Production Company C and DirectDocumentaries are involved in a well-managed relationship. There is cohesion and transparency, and they share common goals.
3. **d.** Disintermediation occurs when a channel member is removed from the distribution channel.
4. **a.** Order accuracy rate is the percentage of orders that are processed, fulfilled, and shipped to consumers without any errors.
5. **b.** Time to ship is a metric that measures the length of time from when a customer places an order to when it reaches them.

17.5 Knowledge Check

1. **c.** Supply chain management entails managing all the members and activities from the procurement and transformation of raw materials into finished goods through their distribution to targeted consumers.
2. **a.** In order for companies to deliver on their value proposition to consumers, they must ensure that the activities and members in the supply chain share the common goal of delivering value to consumers.
3. **d.** Companies that manufacture goods rely on raw materials to produce the products they sell. They purchase the required materials from suppliers, who must be able to deliver them in accordance with the manufacturer's timeline.
4. **d.** Resources include the labor, the raw materials, and the technology that are required to move products from their raw material phase to finished goods available for consumption.
5. **a.** Information workflow is a supply chain management function that relates to what and how information moves between members of the supply chain.

17.6 Knowledge Check

1. **b.** Air transportation provides the fastest delivery speed over trucking, rail, and water transportation.
2. **b.** Logistics is the planning, organizing, and controlling the movement of raw materials and ultimately finished goods to end consumers
3. **c.** Companies use logistics information to develop demand forecasts and conduct supply planning. It can also be used to analyze and assess the effectiveness and efficiency of the supply chain to ensure optimization.
4. **d.** Integrated logistics management ensures that every element of logistics as part of the entire supply chain is part of a system that works cohesively to ensure that the wants and needs of final customers are met.
5. **a.** 3PL providers have the expertise, flexibility, and cost efficiencies in logistics that manufacturers don't possess.

Chapter 18

18.1 Knowledge Check

1. **c.** Retailing is the process of selling goods and services to the consumer.
2. **a.** Wholesalers are in business to buy in large quantities and sell to other businesses.
3. **d.** Loyalty cards are one way retailers can communicate with consumers.
4. **c.** An omnichannel strategy is one that utilizes multiple channels.
5. **c.** Schwan's eliminates the intermediaries and sells directly to the consumers.

18.2 Knowledge Check

1. **b.** Automatic vending includes vending machines, in which there is no buyer-seller interaction.
2. **b.** Television home shopping would be the most likely retailing strategy to reach this target market.

Consumers can call a toll-free number to place an order without ever leaving their home.

3. **b.** Warehouse clubs sell in bulk to consumers who purchase memberships.
4. **c.** Off-price retailers are those providing high-quality goods at discounted prices.
5. **a.** Factory outlets are retailers that are operated by manufacturers to sell overstock items at discounted prices.

18.3 Knowledge Check

1. **d.** A markdown is a price decrease for a product that is at the end of its life cycle or season.
2. **c.** Superstores generally choose a freestanding location.
3. **c.** A small, rural town is most likely to have a central business district, or "downtown."
4. **c.** Gross margin = net sales – cost of goods sold
5. **a.** Omnichannel marketing increases customer's access to product, brand visibility, and personalization because it utilizes multiple channels to reach the customer.

18.4 Knowledge Check

1. **d.** All of the trends grew considerably.
2. **c.** Social commerce is a blend of e-commerce and social media, where retailers often use influencers to market products.
3. **d.** Digital wallets store consumers' passwords and payment information for safety and ease of ordering online.
4. **a.** Pandemics, such as the one in COVID-19 pandemic, forced many consumers to stay home. This caused a significant rise in online shopping.
5. **c.** Social media is one way in which companies can utilize an omnichannel marketing strategy, one in which utilizes many different channels to reach customers.

18.5 Knowledge Check

1. **a.** Wholesalers are businesses that buy products in bulk and sell to retailers.
2. **d.** Retailers use drop shippers to ship products directly to the end consumer.
3. **d.** General-merchandise wholesalers offer the most complete range of services.
4. **a.** Manufacturer's agents are independent contractors who act as salespersons for multiple manufacturers to sell similar (but not competing) products to retailers.
5. **a.** Rack jobbers are companies that agree with retailers to display and sell products in-store.

18.6 Knowledge Check

1. **a.** Caveat emptor is Latin for "let the buyer beware."
2. **d.** Product traceability allows products to be traced throughout the distribution channel to the manufacturer.
3. **c.** Product traceability does not make less work for distribution channel members.
4. **a.** Government regulations are not decreasing but are increasing and becoming more complex.
5. **a.** The Sale of Goods Act requires the accurate, safe, and clear use of directions on goods and services sold.

Chapter 19

19.1 Knowledge Check

1. **b.** Diversity, equity, and inclusion support people, which makes it a social initiative.
2. **d.** Sustainable marketing is rooted in purpose, based on mission, and seeks to align people, planet, and profits.

19.2 Knowledge Check

1. **a.** Sustainable marketing considers all parties.
2. **b.** Sustainable marketing innovates now while ensuring a viable future.

19.3 Knowledge Check

1. **a.** Increased brand recognition occurs when brands are known for their sustainability efforts.
2. **d.** Return on investment occurs when brands can show that the sustainability investment had a positive economic return.

19.4 Knowledge Check

1. **c.** Innovative marketing uses the media to spur awareness and convert prospects into customers.
2. **d.** Mission marketing puts purpose at the center of marketing and uses storytelling to spur action.

19.5 Knowledge Check

1. **d.** Transparency, sustainability, and fair working conditions are all concepts related to purpose-driven marketing.
2. **a.** Purpose-driven brands stand up for what is right.

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