

Principles of

Mar-keting

Principles of Marketing

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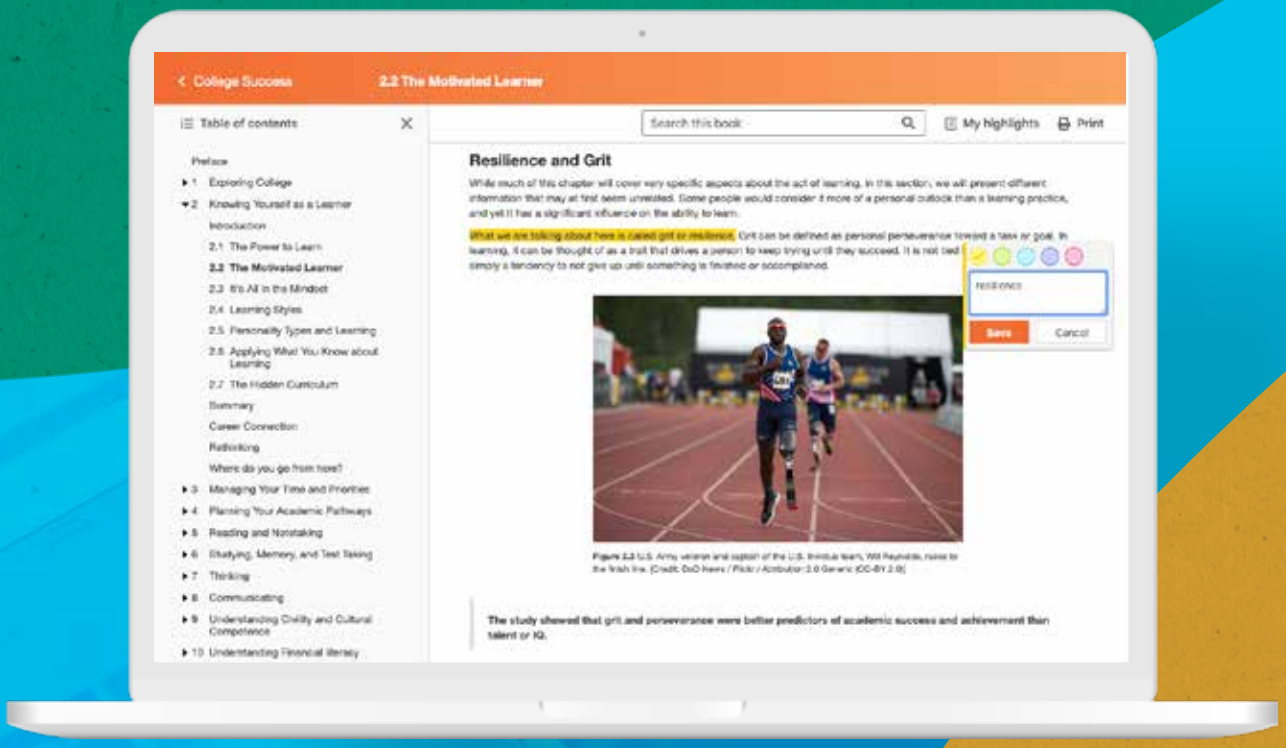

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Preface

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About *Principles of Marketing*

Summary

Principles of Marketing is targeted at the core marketing course for undergraduate business majors and minors. The book is designed for conceptual accessibility to students who are relatively early in their business curriculum (such as second-year students), yet it is also suitable for more advanced students. Due to the wide range of audiences and course approaches, the book is designed to be as flexible as possible. It provides a solid grounding in the core concepts and frameworks of marketing theory and analysis so that business

students interested in a major or minor in marketing will also be prepared for more rigorous upper-level courses. Concepts are reinforced through detailed and realistic company and organization scenarios and examples from various industries and geographical locations. *Principles of Marketing* also includes a diverse array of organizations so that students can see themselves and relate to the key concepts discussed.

Pedagogical Foundation

Principles of Marketing emphasizes marketing concepts relevant to people working in a variety of business functions. To illuminate the meaningful applications and implications of marketing ideas, the book incorporates a modern approach, providing connections between topics, solutions, and real-world problems. This multifaceted framework drives the integration of concepts while maintaining a modular chapter structure. Theoretical and practical aspects are presented in a balanced manner. *Principles of Marketing* exposes students to a diverse range of for-profit and nonprofit organizations, industries, products, brands, and services.

Table of Contents

Employability, companies demonstrating ethical awareness, and marketing metrics are strong themes incorporated throughout most chapters.

While chapters are written to be independent, they do generally build on the understanding gained in the previous chapters. Please bear this in mind when considering alternate sequence coverage.

The table of contents (TOC) presents 19 chapter topics in the following sequence:

Unit 1	**Setting the Stage**
1	Marketing and Customer Value
2	Strategic Planning in Marketing
Unit 2	**Understanding the Marketplace**
3	Consumer Markets and Purchasing Behavior
4	Business Markets and Purchasing Behavior
5	Market Segmentation, Targeting, and Positioning
6	Marketing Research and Market Intelligence
7	Marketing in a Global Environment
8	Marketing in a Diverse Marketplace
Unit 3	**Product, Promotion, Price, and Place**
9	Products: Consumer Offerings
10	Maintaining a Competitive Edge with New Offerings

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11	Services: The Intangible Product
12	Pricing Products and Services
13	Integrated Marketing Communications
14	The Promotion Mix: Advertising and Public Relations
15	The Promotion Mix: Personal Selling and Sales Promotion
16	Direct, Online, Social Media, and Mobile Marketing
17	Distribution: Delivering Customer Value
18	Retailing and Wholesaling
19	Sustainable Marketing: The New Paradigm

Table 1

Coverage and Scope

The book is organized in a three-part structure.

Unit 1 (Setting the Stage) provides students with an overview of value as a driving concept and examines the strategic process that organizations should undergo to realize this for their customers.

Chapter 1 introduces students to the "basics" of marketing—what marketing is, the marketing mix and the 4P framework of marketing, customer relationship management, and how marketers go about determining consumer needs and wants. Featured company examples include Gatorade, Volkswagen, Zappos, TOMS, and Gexpro. Chapter 1 starts the ethical coverage found in every chapter and specifically examines the importance—and the dos and don'ts—of ethical marketing.

Chapter 2 explores marketing strategy, the purpose and structure of the marketing plan, and how results of the marketing strategy can be measured through marketing metrics. Featured company examples include Frito-Lay, Procter & Gamble, Emerson Electric, Apple, Everlane, and Starbucks.

Unit 2 (Understanding the Marketplace) provides students with analytical tools and frameworks to understand a broad range of customers (whether consumers or businesses), categorize them into target segments, and then gather data to make solid product decisions. The last two chapters in Unit 2 emphasize the challenges of expanding to international markets and reaching culturally and demographically diverse segments in domestic markets. (These nuances are properly explored more in-depth in elective, advanced courses.)

Chapter 3 focuses on consumer markets and buying behavior. Students glean an understanding of the types of consumer buying behavior, factors that influence that behavior, and the consumer purchasing decision process. Featured company examples include McDonald's, Zappos, PepsiCo, Patagonia, Birchbox, Abercrombie & Fitch, and Chipotle.

Chapter 4 focuses on the business-to-business (B2B) market. While there are similarities between consumer markets and B2B markets, there are also significant differences, including types of buyers and buying situations. Featured company examples include RingCentral, Office Depot, Barnes & Noble, Airbus, and Alibaba.com.

Chapter 5 explores how companies segment markets and select the target markets—those groups upon which companies will focus their marketing efforts. Featured company examples include Mattel Inc., McDonald's, Mercedes-Benz, and IKEA.

Chapter 6 focuses on the practice and process of marketing research and intelligence and their importance to an organization's success. In this chapter, students learn about how research is used as a tool to gather insights from customers and the industry. Featured company examples include LEGO, DuckDuckGo, and the Gallup Organization.

Chapter 7 introduces students to the global arena of marketing: the advantages and nuances of international trade, global trade, and marketing abroad. Featured global economic examples include the war between Russia and Ukraine, the global COVID-19 pandemic, increased prices of oil and other consumer goods, and the disruption of global supply chains.

Chapter 8 explores concepts that students must understand and apply correctly to successfully reach an ever-growing, diverse marketplace. Students will learn about diversity and inclusion marketing, multicultural and sociodemographic populations, cultural insights based on race and ethnicity, generational differences, and characteristics of specific communities that speak to their needs and preferences as consumers. Featured company examples include Procter & Gamble, PepsiCo, McDonald's, Target, Nike, and IKEA.

Unit 3 (Product, Promotion, Price, and Place) presents the standard 4P framework to organize, prioritize, and sequence marketing activities through the value chain.

Chapter 9 reviews the types of products, the product life cycle, branding a product, packaging a product, and the entire product experience. Students will learn how the product experience is developed and rolled out to the market. Featured company examples include Peloton, Netflix, Domino's Pizza, Starbucks, and Chipotle.

Chapter 10 introduces students to the manner in which companies acquire or maintain a competitive edge through offering new products. It explores the stages of the new product development process, factors that contribute to the success or failure of new products, and the stages in the consumer adoption process. Featured company examples include Swarovski, Taco Bell, Gillette, and Kentucky Fried Chicken.

Chapter 11 explores services—what's sometimes known as the "intangible product." It discusses how services are classified, their characteristics, and several related models, including the service profit chain model and the Gap Model of Service Quality. Featured company examples include Delta Air Lines, Zappos, Taco Bell, and the Ritz-Carlton.

Chapter 12 covers the pricing "P" of the marketing mix. It introduces students to the critical Cs of pricing and the five-step procedure for establishing pricing. Featured company examples include Amazon, GetUpside, Toyota, and IKEA.

Chapter 13 describes how companies utilize Integrated Marketing Communications (IMC) to fulfill their marketing goals and objectives. Students will learn about various IMC strategies through examples of companies like Peloton and the ups and downs of the fitness industry. Other featured company examples include TOMS and snack cake maker Little Debbie.

Chapter 14 introduces students to the promotion mix and its various elements. The focus of this chapter includes both successful and failed attempts at reaching the primary target markets. Communication, diversity, and social media are integral parts of this chapter. Featured company examples include Leo Burnett, GameStop, PepsiCo, and SeaWorld.

Chapter 15 delves into various sales strategies, as well as the steps in the selling process, while also reviewing the various methods of sales promotion used to create consumer demand. Featured company examples include Hilton, HelloFresh, and Cutco.

Chapter 16 explores the various digital and direct channels that marketers use to engage with customers,

drive traffic to company websites, and turn shoppers into buyers. As consumers continue to spend more, marketers must embrace digital technologies to meet consumers where they are, whether it's on TikTok, Amazon, Instagram, or Gmail.

Chapter 17 explores the different types of distribution decisions that companies make when determining the best way to get products and services to customers. Consumer demand for the speedy delivery of everything from Nike sneakers to shave kits continues to increase. Featured company examples include Whole Foods, Netflix, Wayfair, and AstraZeneca.

Chapter 18 outlines the ever-changing importance of retailing and wholesaling. While retailing has seen a dramatic decrease in recent decades due to online shopping, students are introduced to up-and-coming retailers that may change this trend. Featured company examples include Walmart, AutoZone, QVC, and Costco.

Chapter 19 explores sustainable marketing and how it addresses the positive impact that companies can have on people and the environment. In addition, Chapter 19 explores how brands tackle sustainability and start from a place of purpose in their marketing. Featured company examples include Patagonia, Ben & Jerry's, and PepsiCo. (Designed as a supplemental chapter, Chapter 19 contains fewer review questions and features than do the other chapters in this title.)

Key In-Text Features to Drive Understanding

- **Marketing in Practice.** This feature box presents examples of challenges, managerial decisions, and the range of accepted marketing practices in real companies and industries. It may include a reference or link to an online resource (YouTube video, article, etc.).
- **Ethical Considerations.** Each chapter concludes with a section about common ethical issues pertaining to the chapter content, including an explanation of the importance of ethics in that particular context, common pitfalls, and a company-specific illustrative example.
- **Link to Learning.** Included multiple times in every chapter, this feature provides online resources and videos that are pertinent to students' deeper exploration of the topics. Link to Learning boxes allow students to connect easily to some of the most important thought leaders and concepts in the field.
- **Companies with a Conscience.** This feature box highlights a real company that is demonstrating the ethical practices introduced in the Ethical Marketing section.
- **Marketing Dashboard.** This feature box, included in six chapters, guides students through the process of applying the concepts in the chapter to analyzing and interpreting data (marketing metrics). The example solutions are visible to student within the feature for instant feedback.
- **Careers in Marketing.** This feature box, included in every chapter, has links to websites and videos that promote employability awareness, job exploration, and career opportunities in the marketing field.
- **Knowledge Checks.** Five multiple-choice questions are included at the end of all main chapter sections for student self-review at the point of learning. A student answer key is available at the end of the book.

Organizational and Reinforcement Materials to Support Learning

- **Learning Outcomes.** Every chapter section begins with a set of clear and concise student learning outcomes (LOs). These outcomes are designed to help the instructor decide what content to include or assign and can guide students on what they can expect to learn and be assessed on.
- **In the Spotlight.** Chapter openers include real-world marketing examples that explain the relevance of the topic for students.
- **Applied Marketing Knowledge.** This end-of-chapter feature includes five discussion questions that you can assign for students to apply their learned knowledge.
- **Critical Thinking Exercises.** This end-of-chapter feature presents four or five short-answer questions that challenge students' analytical thinking.
- **Building Your Personal Brand.** This end-of-chapter exercise guides students on how to build their

personal brand in order to capture their professional identity, talents, and methods to differentiate themselves from others. This integrative feature will include activities such as building a LinkedIn profile, performing a personal SWOT analysis, etc.

- **What Do Marketers Do?** This end-of-chapter exercise asks students to interview an individual marketing practitioner as a method for investigating and understanding the various marketing jobs and careers. Suggested job titles and questions are provided.
- **Closing Company Case.** This is an in-depth case study of a real company that illustrates the chapter concepts and includes several discussion questions. It can be used as an in-class discussion prompt or as a written homework assignment. A sample answer or rubric is included in the Instructor's Manual.
- **Marketing Plan Exercise.** This running, end-of-chapter project, introduced in Chapter 1 and included in nine chapters, provides students with a downloadable template that they will use to fill out different sections as they move through the book. It is intended to be a multipart, semester-long exercise for which they will select a real company and product (service) to research and analyze.
- **Chapter Summary.** Designed to support both students and instructors, chapter summaries distill the information in the chapter down to key, concise points.
- **Company Names** are visually emphasized in red type in the text.
- **Key Terms.** Key terms are presented in bold text and are followed by an explanation in context. Definitions of key terms are also listed in the end-of-chapter glossary.

Answers to Questions in the Book

Sample solutions are provided for students and instructors at the end of each Marketing Dashboard feature. Answers to the Knowledge Checks are provided in the student answer key at the end of the book. The end-of-chapter Applied Marketing Knowledge discussion questions, Critical Thinking Exercises, and Closing Company Case review questions are intended for homework assignments or classroom discussion; thus, student-facing answers or solutions are not provided. Sample answers are provided in the Instructor Manual for instructors to share with students at their discretion, as is standard for such resources. Building Your Personal Brand, What Do Marketers Do?, and the Marketing Plan Exercise are integrative, open-ended assignments to which standard solutions are not available; students are expected to focus on their own business interests.

Additional Resources

Student and Instructor Resources

We've compiled additional resources for both students and instructors, including Getting Started Guides, an instructor's manual, a test bank, and image slides. Instructor resources require a verified instructor account, which you can apply for when you log in or create your account on OpenStax.org. Take advantage of these resources to supplement your OpenStax book.

Instructor's Manual. For each chapter, the Instructor's Manual includes a chapter overview, ideas for classroom activities, links to supplemental resources and examples, and discussion questions. The Instructor's Manual also contains sample answers to the end-of-chapter Applied Marketing Knowledge, Critical Thinking, and Closing Company Case discussion questions. Authored by Jaciel Keltgen, Minnesota State University, and Lauren Donovan, Delaware County Community College.

Lecture Slides. Using images, key terms, and examples, the lecture slides (in PowerPoint format) outline the main points of each chapter, providing a starting place for instructors to build their lectures. Authored by Debra Ellerbrook, Concordia University, Wisconsin.

Test Bank. The multiple-choice and short-answer questions in the test bank platform are correlated to learning outcomes (LOs) in the textbook, allowing instructors to customize tests to support a variety of course objectives. The test bank is available in Word format. Authored by Jaciel Keltgen, Minnesota State University, and Lauren M. Donovan, Delaware County Community College.

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Figure 1 Senior contributing authors: Maria Gomez Albrecht (left), Mark Green (center), Linda Hoffman (right).

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Unit 1

Setting the Stage

Unit Introduction

Welcome to *Principles of Marketing*! Some people may mistakenly believe that marketing skills can only be applied to marketing tasks, but the fact is that marketing isn't only for marketers. Studying marketing is essential in almost any career field, because it teaches you the basic principles that connect people, brands, and businesses.

This textbook is divided into three units:

- Unit 1: Setting the Stage
- Unit 2: Understanding the Marketplace
- Unit 3: Product, Promotion, Price, and Place

In this first section, we're going to set the stage for the remainder of this textbook, by first exploring marketing as a discipline and understanding the concept of customer value. Then we'll analyze the role of strategic planning in marketing, because strategy defines how you communicate that customer value to others.



1 Marketing and Customer Value

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

Chapter Outline

1.1 Marketing and the Marketing Process
1.2 The Marketing Mix and the 4Ps of Marketing
1.3 Factors Comprising and Affecting the Marketing Environment
1.4 Evolution of the Marketing Concept
1.5 Determining Consumer Needs and Wants
1.6 Customer Relationship Management (CRM)
1.7 Ethical Marketing

In the Spotlight

Since its launch in 1967, Gatorade has been a power player in the sports drink beverage category. Gatorade dominates the US sports drink market, garnering 67.7 percent of the market, followed distantly by the Coca-Cola Company's Powerade and BodyArmor brands at 13.7 percent and 9.3 percent, respectively.[1] The fact that Gatorade has maintained such a large market share demonstrates parent company PepsiCo's understanding of the marketing mix (i.e., product, price, place, and promotion), how to integrate these elements for its target market, and how to continually adapt its marketing mix to meet changing consumer demands.

First, let's consider its approach to the product itself. Gatorade managers saw the exercise boom coming as baby boomers began to age and wanted to be the performance and thirst quencher for everyone from kids to pros. The product, which was intended to replace electrolytes lost in sweat, was scientifically formulated first at the University of Florida and later at the Gatorade Sports Science Institute. But Gatorade didn't rest on its laurels when it comes to product innovation. For example, in order to lure back "lapsed" consumers with concerns over sugar, it launched Gatorade Zero, a thirst quencher without sugar. It also launched its G Series Performance, a new line of food and beverage products designed to provide fuel, fluid, and nutrients before, during, and after activity.[2]

In terms of pricing, Gatorade originally priced its product using a premium strategy because the product was unique. However, in order to retain its lead, the company subsequently adopted competitive pricing policies

when competitors entered the market.[3]

Gatorade has continued to pump marketing dollars into advertising campaigns. For example, in 2020 it launched an iconic advertising campaign that featured some of the world's "greatest of all time (GOAT) athletes"— the NBA's Michael Jordan, tennis star Serena Williams, soccer legend Lionel Messi, and track star Usain Bolt. In the commercial, the sports stars appear at a mythical setting called "GOAT Camp," where student athletes (considered "future GOATS") can train with these stars.[4] Check out the GOAT camp commercial here.

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

In 2020 Gatorade launched an impactful digital strategy. When NBA games were canceled due to the pandemic, ESPN aired a 10-part documentary, "The Last Dance," about Michael Jordan's last year with the Chicago Bulls. Because Gatorade wasn't an official sponsor, it partnered with the NBA to stream 1998's Game 6 featuring the Jazz versus the Bulls in what would be superstar Jordan's last game with the Bulls. Gatorade sponsored a "watch party" keyed to the hashtag #Game6Live.[5] Review Gatorade's strategy on Twitter's Marketing website (https://openstax.org/r/gatoradegame6live), which outlines campaign results, opportunity, and steps taken.

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

1.1 Marketing and the Marketing Process

Learning Outcomes

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

- LO 1 Define and describe marketing.
- LO 2 Describe the benefits of marketing to the organization, its interested parties, and society.
- LO 3 Explain the marketing process.

Marketing Defined

When you ask a group of people, "What's marketing?" most people will answer "advertising" or "selling." It's true that both of these functions are part of marketing, but marketing is also so much more. The American Marketing Association (AMA) defines marketing as "the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large."[6] That's kind of a mouthful, so let's see if we can simplify it a bit.

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

Marketing can also be defined as the set of activities involved in identifying and anticipating customer needs and then attempting to satisfy those needs profitably.[7] But what does that really mean? Let's break down that definition:

- *Identifying customer needs*. This is typically where marketing research comes in. Methods of marketing research will be covered in a later chapter, but market research helps a company develop a detailed picture of its customers, including a clear understanding of their wants and needs.
- *Anticipating customer needs*. After analyzing the data collected, marketers can predict how products might be changed, adapted, or updated.
- *Satisfying customer needs*. If marketers have done their homework correctly and clearly understand their customers' needs, consumers will be pleased with their product purchase and will be more likely to make

additional purchases.

- *Profitably*. Profitability is a relatively simple term; it's when a company's revenue is greater than its expenses. In terms of marketing, the road to profitability means adding value to a product so that the price customers pay is greater than the cost of making the product.[8]

MARKETING IN PRACTICE



Reconciling Segmentation and Diversity

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

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

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

Read the following articles to further explore these nuances:

- Chron: "Difference Between Stereotyping & Market Segmentation (https://openstax.org/r/stereotypingmarket)"
- Retail Dive: "Segmentation is dead (https://openstax.org/r/segmentationisdead)!"
- Spectrem Group Blog: "Why Segmentation Is OK in Market Research Not Life (https://openstax.org/r/whysegmentationok)"

Keep these questions in mind as you explore Unit 2 of this book, where you will learn more about Market Segmentation, Targeting, and Positioning before exploring the considerations of Marketing in a Diverse Marketplace.

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

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

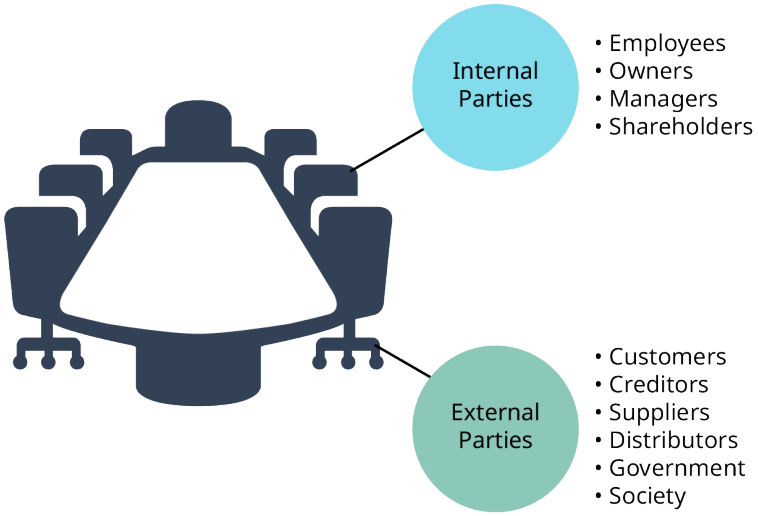

Figure 1.2 Types of Interested Parties (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

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

You might think that marketing would be primarily directed toward those outside the company, like customers, but marketing is also directed toward internal groups. **Internal marketing** involves promoting the objectives, products, and services of a company to its internal constituents—particularly employees.[9]

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

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

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

Marketing creates several different types of utility:

- **Form utility**. Form utility refers to how well an organization can increase the value of its product in the customer's eyes by making changes and altering its physical appearance.[10] For example, when you want a donut or a pastry, you don't want to buy the ingredients to make it; you want a donut in its final form so you can eat it. That's where the bakery and form utility come into play. The bakery combines flour, sugar, eggs, and other ingredients to make the cakes, donuts, and pastries that you purchase.
- **Time utility**. Marketing creates time utility when it makes products and services available to customers so that they can buy it when it is most convenient for them. Consider how many stores are open evenings, weekends, or even 24/7 to make it convenient for customers to shop there!

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

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

The Marketing Process Defined

The **marketing process** refers to the series of steps that assist businesses in planning, analyzing, implementing, and adjusting their marketing strategy. Do an internet search for "steps in the marketing process," and you'll immediately see that some websites outline a 10-step process, whereas others propose a 4-step or 6-step process. For our purposes, we're going to use a 5-step process.

Steps in the Marketing Process

The 5-step process (see Figure 1.3) involves understanding the marketplace and customers, developing a marketing strategy, delivering value, growing customer relations, and capturing value from customers.[11]

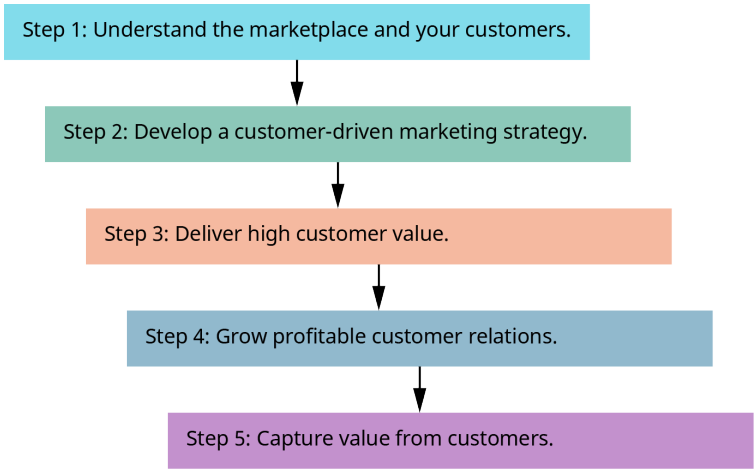

Figure 1.3 Steps in the Marketing Process (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Step 1: Understand Both the Marketplace and Customers

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

Another way to approach this is to create separate brands and compete in both arenas. Consider Volkswagen. You might immediately think of the VW Beetle or the Jetta, but the company's brand portfolio extends beyond VW passenger cars and SUVs. It's also the parent company for Audi, Bentley, Lamborghini, Porsche, and others, and these vehicles sell at very different price points than VW passenger cars.[12]

Step 2: Develop a Customer-Driven Marketing Strategy

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

It's said that there are two basic types of marketing strategy: a product-driven, "build-it-and-they-will-come" strategy and a customer-driven strategy, in which you analyze prospective consumers and then—and only then—create something that they want or need. We're going to focus on the latter strategy. What happens in a **customer-driven marketing strategy** is that the company shifts the focus from the product or service itself to its users. Customers' needs are the central focus and the point of beginning, not an afterthought. Your primary goal in a customer-driven marketing strategy is to determine what users want and/or need and then satisfy those users. Instead of being product-centric, it's about being customer-centric and developing a mutually beneficial relationship with customers.[13]

In a nutshell, it's about establishing a connection and a relationship. It's about understanding who your customers are, what their needs and wants are, and how you can best meet those needs and wants. It's about knowing your target market better than your competitors do and creating a strong **value proposition** for those users—a promise of value that communicates the benefits of your company's products or services. In short, it's what makes your product or service desirable to potential customers, helps them understand why they should buy it, how your company's product or service differs from those of its competitors, and how your offerings are superior to similar offerings from your competitors. [14]

Step 3: Deliver High Customer Value

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

The mathematical formula is simple:

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

$$\left(\text{V} = \text{B/P}\right)$$

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

- Functional value: what the product "does" for the customer in terms of solving a particular want or need
- Monetary value: what the product actually costs relative to its perceived worth
- Social value: how much owning the product allows the customer to connect with others
- Psychological value: how much that product allows the customer to "feel better"[15]

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

Step 4: Grow Profitable Customer Relations

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

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

improved their lives so they make repeat purchases. Marketers need to consider how to reach customers about their offerings and make it easy and convenient for those customers to make continued purchases.

When customers have a positive relationship with a company or its products or services, they're more likely to become repeat buyers. Satisfied customers are also more likely to be interested in buying additional products or services from your company, and they tend to recommend products to others, further reducing the company's costs of getting new customers.[16]

Step 5: Capture Customer Value in the Form of Profits

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

Increasing customer equity is the goal of marketers because it's a bellwether for financial success. Think about it in simple terms: the higher a company's customer equity, the more profit the company generates, and the more valuable that company (and its products or services) becomes on the market.[17]

CAREERS IN MARKETING



Marketing Jobs

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

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

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

- HubSpot: "How to Start Your Marketing Career When You Know Nothing About Marketing (https://openstax.org/r/careersblogstartyour)"
- Setup: "The Marketing Career Path: From Entry-Level to Chief Marketing Officer (https://openstax.org/r/themarketingcareerpath)"
- Coursera: "Your Guide to Landing an Entry-Level Marketing Job (https://openstax.org/r/articlesentrylevel)"
- Skillshare: "12 Entry-Level Marketing Jobs You Can Pursue Right Now (https://openstax.org/r/12entrylevel)"
- Indeed: "Entry Level Marketing Salary in the United States (https://openstax.org/r/marketingsalaries)"

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

Knowledge Check

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

1. Coca-Cola's mission is to refresh the world, and to that end, it has ensured that you can buy a Coke product at numerous locations—vending machines, convenience stores, restaurant fountains, stadiums,

etc. What type of utility has marketing created through this process?
a. Form utility
b. Time utility
c. Place utility
d. Possession utility

2. Which of the following provides the most complete definition of marketing?
a. Marketing creates value.
b. Marketing is made up of every process involved in moving a product or service from your organization to the consumer.
c. Marketing includes distribution decisions.
d. Marketing is about building relationships.

3. Which of the following is not an external interested party?
a. Employees
b. Customers
c. Suppliers
d. Society

4. The total potential profits a company earns from its current and potential customers is known as _____.
a. customer equity
b. the value proposition
c. customer value
d. the marketing process

5. At which step in the marketing process would the lifetime values to a company's customers be considered?
a. Developing a customer-driven marketing strategy
b. Delivering high customer value
c. Growing profitable customer relations
d. Capturing value from customers

1.2 The Marketing Mix and the 4Ps of Marketing

Learning Outcomes

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

LO 1 Define and describe the marketing mix.
LO 2 List and explain the 4Ps of marketing.

Marketing Mix Defined

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

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

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



Figure 1.4 The Marketing Mix and the 4Ps of Marketing (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

The 4Ps of Marketing

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

Product

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



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

In terms of the first of the 4Ps, marketing analyzes the needs of consumers who buy backpacks and decides if they want more and/or different bags. For example, marketing will analyze what features consumers want in the bag. Do they want a water bottle pocket, padded shoulder straps, reflective tape, a padded laptop sleeve,

or organizer pockets? Think about your own bag for a moment: Why did you buy this particular product? What features did it have that made it appealing to you?

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

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

Price

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

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

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

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

Promotion

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

In terms of our backpack example, marketing now needs to decide which kinds of promotional strategies should be used to tell potential customers about the company's backpacks. For instance, should you use TV advertisements to make customers aware of the backpack? If so, you'll want to run your commercials during programs that your target audience watches. For example, if you're selling backpacks to children (or trying to entice them to badger their parents to purchase them), children's cartoons may be the most cost-effective avenue to reach your target market. If your backpacks are designed for work or school, you'll likely decide to advertise on television programs that target younger adults.

LINK TO LEARNING



Netflix, JanSport, and *Stranger Things*

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

Perhaps you'll decide to run magazine print ads. If so, you'll need to decide in which magazines you'll place the ads. Most magazines have a very specific readership demographic consisting of factors such as age, gender, and interests. If you're going to advertise those backpacks with print ads, you'll want to leverage readership demographics to ensure that your message is being seen by the right consumers—those who are most likely to buy your backpacks.[18]

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

Place

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

One important factor to note about the importance of place in the marketing mix is that it doesn't refer to the location of the company itself but rather to the location of the customers or potential customers. Place deals with strategies the marketer can employ to get those backpacks from their present location—a warehouse, for example—to the location of 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. Which of the following is NOT one of the 4Ps of marketing?
   a. Product
   b. Price
   c. Place
   d. Positioning
2. Which of the 4Ps focuses on determining how much consumers would be willing to pay for a product or service?
   a. Product
   b. Price
   c. Place
   d. Promotion
3. Which of the 4Ps of marketing focuses on how and where to deliver the product to the consumer most likely to buy it?
   a. Product
   b. Price
   c. Place
   d. Promotion
4. DiJuan, a marketer for a soft drink company, ensures that his company's products are available in numerous locations—vending machines, convenience stores, restaurants, and supermarkets. Which element of the 4Ps is DiJuan addressing?
   a. Product
   b. Price
   c. Promotion
   d. Place

5. You're a marketer trying to determine which trade shows you might want to include in your marketing mix. Which element of the marketing mix would address this concern?
   a. Product
   b. Price
   c. Place
   d. Promotion

1.3 Factors Comprising and Affecting the Marketing Environment

Learning Outcomes

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

- LO 1 Define and describe the marketing environment.
- LO 2 Explain the components of the marketing environment.
- LO 3 Identify and describe the internal factors of the marketing environment.
- LO 4 List and describe the components of the micro- and macroenvironments.

The Marketing Environment Defined

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

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

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

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

The Components of the Marketing Environment

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

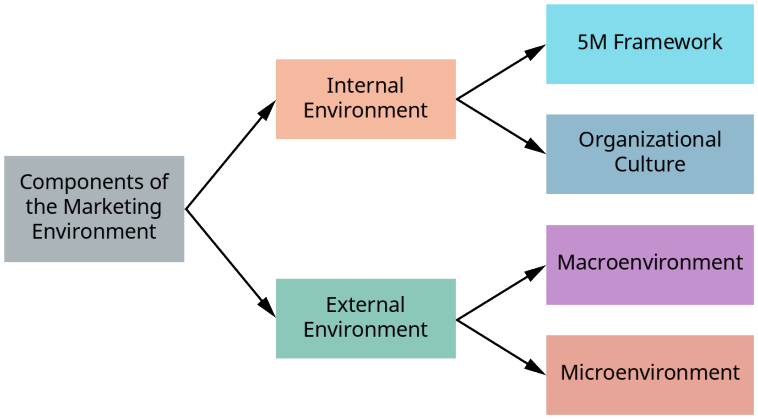

Figure 1.6 The Components of the Marketing Environment (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Components of the Internal Environment

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

The **5Ms of marketing** (sometimes also called the 5M framework) is a marketing/management model that defines the elements of a marketing strategy that must be addressed in order to be successful. The five elements (sometimes known as the organization's assets) include minds, minutes, machinery, materials, and money.[19] Let's take a closer look at each of these factors:

- **Minds (Staffing):** This "M" might well be considered the most important factor because it's people who make sure the rest of the 5Ms are utilized in a productive manner to achieve the goals of the organization.[20]
- **Minutes (Time):** Time is another valuable asset. We've all heard the saying that time is money, and this is true within the marketing arena. For example, in formulating and implementing a new strategy, marketing needs to assess factors such as whether existing production processes are as efficient and effective as they can be, the length of time it takes the organization to introduce a new product to the market, and how responsive the organization is to competitive pressures.[21]
- **Machinery (Equipment):** Machinery consists of the equipment and/or physical assets used to process materials into finished or semifinished products.
- **Materials (Production):** Materials consist of the inputs needed to produce goods and services.
- **Money (Finance):** Perhaps second only to staffing, money is a very critical resource because it's used to acquire and/or hire other resources.

Organizational culture is comprised of the shared values, attitudes, expectations, norms, and practices that guide the actions of all within the company. Think about organizational culture as "the way we do things around here," and the culture can help or hinder an organization. For example, a good culture embodies positive traits that lead to improved performance and profit. On the other hand, a dysfunctional culture that's toxic and/or inefficient can hinder even the most successful organization.[22]

For an example of a positive organizational culture, consider Zappos, where happiness is at the core. Founder Tony Hsieh wrote a book on the topic and has said, "We're willing to give up short-term profits or revenue growth to make sure we have the best culture."[23] Hsieh was not afraid to put his money where his mouth was, either. In support of maintaining an outstanding company culture and a productive workforce, he instituted a policy that would pay new, unhappy employees $2,000 to quit following their four-week training period.[24]

By contrast, consider what a dysfunctional culture can do to an organization. During the summer of 2020, *The Ellen DeGeneres Show* was called out for having a toxic work environment. Eleven employees spoke out

publicly about the negative organizational culture. There were allegations of sexual misconduct, intimidation, and racism.[25] Ratings faltered as a result of the allegations, and DeGeneres ultimately decided to end her daytime talk show.

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

- Branding and marketing efforts emanate from the organization's core values and culture and guide the organization's marketing message. Therefore, if your marketing message doesn't match the reality of the business, it's akin to that old adage of "putting lipstick on a pig."[26] You're talking the talk but not walking the walk.
- A strong culture strengthens your marketing message because it gives prospective customers a better idea of the values of your business, and customers who know what you believe and value are much more likely to do business with you. For example, research has demonstrated that 86 percent of buyers are willing to pay more for a positive customer service experience.[27] Once again, think about the culture at Zappos. One of the ways in which the company has developed a strong following of loyal customers is through its policy that call-center employees are empowered to do "whatever it takes" to make the customer happy. Call-center employees don't use scripts for calls, and there are literally no time limits on calls.[28]
- A strong organizational culture is also key in attracting and retaining employees. In his quest for a happier, more positive work environment, Hsieh implemented several policies at Zappos that he felt contributed to this environment, including a relaxed dress code, discounted food and drink, relaxation areas, and more.[29] TOMS (featured in Companies with a Conscience later in this chapter) is another excellent example of this.

Components of the External Environment

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

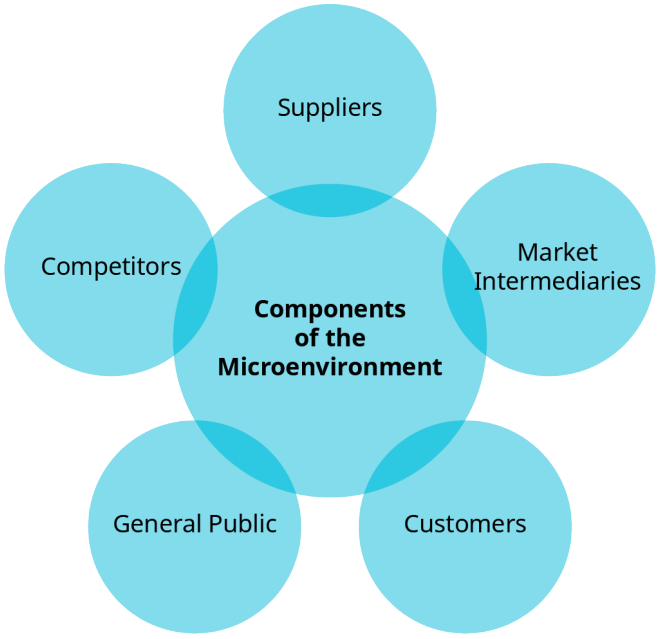

Figure 1.7 Components of the Microenvironment (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

The **microenvironment** consists of five predominant factors.

- **Suppliers**. Suppliers (sometimes also called *vendors*) are those partners from whom we receive the parts and products necessary for our business. Let's assume that your company produces microwave ovens. Some of your suppliers may be providers of transformers, the turntable, control panels, magnetrons, etc. As long as you have options in terms of the component suppliers, the bargaining power of each supplier is relatively weak. However, if two suppliers merge and decide to raise the price of the component the new entity supplies, that vendor now wields increased power.
- **Market Intermediaries.** Often, products are distributed by third-party sellers such as retailers, wholesalers, and others in the distribution channel. The reputation of these market intermediaries plays an important role in the marketing of the product or service, both positive and negative, so companies need to select and monitor market intermediaries on an ongoing basis. We'll learn more about the roles of these intermediaries in Distribution: Delivering Customer Value, but let's provide a couple of definitions and examples to help you better understand some of the parties in the distribution channel. **Retailers** (like Walmart or Target) purchase large quantities of goods from producers and then sell smaller quantities to end customers for personal use or consumption. **Wholesalers** purchase large quantities of products from producers and then sell to smaller businesses such as retail stores. A good example of a wholesaler is Gexpro, which sells electrical supplies for the construction industry.
- **Customers.** Understanding who your customers are will enable you to effectively reach them, whether online, locally in retail stores, or internationally.
- **Competitors.** Successful marketing strategies must be implemented after consideration of your competition. Knowing who your competition is and what they are and are not offering allows you to find the gap in the market. You want to be where the competition is not, at least in the sense of offering something unique to a targeted market.
- **General Public**. Because companies provide their offerings in communities that support them, they have an obligation to satisfy those communities. There's an old saying that "perception is reality," so marketers' actions must be evaluated through the perceptual lens of those communities, because the public's perception of you—your reputation—is essential to your success.[30]

Components of the Macroenvironment

Obviously, marketers can't ignore what's going on in the external environment. One of the tools used by companies to assess the environment in which they are operating is a **PESTLE analysis**. PESTLE is an acronym for political, economic, social, technological, legal, and environmental factors that provide marketers with a comprehensive view of the whole environment from multiple angles.[31] These **macroenvironment** factors can be used to understand current external influences so that marketers can more easily identify what might change in the future, mitigate the identified risks, and take advantage of competitive opportunities (see Figure 1.8).

Political Factors	Economic Factors	Social Factors	Technological Factors	Legal Factors	Environmental Factors
• New taxes • Fiscal policy • Trade tariffs	• Inflation rates • Interest rates • Foreign exchange rates • Economic growth patterns	• Demographics • Cultural trends • Population analytics	• Innovations in technology • Automation • Research and development • Technological awareness	• Consumer laws • Labor laws • Safety standards	• Climate • Geographical location • Stakeholder and consumer values

Figure 1.8 PESTLE Factors (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Let's look at these factors more closely:

- **Political Factors.** These factors include environmental and trade restrictions, political stability, and business policy. For example, Tesla announced in late 2021 that it is moving its headquarters out of

California to Texas, following similar announcements by Hewlett Packard Enterprise (HPE) and Oracle, citing such things as lower housing costs and tax rates and fewer regulations, making it easier for companies to operate in Texas.

- **Economic Factors.** Economic factors play a huge role in terms of a company's prospects in a market. For example, economic factors affect pricing and can even influence the supply/demand curve for a product or service. For example, high inflation causes consumers to have less spending power, which translates into lower sales and revenue. In 2022, consumers experienced both product shortages and higher prices, blamed largely on COVID-19, Russia's war on Ukraine, and the availability of certain commodities, such as corn, sunflower oil, and wheat.[32]
- **Social Factors.** Social factors take in a wide swath of elements, such as cultural norms and expectations, health consciousness, population growth/decline, the age distribution of a population, and even career attitudes. Let's take one of these factors—age distribution—and examine how it impacts marketing. Baby boomers (born between 1946 and 1964) comprise approximately a quarter of the US population. It's largely as a result of this group's aging and retirement that active adult communities such as Del Webb and others have sprung up across the nation.[33]
- **Technological Factors.** These factors encompass the innovations and developments in technology that impact an organization's operations, as well as the rate of technological change. For example, look at one simple technological change with which we've all become comfortable in the public arena over the past decade or so: free WiFi. Starbucks was able to take advantage of this change and reposition its coffeehouses and differentiate itself from competitors by offering free WiFi.[34]
- **Legal Factors.** These factors include changes to legislation impacting employment, industry regulation, licenses and permits, and intellectual property.
- **Environmental Factors.** In the context of a PESTLE analysis, environmental factors refer to variables affecting the physical environment, like climate change, pollution, the scarcity of raw materials, and the growing concern over companies' carbon footprints.

Knowledge Check

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

1. The extent to which the supply chain adds value to our marketing strategy is best addressed by our evaluation of which of the 5Ms?
   a. Materials
   b. Money
   c. Machinery
   d. Minutes

2. _____ consist of third-party sellers such as retailers, wholesalers, and other resellers in the distribution channel.
   a. Suppliers
   b. Market intermediaries
   c. Partners
   d. Customers

3. If you wanted to fill a gap in the marketplace, you would have to carefully consider _____ to see what is already available on the market.
   a. the competition
   b. the customers
   c. the public
   d. the resellers

4. Which of the domains of the macroenvironment are most likely to be responsible for cutting-edge

innovations?

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

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

1.4 Evolution of the Marketing Concept

Learning Outcomes

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

- LO 1 Describe the production concept.
- LO 2 Define the product concept.
- LO 3 Discuss the selling concept.
- LO 4 Explain the marketing concept.
- LO 5 Summarize the societal marketing concept and its features.

The Evolution of Marketing

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

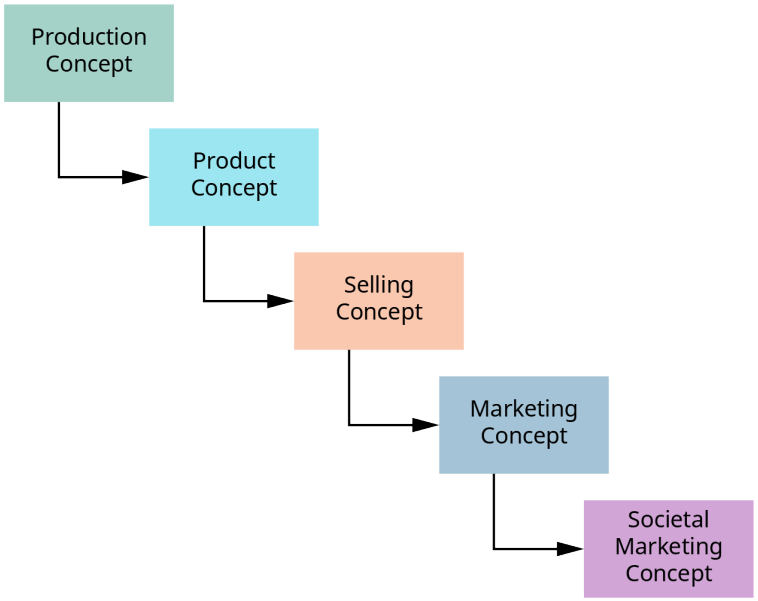

Figure 1.9 Evolution of Marketing (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

The Production Concept

In order to understand the production concept, it's important first to understand the history of technology and

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

The **production concept** assumed that consumers were mostly interested in product availability and price, not necessarily product features. As a result, companies concentrated on high production, low costs, and mass distribution. In other words, to use the oft-used line from the movie *Field of Dreams*, "If you build it, they will come." People were so hungry for mass-produced goods that companies didn't have to do a lot of sales or marketing. The production concept is thought to have lasted from just after the Civil War (1861–1865) until the 1920s.[35] For example, inventor Samuel Colt's company began mass -producing revolvers in 1835. The Waltham Watch Company (founded in 1850 in Waltham, MA) was the first to use division of labor to mass produce watches and clocks.

The Product Concept

From the 1920s until the 1950s, the **product concept** dominated. With product availability a thing of the past, consumers began to favor products that offered quality, performance, and/or innovative features. As a result, companies concentrated on making superior products and improving them over time. One of the problems with this type of thinking is that marketers may fall in love with a product (known as "marketing myopia") and may not realize what the market truly wants or needs. Consider the manner in which railroad marketers overlooked the growing competition from airlines, buses, and automobiles. In his book *Marketing Myopia*, author Theodore Levitt writes, "The railroads did not stop growing because the need for passenger and freight transportation declined. That grew. The railroads are in trouble today not because that need was filled by others (cars, trucks, airplanes and even telephones) but because it was not filled by the railroads themselves. They let others take customers away from them because they assumed themselves to be in the railroad business rather than in the transportation business."[36]

LINK TO LEARNING



The Reckoning

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

The Sales Concept

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

The Marketing Concept

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

ensure repeat sales and achieve stable relationships and reduced costs.

The Societal Marketing Concept

In a nutshell, the **societal marketing concept** is simple. Companies make good marketing decisions by considering not only consumers' wants and needs but additionally the balance between those wants and needs and the company's capabilities and society's long-term interests. The concept emphasizes the social responsibilities that companies bear. This means meeting consumers' and businesses' current needs while simultaneously being aware of the environmental impact of marketing decisions on future generations' ability to meet their needs.[37]

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 product concept focuses on _____.
   - **a.** the quality of the product a company intends to sell
   - **b.** the operations of manufacturing the product a company intends to sell
   - **c.** the selling strategies a company will use to sell the product
   - **d.** the needs of the customer
2. Which of the marketing eras or concepts is most closely related to sustainability and environmental consciousness?
   - **a.** Production concept
   - **b.** Marketing concept
   - **c.** Societal marketing concept
   - **d.** Sales concept
3. During which marketing era concept would companies not only produce products but also try to persuade customers through advertising and personal selling to purchase those products?
   - **a.** Production concept
   - **b.** Product concept
   - **c.** Selling concept
   - **d.** Marketing concept
4. Which of the following accurately represents the evolution of marketing?
   - **a.** Production, product, sales, marketing, societal
   - **b.** Product, sales, production, marketing, societal
   - **c.** Marketing, production, sales, societal, product
   - **d.** Societal, production, sales, marketing, product
5. During the societal marketing concept, _____.
   - **a.** customers' wants and needs were first identified as essential
   - **b.** trustfulness, honesty, and transparency became most important
   - **c.** promotional efforts to move inventory were essential
   - **d.** the customer was the focus

1.5 Determining Consumer Needs and Wants

Learning Outcomes

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

LO 1 Explain how an organization identifies consumer needs and wants.

LO 2 Describe the process through which an organization satisfies consumer needs and wants.

Identifying Consumer Needs and Wants

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

Let's consider an example to illustrate this concept. A customer comes into your car dealership and indicates that she wants to purchase an inexpensive hybrid vehicle. That description is broad and subject to interpretation, so it's essential that the marketer probe further, because there are really five types of customers needs[38]

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

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

Satisfying Consumer Needs and Wants

You may be asking yourself at this point, "Does marketing satisfy needs, or does it create needs?" Some people feel that marketing creates needs and pressures consumers into buying unneeded products or services. However, marketing does not create needs; rather, it opens consumers' eyes to their wants, and it's up to marketers to understand those wants in order to guide consumers on the path to purchasing their products or services.[39] Marketing creates value, and value speaks to the satisfaction of customer needs and the benefits customers receive from the product. It's the customer, however, who ultimately determines how well the product fulfills their needs and how much value the product creates.

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

The Value Proposition

A value proposition identifies the quantifiable benefits that customers can expect when they choose to purchase your company's product or service. A value proposition is, in effect, a promise from the company to the customer, and it can serve as a competitive differentiator to motivate customers to purchase your company's products or services. In other words, your value proposition should bring together in a brief, concise statement what your customer wants and/or needs and how your product or service will meet those wants and needs better than your competitors.[40]

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

- Bill Ragan Roofing: "Let us take the stress of roof repairs or a roof replacement off your shoulders."[41]
- Applied Educational Systems (AES): "Spend your time connecting with students, not planning and grading"[42]
- DuckDuckGo: "Tired of being tracked online? We can help."[43]
- HelloFresh: "Take the stress out of mealtime."[44]

The Exchange Process

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

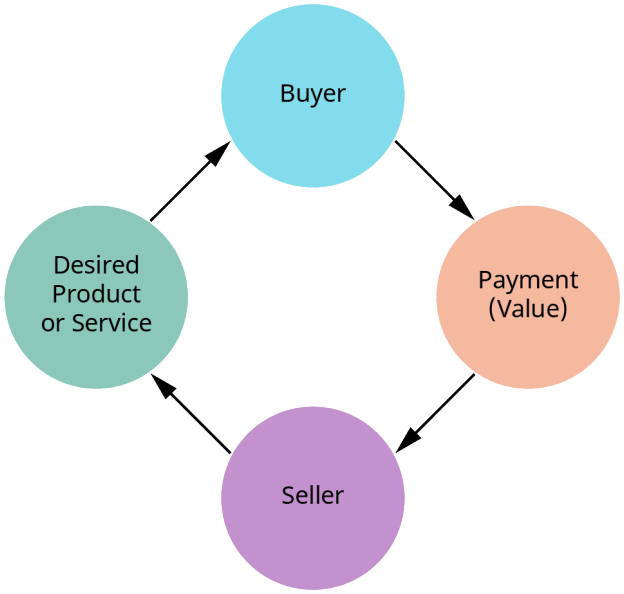

Figure 1.10 The Exchange Process (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

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

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

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

Inherent in the exchange process is what's known as **value**—the benefit to the customer or consumer relative to the cost in the exchange. In other words, value is the monetary worth of the benefits the customer receives in exchange for the product or service. Let's go back to our backpack example a few sections ago. You may really want that backpack because it keeps your "stuff" organized and it's lightweight (the benefits), but if the cost is too high, either in terms of the monetary cost or the time you'd have to spend going to the store to buy it, that backpack won't have value for you. No sale!

Knowledge Check

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

1. _____ needs are those that provide the "wow" factor in a customer's purchase.
   a. Stated
   b. Real
   c. Unstated
   d. Delight

2. In the exchange process, the _____ is the individual who purchases the product or service, and the _____ is the individual who actually uses the product or service.
   a. buyer; seller
   b. buyer; customer
   c. customer; consumer
   d. consumer, customer

3. Which of the following terms refers to the promised value of a product or service?
   a. Valuation
   b. Value proposal
   c. Value assessment
   d. Value proposition

4. _____ is/are the benefit(s) to the customer or consumer relative to the cost of the product or service.
   a. Value
   b. The exchange process
   c. Stated needs
   d. Expectations

5. Which of the following best describes a satisfactory exchange process?
   a. One that allows the seller to incur the highest profit possible
   b. One that allows the buyer to pay the lowest price possible
   c. One that fairly addresses the needs of both the seller and buyer
   d. One that is most convenient without regard for either the seller or buyer

1.6 Customer Relationship Management (CRM)

Learning Outcomes

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

- LO 1 Define customer relationship management (CRM).
- LO 2 Describe the impact of CRM on customer loyalty and retention.
- LO 3 Explain how CRM builds customer equity.

The Impact of CRM on Customer Loyalty and Retention

In the final analysis, companies want to accomplish two things: improve customer service relationships and improve customer retention. It is typically easier and less expensive to retain a loyal customer than acquire a new one. One way to accomplish that is through **customer relationship management (CRM)**—the means through which companies track, manage, and analyze customer interactions.[45]

There are a number of CRM software systems available in the marketplace, and most accomplish the same thing. They basically track and work with data about customers. For example, they link and analyze customer contact information. They store and track contact with company representatives, such as phone calls, emails,

live chat conversations, service requests, purchases, and returns. One good example of CRM software is Salesforce, which is the market leader for CRM software in North America, Western Europe, Latin America, and the Asia-Pacific region.[46]

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

- **Operational.** Operational CRM software deals with three types of operations: marketing, sales, and service automation. Operational CRM software is intended to assist businesses in automating how they approach leads and potential customers in order to convert those potential customers into actual customers.[47]
- **Analytical**. Analytical CRM software is all about data management and analysis. The software is designed to collect, organize, and analyze the inputted data, providing management with insights needed to better understand market trends, understand customer needs and wants, and make data-driven strategic decisions.[48]
- **Collaborative.** No business functions on an island. When businesses share customer data with one another, they gain insights and additional perspectives on customer behavior that is mutually beneficial. This collaboration allows each business to obtain information that it would not otherwise have access to.[49]

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

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

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

- **Leveraging Customer Data**. With CRM, a business can gather data on your existing customers and prospective customers so that their experience is a more positive one. For example, you can keep track of important dates such as customer birthdays or purchase anniversaries, and CRM software can send automatic emails to them with coupons or other incentives.[50]
- **Enhanced Customer Communications**. CRM software can be programmed to automatically send thank you notes to customers, send newsletters regarding new products, and send customer satisfaction surveys or polls so that you can glean more insight into your customers' levels of satisfaction with your product or service.[51]
- **Ascertaining Customer Needs.** Fostering customer loyalty begins with understanding what your customers want and need. An effective CRM program can track customers' purchase history, habits and preferences, and even web and email interaction. From this information, you can gain valuable insights that will aid you in developing targeted marketing strategies.[52]
- **Gathering Feedback.** We'd previously mentioned distributing customer surveys through use of your CRM software. This will provide you with valuable feedback not only about customers' perceptions of your product or service but also about their customer experiences. Have you ever received a message from Amazon after an online purchase, asking if you'd review the item you purchased? That's likely the result of an effective CRM system.[53]
- **Managing Customer Loyalty Programs.** CRM software can assist you in identifying prospective loyalty

program members and track member rewards. Loyalty programs reward members for purchases and have been shown to increase customer retention. For example, according to research, approximately 84 percent of customers indicate that loyalty programs are an incentive to remain with a brand, and 66 percent report that their spending behavior is actually altered by the ability to earn rewards.[54]

The Role of CRM in Building Customer Equity

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

Knowledge Check

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

1. Customer relationship management is accomplished by all of the following EXCEPT _____.
   a. establishing and tracking customer interactions
   b. finding ways of improving customer satisfaction from prior customer experiences
   c. communicating with customers in a personalized way
   d. offering the lowest price of all the companies on the market

2. What do you call the process of managing customer information in order to maximize brand loyalty?
   a. Marketing
   b. Customer relationship management
   c. Consumer retention management
   d. Branding

3. An ongoing positive relationship between a customer and a business is known as _____.
   a. customer equity
   b. customer loyalty
   c. customer retention
   d. customer lifetime value (CLV)

4. Which type of customer relationship management (CRM) system would pool data from outside companies and organizations in order to create even better experiences for their customers?
   a. Customer loyalty programs
   b. Operational CRM
   c. Analytical CRM
   d. Collaborative CRM

5. A program that offers discounts and special incentives designed to attract and retain customers is called a _____.
   a. customer loyalty program
   b. sweepstakes
   c. discount plan
   d. CRM software

1.7 Ethical Marketing

Learning Outcomes

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

- LO 1 Define ethical marketing.
- LO 2 Describe the importance of ethical marketing.
- LO 3 Explain the dos and don'ts of ethical marketing.

Ethical Marketing Defined

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

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

- All marketing should be true.
- The privacy of the end user is most important.
- Marketing campaigns must adhere to the norms, standards, rules, and regulations set forth by the government and other lawmaking authorities.
- Marketing professionals must be transparent about what they are trying to convey and whom they are approaching to convey the same.[55]

The Importance of Ethical Marketing

Ethics are critical to a company's reputation, particularly when public opinion—particularly negative public opinion—can go viral in an instant, thanks to social media.

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

The Dos and Don'ts of Ethical Marketing

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

First, the dos:

- *Ensure transparency.* Transparency is key, and marketers should attempt to provide the maximum amount of information to the consumer regarding the product, its usage, and safety concerns. For example, Southwest Airlines ran a clever marketing campaign entitled "Transfarency," promoting its philosophy that customers should be treated honestly and fares should actually stay low. The result? The campaign garnered nearly 5 million likes on Facebook alone.[57] How's that for earning the trust of potential customers?
- *Respect data privacy.* As we noted in our discussion of CRM above, marketers have the ability to collect vast amounts of data about consumers. Data privacy is the biggest concern for consumers in this data-driven world, so marketers must always respect data privacy. Consider the fallout experienced by Vizio (the TV manufacturer) when it was learned that its devices did not ask customers for permission to track and report viewing information. The amount of data being gathered and the fact that Vizio did not request

permission from customers meant the company was potentially in violation of the Video Privacy Protection Act. The company was sued in a class action lawsuit.[58]

- *Prioritize the concerns of the consumer.* No matter how small the concern of your consumer is, a marketer's top priority should be to respond to those concerns in a prompt, meaningful way. How long do you expect to wait for a response to an email to a company regarding its product or service—a day, two days, a week? You might be surprised to learn that, according to research, 42 percent of consumers expect a response within 60 minutes and 32 percent expect a response within 30 minutes. That illustrates the importance of responding promptly in order to increase the chances of a positive customer experience.[59]

Now, the don'ts:

- *Don't overemphasize or exaggerate.* In marketing, this is sometimes referred to as "puffery." Of course, you want to convey the features and benefits of the product or service to the customer, but these need to be stated clearly and accurately. Don't promise something you can't deliver— doing so is unethical and not beneficial in the long run.
- *Don't make false or unverified claims.* One case illustrates the importance of honesty in advertising: Living Essentials, LLC, the makers of 5-Hour Energy shots, advertised its product as "doctor-recommended" and superior to traditional caffeine. Those claims were found to be misleading, and Living Essentials, LLC was ordered to pay $4.3 million in damages.[60]
- *Don't make false comparisons.* Not only shouldn't you make false or unverified claims about your own products or services, but you shouldn't do it to competitors' products either. As a matter of fact, companies can sue competitors for false advertising claims under the federal Lanham Act, alleging that they suffered lost sales or damage to their reputation as a result of the false statements by the competitor.[61]

COMPANIES WITH A CONSCIENCE

TOMS Shoes



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

TOMS (see Figure 1.11) was founded by Blake Mycoskie in 2006 after a trip to Argentina, where he saw how people were living in impoverished areas. Mycoskie decided to establish his company with giving in mind. He introduced what he calls the "One for One" concept: for every pair of TOMS shoes sold, the company donates another pair to a child in need. In a recent *Impact Report*, TOMS reported it had provided more than 95 million pairs of shoes to children in 82 countries.[62]

Emboldened by the success of the “One for One” concept, Mycoskie later expanded the model. For example, in 2011, the company introduced a line of eyewear and decided to use the same philanthropic principle but this time with a bit of a twist. Instead of donating glasses, TOMS donated a portion of the profits from each sale to save or restore the eyesight of those living in developing countries. To give you an idea of the success of this program, the company’s website indicates that TOMS Eyewear has helped restore sight to more than 780,000 people.[63]

Chapter Summary

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

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

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

Key Terms

5Ms of marketing internal elements of a marketing plan that need to be resolved if the plan is successful
buyer a person or institution that purchases goods or services
consumer the final user of a purchased product or service
customer a person who purchases a product or service
customer equity total combined customer lifetime values of all the company's customers
customer loyalty an ongoing positive relationship between a customer and a business
customer relationship management (CRM) all strategies, techniques, tools, and technologies used by companies to develop, acquire, and retain customers
customer retention the ability of a company to turn customers into repeat buyers and prevent them from switching to a competitor
customer value the ratio of the perceived benefits relative to the costs incurred by the customer in acquiring the product or service
customer-driven marketing strategy a marketing strategy that shifts the focus from the product or service to its users
delight needs an added value that a customer might receive from a seller without prior expectation or request for the same
desired object a physical good, service, or experience that consumers expect will satisfy their wants and/or needs
ethical marketing process that emphasizes trustworthy, transparent, social, and culturally sensitive marketing policies
exchange process the process of satisfying a need or want by giving something of value in exchange
external interested parties a person or organization that does not have a direct relationship with a company but is affected by the operations of the business
form utility the value given to a product by virtue of the fact that the materials and components that comprise it have been combined to make the finished product
interested parties a group that has an interest in a company or organization and can either affect or be affected by it; often referred to as "stakeholders"
internal interested parties those persons whose interest in a company comes through a direct relationship such as employment, ownership, or investment
internal marketing the promotion of a company's objectives, products, and services to internal parties, such as employees, owners, managers, and shareholders

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

secret needs the needs that the consumer feels reluctant to admit

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

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

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

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

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

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

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

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

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

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

Applied Marketing Knowledge: Discussion Questions

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

Critical Thinking Exercises

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

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

   a. How is Amazon's decision to enter the logistics and shipping industry a move toward improving customer loyalty and equity?

b. How will Amazon's new delivery service benefit Amazon?
c. How do you predict Amazon's rivals in this distribution channel have responded?

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

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



Building Your Personal Brand

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

1. Take free online courses through LinkedIn, Coursera, Google, or Microsoft. Completion of courses offers evidence of skill development. For instance, Google Analytics for Beginners, Advanced Google Analytics, and Fundamentals of Digital Marketing are all available for free since they boost online education linked to Google's technology products. Some courses even offer badges you can add to your LinkedIn profile, resume, and cover letters. You can find more information about these programs by reading these two articles from *The Report*, a source for trends on online education: [2022] 800+ Hours of Free LinkedIn Learning Courses with Free Certification (https://openstax.org/r/linkedinlearningfree) and [2022] 600+ Google Free Certificates and Badges (https://openstax.org/r/googlefreecertificates).
2. Join campus clubs and organizations where you can be part of a giving-back project, hone your project-management skills, or simply gain leadership experience. Employers value your initiative.
3. Keep up with current events—read newspapers, blogs, and other news sources that are pertinent to your field—because you'll need to carry on a conversation and because what we do requires a good sense of what's going on in the world.
4. Take advantage of campus services. Does your career center offer mock interviews? Will the staff help you develop a resume or edit one you've already written? Some colleges even offer short courses on etiquette.
5. Put together a list of possible references. Was your work in a particular course memorable? If so, ask your professor if they would refer you. Does your list of summer jobs indicate increasing responsibility or use of your education? Be certain that all of your references are on board; they must agree to give you an excellent reference and then should be kept in the loop about jobs you've applied for or, better yet, been offered.
6. Obtain a certification from HubSpot Academy, a well-known marketing website. Learn about the various certifications it offers by checking out its website (https://openstax.org/r/certificationoverview).



What Do Marketers Do?

The American Marketing Association (AMA) has teamed up with the Digital Marketing Institute to offer specialized training within the marketing discipline. You can set yourself apart from other marketers with additional certifications. Are there other benefits you can take advantage of? Take a look at one of the 65 chapters located across the country. Is there one located in your city? Not only is membership a great way to volunteer, it's also an effective way to market yourself to potential employers. For instance, the Minnesota

Marketing Association (https://openstax.org/r/amaminnesota) welcomes students and professionals who are willing to help plan programs and organize mentorship programs. You can reach out to your state's AMA executive director and ask to interview them regarding student membership rates or opportunities for college students to interact with professional members. College students are also encouraged to enter an annual competition that demonstrates their marketing and business expertise before a panel of judges by providing innovative solutions to a real-world challenge.

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

Marketing Plan Exercise

MARKETING PLAN PROJECT—PART I

During this course, you will develop a marketing plan as part of a semester-long project. The marketing plan that you develop will build throughout the course over nine chapters of this textbook.

The purpose of Part I of this marketing plan project is twofold:

- To become familiar with the Marketing Plan Template
- To select a company or product for which you will be building the marketing plan throughout the semester

Instructions:

1. Download the Marketing Plan Template (https://openstax.org/r/marketingplantemp) and SAVE THIS DOCUMENT where you can easily access it again, because you will be completing additional sections of the plan throughout the course.
2. Select a company or product which will form the basis of your marketing plan. When selecting a company, please be sure to select a company or product that will (a) be of interest to you throughout the course and (b) have sufficient information available about the company on the internet for you to conduct research and make informed decisions in your marketing plan.
3. When selecting a company, please be sure NOT to choose a company that is so huge that it serves many diverse markets. For example, General Electric produces electrical and electronic equipment, aircraft engines, medical electronics; it also provides financial services and more. Procter & Gamble also has diverse product lines, including beauty, grooming, health care, fabric and home care, and feminine and family care. In the "real world," you would not prepare a single marketing plan for the entire company; instead, each division and/or product line would develop its own marketing plan. Therefore, if you want to use a large company, select a brand or product line for the purpose of your marketing plan.
4. On the Marketing Plan Template, add your name and course number to the header.
5. Complete the Company Profile Information on the Marketing Plan Template for the company you have selected.
6. Save the template with a new name using this naming convention: Course_First/LastName/Project Title. Example, MKTG101_JohnSmith_Marketing Plan.
7. Submit this document to your instructor as directed.

Closing Company Case

Batdorf & Bronson

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

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

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

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

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

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

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

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

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

For customers who frequent the Dancing Goats Coffee Bars, they know the quality they can expect with their brewed coffee and espresso-based coffee drinks, and for that quality Dancing Goats is the go-to coffee of choice. For those who experience the Batdorf & Bronson difference at local coffee bars nationwide, the fresh taste and exceptional quality provide a reason to choose handcrafted, small-batch coffee shops over traditional "fast-food" coffee chains.[64]

To learn more about this coffee company, check its website here (https://openstax.org/r/dancinggoats).

Case Questions

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

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2

Strategic Planning in Marketing

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

Chapter Outline

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

In the Spotlight

Frito-Lay, the producer of Doritos, Lay's, and Cheetos, is a $13 billion business division of PepsiCo.[1] If you're a snack food fan, you might have noticed how Frito-Lay seems to constantly come up with new flavors for its chips—dill pickle, Chesapeake Bay Crab Spice, Chile Limón, and more. You might picture nutritionists and scientists working in labs, trying recipe after recipe in order to come up with a winner. But Frito-Lay has a unique way of including customers in its strategic decision-making process.[2]

The company crowdsources its new flavors through a contest called "Do Us a Flavor," in which it asks customers to submit ideas for flavors they'd like Lay's to develop. The company then selects the three best entries and awards a cash prize to the winners.[3]

For example, Frito-Lay's "Turn Up the Flavor" contest resulted in three limited-time flavors inspired by three different music genres: hip-hop, pop, and rock. To pique interest in the content, Frito-Lay teamed up with singer/songwriter Bebe Rexha, who wrote the theme song for the campaign, and the company included a unique code for the new chip packets so that buyers could unlock Rexha's new tracks.[4]

LINK TO LEARNING

Lay's Commercial

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

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

2.1 Developing a Strategic Plan

Learning Outcomes

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

- LO 1 Define strategic planning and list the steps in the strategic planning process.
- LO 2 Write an effective vision statement and mission statement.
- LO 3 Describe the role of company values.
- LO 4 Perform a gap analysis.
- LO 5 Write SMART objectives and goals.
- LO 6 Summarize ways to monitor progress of the strategic plan.

Strategic Planning Defined

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

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

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

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

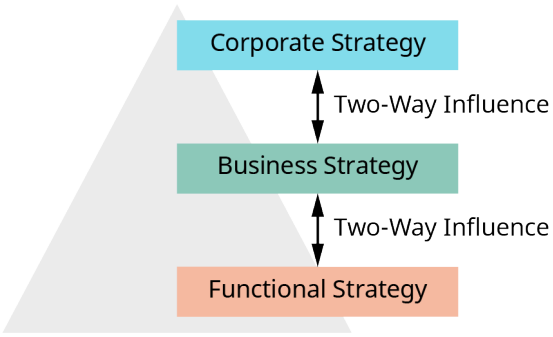

Figure 2.2 Different Levels of Strategy Required in Complex Organizations (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

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

Consider, for example, Procter & Gamble. The producer of such diverse products as diapers, Tide detergent, and Oral-B toothpaste has five industry-based strategic business units—baby, feminine, and family care; beauty; health care; grooming; and fabric and home care, family care, and new ventures. Each of these SBUs has its own chief executive officer and functions essentially as a standalone business under the corporate "umbrella."[5]

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

Steps in the Strategic Planning Process

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



Figure 2.3 Steps in the Strategic Planning Process (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

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

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

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

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

- Amazon: "Our vision is to be earth's most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online"[6]

- Volkswagen: "To make this world a mobile, sustainable place with access to all the citizens"[7]
- Fujitsu: "Understanding you better—serving you best"[8]

LINK TO LEARNING



Vision Statement

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

How to Write an Inspiring Vision Statement (https://openstax.org/r/writeaninspiring)

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

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

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

- BMW: "The BMW Group is the world's leading provider of premium products and premium services for individual mobility"[9]
- Tesla: "To accelerate the advent of sustainable transport by bringing compelling mass-market electric cars to market as soon as possible"[10]
- Apple: "To bring the best personal computing products and support to students, educators, designers, scientists, engineers, businesspersons and consumers in over 140 countries around the world"[11]

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

- IKEA: "To offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them"[12]
- Netflix: "To entertain the world"[13]

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

- eBay: "To be the world's favorite destination for discovering great value and unique selection"[14]
- Genentech: "To develop drugs to address significant unmet medical needs"[15]

LINK TO LEARNING



Mission Statement

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

How to Write a Mission Statement (https://openstax.org/r/writeamissionstatement)

Then watch this video from Entrepreneur.

How to Write a Great Mission Statement (https://openstax.org/r/writeagreatemissionstatement)

Step Three: Perform a Gap Analysis

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

A gap analysis answers the following questions:

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

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

There are four steps to completion of a gap analysis. Let's take a look:

- **Step 1: Identify the current state of the business, organization, or department.** Let's use an example of a company that wants to increase market share of its product line. To date, current growth is sluggish, averaging only 5 percent per year.[16]
- **Step 2: Identify where you want to be.** "Where you want to be" may be identified by using different terms—the desired state, the future target, or a stretch goal. It stands to reason that you'll want to consider your current state (from Step 1) and where you want to be in a reasonable time frame. Do you want to increase market share by 10 percent within the first year? Do you want to increase market share by 25 percent within the first three years? Because strategic plans often go out three to five years, your "where you want to be" can be lengthy as well.[17]
- **Step 3: Identify the gaps.** At this point in your gap analysis, you've identified where your organization current is and where it wants to be. Now it's time to identify how you're going to bridge that gap. This step involves figuring out what those gaps are. Is market share suffering because a new competitor introduced a similar but lower-priced product into the market? Is your pricing too high given production capabilities and costs? Has the advertising campaign introduced last year lost its sizzle, or worse yet, did your most recent advertising campaign flop?[18]
- **Step 4: Devise improvements to close the gaps.** It's time to determine the proper course of action to close the gap, keeping in mind the cost of implementation for each solution.[19] This is where the rubber hits the road, so to speak, because ideas are easy; it's the execution of those ideas that becomes challenging. An effective gap analysis not only identifies the problems (i.e., gaps) but also sets forth what needs to happen in specific terms to close those gaps. Will a new advertising campaign boost market share? Do we need to hire a new advertising agency? And what will a new advertising campaign cost? Are there cost-cutting measures that can be taken to reduce manufacturing costs, thereby reducing the

product's cost to consumers?

Step Four: Establish Objectives and Goals

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

But before we go further, let's differentiate between goals and objectives. Both terms refer to desired outcomes that the organization wants to achieve, but that's where the similarity ends. **Goals** are statements of desired outcomes that are expected to be achieved over a longer period of time, typically three to five years. Goals are broad statements of the desired results; they do not describe the methods that will be utilized in order to achieve those results. For example, common business goals may include increasing revenue or market share or reducing the company's carbon footprint.[20]

On the other hand, **objectives** are "action items." They are specific targets to be achieved within a shorter time frame, generally one year or less, in order to achieve the stated goal. Whereas goals describe the end result, objectives describe the actions or activities that need to take place in order to achieve the goal. For example, if your goal was to increase market share, the objective would likely be stated as something like "Increase market share to 6 percent by the end of the year."[21]

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

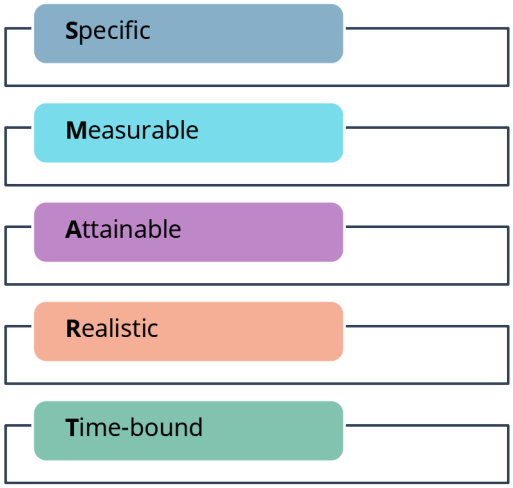

Figure 2.4 SMART Goals (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

- First, effective goals should be **specific—**there's the "S" in SMART goals. They should be clear and easy to understand. A specific goal answers questions like "What needs to be accomplished?" To illustrate this, imagine that you've decided to improve your grade point average. "Improve my GPA" is indeed a goal, but it's too vague to be a helpful goal. By how many points do you want to improve your GPA? To make your goal more meaningful (and specific), you might want to restate your goal as "Improve my current GPA from 2.8 to 3.5."
- Second, effective goals should be **measurable**—there's the "M" in SMART goals. Specificity is a solid start, but quantifying your goals makes it easier to track progress and see when you've achieved your goal. The bottom line is, you can't see results without knowing what they look like, and if you're not measuring anything, how will you know when and if you've accomplished it? Your original goal of "improve my GPA" isn't measurable. How will you know when you've achieved your goal? When you've increased it by .1, .2, .5,

or even a full point? By setting a goal to "improve my current GPA from 2.8 to 3.5 by the end of the semester," you've set a goal that's easily measurable—just look at your grades at the end of the semester!

- Third, effective goals should be **attainable**. There's actually some disagreement as to the name of this third element. Some marketing experts tout using "ambitious"; others suggest "achievable" or "actionable." For our purposes, we're going to stick with "attainable" because although goals should be a reach, establishing goals that aren't within reach can turn out to be an exercise in frustration. Let's go back to our GPA analogy. If it's mid-April and you're barely passing your current classes, you're just setting yourself up for failure.
- Fourth, effective goals should be **realistic**. Once again, there's actually some disagreement as to the name of this element; you may see it shown as "relevant" in other textbooks or articles. We're going to use "realistic" because the term reflects the balance between goals that are too easy and too hard. Taken in the context of a strategic plan, your goals must represent a substantial objective that you're willing and able to work toward, but there should be a reasonable chance that you can achieve it.[22] Getting back to our GPA analogy, if you've got Cs in all of your classes and it's already mid-April, improving your GPA to 3.5 by the end of the semester is probably not realistic.
- Finally, effective goals should be **time-bound**. Every goal should be grounded by a time frame within which the goal is to be achieved. Without a deadline, there is little sense of urgency to work to achieve the goal. Having a goal with a target date (like the end of the semester) gives you something to focus on and work toward and prevents everyday tasks from taking priority over your longer-term goals.

LINK TO LEARNING



SMART Goals

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

Why SMART Goals are Important to Your Long-Term Success (https://openstax.org/r/whysmartgoals)

Monitor Progress

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

One way that marketers accomplish this is through the use of a marketing dashboard. Like the dashboard in your car, which tells you at a glance how much fuel you have, how fast you're going, and a host of other important information, a **marketing dashboard** summarizes important marketing metrics and key performance indicators (KPIs; to be covered later in this chapter) into easy-to-understand measurements.[23] This enables marketers to view ongoing progress so that they can be aware of potential problems before they actually become serious issues.

CAREERS IN MARKETING



Marketing Manager

Marketing manager jobs differ by company and industry, but in general it's a leadership position in charge of the marketing strategy at a company or for a product. Marketing managers often complete research,

create pricing parameters, and work with other departments within the company such as finance, legal, advertising, promotion, and product development. Read this *Marketing Manager* article to learn more about (https://openstax.org/r/articlesmarketingmanager) the specifics of what a marketing manager does and the types of marketing manager that exist. It's commonly known that marketing managers need to be proficient in problem-solving. Read this article to learn why it's important (https://openstax.org/r/marketingproblemsolvingskill) and the specific skills you'll need.

There is growth potential in being a marketing manager. The US Bureau of Labor Statistics projects a 10 percent growth in the job role from 2021 to 2031, and you can read more about the job outlook here (https://openstax.org/r/advertisingpromotions).

Would you like to know more about the job role? Read this *Forbes* article to learn the top skills necessary, (https://openstax.org/r/educationbecomeamarketing) the typical path to this job, and degree requirements.

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

Knowledge Check

It's time to check your knowledge 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 defines the reason why the business exists?
   a. Vision statement
   b. Mission statement
   c. Gap analysis
   d. Goals and objectives

2. Which of the following strategies covers the entire organization when the business includes multiple divisions or operating units?
   a. Functional strategy
   b. Strategic business unit strategy
   c. Corporate-level strategy
   d. Business-level strategy

3. What do you call the plans, actions, objectives, and goals that outline how a business will compete in its chosen markets?
   a. Mission statement
   b. Vision statement
   c. Gap analysis
   d. Strategy

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

5. In "SMART goals," what does the "R" stand for?

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

2.2 The Role of Marketing in the Strategic Planning Process

Learning Outcomes

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

LO 1 Explain the role of marketing in the strategic planning process.
LO 2 Discuss the business portfolio and identify planning tools.
LO 3 Describe a SWOT analysis.
LO 4 List and describe marketing strategies based on analytics.

Explain the Role of Marketing in the Strategic Planning Process

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

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

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

- First, marketers assist the strategic planning team in executing a marketing philosophy throughout the strategic planning process.
- Second, marketers assist the organization in gathering and analyzing information necessary to examine the current situation (the first step in a gap analysis).
- Third, marketers are responsible for the identification of trends in the marketing environment and assessing the potential impact of those trends.[24]

Business Portfolio Definition

As noted above, many businesses have a single product or business unit. However, larger organizations such as Apple, Alphabet, General Electric, Meta, and Microsoft often have multiple diverse business units called strategic business units. Despite the fact that these SBUs report directly to the parent company's headquarters, they typically develop their own vision statements, mission statements, objectives, and goals, and the strategic planning for these SBUs is performed separately and apart from other SBUs within the organization.[25] When companies have multiple products or business units, these comprise the **business portfolio**—the total group of product lines, services, and business units that the company possesses.

To give you a better sense of what a business portfolio entails, look at Figure 2.5, which illustrates the products and services of Microsoft and how each offering contributes to the overall strategic plan of the company.[26] Microsoft reported $168 billion in revenue in fiscal year 2021, and each of its product lines (or strategic business units) contributes to this revenue in differing amounts.[27] It's easy to see from this breakdown why each of these businesses under the Microsoft "umbrella" would have different strategic plans to execute within the markets they serve. You likely wouldn't have one overarching marketing or business strategy for all of these SBUs because the markets for Office, Gaming, LinkedIn, and the other SBUs are likely very different and

would require different strategies to reach and retain customers.

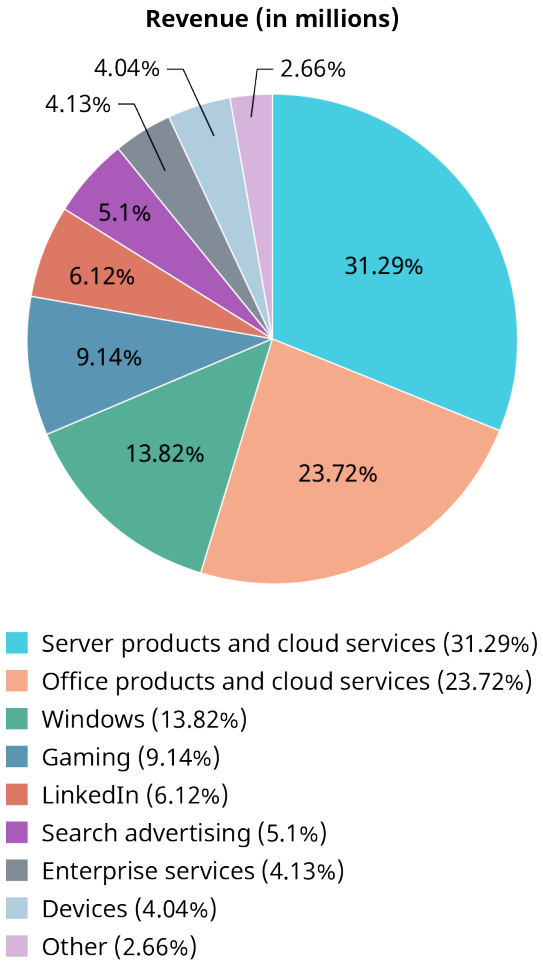

Figure 2.5 Composition of Microsoft Revenues (data source: *Microsoft Annual Report 2021*; attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Analyze and Design the Business Portfolio

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

Emerson Electric, headquartered in St. Louis, Missouri, has five business segments: Network Power, Process Management, Industrial Automation, Climate Technologies, and Commercial and Residential Solutions (i.e., tools and storage). These business segments provide products as diverse as hardware and software technologies; motors; fluid control systems; heating and air-conditioning products and services; and tools, storage products, and appliances for residential, health care, and food services.[28] When you consider divisions as diverse as these, it should be readily evident why each is a separate division with separate strategies to compete in its respective marketplaces.

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

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

Boston Consulting Group (BCG) Matrix

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

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

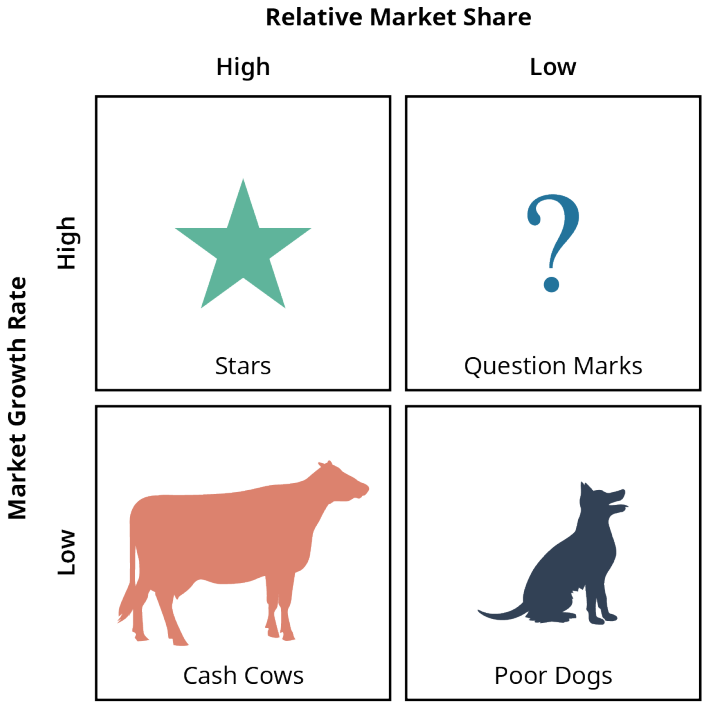

Figure 2.6 Boston Consulting Group (BCG) Matrix (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

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

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

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

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

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

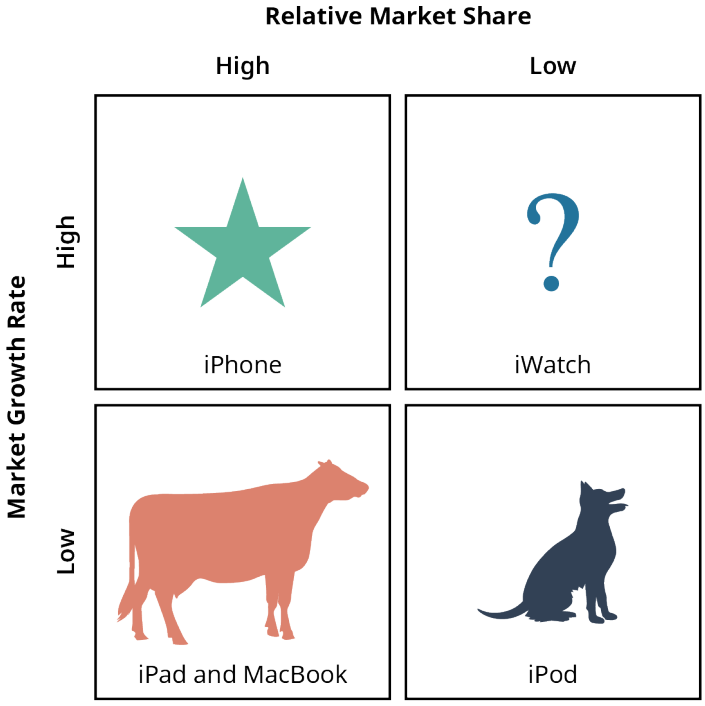

Figure 2.7 BCG Matrix of Apple's Portfolio (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

In this sample matrix, we're going to place the Apple iPhone in the star category. You'll recall from our discussion above that stars have relatively high market share in a growing market. Let's face it: the iPhone is the shining gem of Apple's portfolio. Even though Apple has diversified its product line, the iPhone is still responsible for 52 percent of the company's revenue, raking in an astounding $192 billion in 2021.[29]

Next, we're going to put the iPad and the MacBook in the cash cow category. Remember that the BCG matrix is built on two parameters—market share and market growth. Both the iPad and the MacBook have relatively high market share compared to competitors, but the market for these products is not growing much anymore.[30] The Apple iPad had a 31.5 percent share of the global tablet market during the first quarter (down from 38 percent in the previous quarter), and the MacBook still holds popularity, garnering 15.3 percent of the market share.[31] Both the iPad and the MacBook are well-established products that continue to generate substantial income for Apple, and these products require relatively little additional investment for them to remain profitable.

Let's move on to the question mark category. Remember that question marks have low market share in a high-growth market, and we're going to place the Apple iWatch in this category. The iWatch has the potential to become as big of a hit as the iPhone, but the jury is still out because there are too many unknowns in the market. Global sales of smartwatches increased by 13 percent in the first quarter of 2022, and the Apple iWatch continues to lead in market share.[32] However, Apple will need to analyze its iWatch vis-à-vis its other products to decide if it should continue to invest in the product.[33]

Finally, let's move on to the dog quadrant of the matrix. We're going to place the iPod in this category because market growth has slowed considerably as people use their phones to listen to music or podcasts. The iPod has experienced a shrinking market share as a result, and it wouldn't make sense for Apple to continue to invest in the iPod.[34] As a matter of fact, Apple announced in May 2022 that it would discontinue the iPod

Touch, while the touch-screen model launched in 2007 will remain on sale until supplies run out.[35]

LINK TO LEARNING

BCG Matrix

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

BCG Matrix | Product Portfolio Analysis | Explained & Examples 🔷🔷😀 (https://openstax.org/r/productportfolio)

SWOT Analysis

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

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

Figure 2.8 Common SWOT Analysis Template (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

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

Strengths can be factors such as patents or trademarks possessed by the company that hinder competitors in participating in the market; a better cost structure than competitors; a talented, innovative staff; or strong brand recognition in the market. Strengths are internal to the organization, and they're also positives. Questions to ask when developing this section may be: What do you do well? What unique resources you can draw on? Consider a company like Starbucks. If you were preparing a SWOT analysis for Starbucks, its

strengths might include a strong brand image, solid financial performance, impressive growth in the number of stores, and an extensive international supply chain.[36]

Weaknesses are also factors within a company's internal environment, but these are hindrances to your success, so they're categorized as negatives. Weaknesses may be difficulty in accessing capital or funding, outdated technology, an unmotivated workforce, weak brand recognition, or high levels of debt. Let's go back to Starbucks. If you were preparing a SWOT analysis for Starbucks, some of its weaknesses may be high prices versus the competition and the imitability of its products.[37]

Now we'll switch over to external factors that affect the business. Opportunities are openings for something positive to happen if (and only if) you can capitalize on them. Opportunities can be moving into a new market segment that offers improved profits (like a snack food manufacturer moving into the health foods sector), competitors that have quality or delivery problems, or impending legislation that would favorably affect your organization if you're able to capitalize on it. Once again, let's go back to Starbucks. If you were preparing a SWOT analysis for Starbucks, some of its opportunities might be expansion in developing markets, a coffee subscription service similar to that offered by Panera Bread, and the introduction of new products and holiday flavors.[38]

Finally, threats are anything external to your organization that can negatively impact your business. These may include supply chain problems, ongoing staffing problems, new competitors entering the market, or impending legislation that would negatively impact your organization, like tariffs. If you were doing a SWOT analysis for Starbucks, you might identify threats such as competition with lower-cost coffee sellers, tightening discretionary spending due to inflation, or the rising price of coffee beans.[39]

LINK TO LEARNING



SWOT Analysis

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

Animation: SWOT Analysis (https://openstax.org/r/swotanalysis)

When preparing a SWOT analysis, it is also helpful to compare elements by ranking strengths and weaknesses (internal factors) in terms of relative competitive importance. Marketers can also rank threats and opportunities (external factors) in terms of their likelihood and magnitude.[40]

Strategy

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

LINK TO LEARNING



Moneyball

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

Moneyball | Peter Brand's First Day (https://openstax.org/r/peterbrands)

Market Penetration

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

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

To give you an idea of how fierce the competition is with a market penetration strategy, consider Procter & Gamble, which spent $4.7 billion on advertising in 2020.[41]

Product Development

As noted above, a market penetration strategy focuses on existing products and existing markets. By contrast, a **product development strategy** involves the creation of new or improved products in order to drive growth in sales, revenue, and profit. Although the advertising expenditures involved with a market penetration strategy may be significant, they often pale compared to the expenditures involved in a product development strategy. This is because product development generally requires significant investment in R&D activities.[42]

The automobile industry provides a good illustration of the product development strategy. Car makers generally refresh their models every few years to encourage car owners to trade in their old vehicles and buy the redesigned cars with the latest tech features such as driver assist, Wi-Fi hotspots, and Apple CarPlay and Android Auto.[43] At the same time, all the manufacturers are spending billions of dollars developing new electric vehicle models to meet ambitious goals for phasing out gasoline-powered engines.

Another great example of a product development strategy is Tide laundry detergent. Tide has undergone more than 50 formulation changes over the past 40 years in an effort to continually improve its product's performance. The name always stays the same, but Tide has a "new and improved" formula with each new product release.[44]

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

Market Development

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

Facebook is a great example of a market development strategy. It's difficult to remember when Facebook wasn't a household word, but Facebook started out as a small platform that enabled Harvard University students to compare headshots. The popularity of the platform spread to other college campuses, and eventually Facebook allowed nonstudents to join. It looks like the strategy worked—Facebook is now the largest social network in the world, with nearly 3 billion users![45]

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

diversification strategy might entail selling new products like children's biker clothing in China for the first time.

Product Diversification

A **product diversification strategy** is still another tool that companies can use to improve profitability and increase sales of new products. This strategy can be utilized at both the business level and the corporate level. At the business level, marketers would expand into a new segment of an industry in which the company is already operating.[46] For example, consider Apple. The company launched its revolutionary iPhone in 2007, but it didn't stop there. It has since diversified into tablets and other technology-related products.[47] At the corporate level, let's consider a dine-in restaurant that adds corporate catering and perhaps a fleet of food trucks—both businesses outside the scope of its existing business.

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

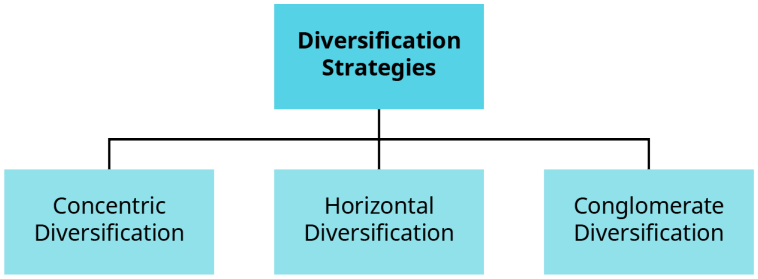

Figure 2.9 Types of Diversification Strategies (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

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

The concept of **concentric diversification** revolves around the addition of similar products or services to an existing business.[48] If a picture is worth a thousand words, then an example has to be worth even more, particularly an example to which you can easily relate as a student. As you're reading this chapter, consider book publishers, like Harper Collins, Simon & Schuster, or Penguin/Random House. These book publishers don't only print the works of one author; rather, they have hundreds or perhaps thousands of authors' works in their arsenals. These publishers will publish print books, e-books (like the one you're reading right now), and audiobooks and may even sell the rights to some of the books for film and TV adaptations, allowing them to garner additional streams of revenue for one product.[49]

Conversely, the concept of **horizontal diversification** involves making available to existing customers new and perhaps even unrelated products or services so that you can garner a larger customer base.[50] For example, consider a company that produces dental hygiene products like toothbrushes and dental floss. In order to increase sales to existing customers, the company may decide to introduce into the market a line of oral irrigators or teeth whiteners. These products are new to the company, but they still serve the same customer base as its existing products.

Finally, conglomerate diversification takes horizontal diversification one step further. **Conglomerate diversification** involves the development and addition of new products or services that are significantly unrelated. You're not only introducing a new product, you're introducing a new product that is completely unrelated to your existing line of business.[51] Consider General Electric when looking for an example of conglomerate diversification. General Electric started out as a lighting business, but over the years, it has diversified into medical devices, household appliances, aircraft engines, financial services, and more. That's taking conglomerate diversification to a whole new level!

LINK TO LEARNING



Blue Ocean Strategy

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

The Explainer: Blue Ocean Strategy (https://openstax.org/r/blueocean)

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

2. What key metrics does the BCG matrix use to show the relative attractiveness of different offerings?
   a. Market share and market growth rate
   b. Market size and market share
   c. The ratio of dogs to cash cows in the product portfolio
   d. The potential for question marks to cross over and become stars

3. Hoffman Enterprises has a portfolio of businesses in a wide variety of unrelated industries. One of its strategic business units (SBUs) has high market share in a low-growth industry. How would this SBU be characterized in terms of the BCG matrix?
   a. Star
   b. Dog
   c. Cash cow
   d. Question mark

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

5. Which strategy involves the creation of new or improved products to replace existing ones in order to improve a company's competitive position and sales?
   a. Market development
   b. Product diversification
   c. Horizontal diversification
   d. Product development

2.3 Purpose and Structure of the Marketing Plan

Learning Outcomes

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

- LO 1 Explain the purpose of a marketing plan.
- LO 2 List and discuss elements that should be included in a marketing plan.

Purpose and Structure of a Marketing Plan

A company's marketing plan (Figure 2.10) is without a doubt one of the most important planning tools in business. You might think that it's an activity that generates an impressive, colorful document that sits in a desk drawer until the next time it gets revised, but you'd be wrong.

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

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



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

Structure of a Marketing Plan

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



Figure 2.11 Elements of a Marketing Plan (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

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

Executive Summary

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

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

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

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

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

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

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

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

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

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

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

  > There are several large players in the electronic apparatus industry, including EAC Industries and Antwell Industries, as well as a few smaller companies that sell similar products to the automotive, appliance, and HVAC industries. The rapid pace of innovations in the industry is stimulating demand for newer and faster apparatuses. Digital technologies such as 5G mobile communication networks and 3D printing are expected to aid in the development of innovative electronic apparatuses.

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

  > As noted above, ABC Company has created a new electronic apparatus for the health care

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

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

  The target market for ABC Company's new product is large health care providers, including hospitals, research laboratories, and clinics. This marketing plan will outline its campaign to reach this target market through a combination of direct sales and social media marketing.
- **Financial Overview.** In this paragraph, you will define the key financial information related to both the short-term and long-term marketing activities set forth in the plan. If you are an existing company (like ABC Company), this might be as simple as highlighting sales growth over the last year and the anticipated marketing budget for the new product venture. Let's take a look at how this might look for ABC Company:

  ABC Company has experienced significant sales growth in the appliance and HVAC industries since the company's inception in 2002. Its sales revenue from these industries last year exceeded $23.4 million. Our marketing budget for the coming year in connection with entry into the health care industry is estimated to be $150,000.
- **Summary of Overall Objectives and Strategies.** In this final paragraph, you will briefly describe the plan's goals and the strategies the company will employ to achieve those goals. Remember that this executive summary is your marketing plan's "elevator pitch," so you'll want to conclude with a couple of sentences that entice the reader to continue to read your plan. Let's look at how this might play out for ABC's marketing plan:

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

Mission Statement

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

- Pinterest: "Help people discover the things they love, and inspire them to go do those things in their daily lives"[52]
- Spotify: "To unlock the potential of human creativity by giving a million creative artists the opportunity to live off their art and billions of fans the opportunity to enjoy and be inspired by it"[53]
- BBC: "To act in the public interest, serving all audiences through the provision of impartial, high-quality and distinctive output and services which inform, educate and entertain"[54]

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

But how do you write a mission statement? You might start out by asking yourself four fundamental

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

SWOT Analysis

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

Objectives and Issues

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

Market Segmentation and Target Market

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

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

Buyer Personas

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

This section of the marketing plan should address who your buyer personas are (and you can have several). These are one-page visual profiles outlining the demographics of your ideal customer, such as age, gender, motivations, and needs. For example, let's assume that your company sells outdoor apparel and hiking equipment. One of your buyer personas may be "On-the-go-Evan," a Gen Z male who enjoys being outside and

participating in noncompetitive sports and relies on blog posts, influencers, and reviews to get unbiased information about the equipment he needs.[55]

Buyer personas aid marketers in bringing the target customer to life in a way that both inspires marketing strategies and prepares sales teams for conversations with customers that connect them in a meaningful way. How many buyer personas should you create? According to LinkedIn, although there isn't a "magic number," in most cases three to eight buyer personas are adequate.[56]

LINK TO LEARNING



Creating Buyer Personas

Creating buyer personas is an integral part of marketing, and it can be fun. For more information on steps to creating buyer personas, check out this tool from HubSpot that describes buyer personas (https://openstax.org/r/hubspotmakemypersona) and provides an interactive tool for creating them.

Positioning

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

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

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

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

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Creating a Perceptual Positioning Map

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

Perceptual Mapping & Product Positioning Explained (https://openstax.org/r/productpositioning)

An important aspect of these maps is understanding how your products and your competition are perceived by customers, and this video shows you how to process and map this information.

S-T-P - Positioning (https://openstax.org/r/stppositioning)

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

How to Make a Perceptual Map (Positioning Map) in Excel | Perceptual Mapping Examples (https://openstax.org/r/makeaperceptualmap)

Current Marketing Situation

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

- **Market Description.** This isn't intended to be a comprehensive list, but this section should address things like statistics about the size of your target market; whether it is growing, shrinking, or staying the same; if it is changing; and why.[57]
- **Product Review.** The product review section of your marketing plan summarizes the main features of your company's products, including information about sales, price, and gross margins.
- **Competitive Analysis.** This section should include a discussion of your top competitors and how they fare in the marketplace vis-à-vis your company's products and/or services. This typically involves researching major competitors to glean insights into their products or services, sales, marketing tactics, product quality, pricing, market share, and distribution.

Marketing Strategy

Now let's get to the heart of the matter. This section of the marketing plan essentially sets forth the broad marketing strategy or game plan for achieving the objectives previously set forth in the plan. It should consist of specific strategies for target markets, positioning, the marketing mix (i.e., product, price, place, and promotion), and anticipated marketing expenditure levels.[58]

- **Product Strategy.** This is the "road map" that you'll use to develop your product(s) or features(s), including all tasks needed to achieve the objectives set forth in the marketing plan. The product strategy essentially outlines how the product(s) or service(s) will benefit the business, what problem it will solve, and the impact that it will make on customers and the business. It's only when this strategy has been set forth in straightforward terms that it can act as a baseline upon which you can measure success before, during, and after production.[59]
- **Pricing Strategy.** Pricing will be covered in a later chapter in this text, but be aware that pricing is one of the key components of any marketing plan. Not only will it determine how much revenue (profit) you will earn, but it will also play a key role in positioning your product in the minds of consumers. The "right" pricing strategy is one that conveys the message you want to get across to your target market in terms of quality and features vis-à-vis the competition because price is often what is used to determine the perceived (not actual) quality of the product or service. Some of the factors you'll want to consider in developing this section of your marketing plan are
  - setting a price that sends the right message in terms of quality and value in the minds of your target market,
  - setting a price that supports your promotion strategy (to be covered below), and
  - setting a price that maximizes profit.[60]
- **Promotion Strategy.** Your promotion strategy sets forth the tactics you intend to implement in your marketing plan in order to increase demand for your product(s) or service(s). List the methods you will use to gain awareness and interest in your product from those in your target audience. Methods of reaching potential consumers abound—company websites, social media networks, trade shows, and radio/television/website advertising. You'll want to list the advantages and disadvantages of each method and indicate why and how much it will cost to employ the method(s) you have selected.
- **Distribution Strategy.** Your distribution strategy describes how customers in your target market will purchase from you. Will they buy directly from your website, from a storefront, or through distributors or retailers? What are the costs involved in this type of distribution, and why do you believe your distribution strategy will enable you to get the right product into the hands of the right consumer at the right time?

Action Programs

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

Budgeting Concerns

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

On the revenue side, this statement should indicate that forecasted number of units to be sold during the period outlined in the marketing plan and the average net price for revenues. On the expense side, this statement should indicate the cost of production, physical distribution, and marketing expenditures.[61]

Controls to Monitor Progress

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

LINK TO LEARNING



Marketing Plans

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

- Shopify blog: "7 Inspiring Marketing Plan Examples (and How You Can Implement Them)" (https://openstax.org/r/blogmarktingplanexamples)
- University of Illinois (https://openstax.org/r/wpcontent2021marketingplan)
- Visit Baton Rouge (https://openstax.org/r/vbrmarketingplan)
- Bizfluent example for a generic restaurant (https://openstax.org/r/restaurantmarketingplan)

There's also a free marketing plan template available from HubSpot (https://openstax.org/r/marketingplantemplate).

Knowledge Check

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

1. In which section of the executive summary of a marketing plan would you describe the current marketplace and industry sectors within which you sell your products or services and the innovations currently taking place within the market?
   a. Description of products or services being marketed
   b. Description of customer base and related marketing activities
   c. Description of company and team
   d. Description of market factors and trends

2. In a SWOT analysis, which factors are internal to the organization?
   a. Strengths and opportunities
   b. Weaknesses and threats
   c. Strengths and weaknesses
   d. Opportunities and threats

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

4. In which section of the marketing plan would you identify key internal and external influences on the company's current position?
   a. Objectives and issues
   b. SWOT analysis
   c. Buyer personas
   d. Current marketing situation

5. In which section of the marketing plan would you include a competitive analysis and discussion of the company's top competitors?
   a. Positioning
   b. Target market
   c. Mission statement
   d. Current marketing situation

2.4 Marketing Plan Progress Using Metrics

Learning Outcomes

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

- LO 1 Define marketing metrics.
- LO 2 Explain key performance indicators (KPIs).
- LO 3 Provide examples of business objective KPIs.
- LO 4 Characterize sales/revenue generation KPIs.
- LO 5 Provide examples of market share KPIs.
- LO 6 Classify and discuss customer support KPIs.

Marketing Metrics Explained

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

Key Performance Indicators (KPIs) Explained

Have you ever pondered what life was like without the Internet? You can instantly type a term into a search engine, and within seconds, you'll have hundreds of thousands (or even millions) of results. It's estimated that, as of 2020, there was 40 zettabytes of data available on the Internet. (If you're curious, a zettabyte is approximately 1 trillion gigabytes).[62] That's both a blessing and a curse. There's so much information out there that sometimes it becomes difficult to focus on the information you really need.

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

Although the terms *metrics* and *KPIs* are often used interchangeably, there is a subtle and very important difference. Metrics measure the performance of a particular process; KPIs are directly tied to business objectives and have targets and specific time frames for achieving those targets.[63] In a nutshell, think about KPIs as being a "scorecard" for company health.

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

The trend in marketing is to use real-time marketing dashboards that provide instant visibility of the metrics you've selected to track. It's a quick and easy overview of where you stand and how you're progressing toward your goals. It's also a huge time saver because instead of poring over spreadsheets and multipage reports to assess progress, a marketer can simply refer to the dashboard to obtain the information needed.[64]

LINK TO LEARNING



KPIs

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

Digital Marketing KPIs: What They Are Why They Matter (https://openstax.org/r/digitalmarketingkpi)

- Toucan Toco: "The Most Important KPIs to Track for Improved Marketing Efficiency (https://openstax.org/r/themostimportantkpis)"
- Vital: "The 16 Marketing KPIs You Should Be Measuring (but Probably Aren't)" (https://openstax.org/r/16marketingkpistomeasure)
- HubSpot: "15 Key Performance Indicators to Help Improve Your Marketing" (https://openstax.org/r/marketingkey)
- Marketo Engage blog: "Prove Your Worth: 10 KPIs for Marketers (https://openstax.org/r/proveyourworth10kpis)"

Examples of Business Objective KPIs

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

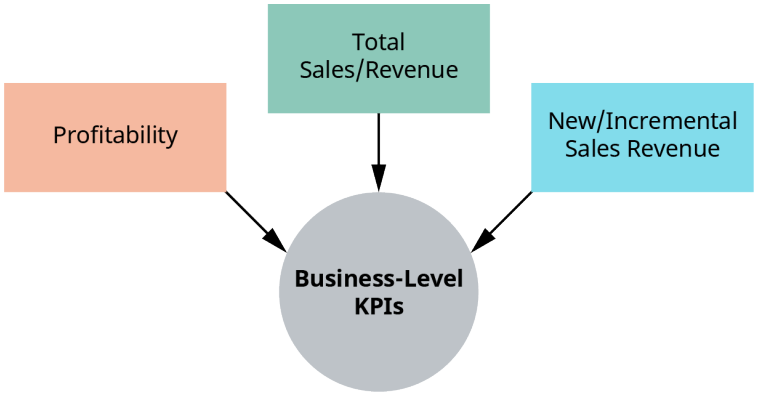

Figure 2.12 Business-Level KPIs (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Total Sales/Revenue

Sales and revenue growth is a KPI that is used to determine whether sales and revenue are increasing or decreasing over a specified time period. It's calculated by dividing revenue generated during one time period by revenue generated over a subsequent time period, subtracting 1, and then multiplying by 100 to obtain a percentage.[65] Here is the formula:

$$\text{Sales versus Revenue} = \left(\frac{\text{2022 Revenue}}{\text{2021 Revenue}} - 1\right) \times 100 = xx\%$$

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

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

As a general rule, the metric would be used to suggest revenue growth over a year time span. However, for companies whose revenue is affected by seasonality (such as companies that produce snow blowers or bathing suits), it may make more sense to measure growth in revenue on a monthly or seasonal basis, as compared to the previous season.[66]

New/Incremental Sales Revenue

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

Profitability

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

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

Examples of Sales/Revenue Generation KPIs

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

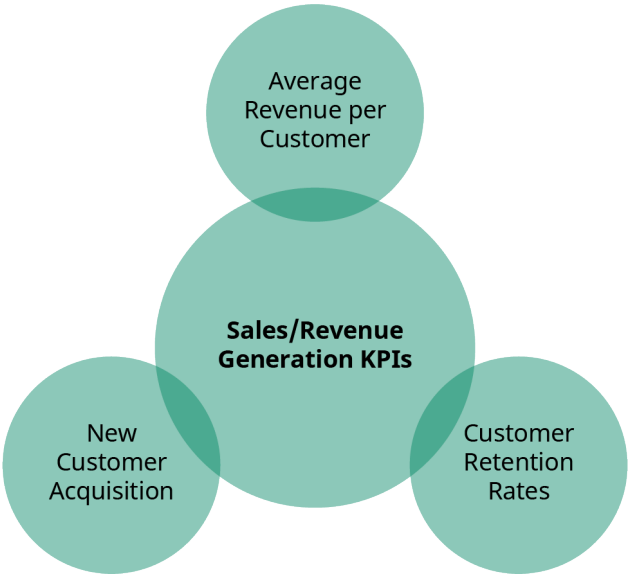

Figure 2.13 Sales/Revenue Generation KPIs (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Average Revenue per Customer (ARPC)

This KPI measures the amount of money that a company expects to generate from an individual customer, and it's a relatively simple calculation: total revenue divided by the number of customers. Where this KPI comes in handy is that it assists the marketer in identifying trends among different time periods and segments of customers. A low ARPC score can point to a number of reasons: you're not targeting the right customer, or perhaps your product offering is priced too low. So marketers need to determine how to extract more revenue from the product—whether through different value add-on products or perhaps by targeting a more valuable customer base.[67]

New Customer Acquisition

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

Customer Retention Rates

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

Examples of Market Share KPIs

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

Let's consider a scenario to explain this further. Let's assume that your organization is in a highly competitive, fast-growing industry. Your marketing dashboard shows that your organization's sales increased 10 percent during the last fiscal year. On the surface, that might be a positive—who doesn't want sales to increase by 10

percent? However, with the right KPIs on your marketing dashboard, you might begin to see that all isn't as good as you initially surmised because the market in general grew at 20 percent during that same period and the sales of your major competitor grew 25 percent. That paints a different picture, doesn't it?

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

Market Share in Category

A company's market share in category (sometimes known as category share) is its sales as a percentage of all products in a category that the company sells. It is calculated by dividing the company's sales by the total sales in a category.[68] For most companies, market share is an important KPI because it easily translates into positive or negative performance. For example, increases in market share typically indicate that a company is doing more business, whereas declining market share suggests an undesirable outcome.[69]

Relative Market Share

Relative market share indexes a firm's or brand's market share against that of its leading competitor. It's more complicated that industry market share because it compares your organization to your rivals rather than to the industry as a whole.[70] How is it calculated? That's best explained using an example. Let's assume that you own an appliance store in town, one of a handful of stores in town that sell major appliances. Your sales bring in $1 million per year, for a 5 percent market share. Now imagine that the top appliance store in the area sells $1.5 million worth of major appliances a year, an 8 percent market share. To determine your relative market share compared to this competitor, divide your share by the competitor's:

$$5\% \div 8\% = 66\% \text{ Relative Market Share}$$

To get an even more in-depth picture, you can do the same for the smaller competitors in the market. This process would give you a slightly different perspective on market share growth. For example, in some competitive markets, a 5 percent share might make you one of the major players; however, in the example shown with the appliance stores, it appears that you're a long way from achieving the market share of your leading competitor.[71]

Examples of Customer Support KPIs

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

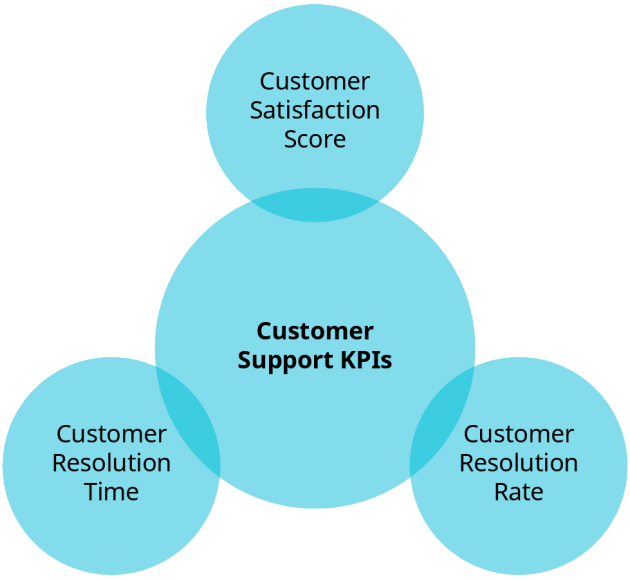

Figure 2.14 Customer Support KPIs (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Customer Satisfaction Score

Customer satisfaction score (also known as CSAT) is the primary metric used to measure customer satisfaction. One way to measure CSAT is by sending out a customer satisfaction survey asking customers to rate their satisfaction on a scale of 1 to 5, with 1 being very unsatisfied and 5 being very satisfied. The calculation from that point is simple: take the number of satisfied customers (i.e., those who rated their satisfaction as either 4 or 5), divide that by the total number of responses, and finally multiple that number by 100. That formula will yield the percentage of customers who consider themselves satisfied—your CSAT score.[72]

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

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

Customer Resolution Rate

As we pointed out above, no matter how carefully you've planned and no matter how well you've trained your staff, things will inevitably go wrong with customers at some point. That's the harsh reality of dealing with customers. However, most (or at least many) customers will forgive a mistake if the organization acts quickly to resolve the problem to the best of its ability. Once again, the calculation for this KPI is relatively uncomplicated. To calculate customer resolution rate, subtract the number of unresolved cases from the total number of cases, and then divide the sum by the total number of cases. The fewer unresolved cases, the higher your customer resolution rate.[73]

Customer Resolution Time

Closely related to the customer resolution rate is customer resolution time because most customers expect immediate assistance. The longer it takes to resolve a customer issue, the less satisfied a customer will be. There are a couple of ways to calculate this. First, you could measure average resolution time by taking the sum of all case resolution durations and then dividing by the total number of customer cases. Alternatively, you could measure the first response time. This is the average time it takes from the time a customer reaches out for assistance and the length of time it takes for a customer service representative to respond.[74]

MARKETING IN PRACTICE

Classic Cleaners and Automated Reporting



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

Classic Cleaners is a provider of dry cleaning and laundry services based in Indianapolis, Indiana (see Figure 2.15). The company has 17 locations.[75] Like many businesses, Classic Cleaners always struggled with the question, What does my customer *really* want? The company wanted an easy solution to using real-time marketing to track and measure results and obtain insights that would aid it in making data-driven decisions.

Enter TBH Creative, which was hired by Classic Cleaners to transform its marketing efforts through automating reporting. TBH Creative worked with the company to set up a marketing dashboard to monitor statistics and analytics, complete an audit to determine which marketing efforts were effective, improve its website, and more.[76]

As Classic Cleaners' General Manager Steve Arnold stated, "We . . . wanted to start tracking our customers more thoroughly so we could identify who our target customers are, what types of messaging resonates with them, and how we could use marketing to earn more business from these customers."[77]

MARKETING DASHBOARD

Customer Lifetime Value (CLV)

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

Customer lifetime value is closely related to **customer acquisition cost**, which is the amount an

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

A simple formula for customer lifetime value is:

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

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

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

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

Table 2.1

Solution
Millennial parents: $119,250

Millennial singles: $215,250

Working moms: $174,800

Gen Z emerging professionals: $66,400

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

Solution
Millennial singles have the highest CLV.

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

Solution

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

Knowledge Check

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

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

2. How frequently should we monitor KPIs?
   a. Continuously
   b. Monthly when the financial statements are produced
   c. Annually when the yearly financial statements are produced
   d. When things just don't "feel" quite right

3. You've emailed a customer satisfaction survey to 20,000 customers and received 1,825 responses. Of those 1,825 responses, the ratings came back as:
   - 500 very satisfied
   - 300 satisfied
   - 1,025 neutral or dissatisfied or very dissatisfied

   What is the customer satisfaction score?

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

4. The observation is made that a single data point in isolation is not very useful. What can we do with a KPI data point to make it useful?
   a. Compare the KPI data point with a related goal/objective (forecast).
   b. Compare the KPI data point with our historical performance.
   c. Compare the KPI data point with industry averages.
   d. These are all useful things to do with a KPI data point.

5. Why is it important to track customer satisfaction?
   a. We don't need to; we already have their money.
   b. Customer referrals can be a powerful promotional tool.
   c. Customer acquisition can be expensive; repeat purchases can be much more profitable.
   d. Statements b and c are both correct.

2.5 Ethical Issues in Developing a Marketing Strategy

Learning Outcomes

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

LO 1 Explain the importance of ethical marketing.
LO 2 Describe key ethical considerations in strategic planning.
LO 3 Discuss examples of ethical companies.

The Importance of Ethical Marketing

Marketing ethics are essentially the moral guidelines that allow companies to scrutinize their marketing strategies and actions. It means that a marketer has an obligation to ensure that all marketing activities adhere to core ethical principles, such as integrity and honesty—both internally and externally.[78]

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

- **Customer Loyalty.** Every company wants customers who keep coming back to buy their products and services. Companies have learned over time that, with the adoption of common-sense ethics in marketing, they can more easily earn the trust of consumers.[79]
- **Improved Credibility.** Look beyond customers when considering this factor and think in terms of the respect and credibility an ethical company earns with its investors, competitors, and other parties.
- **Brand Enhancement.** Consumers, competitors, investors, and others have begun to look beyond product features and pursue brands that consider the three Ps of sustainability—people, planet, and profits.

Millennials and Generation Z: Purchases Follow Beliefs

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

Corporate social responsibility (CSR) is the concept that a company should integrate social and environmental concerns into its business operations and practices. It didn't begin to take hold in the United States until the 1970s. In 1971, the Committee for Economic Development released a policy statement declaring the concept of a "social contract" between business and society, wherein the business has an obligation to constructively serve the needs of society.[80] This concept was further fueled in part by President George H. W. Bush's call for a "thousand points of light."[81] The bottom line is that CSR changed business as usual. Today, Fortune Global 500 firms spend approximately $20 billion on CSR initiatives each year, and companies take public positions on diversity, inclusion, education, and the environment.[82]

We are witnessing an evolution in consumer expectations as consumers begin to vote with their wallets. Millennials (those born between 1981 and 1996) and Generation Z (those born between 1997 and 2012) are now the biggest global generation, making up 65 percent of the world's population,[83] so it stands to reason that, as these generational cohorts enter their prime spending years, many companies have begun to focus their marketing efforts on this segment of the population. What marketers have discovered is that millennials and Zoomers (aka Gen Z) engage with brands differently than older generations like Generation X (born between 1965 and 1980) and the baby boomers (born between 1946 and 1964). They're more likely to steer clear of mass-market branded products in favor of smaller, eco-friendly brands. They are the most likely to make buying decisions on values and principles. For example, consider some statistics from a First Insight report that shows that 62 percent of both millennials and Zoomers are willing to spend more for sustainable products, compared with only 54 percent of Gen X and 39 percent of Baby Boomers.[84]

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

- 66 percent of global consumers are willing to pay more for sustainable products.[85]
- 73 percent (nearly three out of four) of millennials indicated that they would be willing to pay extra for sustainable goods.[86]

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

authenticity and transparency.

Key Ethical Considerations in Strategic Planning

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

According to a Gallup poll in 2021, approximately 6 percent of US adults report that they have used e-cigarettes within the past week[87] despite health warnings about vaping. The sale and distribution of e-cigarettes is banned or regulated in a growing number of countries much to the dismay of vaping aficionados. Where do you draw the line? Is vaping a matter of personal choice, or are people influenced by the marketing efforts of e-cigarette producers like Juul?

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

Consider another ethical issue. During the first decade of the new millennium, Toyota vehicles experienced problems with unintended, uncontrolled acceleration that prompted over 6,200 complaints to the National Highway Traffic Safety Administration and were linked to more than 89 deaths over the next five years.[88] Early on, Toyota blamed driver error. Later, it issued recalls to address floor mats that pinned down accelerators in some cases. But the company hid a flawed gas pedal design and lied to regulators, Congress, and the public for years about the sudden acceleration problem, ultimately leading to a fine of $1.2 billion by the Justice Department, which contended that Toyota's efforts to conceal the problem and protect its "corporate image" led to a series of preventable fatalities. The settlement is being called the largest criminal penalty imposed on a car company in US history.[89]

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

Broader Participation

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

Organizational and Individual Values

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

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

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

Chapter Summary

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

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

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

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

Key Terms

BCG matrix Boston Consulting Group's framework for analyzing an organization's strategic business units
business portfolio the group of products, services, and business units that a company possesses
business-level strategy outline of the actions and decisions a company plans to take to reach its goals and objectives
buyer persona a semi-fictional representation of your ideal customers based on data and research
concentric diversification the addition of similar products or services to an existing business
conglomerate diversification the development and addition of new products or services that are significantly unrelated to a company's current offerings
corporate social responsibility (CSR) the concept that a company should integrate social and environmental concerns into its business operations and practices
corporate-level strategy strategy that establishes the overall value of a business through setting strategic goals and motivating employees to achieve them
customer acquisition cost the amount an organization invests in attracting a new customer
customer lifetime value (CLV) an estimate of how much a single customer is worth to a company over their customer life span
executive summary a brief overview of a marketing plan
functional strategy actions and goals assigned to business units that support the overall business strategy
gap analysis an internal analysis of a company or organization to identify and review its inherent deficiencies that may hinder its ability to meet its goals
goals the outcomes one intends to achieve
horizontal diversification the development of new and perhaps even unrelated products or services to market to existing customers so that a company can garner a larger customer base
key performance indicators (KPIs) quantifiable measure gauging a company's performance against a set of targets, objectives, or competitors
market development strategy a growth strategy that identifies and develops new market segments for current products
market penetration strategy a strategy used when a company focuses on growing its market share in its existing markets

marketing dashboard summarizes important marketing metrics and key performance indicators into easy-to-understand measurements
marketing ethics area of applied ethics dealing with the moral principles behind the operation and regulation of marketing
marketing metrics what marketers use to monitor, record, and measure progress over time; are varied and can change from platform to platform
mission statement action-based statement declaring the purpose of an organization
objectives specific targets to be achieved within a specified period of time
product development strategy complete process of delivering a new product or improving an existing one for customers
product diversification strategy strategy to increase profitability and achieve higher sales volume through new products
product positioning strategic exercise that defines where a product or service fits in the marketplace
strategic business unit a relatively autonomous division of a large company that operates as an independent enterprise with responsibility for a particular range of products or activities
strategy set of plans, actions, and goals that outlines how a business will compete
SWOT analysis identification of internal strengths and weaknesses and external opportunities and threats impacting a business
vision statement aspirational statement that articulates what an organization aims to achieve

Applied Marketing Knowledge: Discussion Questions

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

Critical Thinking Exercises

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

A. Why has it been important for Disney to identify new products and markets?
B. How has Disney leveraged its strengths to pursue new opportunities?
C. In addition to parks and resorts, list three products/services Disney has expanded into.
D. In your opinion, is Disney an example of an ethical company that practices a double bottom line?

Building Your Personal Brand

There are many brands that recognize the benefits of hiring brand ambassadors. Red Bull is one of these brands. Because college students constitute a major portion of its target market, Red Bull relies on student ambassadors (also called Marketeers) to interact with customers. According to Red Bull's Student Marketeer website, "student Marketeers are in direct contact with various consumers and customers, inviting product trial, helping establish Red Bull consumption in diverse occasions, supporting our sales teams, working with renowned athletes and of course ensuring an unforgettable brand experience for consumers at Red Bull events. Based on your skills, knowledge, experience and availability, your focus will be either on your campus or you'll cover the entire region on board the iconic Mini."[90]

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

What Do Marketers Do?

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

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

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, complete the following sections of your marketing plan:

- Executive Summary
- Mission Statement
- SWOT Analysis
- Marketing Goals and Objectives

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

Closing Company Case

Blue Zones

When adventurer Dan Buettner set off around the world, riding his bike and visiting far-off destinations, he put a way of living into motion. Through the study of various communities around the world, Dan discovered

pockets where populations of older people seemed to be living longer than anywhere else on earth. There were five such places where people lived a very long time and were healthier than many of the world's people. Dan called these places "Blue Zones." The Blue Zones included Okinawa, Japan; Sardinia, Italy; Nicoya, Costa Rica; Ikaria, Greece, and Loma Linda, California.

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

"Dan and the team of demographers and researchers found that all blue zone areas share nine specific lifestyle habits that they call the Power 9."[91]

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

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

In 2009, Albert Lea, Minnesota, teamed up with Blue Zones by applying the same concepts seen in the other Blue Zone locations. The location was suffering a severe economic crisis and needed a strategy to get out of it.[92]

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

Creating these communities includes a phased in approach. Blue Zones starts with Phases I and II, which build the foundation. Through assessment and an understanding of current state and desired future state, the gaps and issues are identified. The plan is drawn, and then in Phase III there is a full transformation that includes the people, the places, and the policy. When the plan is fully accepted and implemented, people will enjoy longevity, lower health care costs, and the recognition that the community is a great place to live and work.

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

The statistics speak for themselves. Now communities across the United States are working to find ways to combat the crippling effects of the nation's health care crisis. Blue Zones could be the answer. "The Blue Zones Project helped our community set amazing, aggressive, and achievable strategies that moved the Public Health agenda further in 10 months than what I could have expected in 10 years," said Lois Ahern, director of Freeborn County Health (retired), in Albert Lea.[93]

Case Questions

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

United States?

3. What is the market segmentation and target market for Blue Zones?
4. Blue Zones works to create healthier communities. With this goal in mind, what are some of the KPIs Blue Zones might work to implement?

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Unit 2

Understanding the Marketplace

Unit Introduction

Welcome to Unit 2 of *Principles of Marketing*. In Unit 1, the stage was set for studying marketing. Unit 2 discusses the analytical tools and frameworks to understand a broad range of customers (whether consumers or businesses) and categorize them into target markets. It then reviews marketing research techniques used to gather data and make sound marketing decisions. Finally, the last two chapters of this unit emphasize the challenges of expanding to international markets and reaching culturally and demographically diverse segments in domestic markets.



3

Consumer Markets and Purchasing Behavior

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

Chapter Outline

3.1 Understanding Consumer Markets and Buying Behavior
3.2 Factors That Influence Consumer Buying Behavior
3.3 The Consumer Purchasing Decision Process
3.4 Ethical Issues in Consumer Buying Behavior

In the Spotlight

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

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

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

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

Focusing on the 3 Ds enabled McDonald's to weather the pandemic and create a faster, easier, and improved customer experience.[1]

3.1 Understanding Consumer Markets and Buying Behavior

Learning Outcomes

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

- LO 1 Define consumer buying behavior.
- LO 2 Explain the nature of the buyer's black box.
- LO 3 Describe how consumer behavior is characterized into types.

Consumer Markets and Consumer Buying Behavior Defined

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

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

The Buyer's Black Box

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

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

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

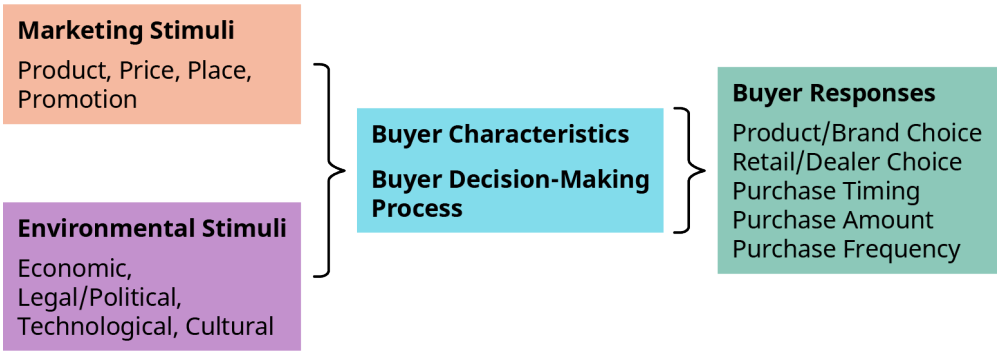

Figure 3.2 Stimulus-Response Model/Buyer's Black Box (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Types of Consumer Buying Behavior

Buying behavior is not influenced solely by the external environment. It's also determined by your level of

involvement in a purchase and the amount of risk involved in the purchase. There are four types of consumer buying behavior, as shown in Figure 3.3.

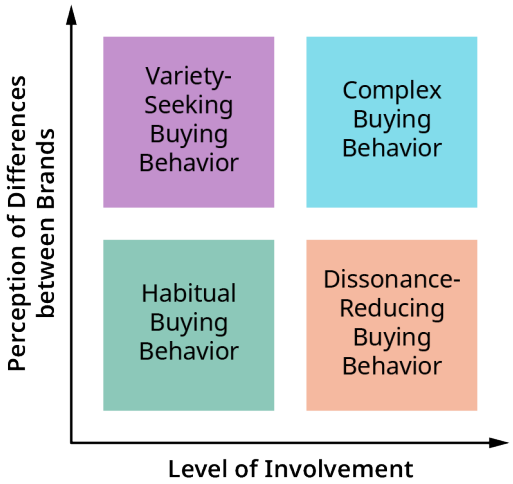

Figure 3.3 Types of Consumer Buying Behavior (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

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

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

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

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

LINK TO LEARNING

The 4Ps and Consumer Behavior

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

The 4 Ps of The Marketing Mix Simplified (https://openstax.org/r/the4ps)

Consumer behavior is an important marketing topic, and depending on the marketing program at your

institution, you may have the opportunity to take a consumer behavior course and learn more about the topics covered above. Studying consumer behavior is important in marketing because it will teach you how to best know your customer, an integral aspect to marketing a product or service. You can also watch this selfLearn-en video to get a stronger grasp of consumer behavior.

consumer behavior 101, learn consumer behavior basics, fundamentals, and best practices (https://openstax.org/r/understandingconsumer)

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

Continually trying to understand environmental influences will keep you on the cutting edge and ahead of the competition. It's a great practice to always be looking for the latest information so that you can shift your strategies as needed. Bain & Company is an example of one company that wanted to understand how the pandemic changed consumer behavior. The company ran a survey in 2021 to better understand the impact of the pandemic, and it found five trends from the data.

How Covid-19 Has Changed Consumer Behavior (https://openstax.org/r/covid-19changedconsumerbehavior)

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

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

Knowledge Check

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

1. You're considering buying a widescreen TV. You've researched different features, looked up and reviewed models on the Internet, and even asked a few friends for their recommendations. What type of buying behavior are you exhibiting?
   a. Dissonance-reducing buying behavior
   b. Variety-seeking buying behavior
   c. Complex buying behavior
   d. Habitual buying behavior

2. In the buyer's black box, external stimuli that are planned and created by the producer and/or seller are known as _____ stimuli.
   a. economic
   b. marketing
   c. technological
   d. social

3. Samantha sees a TV commercial announcing that a mattress she's been considering is on sale through the holiday weekend and makes plans to visit the store the next day in order to take advantage of the sale. In

terms of the buyer's black box, how would this TV commercial be characterized?

a. Product choice
b. Brand choice
c. Social stimuli
d. Purchase timing

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

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

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

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

3.2 Factors That Influence Consumer Buying Behavior

Learning Outcomes

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

LO 1 List and describe the cultural factors that influence consumer buying behavior.
LO 2 Explain the social factors that impact consumer buying behavior.
LO 3 Discuss the personal factors that influence consumer buying behavior.
LO 4 Describe the psychological factors that influence consumer buying behavior.
LO 5 Explain situational factors that impact consumer buying behavior.

Cultural Factors That Influence Consumer Buying Behavior

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

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

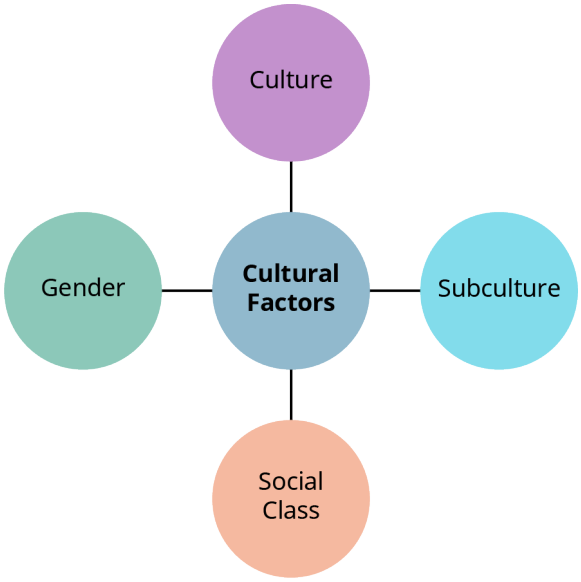

Figure 3.4 Cultural Factors Influencing Consumer Purchasing Behavior (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Culture refers to the values, ideas, and **attitudes** that are learned and shared among members of a group. Human behavior is largely learned. When you were a child, you learned basic values, perceptions, wants, and behaviors from your family and other external influences like the schools and churches you attended. Consider how these values and attitudes have shaped your buying behavior. For example, in a traditional Hindu wedding in India, a bride may wear red lehenga to the wedding, whereas Christian brides typically wear white. In India, widows are expected to wear white, whereas widows in the United States and other parts of the world generally wear more somber colors to a funeral.[2]

A **subculture** is a group of people, such as environmentalists or bodybuilders, who share a set of values. Ethnic and racial groups share the language, food, and culture of their heritage. Other subcultures, like the biker culture, which revolves around a dedication to motorcycles, are united by shared experiences. The Amish subculture is known for its conservative beliefs and reluctance to adapt to modern technology. Think about what subculture(s) you may belong to and how they influence your buying behavior. For example, hip-hop music has long been associated with fashion, particularly sneakers. Run DMC's 1986 hit "My Adidas" led to the first endorsement deal between a fashion brand and a musical act, setting the stage for lucrative partnerships spanning the decades since—Master P with Converse, Jay-Z and 50 Cent with Reebok, Missy Elliott and Big Sean with Adidas, and Drake with Nike.

LINK TO LEARNING

Failures and Inspirations

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

Why Starbucks Failed In Australia (https://openstax.org/r/starbucksfailed)

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

Why 7-Eleven Failed In Indonesia (https://openstax.org/r/7-elevenfailed)

Failures are always important because they come with learned knowledge, and if you understand the WHY behind the failure, the learning can lead to shifts in strategy and possible success. Read the inspiring story (https://openstax.org/r/inspiringstory) behind Run DMC's revolutionary market deal with Adidas and how it opened the door for current artists like 50 Cent, Jay-Z, and Puffy.

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

Your **social class** is also an important influence on your buying behavior. Sociologists base definitions of social class on several different factors, including income, occupation, and education. While there is disagreement on the number of social classes defined by income in the United States, many sociologists suggest five social classes: upper class, upper-middle class, lower-middle class, working class, and the economically disadvantaged.[3] Income is largely defined by disposable income (the money you have left to spend or save after taxes are deducted), but its influence goes beyond just dollars, euros, yen, etc. For example, a lower-middle-class individual might focus primarily on price when considering a product, whereas an upper-middle-class person might consider product quality and features before price. However, you also can be influenced by a social class to which you don't belong but by which you want to be accepted. Have you ever spent money you really didn't have on brand name running shoes or a designer purse because that's what your friends have?

Finally, your **gender** plays an important role in your buying behavior. People of different genders not only want different products as a result of their upbringing and socialization, but they approach shopping itself with different motives, perspectives, and considerations. While it's always dangerous to stereotype, those who identify as male typically follow a utilitarian, more logic-based approach when shopping. They want a quick, effortless shopping experience. Those who identify as female, on the other hand, make decisions on a more emotional level. Zappos considers these different motives and provides different layouts on their landing pages for different genders. While the "male" version focuses on providing clear navigation by product categories, the "female" version aims to sell on emotion.[4]

LINK TO LEARNING



Behind the Gender Differences

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

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

Why gender-based marketing is bad for business | Gaby Barrios (https://openstax.org/r/genderbasedmarketing)

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

GENDERED MARKETING | The Checkout (https://openstax.org/r/genderedmarketing)

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

Gender-based Marketing | How fashion brands leverage their gender strategy (https://openstax.org/r/fashionbrands)

CAREERS IN MARKETING



Women in Marketing

Let's look at gender from another angle—women advancing in marketing. Part of a series about jobs in marketing (https://openstax.org/r/gender-diversity), this article examines equity in the world of marketing. Findings include data on gender balance and inequality, and guidance on ways to improve.

For an inspirational moment, be sure to read these heartwarming stories about six mothers of great marketers (https://openstax.org/r/behindeverygoodmarketer).

Social Factors That Influence Consumer Buying Behavior

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

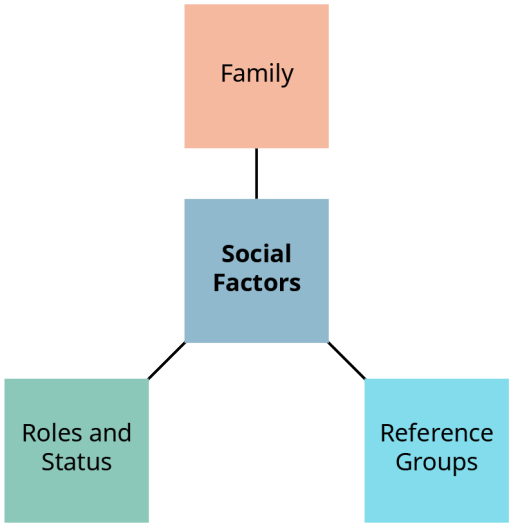

Figure 3.5 Social Factors Influencing Consumer Purchasing Behavior (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

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

other activities.

Reference groups are those groups with which you like to be associated. These can be formal groups, such as members of a country club, church, or professional group, or informal groups of friends or acquaintances. These groups serve as role models and inspirations, and they influence what types of products you buy and which brands you choose. Reference groups are characterized by having opinion leaders—people who influence others. These opinion leaders aren't necessarily higher-income or better educated, but others view them as having more expertise in a particular area. For example, a teenage girl may look to the opinion leader in her reference group of friends for fashion guidance, or a college student might aspire to getting an advanced degree from the same university as an admired professor. Social media influencers also play a role here. Consider the influence that celebrities like Kendall Jenner (with more than 217 million Instagram followers)[5] or Leo Messi (with over 310 million Instagram followers)[6] have on individuals.

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

Personal Factors That Impact Consumer Buying Behavior

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

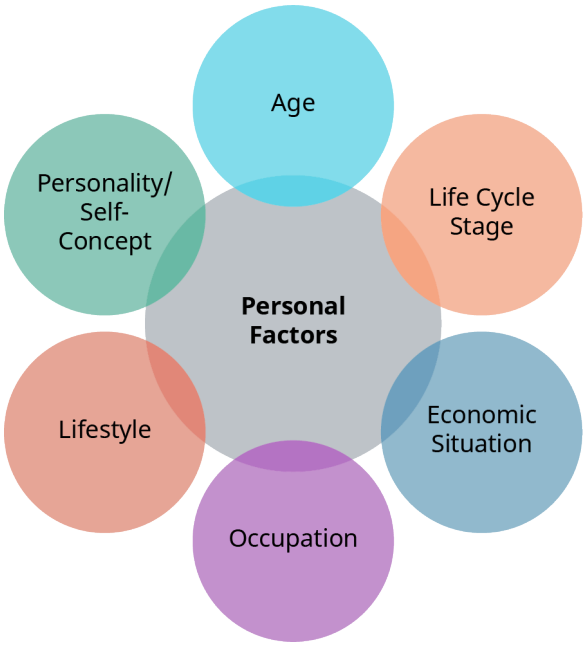

Figure 3.6 Personal Factors Influencing Consumer Purchasing Behavior (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

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

- Baby boomers (born between 1946 and 1964) are currently in their 60s and 70s. This generational cohort is approximately 70 million people strong in the United States and accounts for $2.6 trillion in buying power,[7] so you can imagine its impact on the consumer market. What types of products would you expect

baby boomers to buy? Key categories for this group of buyers include pharmacy and health care products, household goods and appliances, wine, books (both digital and physical), cosmetics, and skin care products.[8]

- Generation X (born between 1965 and 1979/80) are currently in their 40s and 50s. This cohort is approximately 65 million strong[9] and generally has more spending power than younger generational cohorts because they're at or reaching the peak of their careers, and many Gen Xers are dual-income families.[10] This makes them an optimal target for higher-end brands and convenience-related goods, like made-to-order or prepared meals from the grocery store.
- Generation Y, also known as Millennials, (born between 1981 and 1994/96) are currently in their 20s and 30s. This cohort is the largest generation group in the United States, with an estimated population of 72 million.[11] One interesting aspect of Millennial buying is that they shop sustainably. They shop for brands that produce items with natural ingredients and ethical production lines and sustainable goods in every sector, such as food, household cleaning products, linens, and clothes.[12]
- Generation Z, also known as Zoomers, (born between 1997 and 2012) are currently in their teens to early 20s, and they are just starting to have an economic impact on the consumer market. Although over 67 million strong,[13] many Zoomers are still in school and living with their parents, and their discretionary spending is limited.

MARKETING IN PRACTICE



Marketing to the Ages

Knowing how to speak to your target market is critical. Knowing how to frame your message to a Baby Boomer versus a Gen Xer is what makes marketers successful. Want to know how to speak to each group? Check out these articles about marketing to different age demographics (https://openstax.org/r/marketingtodifferentage) and generational marketing (https://openstax.org/r/generationalmarketing).

Learn from real-world examples of how age-agnostic marketing (https://openstax.org/r/ageagnostic) can work.

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

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

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

Your **occupation** is also a significant factor in your buying behavior because you tend to purchase things that are appropriate to your profession. For instance, a blue-collar worker is less likely to buy professional attire like business suits, whereas attorneys, accountants, and other white-collar workers may favor suits or business

casual work clothes. There are even companies that specialize in work clothes for certain types of workers, such as health care professionals who buy scrubs or construction workers who buy steel-toed boots.

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

Your personality and self-concept are also important factors influencing your buying behavior. **Personality** is the characteristic patterns of thoughts, feelings, and behaviors that make a person unique. It's believed that personality arises from within the individual and remains fairly consistent throughout life.[14] Some examples of the many personality traits people might have include things like self-confidence, individualism, extroversion, introversion, aggression, or competitiveness. Your personality greatly influences what you buy as well as when and how you use or consume products and services.

Perhaps even more importantly, as consumers, people tend to buy not only products they need but also those products or services that they perceive as being consistent with their "self-concept." In other words, they generally want the products they buy to match or blend in with who they think they are.[15]

Psychological Factors That Influence Consumer Buying Behavior

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

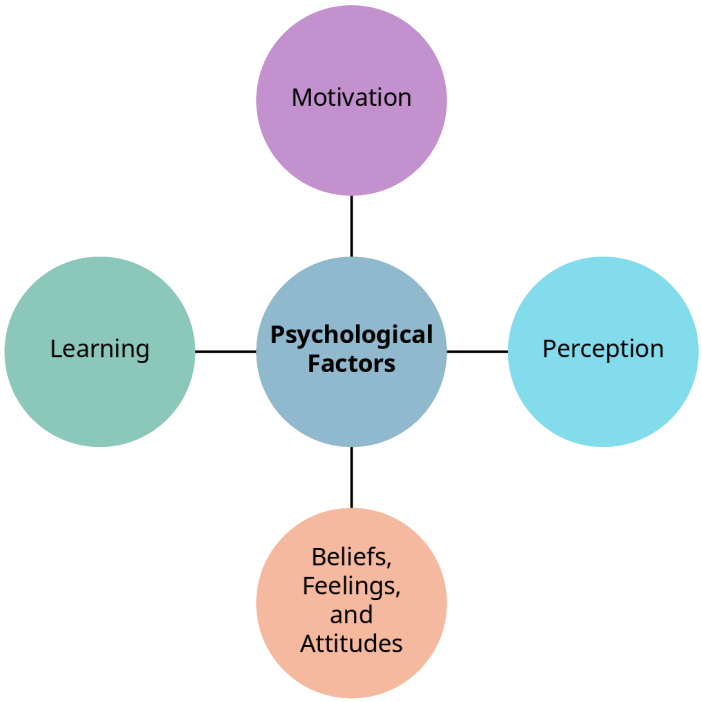

Figure 3.7 Psychological Factors Influencing Consumer Buying Behavior (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

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

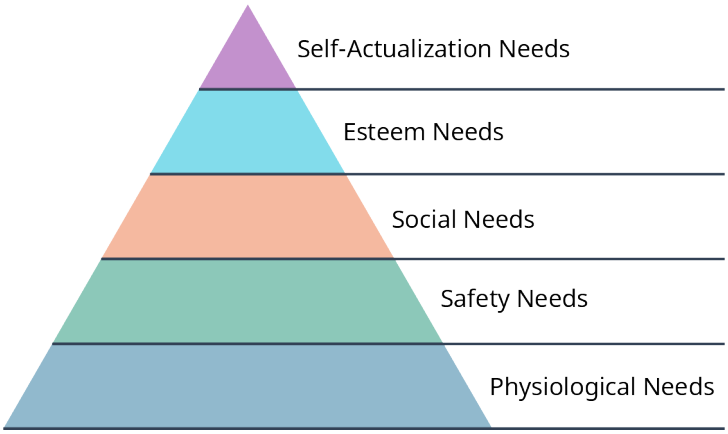

Figure 3.8 Maslow's Hierarchy of Needs (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

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

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

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

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

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

LINK TO LEARNING

Examples of Maslow's Five Needs

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

Snickers 'You're Not You When You're Hungry' TVC - AdNews (https://openstax.org/r/whenyouarehungry)

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

Lysol Disinfectant Spray - What It Takes To Protect (https://openstax.org/r/resteasynomatter)

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

Shared Table :30 | Belonging Begins With Us (https://openstax.org/r/belonging60)

One awesome esteem level example to check out is this one from Dove. Dove launched a campaign to boost female self-esteem (https://openstax.org/r/doveself) and to celebrate female beauty in all shapes and

sizes. The company also created "confidence-boosting boards" on Pinterest. The boards include self-esteem activities so girls and their parents can share words of encouragement.

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

Fear Not | Nike: Find Your Greatness (https://openstax.org/r/fearnot)

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

LINK TO LEARNING



Maslow and Marketing

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

How to use Maslow's Hierarchy of Needs in Marketing! (https://openstax.org/r/maslowshierarchy)

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

Every day, you're bombarded with marketing messages from TV commercials, magazine and newspaper ads, billboards, and social media ads. As of 2021, it was estimated that the average person encounters between 6,000 and 10,000 ads every single day.[16] It stands to reason that you can't possibly pay attention to all of the competing stimuli surrounding you, so you'll pay attention to only those stimuli that you consider relevant to your wants and needs at the time and screen out the rest. That's the process known as **selective attention**.

MARKETING IN PRACTICE



When Bombarding Backfires

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

How can you combat the issue? Quantcast outlines (https://openstax.org/r/bombardmentmight) ways to avoid ad bombardment.

CAREERS IN MARKETING



It's about Ability

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

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

Looking for a job? Highlight your ability, not your experience | Jason Shen (https://openstax.org/r/jasonshen)

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

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

- Freemanleonard (https://openstax.org/r/marketersandcreat): "How Marketers and Creatives Can Stand Out in Today's Competitive Job Market"
- Recruiter.com (https://openstax.org/r/13triedandtrue): "13 Tried-and-True Creative Tactics Candidates Have Used to Stand Out in Interviews"
- Acadium (https://openstax.org/r/digitalmarketingcareer): "Launch Your Digital Marketing Career: How to Stand Out as a Candidate"
- Indeed (https://openstax.org/r/careeradvice): "8 Marketing Interview Questions to Expect"
- Entrepreneur (https://openstax.org/r/buildingyourbrand): "Building Your Brand Is How You Will Stand Out When Applying for a Job"
- Smart Insights (https://openstax.org/r/tacticstohelp): "7 Tactics to Help You Stand Out as a Marketer and Get Better Jobs"
- 24 Seven (https://openstax.org/r/10tipstoace): "10 Tips to Ace Your Next Marketing Job Interview"

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

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

abilities?
- What advice do you have for me?

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

Even the stimuli that people notice don't always come across in the way in which the marketers intended. **Selective distortion** is the tendency of people to interpret information in a way that fits their preconceived notions. This was demonstrated years ago when PepsiCo launched its Pepsi Challenge blind taste test commercials. Participants were presented with two colas in unmarked plastic cups and asked to taste both colas and choose the one they liked better. Then the tester would lift a small screen to reveal the brand the participants preferred. In TV commercials that aired for years, Pepsi showed the stunned reactions of loyal Coca-Cola drinkers who had chosen Pepsi over Coke in the test. One grandmother in a commercial said, "I can't believe it. I've never had a Pepsi in my life, but it must be better!"[17]

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

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

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

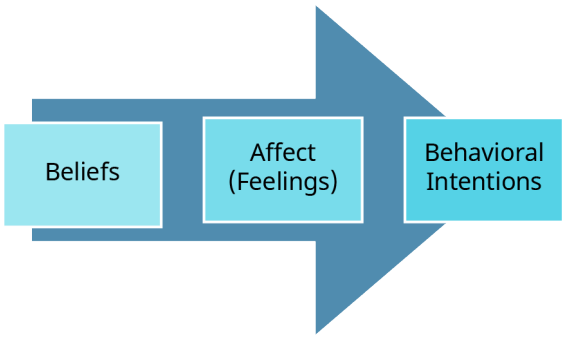

Figure 3.9 Components of Attitudes (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

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

The behavioral intention aspect of an attitude is what you as a consumer plan to do—buy the brand or not buy the brand. As with affect, this is sometimes a logical consequence of your beliefs but may sometimes reflect other circumstances. Consider a consumer who doesn't particularly like a restaurant but will go there because

it's an after-class gathering spot with her friends.[18]

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

MARKETING IN PRACTICE



Lessons in Psychology

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

Situational Factors That Impact Consumer Buying Behavior

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

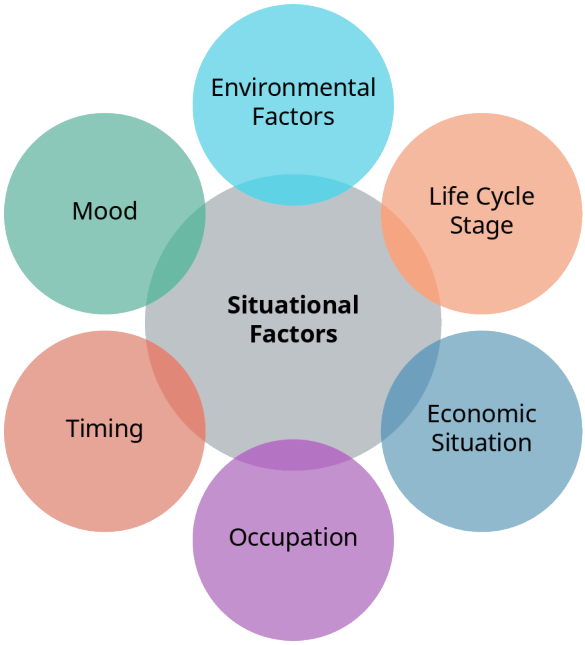

Figure 3.10 Situational Factors Influencing Consumer Buying Behavior (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Environmental factors such as music, lighting, ambient noise, and even smells can either discourage or encourage a consumer's purchase decision. For example, researchers conducted a study on the effect of lighting on consumer purchases in a grocery store. They lit half the store with traditional fluorescent lighting and the other half of the building with LED lighting. Researchers conducted the study over 21 weeks and

discovered that consumers bought 25 percent more products on the LED-lit side of the store.[19]

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

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

MARKETING IN PRACTICE



Abercrombie & Fitch



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

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

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

A&F also plays loud club music throughout its stores, attracting young people who can withstand loud music longer, while older customers may run from it. It's just another way that A&F is enabling its stores to maintain a more youthful clientele and a "fresher" image.[20]

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

Abercrombie & Fitch CEO on the brand's transformation (https://openstax.org/r/abercrombieandfitch)

The social situation of shopping is another situational factor. Did you know that you're more likely to stop to look at certain products when you're in the company of a friend as opposed to a parent? The social aspect can

even alter the price you're willing to pay. You might be more inclined to purchase a more expensive product when you're with a colleague or potential partner than you would if you're with a friend or spouse.[21]

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

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

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

MARKETING IN PRACTICE



Situational Factors

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

- Westin and the White Tea Signature Scent (https://openstax.org/r/transportedbyfragrance)
- The Aroma Trace (https://openstax.org/r/examplesofolfactory): "Best Examples of Olfactory Marketing in Companies"
- Sync Originals (https://openstax.org/r/musicpart): "10 Brands That Made Music Part of Their Marketing DNA"
- Omnify (https://openstax.org/r/lightingtechniques): "8 Simple Lighting Techniques That Boost Retail Sales"
- Science News (https://openstax.org/r/sciencedaily): "Does Background Noise Make Consumers Buy More Innovative Products?"
- Journal of the Academy of Marketing Science (https://openstax.org/r/springerlink): "Sounds Like a Healthy Retail Atmosphere Strategy: Effects of Ambient Music and Background Noise on Food Sales"

Knowledge Check

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

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

2. Traditionally, in China, the bride's wedding gown is red because the color is associated with good luck, happiness, and prosperity. Which influence on consumer buying behavior does this illustrate?
   a. Culture
   b. Social class
   c. Lifestyle
   d. Personality

3. Jazmine purchases a wireless alarm system for her apartment. According to Maslow's hierarchy of needs, which level of needs does this purchase reflect?
   a. Physiological
   b. Safety/security
   c. Self-esteem
   d. Social

4. The tendency of people to interpret information in a way that supports what they already believe is known as _____.
   a. cognitive dissonance
   b. selective attention
   c. selective retention
   d. selective distortion

5. Attitudes are a composite of a consumer's beliefs, feelings about, and _____ toward a product or service.
   a. predispositions
   b. behavioral intentions
   c. preconceived notions
   d. attributions

3.3 The Consumer Purchasing Decision Process

Learning Outcomes

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

- LO 1 Explain the first stage in the consumer purchasing decision process.
- LO 2 Summarize the second stage in the consumer purchasing decision process.
- LO 3 Describe the third stage in the consumer purchasing decision process.
- LO 4 Discuss the fourth stage in the consumer purchasing decision process.
- LO 5 Explain the fifth and final stage in the consumer purchasing decision process.

Consumer Decision Process

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

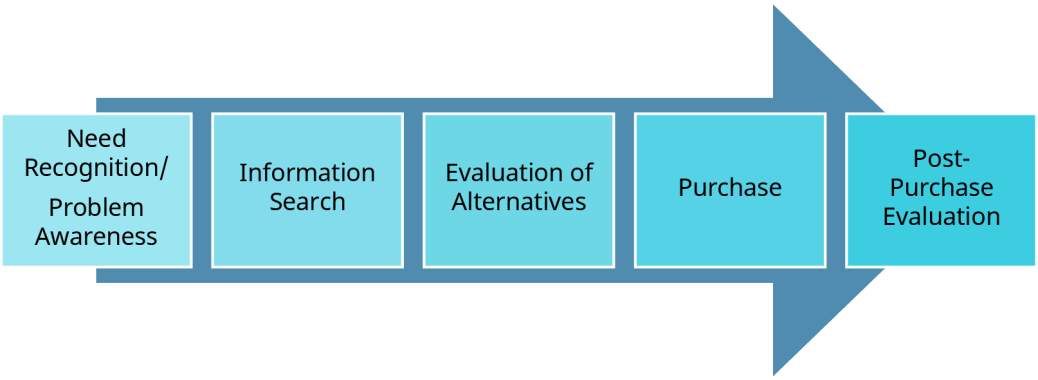

Figure 3.12 The Consumer Decision Process (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

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

Stage 1: Need Recognition

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

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

Stage 2: Information Search

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

Keep in mind, of course, that not all needs/problems identified in Stage 1 will require this second stage. If you've run out of bread or toilet paper, you're probably not going to do an information search; rather, you'll just go to the store to buy what you need, and your information search may be as simple as checking prices at the grocery store to see if your favorite brand is available or another brand is on sale. However, purchase decisions of more consequence will usually trigger an information search of some type.

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

Stage 3: Evaluation of Alternatives

Consumers are said to view a product or service as a "bundle of product attributes," and you evaluate several

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

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

Stage 4: Purchase Decision

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

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

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

Stage 5: Post-Purchase Evaluation

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

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

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

Stage	Description
Stage 1: Need Recognition	The buying process actually starts when you sense a difference between your actual state and your desired state. This is referred to as problem awareness or need recognition. You might become aware of the need through internal stimuli (such as feeling hungry or thirsty when you're on a long road trip) or external stimuli (such as passing a bakery and smelling the wonderful aroma of cookies baking).
Stage 2: Information Search	Once the problem of need is identified, the next step is to search for more information that will help you make a choice. There are two different search states—heightened attention and active information search.

Table 3.1 Five Stages of the Consumer Decision Process

Stage	Description
Stage 3: Evaluation of Alternatives	This is the stage in the process where you'll evaluate several attributes of the product or service in making a decision on a purchase.
Stage 4: Purchase Decision	This stage involves actually reaching a decision on the purchase of the product or service.
Stage 5: Post-Purchase Evaluation	After purchasing the product or service, you'll now experience either satisfaction or dissatisfaction. You may have second thoughts after making the purchase decision, and these doubts lead to cognitive dissonance, or buyer's remorse. This may lead you to search for additional information to confirm the wisdom of your decision in order to reduce that tension.

Table 3.1 Five Stages of the Consumer Decision Process

CAREERS IN MARKETING



You Are Also a Consumer

Learn about the five stages of the consumer decision process in this video from Open Up (Upatras) Entrepreneurship and this article from Business Study Notes (https://openstax.org/r/stagesconsumerdecision).

Understanding consumer decision making process (https://openstax.org/r/understandingconsumerdecision)

GWI, a company that researches global consumer thinking, published its 2022 consumer trends report (https://openstax.org/r/connectingthedots), which showed that consumers' needs and priorities have shifted. Read the report and see if you find the same results for yourself. Have your priorities and needs changed since the pandemic hit? What are the other factors influencing your needs assessment?

Several tools can help you with a personal needs assessment. Practice your marketing skills on yourself by trying this needs assessment worksheet (https://openstax.org/r/selfassessment). This personal awareness will help you in many ways, including finding the right job that best fits your interests and abilities. Also take a few assessments and compare your results to better identify jobs worth learning more about. There are several free career aptitude tests to try:

- 123 Career Test (https://openstax.org/r/careertest)
- Interest Assessment (https://openstax.org/r/interestassessment)
- Work Values Matcher (https://openstax.org/r/workvaluesmatcher)
- A Personality Color Test (https://openstax.org/r/personalitytest)

In addition to career aptitude tests, personality tests assess your skill level and your ability to succeed in a career. Try a few of these:

- Typology Central Jung Personality Test (https://openstax.org/r/typologycentral)
- Myers-Briggs Type Indicator (https://openstax.org/r/mbtipersonalitytype)

The Balance Careers site also provides a wealth of resources (https://openstax.org/r/freecareeraptitude) on additional aptitude, personality, talent, and preemployment tests. It's worth your time to dive into this information to help you identify which career might be your best fit.

Knowledge Check

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

1. Janelle and her sister are planning a reception for their parents' 50th wedding anniversary. They have looked at several venues, comparing size, location and accommodations, photo opportunities, and parking. What stage in the consumer decision process model does this best illustrate?
   a. Need recognition
   b. Information search
   c. Evaluation of alternatives
   d. Purchase decision

2. Ra'Shana's car broke down on the way to work, and she realizes that she needs to quickly find a repair shop to take care of her vehicle. Which stage of the consumer decision process model does this represent?
   a. Need recognition
   b. Information search
   c. Evaluation of alternatives
   d. Purchase decision

3. Jason is considering buying a new laptop computer. He is researching different models based on factors like the processor, the hard drive capacity and speed, RAM, operating system, and price. He has also asked a few friends what they like and dislike about their laptops. Which stage of the consumer decision process model does this illustrate?
   a. Problem identification
   b. Evaluation of alternatives
   c. Information search
   d. Post-purchase evaluation

4. What is a heuristic?
   a. It is the mental conflict that occurs when a person's behaviors and beliefs do not align.
   b. It is a mental shortcut that allows people to solve problems and make judgments more quickly and efficiently.
   c. It is a function of the closeness between your expectations of a product or service and its actual performance.
   d. It is the process of assigning the cause of behavior to either internal or external characteristics.

5. Nathan and his husband have decided to purchase a new car. They have narrowed their list to a few models and visited a few dealerships to see the models and test-drive them. Which stage of the consumer decision process does this illustrate?
   a. Need recognition
   b. Information search
   c. Evaluation of alternatives
   d. Purchase decision

3.4 Ethical Issues in Consumer Buying Behavior

Learning Outcomes

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

- LO 1 Describe ethical issues related to consumer buying behavior.
- LO 2 Identify the characteristics of an ethical consumer.

Ethical Issues in Consumer Buying Behavior

All purchase behavior is in some sense ethical, involving moral judgment. For example, a consumer is concerned about the abuse of human rights in a foreign country, so corporate involvement in that country may be a factor in the consumer's purchasing decisions. Similarly, consumers concerned about animal rights may consider whether a cosmetic product has been tested on animals. For example, in one 2017 survey, 32 percent of US cosmetics consumers reported that they would "very likely" stop purchasing their favorite brand if the manufacturer tested on animals.[22]

Ethical Consumerism

Economic theory suggests that consumers seek to maximize utility (the total satisfaction received from consuming a product or service) at the lowest cost possible, so it follows that firms that have higher costs of production will be driven out of the market. Recently, more and more firms have started using "ethical" labels as a means of **product differentiation**, a marketing strategy in which a brand identifies the one thing that makes it genuinely different from competitors and then leverages that notion in its branding and messaging. But what does this look like in action? Let's take a quick look at one popular brand that honed its differentiation strategy and succeeded as a result.

Like many fast-food chains, Chipotle (see Figure 3.13) focuses on the quality of its ingredients above all else. One of the brand's hallmarks is that it works with family farmers within a 130-mile radius of each of its locations and attempts whenever possible to source local and sustainably raised ingredients. Additionally, Chipotle eliminated genetically modified (GMO) foods from its menu, citing public concerns about the safety of genetically modified ingredients.[23]



Figure 3.13 Chipotle works with family farmers and has eliminated genetically modified foods as a way to differentiate itself in the market. (credit: "Chipotle" by JeepersMedia/flickr, CC BY 2.0)

MARKETING IN PRACTICE



Ethics and Corporations

Hundreds of companies are known for being ethical, including Patagonia (more information later in this chapter), TOMS, and Conscious Coffees, among others. Read about five examples of truly ethical companies (https://openstax.org/r/trulyethicalcompanies) and how they are working to make an impact in their markets.

Business Insider provides a list of the most ethical companies (https://openstax.org/r/themostethicalcompanies) in the world. Do any of the companies on this list surprise you? Are there companies missing that you think should be included?

What corporate ethical decisions are you aware of that have positively impacted a company's brand? Here are 10 examples (https://openstax.org/r/ethicaldecisionmaking) where companies made the ethical decision.

Many consumers research companies before making a purchasing decision. Is the ethical footprint of a company important to you? Does it impact where you purchase products and services? Why or why not?

Are You an Ethical Consumer?

At its most basic level, being an ethical consumer simply means choosing goods that are ethically sourced, produced, and distributed. Ethical consumerism has become something of a buzzword over the last decade, and organizations are taking notice of consumers' expectations in terms of social and environmental practices. Consider some statistics to better understand how consumers put ethical consumerism in practice:

- According to a Statista poll, 90 percent of US survey respondents indicated that they would boycott a brand if they discovered that the company was engaged in irresponsible business practices.[24]
- Research from Mintel, a market research firm, indicates that 56 percent of US consumers indicate that they would no longer do business with organizations they believe to be unethical.[25]
- A recent survey showed that consumers seek a match between their beliefs and those exemplified by the organization. According to the survey, an overwhelming 72 percent of respondents indicated that they purchase goods and services from companies with beliefs similar to theirs in terms of environmental preservation and child labor.[26]

By choosing brands that align with their values, consumers are voting with their pocketbooks. Modern consumers are more than willing to take their business elsewhere if they perceive a disconnect between their values and those of the organization, and they will likely share their sentiments on social media.

MARKETING IN PRACTICE



Consumer Ethics

Do consumers care about ethics when making a purchasing decision? You can find marketers on both sides of the fence on this hotly debated topic. Some studies show that consumers are interested in products that align with their values. Other studies show that consumers aren't interested. According to an article from *Kellogg Insight* (https://openstax.org/r/productisethical) (a publication from the Kellogg School of Management at Northwestern University), current research by Jacob Teeny, an assistant professor of marketing at Kellogg, suggests that consumers care.

This Jason Garman TEDx Talk focuses on ethical consumerism and the power of having a choice and a voice through purchasing decisions.

Ethical consumerism and the power of having a choice / voice : Jason Garman at TEDxTeAro (https://openstax.org/r/ethicalconsumerism)

Are you new to ethical shopping? Watch this video to learn the basics about shopping ethically. Also check out this article to learn specific reasons for being an ethical consumer (https://openstax.org/r/whyshopethically).

Ethical Shopping - An Introduction (https://openstax.org/r/ethicalshopping)

This hotly debated topic is becoming a larger part of the conversation in marketing with the increase of eco-friendly products on the market. It's important in your marketing work that you're aware of the discussion, as it will help you to become a great marketer.

COMPANIES WITH A CONSCIENCE

Patagonia



Figure 3.14 Patagonia is known for its ethical leadership and environmental mission. (credit: "Trekkin!" by Pierce Martin/Zach Dischner/flickr, CC BY 2.0)

If you're looking for a company that's a leader in environmental and social responsibility on many fronts, look no further than Patagonia, a designer of outdoor clothing gear for the "silent sports"—climbing, surfing, skiing, snowboarding, fly fishing, and trail running (see Figure 3.14). Just start with Patagonia's mission statement: "Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis."

In addition to being fair-trade certified for all of its sewing production, the brand knows and publicly discloses all of its first-tier suppliers and is actively working to map out the rest down to the farm level for the raw materials used in its gear. Many consider Patagonia to be an outdoor brand, but it offers products in many categories, from sundresses to skinny jeans.[27]

A large portion of the company's products are made from recycled materials or raw organic cotton. Plastic soda bottles are made into fleece jackets, guayule plants are made into wetsuits, and they take back worn-

out Patagonia products that consumers return to the store at no charge and then recycle them into their supply chain. Look no further if you want to be an ethical consumer![28]

Read more (https://openstax.org/r/supplychainenvironmental) about Patagonia's environmental responsibility program.

Chapter Summary

This chapter defined consumer markets and consumer buying behavior and discussed the buyer's black box, the concept that attempts to mark the pattern consumers follow when making a purchase decision. It also categorized consumer buying behavior into four types: complex buying behavior, dissonance-reducing buying behavior, habitual buying behavior, and variety-seeking buying behavior.

This chapter also looked at the cultural, social, personal, psychological, and situational factors that influence consumer behavior and scrutinized the stages of the consumer decision process. Finally, it examined the role of ethics in consumer buying behavior and discussed ethical consumerism.

Key Terms

4Ps the "marketing mix"—product, price, promotion, and place
attitudes a learned set of emotions, beliefs, and behaviors developed toward a particular brand, object, person, thing, or event
beliefs ideas that a person holds as being true
buyer's black box a model used in the study of the buying behavior of consumers
cognitive dissonance the mental conflict that occurs when a person's behaviors and beliefs do not align; also referred to as buyer's remorse
complex buying behavior the consumer buying behavior that occurs when the consumer is highly involved with the purchase and perceives significant differences between brands
consumer buying behavior the actions taken by consumers before buying a product or service
consumer decision process the process through which consumers become aware of and identify their needs, collect information on how to best solve those needs, evaluate alternative options, make a purchasing decision, and evaluate their purchase
consumer market a market where consumers purchase products and/or services for consumption
cultural factors a set of values or ideologies of a particular community or group of individuals that include culture, subcultures, social class, and gender
culture the pattern of learned and shared behavior and beliefs of a particular social, ethnic, or age group
dissonance-reducing buying behavior any activity aimed at decreasing the tension or feelings of discomfort and unease that accompany an unfamiliar purchase
economic situation a measure of a consumer's income and financial situation
environmental factors factors such as music, lighting, ambient noise, and smell that can either discourage or encourage a consumer's purchase decision
family a group of persons united by ties of marriage, blood, or adoption, or those who live in the same household
gender the socially constructed roles, behaviors, and norms of individuals, which vary between societies and over time
habitual buying behavior consumer buying decisions made out of "habit" and without much deliberation or product comparison
heuristics mental shortcuts that allow people to solve problems and make judgments quickly and efficiently
learning the acquisition of knowledge or skills through experience, study, or being taught
life cycle stages various stages in a human's life, including fetus, baby, childhood, adolescence, adulthood, and elderly
lifestyle the habits, attitudes, tastes, moral standards, economic level, etc. that together constitute the mode of living for an individual or group
Maslow's hierarchy of needs a theory of motivation by Abraham Maslow which states that five categories of human needs dictate an individual's behavior
motivation the process that initiates, guides, and maintains goal-oriented behaviors
occupation an activity or task with which one occupies oneself, usually the productive activity, service, trade,

or craft for which one is regularly paid

perception the manner in which sensory information is organized, interpreted, and consciously experienced

personality the combination of characteristics or qualities that form an individual's distinctive character

product differentiation a marketing strategy in which a brand identifies the one thing that makes it genuinely different from competitors

reference groups groups that consumers compare themselves to or associate with

roles the set of norms, values, behaviors, and personality characteristics attached to a status

selective attention the process of directing one's awareness to relevant stimuli while ignoring irrelevant stimuli in the environment

selective distortion a tendency of people to interpret information in a manner that supports what they already believe

selective retention the tendency of people to retain only part of the information to which they are exposed

social class a group of people within a society that possesses the same or similar socioeconomic status

social factors factors that are prevalent in the society where a consumer lives

status the relative social, professional, or other standing of an individual

subculture a cultural group within a larger culture, often having beliefs or interests at variance with those in the larger culture

variety-seeking buying behavior the buying tendencies of consumers who do not have a high involvement with a product when there are significant differences between brands

Applied Marketing Knowledge: Discussion Questions

1. What sort of purchasing behavior do you, as a student, exhibit? Do you stop by a convenience store and buy a soda on the way to class? This is convenience shopping behavior, and the business is located, conveniently, in your daily pathway. Do you sometimes buy a different beverage, perhaps an energy drink or a bottled iced tea? You're exhibiting variety-seeking behavior. When the time came for you to choose your college, what sort of shopping behavior did you engage in?
2. You belong to many membership groups. You might be a member of the college soccer team or sing in a choir. Right now, you likely aspire to join the group of college graduates. Why is it so important for marketers to know which groups consumers have joined or refer to when making purchases?
3. Businesses send you thousands of marketing messages each day through the radio, TV, Internet, billboards, and bus benches. You sort through these messages, perhaps unconsciously, and decide which ones to pay attention to. This is called selective attention. Which messages are most influential right now in your life as a student? Messages regarding your social life? Personal life? Psychological factors relating to your motivation to try a new product? Cultural factors such as gender-related products? A situational factor such as a flat tire? Where would you find an example of each message?
4. Provide a recent example of a purchase you made and describe your progress through the stages of the consumer decision process model.
5. You just locked your door and are heading out to get a haircut. How do these two needs—safety through the locked door and esteem through the haircut—fit with Maslow's hierarchy of needs? Why is this hierarchy helpful for marketers in understanding human needs and resulting buying behavior?

Critical Thinking Exercises

1. Research has shown that consumers' buying behavior changes over time, reflecting their age or stage of the family life cycle. Visit Salesfloor.com and read the summaries (https://openstax.org/r/shoppinghabits) this site offers on age-based shopping habits. Do you agree with research findings that despite being bombarded with digital content, Zoomers still prefer to stop in store? Do you research products thoroughly through search engines, reviews, and social media before purchasing? Explain why you agree

or disagree with this study's conclusions about generational buying behavior.

2. One way consumers evaluate alternatives is by identifying the "bundle of attributes" of a product or service. Assume that you're in the market for a new smartphone. What would that bundle of attributes look like? In other words, what attributes do you consider important, and how would you rank the importance of these features on a scale of 1 to 5, with 5 being the attribute of greatest importance and 1 being the attribute of lowest importance? Some attributes are already listed, but you can add your own attributes as well. Complete Table 3.2 with your rankings.

Attributes Considered	Importance of Attribute
Storage	
Battery Life	
Processing	
Price	
Ease of Use	
Durability	
Camera Quality	

Table 3.2 The Bundle of Attributes

3. Delve into McDonald's, a company mentioned at the beginning of this chapter. Does McDonald's have an environmental sustainability statement? If so, list evidence showing how McDonald's carries out this policy.



Building Your Personal Brand

Knowing yourself well is essential to helping you identify your personal brand. How would you characterize your personal brand right now? Is it what you want it to be?

There are numerous free tools to help you gain self-awareness. The Careers in Marketing section earlier in this chapter lists numerous resources that you could try. Or you can try this short personality assessment (https://openstax.org/r/humanmetrics) that is similar to the Myers-Briggs Type Indicator. After you complete the assessment, your personality information will be revealed. You'll learn if you're extroverted or introverted, thinking or feeling, sensing or intuitive, and judging or perceiving. The results are shown as a four-letter acronym (for example, ENFP or ISTJ), and there are 16 possibilities that could arise.

Is the outcome a surprise to you, or is it as expected? Does it help explain some of your friendships, how you approach your studies, or the feelings you have? Keep your personality type in mind as you gain better understanding of yourself and others, and especially as you begin to develop and express your personal brand.



What Do Marketers Do?

Have you ever wondered where analysts gather consumer behavior data and how they make sense of it? One way to find out is to ask someone who currently does this job. Using LinkedIn, conduct a search for data analysts in your geographic area and invite one or more to connect with you through the LinkedIn platform.

Once connected, send a message to each one telling them who you are and that you're a marketing student. Request a 15-minute phone conversation with them to ask them about their job. Come prepared to the phone conversation with a list of questions you want to ask. Be prepared to go off script and ask questions that come to mind on the spot. You can learn a lot about various marketing careers, and you can make great contacts by simply asking the right questions! What questions do you want to ask? You might consider some of the following:

- How did you get started in this area of marketing?
- Where do you collect data from, and how do you complete an analysis?
- What happens after you conduct an analysis?
- Do you help make marketing decisions based on your analysis?
- What areas of the company does your analysis impact?
- What specific courses did you take to prepare you for this job/career?

Closing Company Case

Wired Coffee Bar



Figure 3.15 Recognizing an opportunity to open a coffee shop in a small community where none existed, Wired Coffee Bar was launched. (credit: reproduced with permission of Wired Coffee Bar)

During high school and college, Lisa worked in an upscale retail boutique. On the mornings Lisa opened the store, she grew to love the deep, rich smell of the coffee that would permeate the air from the local gourmet food store across from the boutique. Her love for coffee only deepened as she experienced local cafés throughout her travels while in college. In the back of her mind, she glamorized opening her own café.

Throughout her early thirties, Lisa looked at locations, talked with coffee entrepreneurs, developed business feasibility studies, and dreamed of one day having her own place. One big problem was finding the right geographical area where a small, independent coffee shop would be successful.

After moving for the fifth time, Lisa realized the new, growing community where she now lived with her two small children lacked one important thing—good coffee. The town was rapidly expanding and was the fastest-growing community in the state of Tennessee. This might be the time and place to revisit the idea of a coffee shop.

Every feasibility study Lisa completed pointed to the need for strong community support. This new town had two important ingredients—college students and a burgeoning population. The area was abundant with many different church denominations; a few small, local colleges; and some new international businesses that had

recently relocated to the community.

With no coffee shop in the town, Lisa believed her concept could be successful. Currently, if you wanted a coffee, the nearest place to grab a cup was a Starbucks, which was over 20 minutes away. Starbucks made specialty coffee mainstream, but it seemed that sitting down to enjoy a cup of coffee was becoming a thing of the past. As more and more people began grabbing their coffee from the drive-through, could a community coffee bar with a wide variety of seating options and complimentary Wi-Fi be successful?

Going forward with the idea, Lisa began to develop Wired Coffee Bar. Prior to opening, Lisa went to every local community event and provided free coffee for people to sample. Once the community had a taste of the coffee and an expectation for the opening, there was an eager clientele waiting in line on the first day of business. One customer even hugged Lisa to thank her for bringing coffee to the community.

The concept took off, and soon Lisa was a purveyor of fine coffee. Wired Coffee Bar was widely supported by the community. The local churches loved to meet for a coffee drink and connect with friends and neighbors. Throughout the day, business was conducted at the tables over a coffee, and into the evening hours college students gathered to study and talk with friends.

If you looked at the clientele throughout the day, you could see the "grab and go" customers who came every morning to get their mochas, lattes, and cappuccinos. Into the late-morning hours, the tables filled up with business meetings—builders and their new clients, PTA groups, pharmaceutical sales reps strategizing for the day and grabbing coffee for customers, and moms meeting for coffee before picking up kids at school. As the afternoon wore on, the seats would fill up with high school students meeting with tutors and friends to complete homework. The later evening hours had every seat filled with college students doing class projects or just "hanging out" with friends.

Wired Coffee Bar had a focused niche of coffee and community. The menu wasn't complex. It featured just coffee—hot, iced, and frozen. Wired also offered a variety of teas that could be served hot or iced. Along with the drink options, customers could choose from a selection of sweet or savory locally baked muffins, scones, quiche, cookies, and coffee cakes. But Wired was not a restaurant; they were a true coffee bar.

With a regular and steady customer base, Wired could see the busier times happening when school was in session, and then summers saw a lighter revenue stream as the college students left and the local families took summer vacations out of town. The coffee business definitely needed the local support to offset the vacation schedules of the college students.

Just as Wired Coffee Bar was hitting its stride, new coffee shops started to enter the once-dormant community. Each new coffee location offered a drive-through, something Wired Coffee Bar never wants to be—fast-food coffee. As Lisa looked at ways to create more business, provide good coffee, and differentiate from the masses, she wondered if her concept could survive the hustle and the need for quicker service and a less laid-back atmosphere.

For further resources, visit the company website (https://openstax.org/r/thewiredcoffeebar). They also have a Facebook page (https://openstax.org/r/facebookwiredcoffeebar) and an Instagram account (@getwiredcoffee (https://openstax.org/r/getwiredcoffee)).

Case Questions

1. What type of consumer buying behavior are consumers exhibiting when they are buying coffee?
2. Consumers are faced with many different influences when they are making purchasing decisions. What social influences have the greatest impact on the decision to purchase coffee from Wired Coffee Bar? What personal influences have the greatest impact?
3. What situational factors may influence consumers to purchase from Wired Coffee Bar versus Starbucks?
4. How might Wired Coffee Bar further differentiate itself from other coffee bars as consumers search for

alternatives in their buyer decision-making process?

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4

Business Markets and Purchasing Behavior

Figure 4.1 Business-to-business marketing is when one business sells products or provides services to another business, which involves building strong working relationships. (credit: "CC-BY-Mapbox-Uncharted-ERG_Mapbox-c086" by Mapbox Uncharted ERG/ flickr, CC BY 3.0 US)

Chapter Outline

4.1 The Business-to-Business (B2B) Market
4.2 Buyers and Buying Situations in a B2B Market
4.3 Major Influences on B2B Buyer Behavior
4.4 Stages in the B2B Buying Process
4.5 Ethical Issues in B2B Marketing

In the Spotlight

Say hello to RingCentral, a company that provides businesses with cloud-based business communications solutions that include messaging, video meetings, phone, and an omnichannel cloud contact center. RingCentral, a business-to-business (B2B) company, partnered with Medallia, a customer feedback management software platform. Soon after implementing Medallia, RingCentral was able to obtain important insights about product innovation and was able to turn that feedback into product features and customer retention.

How did it do that? First, with direct access to customer feedback, the product teams at RingCentral can use that feedback to spur product feature innovations that meet customers' needs. Second, the company's sales and support teams were able to use that same customer feedback to tweak their training programs and support processes. The results? After rolling out the dashboards (visual displays of the information captured), the company's support team reached an average customer satisfaction (CSAT) score of 9/10 in two key market segments. "Without real time customer feedback and the opportunity to close the loop with the customer when the feedback is fresh, this score would have been much more difficult," said Chad Freeman, RingCentral's customer support director.[1]

LINK TO LEARNING



RingCentral

To learn more about RingCentral's business model, watch this video of Jim Cramer, from CNBC's show *Mad Money*, interviewing RingCentral's CEO.

RingCentral CEO: Communication in the Cloud? | Mad Money | CNBC (https://openstax.org/r/ringcentral)

4.1 The Business-to-Business (B2B) Market

Learning Outcomes

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

LO 1 Define the business-to-business (B2B) market.

LO 2 Distinguish characteristics of the B2B market versus the business-to-consumer (B2C) market.

Business-to-business (B2B) is a marketing transaction or business conducted between businesses. It refers to businesses that sell products and/or services to other businesses, such as retailers or wholesalers, rather than to consumers. These transactions can include everything from materials used in manufacturing to office supplies or furniture and everything in between. B2B's "counterpart" is what's known as B2C, or business-to-consumer. The focus in B2C transactions is selling products, goods, and services to consumers for personal use.

Many businesses have both B2B and B2C components. For example, consider Office Depot. You may have stopped into an Office Depot store before the semester to stock up on pens, a ream of paper for your printer, or notebooks. That's a B2C transaction. However, a large law firm or an accounting firm might order hundreds of reams of copy paper, folders, and print cartridges from Office Depot. That's a B2B transaction.

Characteristics of the B2B Market

B2B markets differ from B2C markets in several ways (see Table 4.1). Let's take a closer look at each of these differences.

Business-to-Consumer Market (B2C)	Business-to-Business Market (B2B)
Buying decisions for individuals and/or households	Buying decisions for companies that serve consumers or other companies
Smaller purchases/many buyers	Larger purchases/fewer buyers
Direct demand	Derived demand
Shorter buying decision cycles	Longer, more complex buying decision cycles
More reliance on mass marketing	More reliance on personal selling
Many customers located throughout the world	Fewer customers, often geographically concentrated in areas based on cost, access, and availability of resources

Table 4.1 Differences between Consumer Markets/Buyers and Business-to-Business Markets/Buyers

- *Nature of the buying decision*. It may seem a little obvious, but it's important to remember that B2C buyers generally make buying decisions for themselves or their households, whereas B2B buyers make buying decisions for their companies, which serve either consumers or other companies. When you go grocery shopping, you're buying a loaf of bread, a gallon of milk, and a dozen eggs for yourself or your household. However, if you are buying food to be prepared and served at a large hospital or a university, the complexity and volume of that purchase will be far greater.
- *Fewer buyers, higher volume*. Another difference between the two markets is that B2B markets deal with fewer buyers, who purchase a much higher volume than the B2C market. For example, when Barnes & Noble sells textbooks to students, the potential market includes hundreds of thousands of students worldwide. These students purchase one or more textbooks for their semester's classes. However, Barnes & Noble is just one commercial buyer purchasing those hundreds of thousands of textbooks.
- *Direct demand versus derived demand*. Another difference between the two markets lies in the nature of the demand for products. B2C markets are driven by **direct demand**, the demand for goods and services for direct consumption purposes. By contrast, B2B markets are driven by what's known as **derived demand**, in that demand in the B2B market is dictated by the demand for consumer goods on the B2C market. For example, as more workers are working from their homes, the demand for computers has risen. As a result, you'll see derived demand in computer-related products, such as mice, monitors, printers, and so on.
- *Longer buying cycles*. As a general rule, the higher the dollar volume of the sale and the more complex the product, the longer it takes for the sale to be made. As a consumer in the B2C market, you might buy a desktop computer within a relatively short time after deciding that you need a new computer. In the B2B market, a hospital purchasing a magnetic resonance imaging (MRI) machine may well be spending millions of dollars, and the sale can take months or even years to accomplish. Not only will there be more people involved in the decision-making process, but the hospital needs to be concerned with many factors, such as safety, reliability, and post-purchase service. A lot of time and effort is typically required to "close the deal" with a big-ticket item like an MRI machine. We'll be examining the stages in the B2B buying process in depth later in this chapter, but the B2B buying process is typically longer and more complex, not only because of the involvement of different decision makers, but also because these decision makers must consider a wide range of factors when making high-volume or high-dollar purchases.
- *Reliance on personal selling*. Whereas B2C markets tend to rely more heavily on mass marketing, B2B markets typically are characterized by increased reliance on personal selling. Additionally, B2B purchasing is more likely to involve complex negotiations concerning price, delivery schedules, technical specifications, etc., so personal selling plays a vital role. Typically, because B2B buyers and sellers often need to work together to define problems and implement solutions, they focus on building long-term relationships rather than a one-and-done purchase. For example, it took nearly four years to negotiate the contract, but the Indian government and Airbus finally reached agreement on the purchase of 56 Airbus C295MW tactical transport aircraft from Airbus.[2]
- *Geographical concentration*. Finally, the scope of the market is different. In the B2C market, you have millions of potential customers dispersed throughout a region, a country, or perhaps the world. On the other hand, the B2B market is more concentrated. The B2B market has far fewer customers that are often geographically concentrated in areas based on cost, access, and availability of resources. Detroit (the heart of the US automotive industry) and Silicon Valley (home to many technology-based companies) are prime examples.

CAREERS IN MARKETING



B2B Jobs

If you're considering marketing for your job, B2B marketing is a career choice. Why would you want to go this path? Read this article from the author of *B2B Marketing Strategy* (https://openstax.org/r/b2bmarketingcareerchoice). If you're not entirely sure what a B2B marketer would do, read this article on HubSpot (https://openstax.org/r/b2bmarketing) to gain insight into the job role.

If you're still not quite clear on what B2B marketing is and how it differs from B2C, read this article from Business News Daily (https://openstax.org/r/5000whatisb2b) to gain more information. Get a sense for what the work looks like by using LinkedIn for B2B marketing (https://openstax.org/r/linkedinforb2b).

Knowledge Check

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

1. The demand for smartphones and similar devices has created a demand for other needed components, such as touch-sensitive glass screens, microchips, and circuit boards. This is an example of _____ demand.
   a. direct
   b. irregular
   c. derived
   d. negative

2. Jason, a purchasing agent for an electronics firm, places an order with a supplier for diodes to be used in the manufacturing process. This is an example of a transaction in the _____ market.
   a. B2B
   b. B2C
   c. B2G
   d. C2C

3. Alejandro is a salesperson for a company that manufactures electrosurgical units. He calls on hospitals in his sales region to familiarize the buying centers in the hospitals with the benefits of his company's equipment. Which difference between B2B and B2C markets does this scenario illustrate?
   a. Longer, more complex buying decision cycles
   b. More rigid product standards
   c. More reliance on personal selling
   d. More reliance on mass marketing

4. Many of the world's high-tech companies are located in Silicon Valley, California, including the headquarters of more than 30 businesses in the Fortune 1000. Which difference between B2B and B2C markets does this illustrate?
   a. More reliance on personal selling
   b. Derived demand versus direct demand
   c. Fewer customers, often geographically concentrated in areas
   d. Larger purchases/fewer buyers than the B2C market

5. DaVonte has a home repair business. He goes to a home improvement store to purchase a large quantity of lumber for his next repair project. While he is there, he picks up batteries for the smoke detector in his house. In this scenario, the lumber is a _____ purchase, and the batteries are a _____ purchase.

a. B2C; B2B
b. B2B; B2G
c. B2C; B2G
d. B2B; B2C

4.2 Buyers and Buying Situations in a B2B Market

Learning Outcomes

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

LO 1 Identify the types of buyers involved in the B2B market.
LO 2 Describe the types of buying situations that exist in the B2B market.
LO 3 List and describe the parties who participate in the B2B buying process.

Types of Buyers in the B2B Market

The B2B marketplace is populated by many different types of buyers, each with their own requirements, policies, and procedures. Some B2B buyers (known as *producers*) purchase goods in the B2B market so they can produce other goods to be sold to other businesses or consumers. Other B2B buyers (known as resellers) purchase goods in the B2B market so they can resell, rent, or lease those goods or services. Still other B2B customers, such as the government and nonprofit institutions such as the Wounded Warrior Project, the Salvation Army, churches, and charities, purchase goods to serve the public in some way.[3] These types of buyers are shown in Figure 4.2.

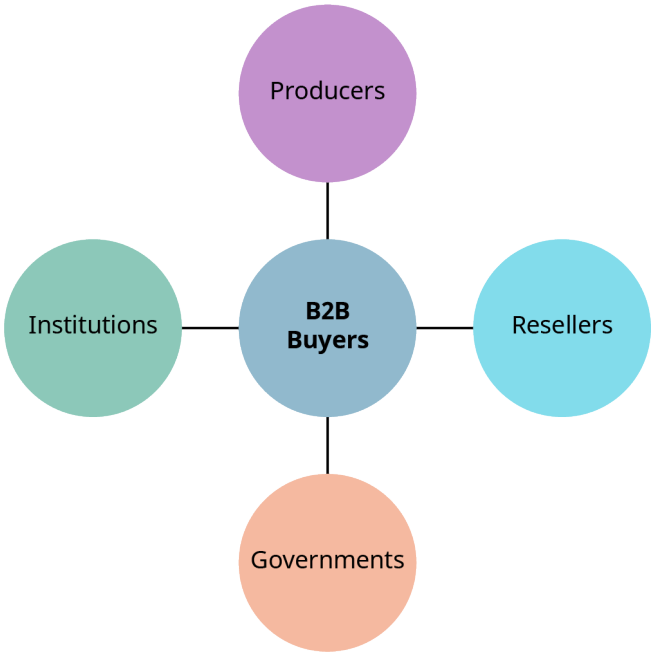


Figure 4.2 Types of Buyers (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Producers are companies that purchase goods and services that are transformed into other products, and they include both manufacturers and service providers. For example, in one of its divisions, Emerson Electric produces electronic controls for the heating, ventilating, and air conditioning (HVAC) industry. Its buyers need to purchase capacitors, printed circuit boards, resistors, diodes, and dozens of other components in order to build those controls. Burger King needs beef patties, buns, lettuce, pickles, and other ingredients to make its sandwiches. Your local tattoo shop needs tattoo ink and needles. You've likely bought a smartphone. Imagine the dozens of components that go into the product's manufacturing—circuit boards, LCDs, speakers, microphones, batteries, etc. The producer needs to purchase these components from various vendors. This is a large market for B2B sellers, because producers don't typically buy in small quantities. For example, OSI

supplies 45 million pounds of steak, salsa, beans, and other food products for Chipotle and has been supplying meat to McDonald's for over 50 years. From a marketing perspective, that's the kind of B2B relationship you want to pursue![4]

Resellers sell goods and services produced by other companies without any material change. These resellers include retailers, wholesalers, and brokers. This is a very important segment in the B2B market because these resellers typically buy in large volumes, so if marketers can convince these resellers to stock their organization's products, it can mean a significant uptick in sales. We'll learn more about retailers, wholesalers, and brokers in Distribution: Delivering Customer Value, when we talk about distribution, but some quick definitions may help here. **Retailers** are businesses that sell goods to consumers in relatively small quantities for personal consumption. Walmart and Target are two big retailers you're likely familiar with, but even the convenience store across from campus buys a variety of products, like candy, snacks, and soft drinks, from wholesalers to make them available for purchase—unaltered—by you. **Wholesalers**, on the other hand, typically purchase larger quantities from producers and then resell them to retailers. **Brokers** bring buyers and sellers together (for a commission, of course), and they may represent many producers of noncompeting products.

MARKETING IN PRACTICE



Alibaba



Figure 4.3 Alibaba.com, a leading platform for global wholesale trade, utilizes shipping containers to extend its reach to its millions of consumers and suppliers around the world. (credit: "Shotley Suffolk" by Martin Pettitt/flickr, CC BY 2.0)

Founded in 1999 by Jack Ma, Alibaba.com is an online B2B marketplace (see Figure 4.3). In this virtual marketplace, buyers and sellers have the ability to connect with one another and carry out purchase/sale transactions. Alibaba is sort of like a giant variety store for B2B buyers. The company has hundreds of millions of products in over 40 different categories, including machinery, consumer electronics, and apparel.[5]

Alibaba's B2B marketplace has millions of sellers, similar to eBay in the B2C market. The sheer number of sellers translates to millions of products to choose from, so B2B buyers can easily select the sellers and products that best suit their needs.

Many of Alibaba's suppliers are businesses that sell raw materials or manufactured goods, and the B2B buyers of these goods are typically retailers, wholesalers, sourcing agents, or manufacturers who source products for reselling for their own businesses (see Figure 4.3). Alibaba.com even has "Pay Later" options

(backed by Kabbage Funding) so that buyers can purchase inventory, even if they don't have immediate funds available. This "Pay Later" option helps B2B buyers avoid more complicated financing options.[6]

For more information about Alibaba.com, watch this CNBC video.

What is Alibaba? | CNBC Explains (https://openstax.org/r/whatisalibaba)

Trivia question for you: Who is the largest purchaser of goods and services in the world? If you answered the US government, you'd be correct.[7] **Government markets** make up the largest single business and organizational market in the United States. The US government buys everything you can imagine, from paper clips and staples to tanks, weapons, and jets. But it's not only products that governments purchase. They also enter into contracts with companies that provide services to citizens—everything from transportation to garbage collection and construction services.

You might be interested to know that there isn't one central department within the government that purchases all these products. Organizations that want to sell to the US government must first register with the System for Award Management and then consult with the General Services Administration (GSA), the agency that is charged with assisting hundreds of federal agencies that procure a vast array of routinely purchased products such as office supplies, vehicles, and information technology services. However, the savvy marketer knows that agencies don't buy products; people do. The agencies the GSA works with still have influence over what is purchased, so the marketer knows to contact each agency the organization wants to do business with and market its products to them.[8]

Institutions is a rather broad term for nonprofit organizations such as the Wounded Warrior Project and Ronald McDonald House Charities, charities, and churches, as well as educational institutions, hospitals, museums, nursing homes, and civic clubs. Like the government, these institutions often purchase large quantities of products and services. For example, a large nursing home buys food, beverages, linens, janitorial supplies, medications, and a host of other products and services to serve its residents. Similarly, a church may purchase candles, vestments, furniture, and much more.

A smart B2B marketer will carefully examine all of the markets mentioned above to determine if they represent significant potential opportunities, as well as looking at pursuing B2B opportunities abroad and online B2B markets.

Major Types of Buying Situations in the B2B Market

As a consumer, you face different types of buying situations every day. Some purchases you make are almost automatic and made with little forethought, such as when you stop for a cup of coffee on your way to work or class. Other buying decisions you make take more time and effort. The same is true in the B2B market. **Buy classes** refer to buying situations that are differentiated in terms of four characteristics: newness (i.e., how familiar or unfamiliar the product is to the B2B buyer), how many alternatives can/should be evaluated, how much uncertainty is involved in the buying situation, and how much information is required to make the buying decision.[9]

In the B2B market, there are four different types of buy classes. You can see the buy classes in Figure 4.4.

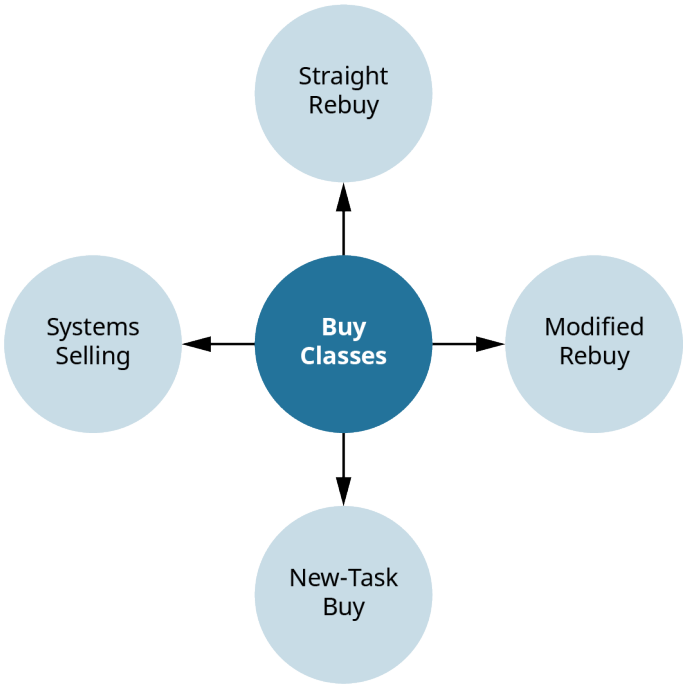


Figure 4.4 Types of Buy Classes in the B2B Market (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Straight rebuys are the simplest buying situation for a B2B buyer. With a straight rebuy, the B2B buyer is making a routine purchase of a standard product or products with no modifications from a familiar supplier. An example of a straight rebuy would be a B2B buyer who orders copier paper, pens, and pencils from Office Depot or another local office supplier. That buyer has likely purchased these (or similar) products before, so the amount of effort involved in a straight rebuy is minimal beyond confirming that the order has been fulfilled.

In a **modified rebuy** situation, the B2B buyer is looking to purchase a similar product, but there are one or more significant differences from the previous purchase, such as new product specifications or a new supplier. Modified rebuy situations typically involve more effort on the part of the B2B buyer than straight rebuys because they have to consider product specifications, evaluate vendors, and negotiate new contracts. For example, let's consider a restaurateur who has changed the logo of the restaurant, necessitating buying new menus, coffee cups, and paper napkins. In essence, the same products are being purchased as before—menus, coffee cups and napkins—but the logo has changed. This might be the time for the restaurateur to look at different suppliers who may offer better pricing or cups in a different size and shape to better display the new logo. A modified rebuy situation involves more effort than a straight rebuy situation because the restaurateur is likely going to need to research product specifications, evaluate vendors, and possibly negotiate new contracts.

The **new-task buy** occurs when a B2B buyer buys a product or service for the first time. These buying situations are among the most difficult and time-consuming ones because typically the B2B buyer has no previous experience with the product, the service, or perhaps the vendors. This means that, instead of relying on past purchase orders or product specifications, the B2B buyer has to start from scratch and do considerable research in terms of product specifications, find out which firms supply the product, and obtain information on the quality, pricing, delivery, and customer service of each of these vendors. For example, if Whirlpool designs a new microwave oven, the B2B buyer will have to source new vendors to design an electronic control panel for this microwave.

Systems selling (sometimes called a solution sale) involves buying a complete solution to a problem or need rather than purchasing separate components from different vendors. For example, a B2B buyer may choose to purchase an entire human resource management system from one supplier rather than purchasing applicant

and/or employee management software from one vendor, payroll software from another vendor, compensation and benefits management software from still another vendor, etc. and putting them together.[10]

Participants in the B2B Purchase Process

Think about how you make buying decisions in your household. You're likely the only decision maker involved in minor purchases, such as groceries or personal clothing. If you're buying a bigger-ticket item such as a new car or a flatscreen TV, you may involve other members of your household in the decision. That's typically not the case in B2B buying. The decision-making unit of a buying organization is referred to as the **buying center**, sometimes called a decision-making unit. Buying centers are comprised of all of the different people in the organization who have a stake in the B2B buying decision and have some degree of influence in the purchasing decision. The buying center can have one or more of the following roles, as shown in Figure 4.5.

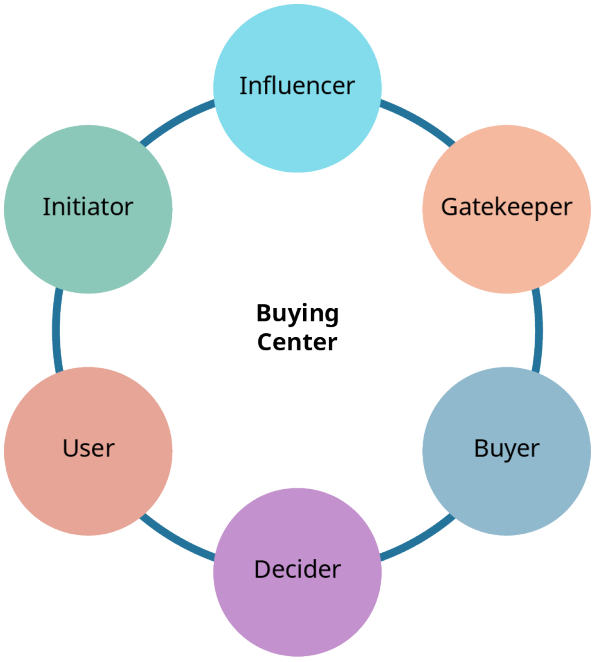


Figure 4.5 Individuals in the Buying Center (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

The **initiator** is typically the individual who first identifies a purchasing need within the organization. Initiators are the people within the buying center who start (or initiate) the buying process. For example, a machine operator might initiate a request for a particular tool or piece of equipment, or the payroll department may initiate a request for new payroll software. At other times, the need may be identified by senior management or the engineering department.

Influencers are those within the organization who help define specifications and/or provide information to be used in the evaluation process. Simply put, these are the people in the organization who **influence** the buying situation and provide information for strategically evaluating alternatives.[11] Influencers may not have a direct role in the purchasing decision, but they wield influence over the purchase. There are two categories of influencers. Business influencers typically focus on how the purchase impacts revenue, whereas technical influencers will generally focus on how the purchase will impact business processes and operations.

Gatekeepers filter information. The gatekeeper is the person the marketer has to negotiate their way through in order to reach the decision makers. Gatekeepers play a strategic role in the buying process, because they have the ability to allow only that information favorable to their opinion to flow to the decision makers. For example, an executive assistant might have control of the decision maker's appointment calendar and might tell the marketer, "There are no openings on the calendar at this time."

Buyers are those who have **authority** within the organization to select suppliers and negotiate and arrange

the purchase terms. Buyers may also assist others within the organization to help shape product specifications, but their primary role is selecting vendors and negotiating the terms of the contract. They are also responsible for issuing purchase orders, following up, and keeping track of deliveries.

CAREERS IN MARKETING



Being a Buyer

Interested in learning more about what a buyer does on the job? Read this Indeed.com article (https://openstax.org/r/whatdoesabuyer) about the roles, responsibilities, salary, and education of a buyer. The article also includes steps to become a buyer. Also read this article from *The Princeton Review* on the life of a buyer (https://openstax.org/r/careers26buyer).

Deciders are the critical link for a marketer in getting the order, particularly in major purchases. These are the people within the organization who have the authority to select or approve the final suppliers. B2B buyers may be the deciders for routine purchases (i.e., straight rebuys), but in more complex purchases, decisions are often made higher up in the organization.

Users are those people within the organization who will actually use the product or service. These users may or may not be the initiators of the purchase proposal. However, depending on how complex the purchase is, they may help define product specifications.

It's important to note that not all of these parties may be involved in every buying decision, depending on the nature of the purchase, and sometimes people in the buying center play more than one role. For example, consider a medium-sized law firm that needs a new copier. The initiator may be an administrative assistant (who is also a user) who complains to their boss, the managing partner, that the copier is too slow and lacks features like auto-duplexing and the capacity to enlarge and reduce the size of documents. As such, the administrative assistant is also acting as a technical influencer, since they have firsthand knowledge of how a new copier with improved features would impact business processes. Since the managing partner in a law firm oversees the day-to-day operations, that person has the authority to direct the buyer to evaluate new copiers that would meet the specifications described by the administrative assistant and present an analysis of copiers. After evaluating the list provided by the buyer, the managing partner can make the final selection and thus act as the decider.

According to Tony Rutigliano and Brian Brim in their book *Strengths Based Selling*, "The days of a single economic decision maker are over in most companies and industries. Even some small businesses make decisions in groups."[12]

For example, a study in Germany found that 86% of procurement decisions at large- and medium-sized companies are made by groups of 2 to 20 people. In companies of less than 100 employees, there were typically 3 people involved, whereas in companies of 1,000 or more, there were as many as 34 people involved.[13] This illustrates the importance of the marketer (or salesperson) understanding the set of roles in the buying center, identifying the role(s) each individual plays, and developing an execution strategy to make the sale.

MARKETING IN PRACTICE



The Buyer Center

Watch this quick video of the buying center applied to a real-world example. It's a great way to gain insight into this process.

09. Buying Center Analysis (https://openstax.org/r/buyingcenter)

Knowledge Check

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

1. The largest business and organizational market in the United States is _____.
   a. producers
   b. institutions
   c. governments
   d. resellers

2. Jenae, a purchasing agent for an electronics firm, places an order with a local office supply company for several dozen reams of copy paper. He has ordered the same brand of paper from the company several times before. This is an example of _____.
   a. a straight rebuy
   b. a modified rebuy
   c. a new-task buy
   d. systems selling

3. Alejandro, the owner of a Mexican restaurant, decides to revise the restaurant's menu. He intends to use the same printing company but has to make several changes in the menu. What type of buying situation does this best illustrate?
   a. Systems selling
   b. Straight rebuy
   c. Modified rebuy
   d. New-task buy

4. The human resources manager submits a request to upper management for a new software package that will manage payroll, benefits, compliance, and information technology. Within the buying center, what role is illustrated by this scenario?
   a. Influencer
   b. Buyer
   c. Initiator
   d. Decider

5. Metro Corp. wants to acquire a new IT system, and Aliyah has been charged with selecting potential new vendors. Within the buying center, what is Aliyah's role?
   a. Gatekeeper
   b. Influencer
   c. Initiator
   d. Buyer

4.3 Major Influences on B2B Buyer Behavior

Learning Outcomes

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

- LO 1 List and describe the external influences on B2B buyer behavior.
- LO 2 Explain the internal factors that influence B2B buyer behavior.
- LO 3 Examine the individual factors that impact B2B buyer behavior.
- LO 4 List and describe the interpersonal factors that influence B2B buyer behavior.
- LO 5 Explain the conditional factors that impact B2B buyer behavior.

Think about it: B2B buyers are people just like you. They don't make buying decisions in a vacuum; rather, they are influenced by a number of different factors throughout the B2B buying process, just as consumers are influenced in making purchases for their own consumption. These factors can be grouped into five major categories: external factors, internal factors, individual factors, interpersonal factors, and conditional factors (as shown in Figure 4.6). Let's take a closer look.

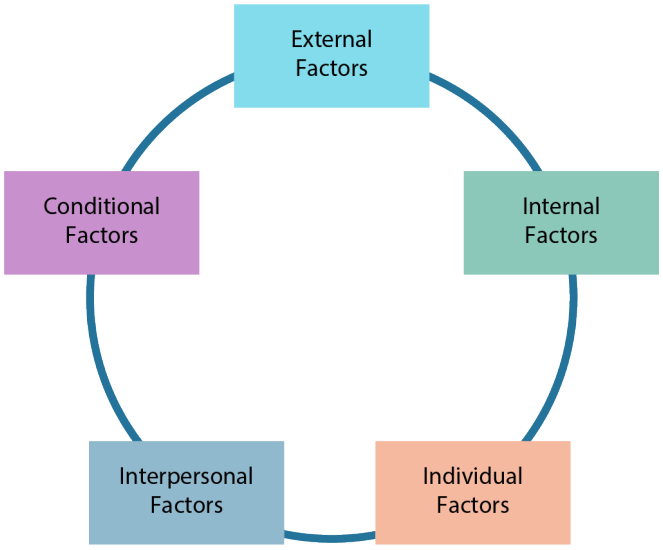


Figure 4.6 Influences on B2B Behavior (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

External Factors

External factors at work in the B2B buying decision can be economic conditions, the political/legal environment, competition, and the social environment.

First consider **economic factors**, such as the level of primary demand, the economic outlook, and the cost of money (i.e., interest rates). When the economy is strong, when unemployment is low, and when personal income is up, B2C demand increases, driving upward demand in the B2B market. Conversely, during economic recession, B2B buyers look for ways to cut costs, and buying is significantly reduced.

Political and legal factors also influence B2B buying decisions. These factors include the political system, the political situation, and government policies. Legal factors include laws, rules, and regulations, including tariffs (which are taxes on imported goods) and exchange rates (the value of one country's currency versus another.) To give you an idea of how such legal factors can negatively impact a firm, consider that, in 2018, after an expert panel found possibilities of health risks, the Indian government banned approximately 6,000 brands of medicine, dealing a blow to both domestic and foreign pharmaceutical firms.[14] It doesn't take much imagination to recognize the impact this policy had on these pharmaceutical firms.

Competition also affects B2B buying behavior. It stands to reason that, when a competitor changes its product offering and garners more market share, a business will want to respond by going on the defensive and

changing its product offering as well, triggering one or more B2B buying situations. The fast-food industry is just one example of this. Wendy's was the first national fast-food chain to introduce salads in response to consumers' desires for healthier food options.[15] Shortly thereafter, many other competitors, including Arby's, McDonald's, Chick-fil-A, and Burger King, followed suit.

Finally, the **social environment** influences B2B buying behavior because each member of the class will likely approach the situation armed with different information, different perspectives, and perhaps different personal agendas. For example, the vice president of the marketing department may want to spend money on a new customer relationship management software package, whereas the vice president of the finance department may be more inclined to reserve capital and forego the purchase.

Internal Factors

Organizational factors are those factors internal to the organization that affect buying decisions. Every organization has certain **business objectives and goals**, and goods and services should be purchased according to these objectives. For example, if a company experiences a period of poor sales performance, management might slow down or halt major purchasing decisions until the financial performance of the company improves. Conversely, a company with a strong track record of sales may push for more strategic purchases to gain or maintain a competitive edge.

Consider how an organization's **technology** influences B2B buying behavior, particularly if the purchases must be compatible with the technology that is already in place in the organization. When purchasing a new product or service, decision makers are often reluctant to change the existing technology and go with something new.

Finally, **workforce skills** are as important as the decision makers and the products or services themselves since the workers are the ones who are going to use the new equipment or service and (hopefully) will make the most of it. Thus, new purchases must be compatible with the existing workforce skills, or employees must be offered training on the new technology.

Individual Factors

Just as with consumers, B2B buying decisions are influenced by the characteristics of the individuals in the buying center. Consider just one factor: age. FINN Partners compiled its B2B Buyer's Influence Report and discovered several interesting statistics. Millennials (i.e., those born between 1981 and 1995) are generally the most optimistic about purchase decisions. A whopping 83% are confident that they are paying a reasonable price, and 97% believed that the vendor would deliver as promised. This compares to only single digits for baby boomers (those born between 1946 and 1964).[16]

The B2B buyer's education also plays a role. A more educated buyer is assumed to select goods and services carefully and approach the buying decision rationally, whereas a buyer with less education may make the buying decision based on a hunch.

Job position typically conveys an individual's status within the organization. Those individuals involved in the buying decision who are higher up in the organization's hierarchy may have more influence than those with less formal authority within the organization.

Those involved in B2B buying decisions are, after all, human beings, so it stands to reason that personality will play a role. **Personality** refers to an individual's distinctive patterns of thinking, feeling, and behavior, and these factors will play a role in making buying decisions. Examples of the many personality traits that B2B buyers and consumers have include things like self-confidence, aggression, and competitiveness. For example, some risk-averse individuals may prefer to do business with a known supplier rather than a vendor they are not familiar with. Likewise, personal preferences play a role in the B2B buying situation. Some individuals in the buying center may favor products of a certain quality, brand, price point, and so on.

Interpersonal Factors

Business buying decisions are typically collective and follow procedures established by the organization. The buying center usually consists of several individuals with different formal or informal authority, status within the organization, and technical **expertise**.

If the buying situation involves a highly complex product or service, an individual with significant expertise will have and exert more influence in the buying decision. It's also important to note that some individuals in the buying center may have more influence than others, whether due to their position within the organization or their personal persuasiveness.

Finally, organizational politics and culture may also impact who the decision makers are and the degree of power or influence they exert on the decision process. Companies with a strong hierarchical structure may foster a tendency for decisions to be made at a higher level within the organization. This may be particularly true in international B2B transactions, which will be covered in more depth in Marketing in a Global Environment.

Conditional Factors

It stands to reason that the present financial condition of the organization will play a large role in the buying decision. If the organization is financially struggling and cash is in short supply, it may decide to make a purchase from suppliers who offer credit or may choose to purchase a less expensive product that is within its budget.

Likewise, availability of the product or service will play a significant role in the buying decision. An organization may choose to go with a supplier who can readily deliver the product or service within the time constraints of the project, even if the price is higher.

Knowledge Check

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

1. Garrett's company is considering whether or not to purchase new manufacturing equipment that will lower its manufacturing cost significantly and improve its profit margins. Which factor appears to be influencing the B2B purchase?
   a. Workforce skills
   b. Personality
   c. Business objectives and goals
   d. Social environment

2. The local government has just passed an ordinance requiring manufacturing firms to reduce pollutants from their manufacturing processes. As a result, Shereace Manufacturing Company is investigating the purchase of pollution control equipment. What factor appears to be influencing the B2B purchase?
   a. Political and legal factors
   b. Economic factors
   c. Competition
   d. Workforce skills

3. Shane's company has been experiencing a downturn in sales, and cash is tight right now. This has caused Shane to look only at suppliers who offer credit to the company. Which factor appears to be influencing the B2B purchase?
   a. External factors
   b. Internal factors
   c. Interpersonal factors
   d. Conditional factors

4. Interest rates have gone up significantly in the past few months, prompting Johnson Manufacturing to reconsider purchasing a new building. Which factor appears to be at play in this B2B transaction?
   a. Political and legal factors
   b. Economic factors
   c. Workforce skills
   d. Competition

5. A worldwide shortage of microchips has prompted Vorderman Enterprises to use a new vendor who has higher prices but can deliver the product on time. Which factor appears to be at play in this B2B transaction?
   a. External factors
   b. Political and legal factors
   c. Economic factors
   d. Conditional factors

4.4 Stages in the B2B Buying Process

Learning Outcomes

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

LO 1 Explain and describe the stages in the B2B buying process.

The B2B Buying Process

The **B2B buying process**—the journey B2B buyers and the buying center take to complete a purchase—is significantly different and more complex than the consumer purchasing decision process. You'll recall from Consumer Markets and Purchasing Behavior. That the consumer buying decision encompasses five stages—need recognition or problem awareness, information search, evaluation of alternatives, purchase decision, and post-purchase evaluation. By contrast, the B2B process involves eight stages (shown in Figure 4.7). Let's take a closer look at each of these stages.

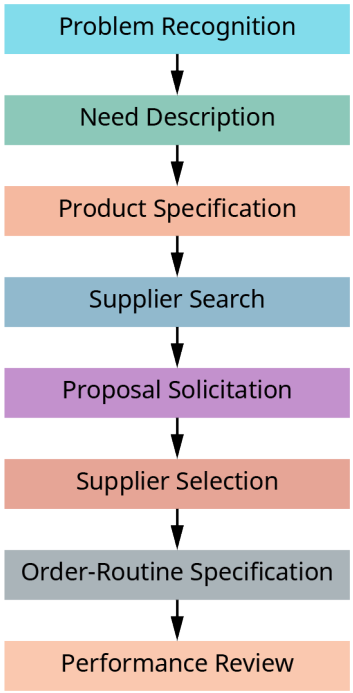


Figure 4.7 The Stages of the B2B Buying Process (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Stage 1: Problem Recognition

Similar to the consumer purchasing decision process, the first stage in the B2B buying decision process begins when someone within the organization identifies a problem or a need that can be resolved through a purchase. For straight rebuy purchases, this stage may be as simple as the fact that the organization is running low on copier paper or toner. In a case like this, the B2B buyer simply places the order, and the process ends.

Modified rebuy purchases make the process more complex, as these may involve replacing outdated equipment, technological changes, or revising marketing brochures or advertisements. Now, instead of placing an order from an existing supplier for an already-purchased product, the B2B buyer has to follow through on more of the stages in the process.

New-task buying is the most complex. For example, your organization may decide that, due to the growth of the organization, it needs to purchase an accounting software system or a new piece of manufacturing equipment. In these cases, the B2B buying process will likely incorporate all of the steps listed in Figure 4.7.

Stage 2: Need Description

Next, the buying center will need to further define what needs to be purchased. This often involves collaboration among members of the buying center in terms of describing what is needed from a technical perspective, desired features, quantity, etc.

Consider a firm that is developing a new electronic control for an appliance. The components are many—a printed circuit board, capacitors, resistors, microprocessors, etc. Members of the buying center will be called upon to develop a **bill of materials**—a list of parts, items, assemblies, subassemblies, documents, drawings, and other materials required to create the control. Think of the bill of materials as the "recipe" used to create the finished product.

Stage 3: Product Specification

B2B buyers often develop **product specifications**, a blueprint that outlines the product to be built, how it will look, what features it will have, and how it will function. The product specification needs to be concise and readable for everyone in the buying center and yet contain sufficient technical data to provide the product team with the information it needs to develop the new product or feature.

Stage 4: Supplier Search

Now that you've established the technical specifications for the product, it's time to identify potential suppliers. This is where the experience of those in the buying center comes into play, as they attempt to determine which suppliers have the best quality, delivery, and price. Just like consumers in the "information search" stage of the consumer buying process, those in the buying center may look online to find suppliers, but there are many other resources available to B2B buyers, such as trade magazines, industry expert blogs, and webinars conducted by suppliers.

Stage 5: Proposal Solicitation

Once the list of potential vendors has been developed and whittled down, qualified vendors will be asked to submit proposals. If it's a relatively straightforward purchase, this proposal may be as easy as a vendor sending the buyer a catalog or providing the buyer with a link to the company's website. However, more complex purchases typically require the vendor to submit a detailed proposal outlining what the vendor can do to address the company's needs. This proposal will likely contain product specifications, timing, and—of course—pricing.

Stage 6: Supplier Selection

After reviewing the proposals from the various vendors, the buying center makes a choice. This stage in the

B2B buying process involves a thorough review of the proposals submitted, with a critical eye tuned to factors such as supplier capabilities, reputation, warranties, price, etc. If the purchase requires a substantial financial outlay and/or is extremely complex, or if many proposals were solicited, the buying center may narrow down the list of vendors to just a few and invite them to meet (either in person or virtually) to further discuss the proposal and address any questions or concerns.

Stage 7: Order-Routine Specification

After selecting suppliers, the B2B buyer negotiates the details of the order. The critical items here are what is needed (i.e., the technical specifications), how much is needed (i.e., the quantity required), and when it is needed (i.e., the expected time of delivery). This stage will likely also include negotiation of things such as return policies, warranties, and other critical items involved with the purchase.

Stage 8: Performance Review

Just as consumers evaluate purchases after they have made them, and similar to the way that your employer may conduct a performance review to assess your job performance, the B2B buyer periodically reviews the performance of the selected supplier to assess if the product and the supplier meet expectations. For example, the B2B buyer may solicit product feedback from users and/or rate the supplier on different criteria such as quality, promptness of delivery, etc. As a result of the performance review, the B2B buyer may decide to continue, modify, or even end a supplier relationship.

Knowledge Check

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

1. A blueprint that outlines the product the company will be building, what it is going to look like, and its specific requirements and functions is known as a _____.
   a. project scope
   b. bill of materials
   c. product specification
   d. participant matrix

2. Jackson has asked several qualified vendors to submit proposals. Which stage of the B2B buying process does this illustrate?
   a. Stage 2: Need description
   b. Stage 3: Product specification
   c. Stage 4: Supplier search
   d. Stage 5: Proposal solicitation

3. During which stage of the B2B buying process will members of the buying center be called upon to develop a bill of materials?
   a. Stage 1: Problem recognition
   b. Stage 2: Need description
   c. Stage 3: Product specification
   d. Stage 4: Supplier search

4. During which stage of the B2B buying process will the B2B buyer negotiate the order?
   a. Stage 4: Supplier search
   b. Stage 5: Proposal solicitation
   c. Stage 6: Supplier selection
   d. Stage 7: Order-routine specification

5. Donita has determined that the current payroll software system is no longer adequate to handle the growing number of employees in the company. Which stage of the B2B buying process does this illustrate?

a. Stage 1: Problem recognition
b. Stage 2: Need description
c. Stage 5: Proposal solicitation
d. Stage 8: Performance review

4.5 Ethical Issues in B2B Marketing

Learning Outcomes

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

LO 1 Discuss ethical issues pertaining to B2B marketing.
LO 2 Explain the Foreign Corrupt Practices Act.
LO 3 Provide an example of a company that displays ethics in B2B marketing.

Business Culture and Industry Practices

As we've seen above, there are several differences between B2C and B2B marketing. Consider purchasing, for example. Unlike B2C transactions, it is far more common in B2B transactions for vendors to offer "perks" such as free dinners, golf outings, and trips. In some foreign countries, B2B and government buyers not only expect these types of "perks" but also may demand bribes if you want to do business with them on their turf. This presents unique ethical challenges for B2B sellers and buyers. As a B2B seller, of course you want to make the sale, particularly if it's a large sale. On the other hand, you know that a reputation for ethical behavior, including honesty, transparency, and open communication, is critical to the success of your business and may even be the decisive factor in a B2B buyer's decision to buy from you instead of a competitor.

Bribes and "Grease Payments"

Transparency International, a watchdog group, annually ranks the likelihood of companies from the world's industrialized countries to bribe abroad. The index ranks 180 countries and territories by their perceived levels of public sector corruption on a sale of 1 to 100, in which 100 is perceived to be very clean and 0 is perceived to be highly corrupt.[17]

Which countries ranked in the bottom five for 2021? Let's take a look:

- South Sudan
- Syria
- Somalia
- Venezuela
- Yemen[18]

If you're curious, the United States ranked 25th in the world. And the least corrupt countries in 2021? That would be Denmark, Finland, and New Zealand, which tied for first place.[19]

LINK TO LEARNING



Fighting Corruption

For more information about Transparency International, including corruption wins, scandals, and predictions, check out this corruption perceptions index (https://openstax.org/r/encpi2021). You may also enjoy this TEDx Talks video about the power of corruption.

Power of corruption | Lucy Koechlin | TEDxHSG (https://openstax.org/r/powerofcorruption)

Let's consider how you would handle a scenario involving bribes. You're the plant manager in Taiwan for a US-

based electronics company. You are expecting a critical shipment of diodes that are being imported into Taiwan from South Vietnam. Without the diodes, you will miss an important production deadline for a new—and potentially lucrative—customer. The shipment arrives in the Port of Taipei on a timely basis, but customs refuse to release the shipment, claiming that it needs to do further inspection, and it may be several days or even a couple of weeks before the shipment is released. However, an agent of customs advises you that in exchange for a "facilitation fee" of several hundred dollars, the process can be expedited. How do you handle this? Do you pay the "facilitation fee" (essentially a bribe, which is illegal according to the Foreign Corrupt Practices Act, covered below) and meet your customer's deadline, or do you refuse to pay the fee and miss your customer's deadline? How will missing that deadline impact your firm's relationship with the new customer?

Let's consider how you would handle still another similar scenario. You're the regional distribution manager for a US company, and you've been assigned to head up a new distribution facility in a South American country. At least two other competitors (both foreign corporations) are also trying to enter the same market, so you've been instructed to establish this facility as quickly as possible in order to beat the competition. However, government officials have advised you that it may take up to 10 months to obtain a building permit but that the time frame could be considerably shortened in exchange for the payment of an "expediting fee." These fees (essentially a bribe) are both illegal according to US law. However, your competitors are foreign firms not subject to US law, and paying such fees is neither illegal nor considered unethical. How will you handle this situation? Will you pay the fees in order to be first in the market, or will you let your competitors beat you to the market?

These are a couple of dilemmas faced by marketers in B2B situations.

LINK TO LEARNING



Corruption Scandals

Check out Transparency International's list of top corruption scandals (https://openstax.org/r/25corruptionscandals). Interesting read!

Price Fixing

Price fixing—an agreement among competitors (either written, verbal, or inferred from the parties' conduct) that affects prices or competitive terms—is prohibited by the Federal Trade Commission (FTC).[20] Keep in mind that, despite the term, price fixing isn't confined to an agreement to set the same price. Companies can also be involved in price fixing if they offer or withhold the same discounts or shipping terms or set a production amount or quota.

Price fixing is illegal because it's considered anticompetitive and hurts both consumers and businesses. Let's illustrate with a real-life example with a company you're likely familiar with—StarKist. In 2019, a San Francisco federal judge ordered the company to pay a fine in the amount of $100 million in connection with a canned tuna price-fixing conspiracy that involved StarKist, Bumble Bee Foods, and Chicken of the Sea, who regularly exchanged information about their sales and plans for pricing. The lawsuit alleged that, under the scheme, consumers were forced to pay more for canned tuna than they would have otherwise.[21]

LINK TO LEARNING

Tuna Price-Fixing Lawsuit

Learn more about the details of the price-fixing lawsuit from this short video on the Ring of Fire channel.

Starkist, Bumble Bee And Others In Trouble As Canned Tuna Price Fixing Lawsuit Moves Forward (https://openstax.org/r/bumblebee)

The Foreign Corrupt Practices Act

The **Foreign Corrupt Practices Act (FCPA)** was enacted in 1977. Its purpose is to prohibit the payment of bribes (sometimes called "facilitation fees") to foreign officials in order to obtain or retain business. The FCPA applies to prohibited conduct anywhere in the world and extends to publicly traded companies and their officers, directors, employees, stockholders, and agents.[22]

The Securities and Exchange Commission (SEC) and the Department of Justice work cooperatively to enforce the FCPA. Sanctions for violations can be significant, including both civil and criminal penalties. The SEC can bring civil enforcement actions against companies (along with their officers, directors, employees, stockholders, and agents) for violations or for bribery, and if found guilty under the act, the company may have to pay back its "ill-gotten gains" as well as paying prejudgment interest and civil penalties. For example, one of its most recent cases involved KT Corporation, a South Korean telecommunications company, in which the SEC alleged that the company had violated the books and records and internal accounting controls provisions of the FCPA by making improper payments to government officials in Korea and Vietnam.[23]

COMPANIES WITH A CONSCIENCE

Kforce



Figure 4.8 Giving to the community is continuing to grow as a priority for many companies, so they continually collaborate to develop ideas and initiatives within their mission statements or business plans. (credit: "Design a Better Business Masterclass @ Zoku Amsterdam, October 2017" by Sebastiaan ter Burg/flickr, CC BY 2.0)

Kforce is a B2B professional staffing and solutions firm that specializes in technology, finance, and accounting. Headquartered in Tampa, Florida, the company has over 50 offices nationwide and two national

recruiting centers.[24]

The location of its corporate headquarters played a big role when Hurricane Irma struck South Florida and the Bahamas in 2017, because the hurricane's impact was felt on a personal level by the company. The hurricane, which struck Florida as a Category 4 storm, ripped off roofs, flooded coastal cities, and knocked out power for more than 6.8 million people.[25]

Instead of idly standing by or focusing solely on getting its business back up and running, Kforce decided to "make lemonade out of lemons" and have a positive impact on the community (see Figure 4.8). The company raised $1 million for the American Red Cross and sponsored private jet missions that flew essential supplies to the Bahamas. It also encouraged users to make donations for hurricane relief, generating several thousand additional dollars for the cause.[26]

But Kforce's philanthropy after Hurricane Irma wasn't a one-time deal. In 2021, the company expanded its "Day of Giving" campaign to a "Season of Impact" and encouraged employees to give their time and talents to nonprofit organizations of their choice. It also held a number of events such as a food drive and the Tampa Bay Heart Walk to benefit the American Heart Association.[27]

KForce does a lot for the community. Check out its website (https://openstax.org/r/kforcecorporate) to learn more about its corporate social responsibility programs.

Chapter Summary

In this chapter, we defined business-to-business (B2B) markets and buying behavior and explored the differences between business-to-consumer (B2C) and B2B markets. We discussed the types of buyers in B2B transactions—producers, resellers, governments, and institutions—and identified the different types of buy classes in the B2B market, as well as the roles of those in the buying center—the people within the organization who have varying influence on the purchase decision.

We examined the five major categories of influencing factors on B2B decisions: external factors, internal factors, organizational factors, interpersonal factors, and conditional factors. We also reviewed the eight stages of the B2B buying process: problem recognition, need description, product specification, supplier search, proposal solicitation, supplier selection, order-routine specification, and performance review. Finally, we explored some ethical issues with respect to the B2B buying process, including Transparency International's Corruption Perceptions Index and the Foreign Corrupt Practices Act (FCPA).

Key Terms

authority the right to give orders, supervise the work of others, and make certain decisions
B2B buying process encompasses 8 stages: problem recognition, need description, product specification, supplier search, proposal selection, supplier selection, order-routine specification, performance review
bill of materials a comprehensive inventory of the raw materials, assemblies, subassemblies, parts, and components
brokers individuals or businesses that bring buyers and sellers together, usually for a commission
business objectives and goals achievable outcomes that provide a framework for achieving success
business-to-business (B2B) a transaction or business conducted between one business and another
buy classes buying situations that are distinguished on four characteristics: newness to decision makers, number of alternatives to be considered, uncertainty inherent in the buying situation, and the amount of information needed for making a buying decision
buyers the people in the buying center who handle the paperwork of the actual purchase
buying center groups of people within organizations who make purchasing decisions
competition the rivalry between companies selling similar products and services with the goal of achieving revenue, profit and market share growth
deciders the people in the buying center who ultimately determine any part of the entire buying decision
derived demand market demand for a good or service that results from a demand for a related good or service
direct demand the demand for a commodity for direct consumption purposes
economic factors factors that affect the economy, such as interest rates, tax rates, laws, policies, wages, and government actions
expertise expert skill or knowledge in a particular field
Foreign Corrupt Practices Act (FCPA) a US statute that prohibits firms and individuals from paying bribes to foreign officials
gatekeepers individuals in the buying center who control information and/or access to decision makers and influencers
government markets purchases made by the governing bodies of nations, states, or communities
influence the capacity to have an effect on the character, development, or behavior of someone or something
influencers individuals whose views influence other members of the buying center in making the final decision
initiator the person in the buying center who first suggests or thinks of the idea of buying the product or service
institutions organizations, establishments, foundations, societies, or the like devoted to the promotion of a

particular cause or program, especially one of a public, educational, or charitable character

modified rebuy a buying situation in which an individual or organization buys goods that have been purchased previously but changes either the supplier or some element of the previous order

new-task buy a complex B2B buying situation in which the organization buys a product or service for the first time

personality the combination of characteristics or qualities that form an individual's distinctive character

political and legal factors factors such as the political system, the political situation, and government policies that influence B2B buying decisions

producers those individuals or businesses who buy raw goods to use in the creation of goods or services

product specifications a document carrying essential information to keep teams on track when designing and developing a product

resellers companies or individuals (merchants) that purchase goods or services with the intention of selling, leasing, or renting rather than consuming or using them

retailers businesses that sell goods to consumers in relatively small quantities for personal consumption

social environment the values, attitudes, beliefs, wants, and desires of the consuming public

straight rebuys purchases in which the business customer buys the same goods from the same supplier in the same quantity at the same terms and requires minimal decision making

systems selling selling a complete solution to a problem or need rather than one or more of the component parts

technology applications of science, data, engineering, and information for business purposes

users the people who consume or use the product or service

wholesalers businesses that typically purchase larger quantities from producers and then resell them to retailers

workforce skills also called employability skills, the basic skills a person must have to succeed in any workplace

Applied Marketing Knowledge: Discussion Questions

1. Go to the Tesla corporate website (https://openstax.org/r/tesla). Which market(s)—consumer, business, institutional, resellers, producers/suppliers—does Tesla serve? Why did Tesla decide to serve these markets? When reading Tesla's 2021 Impact Report (https://openstax.org/r/2021teslaimpactreport), what main goal does the company say it is "driven" by?
2. Manufacturers work with resellers primarily to move large amounts of inventory quickly, thus limiting stagnant inventory that can limit cash flow. Which two types of businesses historically have contributed to moving manufacturers' products to end consumers?
3. Visit your college's website, and look through academics, sports, organizations, and campus life. When looking at the photos, which items do you see depicted that are likely straight rebuys? Do you see sports uniforms, test tubes, musical instruments, computers, desks, library books? Which items are likely modified rebuys, new task situations, and systems selling?
4. What segmentation tools do you have at your disposal when marketing in a B2B setting? Are there challenges associated with using social media platforms in marketing to other businesses rather than individual consumers? If so, one of these challenges might be that members of the buying center are more experienced and less emotional purchasers. Can you identify additional challenges?
5. City, county, state, and federal governments are heavily engaged in the B2B market. List one product each governmental entity might purchase directly from a producer/supplier.

Critical Thinking Exercises

1. Compose a paragraph of 250–500 words using all of the following terms as they relate to B2B. The goal is

to prove you understand the meaning of each term.

Terms:

business markets

institutions

business culture

competitors

internal factors

gatekeeper

deciders

problem recognition

buying center

economic factors

personal selling

derived demand

product specifications

reseller

performance review

2. Explain the Foreign Corrupt Practices Act and why it is important as US businesses compete in the international marketplace.
3. Tesla is building a 10 million square-foot "Gigafactory" (https://openstax.org/r/teslagigafactory) in Nevada. While Tesla didn't rely on systems selling in building the manufacturing facility, the company did contract with many suppliers, such as Anning-Johnson (https://openstax.org/r/projecttesla), to provide vital elements such as decking. For Tesla, this was a new task situation. List the various phases Tesla went through to arrive at the construction and operation of this lithium-ion battery Gigafactory.

Building Your Personal Brand

Your personal brand is the skills and talents you bring to future employers or to your own business. Think about how businesses market to other businesses. How can you adopt some of those same marketing techniques and develop a plan to market yourself for an internship or employment?

Visit LinkedIn, and look at the profiles of a handful of marketing managers. Examine how each marketing manager depicts their brand within their profile. What do they say about themselves that's unique?

Now write a one-page summary of your brand.

What Do Marketers Do?

Utilize LinkedIn to find brand managers in your geographic area, and invite one or more to connect with you. It's best to go beyond the suggested LinkedIn request message and be more inviting and clearer on why you are reaching out to them. Once linked, "interview" the professional by asking questions. A few questions to begin with might be: Was there a particular class in college that resonated with you and your career goals?

How did you find your first internship? Do you have suggestions that can help me improve my LinkedIn profile? Additional questions may explore their education, their experience, their career goals, and how they spend their days and weeks.

Closing Company Case

Corporate Medical Services

Corporate Medical Services (CMS) was established in Tennessee on October 1, 1995, with one person, one computer, and one client.[28] The company was started with the goal of providing Department of Transportation (DOT) customers with a resource to meet new drug testing requirements.

"The Federal Motor Carrier Safety Administration (FMCSA), along with the Department of Transportation (DOT), requires that persons subject to the commercial driver's license (CDL) requirements and their employers follow alcohol and drug testing rules."[29] These rules include procedures for testing, frequency of tests, and substances tested for. An employer who employs only themselves as a driver shall implement a random alcohol and controlled substances testing program of two or more covered employees in the random testing selection pool.

With a combination of technology and great customer service, the company grew steadily.

- 1995: CMS founded
- 1996: First office location established
- 1998: Nationwide 24/7 services offered
- 2001: Automated faxing of results
- 2001: New office location established due to growth of company
- 2004: Automated emailing of results
- 2008: Created in-house DotStop[i] consortium program
- 2009: Online results reporting made available
- 2010: Online scheduling of services made available
- 2012: Began providing management services for existing consortiums
- 2013: Introduced CMS's Sleep Express
- 2016: Began developing programs to automate DMV updates[30]

Today, CMS provides services to a wide variety of clients and industries across the United States and Canada. Clients include trucking, busing, firework manufacturers, schools, construction, hospital organizations, other third-party administrators, consortiums, and associations. In 2020, CMS reported over 100,000 drug screens and additional services for more than 2,500 companies.[31]

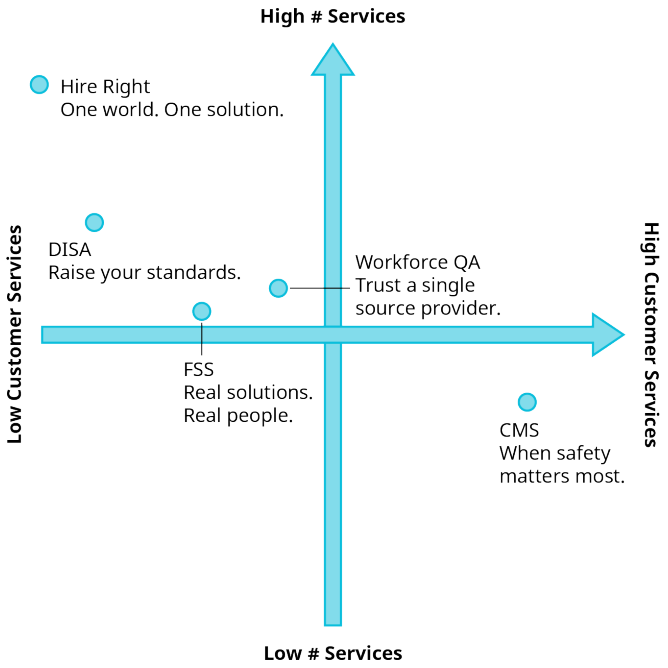
With stricter requirements coming to the industry, there is a tremendous need for drug and alcohol testing. Data reveals that there are 3.5 million truck drivers in the United States.[32] For just the trucking industry alone, the need for consortium services as well as company-sponsored drug and alcohol testing is increasing every year.

CMS prides itself as the concierge service provider in the industry. Figure 4.9 is a competitive analysis grid, and it outlines how CMS compares to its competitors based on the number of services they offer and the level of customer service provided. For example, DISA Global Solutions (DISA), Workforce QA, and FSS Solutions (FSS) are companies that provide a higher number of services than CMS but much lower customer service. CMS offers fewer services but the highest level of customer service. Notice that as companies offer more services, their level of customer service decreases.

Marketers use competitive analysis grids to understand how they compare to their competitors on the various metrics that are important in their industry. It is important for a company to grasp both its points of parity and

i DotStop is the brand name of a drug and alcohol testing consortium for trucking companies with 20 or fewer drivers.

points of differentiation compared to competitors.



*As number of services provided increases, the level of customer service decreases.

Figure 4.9 Competitive Landscape (credit: reproduced with permission of Corporate Medical Services [CMS])

In choosing to differentiate their company based on service, CMS was promising customers an unrivaled experience when they needed drug or alcohol testing. Many times, the need for testing was the result of an emergency situation. Companies that relied on CMS for this service felt a level of comfort knowing they would be taken care of quickly and efficiently when they were in the most need.

Among the promises, CMS vowed the following:

1. Unrivaled Experience

"CMS has been helping companies manage the complexities of regulations and requirements for over 25 years. During that time, we have helped over 15,000 companies significantly reduce the hassle of managing their drug testing programs."

2. Concierge Level Personal Service

"Concierge level service is not a term frequently used in our industry, but we believe in it and actively demonstrate it to our clients daily. When you are miles from home and need support, it's what you want. It is always a good day at CMS, and we hope to make your day better by helping you in any way we can."

3. More Security, Less Hassle

"Dealing with governmental regulations and requirements is no easy task. We have developed processes, procedures, and performance benchmarks to deal with the complexity of this industry so that you don't have to. At the end of the day, you will be confident that your program is operating the way it should."

4. Respect

"We are here to serve our clients. To successfully accomplish that goal, we treat our staff, our clients, our vendors, and your donors with respect. In an industry where conversations can sometimes get tense, we handle every situation in a respectful and professional manner in order to mitigate any issues that may arise."

5. Speed of Technology

"Our systems and processes are designed to get you the results you need as quickly as possible, which is why no one is faster at reporting drug screens. Our system averages a 7-minute turnaround on negative reports, once released from the lab."

As CMS looked for growth, it began to work with industry trade associations. The trucking industry was growing rapidly. Industry leaders were continuing to expand their fleets, and new trucking companies were entering the market. Providing drug and alcohol testing was not something the companies wanted to think about—until it was a necessity. Corporate safety managers could be difficult to reach; however, with a narrow focus and significant industry knowledge, CMS was well positioned to network and provide critical information regarding the ever-changing government regulations.

CMS knew it needed to begin developing brand awareness and continue fostering relationships in the industry. When it was time to make the buying decision, CMS wanted to be in the top-of-mind consideration set. The company knew the buying cycle may be long for a corporate decision to change which provider they were using for testing. It was a process it was willing to wait for, and it was in it for the long haul.

Case Questions

1. Which characteristics of the B2B market are most evident for CMS?
2. If a trucking company wanted to buy services from CMS, what type of buying behavior would this be?
3. List and describe the major B2B buying influences prevalent for the CMS market segment.
4. List three ways Corporate Medical Services can become a leading contender in the supplier search stage of the B2B buying process.

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5

Market Segmentation, Targeting, and Positioning

Figure 5.1 Market segmentation allows companies to focus their resources on their target markets—the markets where their marketing messages will best resonate. (credit: "3D Bullseye" by ccPixs.com/flickr, CC BY 3.0)

Chapter Outline

5.1 Market Segmentation and Consumer Markets
5.2 Segmentation of B2B Markets
5.3 Segmentation of International Markets
5.4 Essential Factors in Effective Market Segmentation
5.5 Selecting Target Markets
5.6 Product Positioning
5.7 Ethical Concerns and Target Marketing

In the Spotlight

To begin this chapter, we are going to look at an example of a well-known company that successfully used market segmentation to appeal to a very specific consumer market as a way to revive one of its products.

Mattel Inc. is the producer of popular children's toys like Hot Wheels, Barbie, and Max Steel. Its action figure Max Steel was introduced in 1999 to only modest success in the United States, but it was enormously popular in South America, even outselling the company's top lines—Hot Wheels and Barbie. Nearly a decade later, marketers decided to revive the brand in the United States, hoping for a second chance at success.[1]

Mattel used a number of important market segmentation variables and market strategies to appeal to its target market. First, in terms of demographic variables, marketers recognized that the Max Steel figure typically appealed to boys (gender segmentation) between the ages of 6 and 11 (age segmentation), so they decided to focus on this segment by developing a website that included games, character biographies, and other features popular with boys in this age bracket.

Market research also revealed that its target audience was interested in superheroes and enjoyed watching videos and playing video games centered around these superheroes, so the company used psychographic and lifestyle segmentation to appeal to this segment.[2] For example, Mattel created a Disney Channel cartoon for Max Steel so that, months before the relaunch of the product in the United States, its target market was

already familiar with the character and was more likely to buy (or pressure their parents to buy) the action figure. The result? Max Steel has become a minor superhero "staple" in toy aisles, cartoons, and movies.

5.1 Market Segmentation and Consumer Markets

Learning Outcomes

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

- LO 1 Define market segmentation.
- LO 2 Describe the benefits of market segmentation.
- LO 3 Discuss methods of segmenting consumer markets.

Market Segmentation Defined

You may have heard the saying "You can't be all things to all people." That sums up the essence and purpose of **market segmentation**—the process of dividing a target market into smaller, more precisely defined groups of consumers or organizations who have common needs and are expected to respond similarly to a marketing action.

The Advantages of Market Segmentation to the Organization

It's estimated that the average person sees an astounding 4,000–10,000 advertising messages each day.[3] That's why it's critical to target the right market. Most marketers have limited advertising budgets, so using one marketing message to reach a broad audience may garner a few new customers, but it's likely to come at a high advertising cost.

Consider a company that makes woodworking tools for the professional or home hobbyist. The company would waste a lot of money placing ads in "general interest" magazines like *Reader's Digest* because the average reader likely has little interest in woodworking tools. A better bet would be placing ads in specialty magazines like *The Family Handyman* (published by the same company as *Reader's Digest*), *Wood Magazine*, or *Popular Woodworking*— publications aimed at professional woodworkers and hobbyists. Not only would it likely cost less to advertise in specialty magazines like these, but the ads would be more relevant to the company's desired customer base.

There are other benefits to market segmentation. Let's look at a few:

- **Improved Focus on the "Important" Customers.** Customers are not all alike. Some will love your product or service, while others will be indifferent. Instead of trying to appeal to everyone, market segmentation enables marketers to focus their efforts and resources on those customers who will likely result in revenue for the company.
- **Improved Product Development.** Market segmentation allows marketers to better understand what consumers want in a product or service, and that knowledge enables the marketer to make recommendations for refinements to existing products and services to meet those needs. This knowledge is equally important in terms of designing *new* products and services to meet the needs of the target market.
- **Improved Brand Loyalty.** When customers feel that your company's products or services are a good fit for them, they are more likely to stick with your brand and recommend it to others.[4]

Methods of Segmenting Consumer Markets

There are several different types of marketing segments you can create. We'll focus on four major types:

- Geographic segmentation: the "where"
- Demographic segmentation: the "who"
- Behavioral segmentation: the "how"
- Psychographic segmentation: the "why"

Geographic Segmentation: The "Where"

Let's first take a look at **geographic segmentation**, or dividing the market based on where your customers or potential customers live. There are several geographic parameters a marketer can use to focus their marketing efforts, including location, cultural preferences, climate, language, and population type and density (see Figure 5.2).

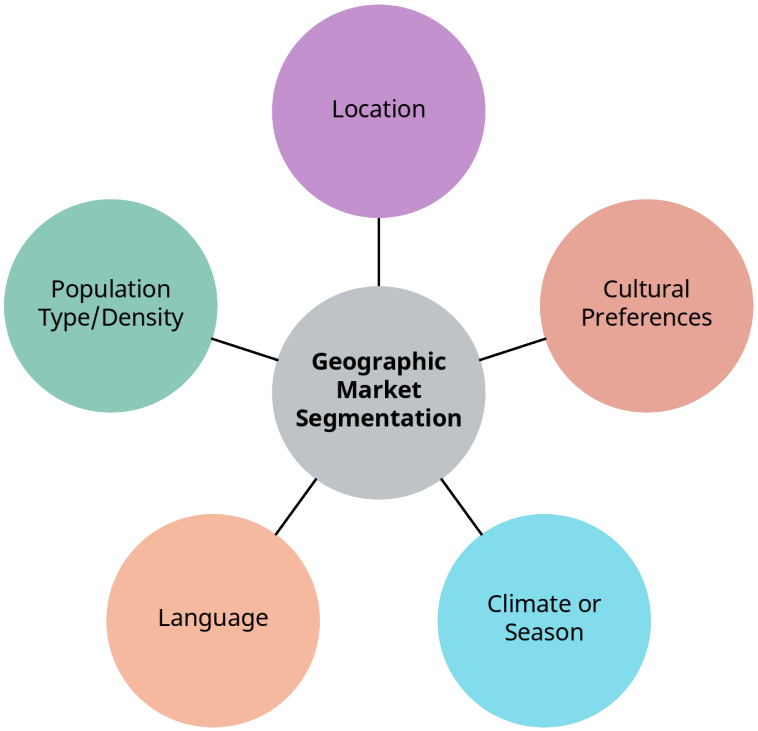

Figure 5.2 Geographic Market Segmentation (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Let's explore each of these individually.

Segmenting the market on the basis of location can be as small as a county or zip code or as large as a country. Segmenting a market this way can also be used to identify a new geographic location into which the business may wish to expand.

Starbucks is a great example of a company that uses location segmentation. First, the company segments its markets according to global geographic segmentation—the Americas, China, and Asia Pacific and Europe, the Middle East, and Africa.[5] Each of these segments is then subject to sub-segmentation in order to cater to markets that share cultural preferences. For example, in China, where tea tends to be the beverage of choice, Starbucks offers a lengthy menu of tea-based drinks like Red Bean Green Tea Frappuccino and Black Tea Latte. In South Korea, where consumers prefer creamy beverages, Starbucks offers Jeju Honey Peanut Latte and Happy Cheese White Mocha.[6]

Customers' choices and market behavior can also be influenced by their location in terms of climate or season. Segmenting the market this way also allows the marketer to present the most relevant information to the audience. There's not much of a need for snowmobiles during the summer, even in northern climates, and not much demand for convertibles in the middle of winter in those same northern climates. In the same manner, companies that sell beachwear are more likely to record increased sales during the summer and in warmer climates.

Language can be used to segment a market geographically. For instance, there are a number of different languages spoken in different regions and states in India. Therefore, it stands to reason that an advertisement in the Hindi language would miss the mark in states where Assamese or Telugu is spoken. These

advertisements would need to be translated for people in different regions.[7] To give you an idea of the complexity of this, however, there are more than 19,500 languages or dialects spoken in India and 121 languages spoken by 10,000 people or more![8]

Finally, the marketer can segment the market on the basis of population type or density—in other words, whether the market is urban, suburban, or rural. Think about this in terms of a company that does home lawn treatments like fertilization, weed control, or grub control. That company would likely have more success targeting a suburban area where residents need extra yard care. It would be less successful in an urban area where residents have smaller yards or maybe no yards at all!

Demographic Segmentation: The "Who"

Now let's look at dividing a market on the basis of demographic segmentation (see Figure 5.3).

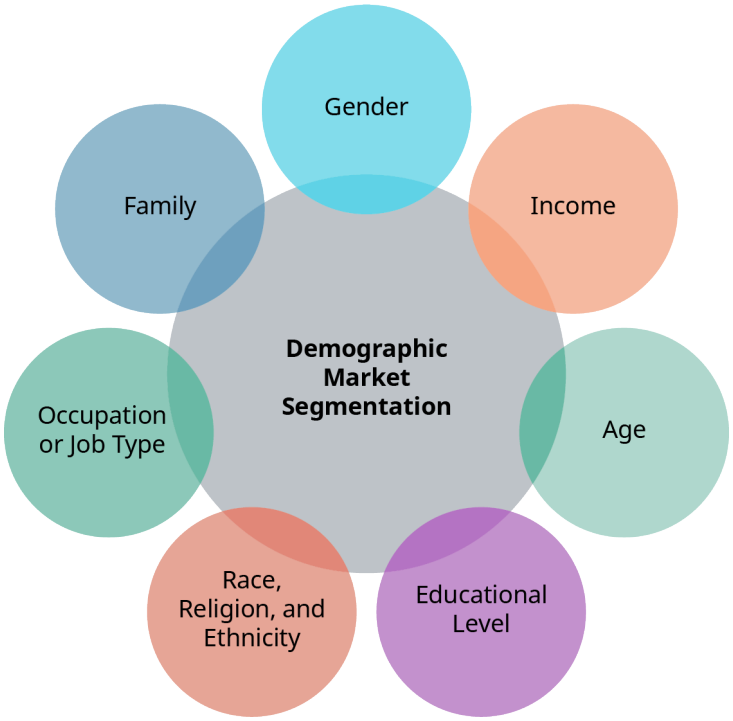

Figure 5.3 Demographic Market Segmentation (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

With **demographic segmentation**, the marketer will divide the market into smaller groups, generally on the basis of common demographic factors such as gender, income, age, educational level, race, religion, ethnicity, occupation or job type, and even family structure. These smaller segments enable marketers to focus their efforts and resources on those customers who will likely result in revenue for the company.

With gender segmentation, the market is divided into men and women. Those who identify as men and those who identify as women have different interests in terms of shopping for various products like apparel, shoes, and food. For example, look at the ad campaigns crafted toward women in fashion magazines such as *Vogue* or *Vanity Fair*. You'll likely see a different ad focus in magazines like *GQ* or *Men's Health*.

Income segmentation involves segmenting the market on the basis of monthly or yearly income. With income data, a company can determine how its potential consumer base spends money on both the high and low ends of the spectrum. Mercedes-Benz is a classic example of this as it markets different car models at different price points: A-Class vehicles starting in the low $30,000 range, C-Class in the $40,000–$55,000 range, E-Class in the $55,000–$72,000 range, and, finally, its S-Class vehicles, which are priced at $95,000 and up.[9]

Age is another common factor used to segment consumers. It's likely no surprise to you that our preferences change with age. The products that appeal to us as teens or young adults are likely not the same products that

appeal to us when we're older. The age segmentation is threefold:

- **Age Range.** This type of segmentation represents a specific age group, such as children, teens, adults, and older adults. However, you also need to consider "perceived age" (i.e., how old you feel) versus "actual age" (i.e., your chronological age). Purchases tend to reflect our perceived age rather than our chronological age.
- **Life Cycle or Life Stage.** In the same way that our preferences change with age, they change with our life stage, and most people typically pass through many life stages, from childhood to adolescence to young adult, middle age, and older adult. This type of segmentation can be a little tricky, however, particularly in view of stereotypes and changing family dynamics. For instance, some teens or young adults may be parents, while middle-aged adults may be starting families, having second families, becoming empty nesters, or are single (or single again).
- **Generation Based.** This method of breakdown defines age by generation, such as baby boomers, millennials, and Generation X. Consumers within generations will differ slightly in age (for example, baby boomers were born between 1946 and 1964, and Gen Xers were born between 1965 and 1980[10]), but these generational cohorts still tend to share certain characteristics and ideas.

Education is another means through which marketers can segment a market, and it also affects the channels through which marketers reach the target market. For example, if you were going to open a bookstore in your hometown, you'd want to determine the average educational level in your community as part of your due diligence. Are most of your would-be customers elementary or middle school students? Their tastes in reading will be considerably different than if you live in a college town populated by a number of literary professors who prefer the classics.[11]

Race, ethnicity, and religion can be used to segment a market. It's always dangerous to stereotype, but consumers of different races, ethnicities, and religions have different preferences and needs. Consider a company like Zondervan, a leading bible publisher. It would make sense for the company to segment its market based upon religion because it offers products that complement the religious beliefs of a particular group. Likewise, IMAN Cosmetics is designed for women with darker skin tones, so its target market would likely be women of color.

Marketers can also segment the market based on occupation or job type. Focusing on a smaller segment of the market enables a company to make better use of its limited resources. For example, AllHeart is a producer of medical scrubs, nursing uniforms, shoes, and medical accessories, so it has segmented the market to focus on medical professionals. Another example can be found with Saf-Gard, a producer of safety shoes and work boots that meet or exceed safety standards. This company targets workers in the construction and farming industries.

Finally, a company can segment its market on the basis of family structure, marital status, whether there are children in the home, and the life stages of those in each family.

Behavioral Segmentation: The "How"

Behavioral segmentation divides consumers into market segments depending on their behavior patterns when interacting with a product or service (see Figure 5.4).

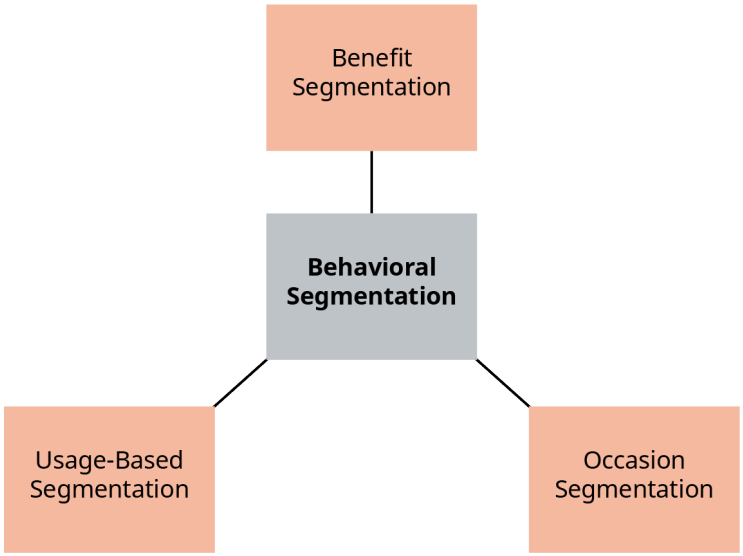

Figure 5.4 Behavioral Market Segmentation (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

The behavioral pattern benefit segmentation focuses on which benefits or features of a product or service are most applicable to the customer. Consider toothpaste. People who buy toothpaste may do so for a variety of reasons—sensitive teeth, tartar control, whitening, fresh breath, cavity prevention, etc. This means that two consumers may look identical in terms of their demographics but could have very different values regarding the benefits and features that are most important to them.

For example, Procter & Gamble markets various formulations of its Crest brand toothpaste, including Crest Kids, Gum Detoxify Deep Clean, Gum and Breath Purify Deep Clean, and more. Marketing messages sharing the toothpaste's benefits and differences are tailored for each formulation.[12]

Occasion segmentation divides consumers (or potential consumers) on the basis of the occasions when they make purchases or plan to buy. Occasion marketing is huge because marketers know that consumers will be purchasing certain items on certain occasions. Just look at the number of Internet or TV ads advertising chocolates, flowers, and jewelry in the weeks preceding Valentine's Day or the sudden appearance of PEEPS and chocolate bunnies before Easter.

Usage-based segmentation identifies various segments of users based on how much they use a product. Consumers are typically divided into groups of non-, light, medium, and heavy product users. As a general rule, companies target heavy users because, although heavy users may be a relatively small percentage of the market, they generally account for a high percentage of total buying. This is actually called the Pareto principle in marketing, which asserts that 80 percent of a company's revenue comes from the top 20 percent of repeat or loyal customers.[13]

LINK TO LEARNING

Pareto Principle

Regardless of which area of business you go into, the Pareto principle is a concept you will encounter often. It's a concept people adopt in their life and in management. Check out these resources to learn more:

- Simply Psychology article: Pareto Principle (The 80-20 Rule) (https://openstax.org/r/pareto-principle)
- Better Than Yesterday video: The Pareto Principle—80/20 Rule—Do More by Doing Less
  The Pareto Principle - 80/20 Rule - Do More by Doing Less (animated) (https://openstax.org/r/domorebydoingless)

- Fresh Books Blog article: How to Increase Productivity Using the Pareto Principle (https://openstax.org/r/waystoapplythe8020rule)
- HubSpot article: What Is the 80/20 Rule? How the Pareto Principles Will Supercharge Your Productivity (https://openstax.org/r/marketingparetoprinciple)

Psychographic Segmentation: The "Why"

Psychographic segmentation breaks down consumer groups into segments that influence buying behaviors, such as lifestyle, personality variables, and values (see Figure 5.5).

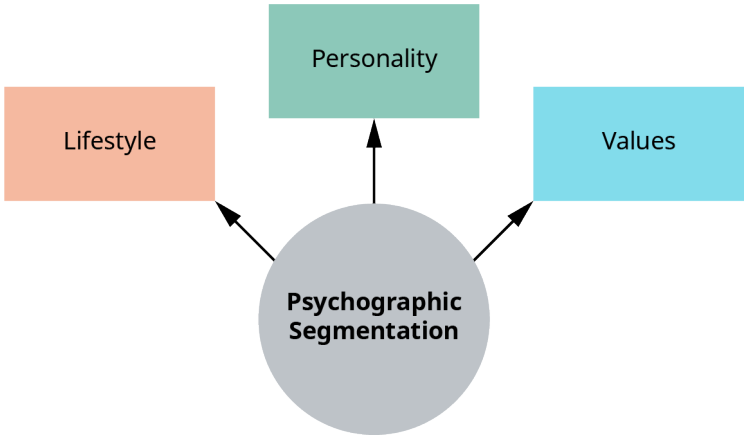

Figure 5.5 Psychographic Market Segmentation (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

A person's lifestyle provides insight on what they value, or how they spend their time and money. Marketers analyze three lifestyle dimensions, commonly called AIO (activities, interests, and opinions) variables:

- **Activities.** Activities focus on a person's daily routine and/or hobbies. For instance, if you're an urban dweller who rides your bike to work and works out regularly, your buying patterns are probably going to be vastly different from someone who drives to work and doesn't work out.
- **Interests.** Interests drive passions. What are your interests? Crypto investing? Gaming? Photography? That's important information to marketers because by identifying your interests (assuming you're a target consumer), they can more easily determine what marketing messages will appeal to you.
- **Opinions.** Opinions matter, and especially in the age of social media, opinions spread fast. Companies monitor social media sites to gain insight about consumers' opinions of their products or services and respond accordingly—and quickly! Companies such as PepsiCo and Mastercard continuously monitor 24/7 all social media postings about their companies, products, and competitors worldwide.

LINK TO LEARNING

Social Media Segmentation

There are a number of ways to segment social media markets. Read more about it on HubSpot: "8 Simple Ways to Segment Your Social Media Audience." (https://openstax.org/r/marketingsegmentsocialmedia) Understanding how social media influences market segmentation is critical. Read this article from Marketing Tech (https://openstax.org/r/marketingtechnews) to gain insight.

Marketers can also segment a market based on personality variables to create a group of people with similar personality traits because personality and purchasing habits are strongly related. To illustrate this, look at the

fitness tool Mirror. This interactive home trainer has performed well in the market since its inception in 2018 because it targets those people who want to work out but can't find the time to go to the gym.

LINK TO LEARNING

Personality Segmentation

Harley-Davidson is another great example of a company that segments its market based on personality. Check out this video from Harley-Davidson as an example of how it is sending a message that resonates with motorcycle riders.

2021 Low Rider S | Harley-Davidson (https://openstax.org/r/lowriders)

Values are the principles and important things that influence the way you live and work. As one example, environmental concerns are becoming a value issue for consumers, and they are looking for products from companies that are better for the earth. Knowing this, IKEA has incorporated a furniture buyback and resale program in the United States. If you have a piece of IKEA furniture that's an oldie but still a goody and you want to retire it, IKEA will buy it back and help you pave the way toward sustainable living.[14] Another great example is Lululemon's Like New program. You can bring in any used Lululemon gear, trade it in at the store, get an eGift card for use at a Lululemon store, and 100 percent of the Like New profits are reinvested in the company's sustainability initiatives.[15]

In addition to the AIO model of psychographic segmentation, there is another model known as VALS (values, attitudes, and lifestyles) that segments consumers into eight different types (as shown in Figure 5.6).

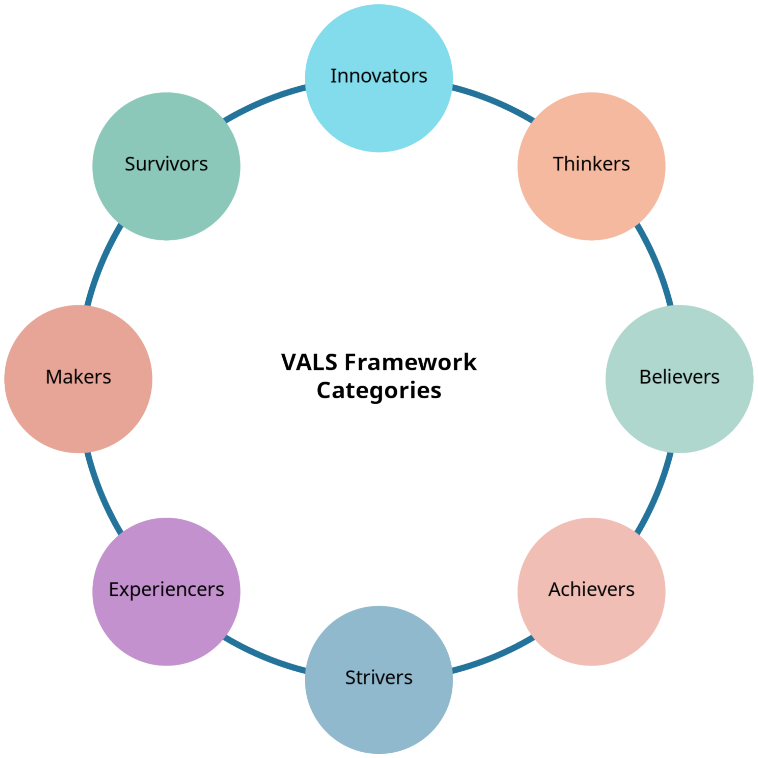

Figure 5.6 The VALS Framework (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

The premise of VALS is relatively simple: if you know what consumers are thinking, you will know which promotions or marketing messages will attract them to your product or service. And you can use the framework to determine what consumers are thinking by determining their values, attitudes, and lifestyles.[16]

Let's take a look at these eight consumer types:

- *Innovators* are characterized by high income and high resources. These innovators have definite individual tastes and preferences and are motivated to achieve the "finer things" in life.
- *Thinkers* are consumers who have resources and are motivated by their knowledge.
- *Believers* are subtly different from thinkers in that thinkers typically make their own decisions, whereas believers look to their peers for affirmation of their decisions. They have fewer resources than innovators or thinkers.
- *Achievers* tend to be high-resource consumers who want to excel, both at the workplace and within their families. They are likely to purchase brands that have stood the test of time in terms of their success in the marketplace.
- *Strivers* tend to be lower-resource consumers. They have similar values as achievers but lack the same level of resources.
- *Experiencers* have relatively high resources and want to experience "being different." The majority of experiencers are young adults.
- *Makers*, like experiencers, want self-expression, but they lack the resources to make that happen, so they tend to be more focused on building a better family than spending money.
- *Survivors* have the least number of resources and are the least likely to adopt innovative products. Survivors tend to be brand-loyal customers.[17]

Using Multiple Segmentation Bases

Keep in mind that a company doesn't have to use just one or two segmentation bases; it can use all of them or a mix of them, a process that's also known as **multi-segment marketing**. It's not uncommon for companies to develop products that compete against their own offerings as long as the new products offer different perceived benefits to consumers. For instance, Procter & Gamble sells several different types of laundry detergent, such as Tide, Gain, and Cheer. Each of these brands offers different benefits like all-temperature use, fresh scent, unscented, stain removal, or whitening. By having these different brands, P&G can appeal to multiple target markets.

CAREERS IN MARKETING



Market Research Analyst

What does a market research analyst do, you might ask? They study markets and data to determine potential new opportunities for a company. According to the Bureau of Labor Statistics (https://openstax.org/r/businessandfinancialmarket), the typical entry-level education required is a bachelor's degree, and there are about 741,000 jobs with an expected growth rate of 22 percent from 2020 to 2030. This article from Coursera, "What Is a Marketing Analyst? And How to Become One (https://openstax.org/r/articlesmarketinganalyst)," outlines job roles and responsibilities, compares this job to other types of analyst jobs, and describes steps for how to become a marketing analyst.

Watch these videos to learn about the typical marketing analyst job description and how to become one.

Digital Marketing Analyst Job Description (https://openstax.org/r/digitalmarketinganalystjob)

What Does a Marketing Analyst Do?! (Job Description and How to Become One) (https://openstax.org/r/digitalmarketinganalystaccenture)

Knowledge Check

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

end of the book for feedback.

1. In China, Starbucks offers tea-based drinks featuring regional ingredients. On what basis has Starbucks segmented its market?
   a. Demographic
   b. Behavioral
   c. Geographic
   d. Psychographic

2. A travel agency offers adventure trips like hut-to-hut camping in the mountains as well as quieter vacations in all-inclusive resorts. On what basis has the travel agency segmented its market?
   a. Psychographic
   b. Demographic
   c. Behavioral
   d. Geographic

3. Road Scholar is an American not-for-profit organization that provides educational travel programs geared primarily to older adults. On what basis has Road Scholar segmented the market?
   a. Geographic
   b. Psychographic
   c. Demographic
   d. Behavioral

4. Garnier offers a wide range of shampoos, including hydrating shampoo, smoothing shampoo, color-safe shampoo, volumizing shampoo, and more. On what basis has Garnier segmented the market?
   a. Geographic
   b. Psychographic
   c. Behavioral
   d. Demographic

5. Peloton's main products are Internet-connected stationary bikes and treadmills that enable subscribers to remotely participate in live classes via streaming media. This enables subscribers to have a "spin class" experience without going to the gym. On what basis has Peloton segmented the market?
   a. Demographic
   b. Behavioral
   c. Geographic
   d. Psychographic

5.2 Segmentation of B2B Markets

Learning Outcomes

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

LO 1 Describe the challenges of segmenting B2B markets.
LO 2 Discuss the advantages of segmenting B2B markets.
LO 3 Explain methods of segmenting B2B markets.

Challenges of Segmenting B2B Markets

Just like its consumer market counterpart, business-to-business (B2B) market segmentation focuses on identifying unique market segments based on common characteristics. However, segmenting a B2B market is in many ways far more challenging than segmenting a consumer market because the motivations, processes, and considerations of B2B buyers are quite different from those of business-to-consumer (B2C) buyers. Let's take a closer look.

- **Challenge #1: Dealing with Highly Complex B2B Markets.** As discussed in Business Markets and Purchasing Behavior, decision-making in B2B markets is quite different from decision-making in B2C markets. In a B2C market, the consumer is often the only decision maker involved in making a purchase. That's not the case in B2B markets, where you're often dealing with a buying center—all the people in the organization who have varying influence on the B2B buy decision. You may also recall from this chapter that buying centers have a variety of members who play different roles, such as users, initiators, influencers, gatekeepers, decision-makers, etc. Accordingly, it can be difficult to identify precisely who the target buyer is.[18]
- **Challenge #2: Dealing with More Rational Buyers.** Although the view is somewhat controversial, it is said that B2B buyers are more "rational." Consumers tend to buy what they want and are more affected by emotions in buying decisions. Alternatively, B2B buyers typically buy what they need, and buying decisions are more deliberate, particularly in terms of price. Accordingly, in B2B markets, the marketer must determine the drivers of those needs.
- **Challenge #3: Complexity of B2B Products.** Just as the decision-making unit in a B2B transaction is more complex, so too are the B2B products themselves. When you make a major purchase, like a high-definition TV, your choice is likely made on the basis of fairly simple criteria. You might evaluate things like screen size, resolution, and your budget. However, in the B2B market, even the simplest of products may have to be integrated into a larger system. For example, a new payroll system might have to be integrated into the company's human resources information system (HRIS). Another consideration with respect to the complexity of B2B products is that many B2B purchases are frequently tweaked to meet the company's detailed specifications, whereas consumer products are almost always standardized.[19]

Advantages of Segmenting B2B Markets

Market segmentation is a tried-and-true method that's been around since the 1950s, but there is still some confusion about how to use it in a B2B setting because it's not as clear-cut as other forms of market segmentation. How does a marketer target the characteristics of something impersonal like a business? Despite the challenges of segmenting B2B markets, it still plays a critical role. Let's examine some of the advantages.[20]

- **Improved Campaign Performance**. Similar to the previous example of a company using specialty magazines to reach the right target audience with the right message, B2B marketers can do the same. For example, Mailchimp, a marketing automation platform and email marketing service, examined user data to compare segmented marketing campaigns with non-segmented campaigns. The statistics based upon a comparison of 18 million email recipients were eye-opening. Campaigns directed toward defined market segments saw increases in a number of areas, including a 14.3 percent higher email open rate.[21]
- **Improved Customer Loyalty and Retention**. In our discussion of consumer market segmentation, we pointed out that market segmentation allows marketers to better understand what consumers are looking for in a product or service, and the same holds true with B2B market segmentation. The more marketers know about their customers' business objectives and challenges, the more they can attempt to meet their needs. That not only builds confidence in the brand but also ultimately leads to greater customer retention and loyalty.[22]
- **Assistance in Product Development**. By using market segmentation, a company can refine its products or services to better meet the needs of its B2B customers. For example, let's say your company's product is payroll software. Having better identified the needs of the target market, your company may be able to add new features and functionality to make it even more attractive for the target market and possibly add a new revenue stream by making the product useful for another market segment.
- **Improved Profitability**. Implementing a market segmentation strategy accomplishes three important goals. First, targeting the right B2B customers with the right message increases your company's competitiveness. Second, it enables the marketer to properly price products with the best price for its different customer segments. Third, it helps identify the best prices with which to target new customers

and ensure that your organization's offerings are neither overpriced nor underpriced, thereby increasing profitability.[23]

Methods of Segmenting B2B Markets

How do you segment B2B markets? Just like with consumer markets, there is a variety of methods. Marketers can segment B2B markets based on firmographics, technographics, needs-based segmentation, value-based segmentation, and behavioral segmentation (see Figure 5.7). We will look at each of these in the following sections.

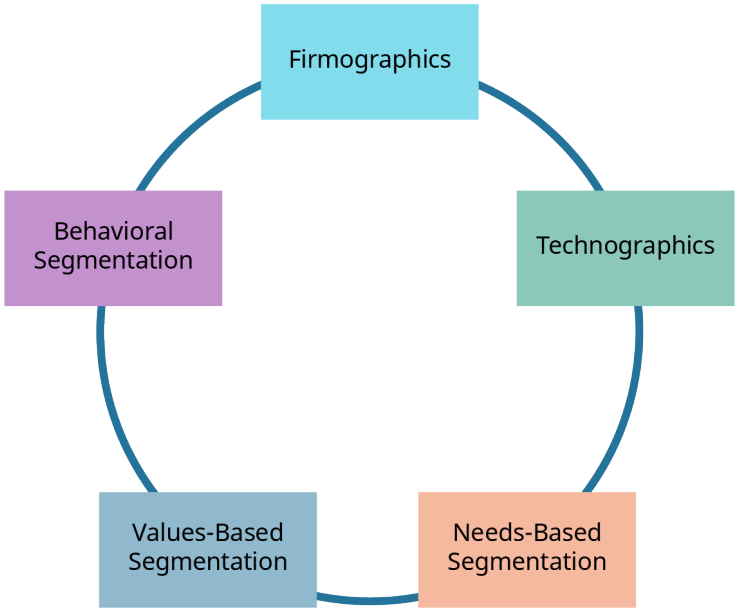

Figure 5.7 Methods of Segmenting B2B Markets (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Firmographics

Where demographics are concerned with people, **firmographics** are concerned with companies. They are a grouping of B2B customers based on shared company attributes. There are five general categories of firmographics:

- **Industry.** What are the organization's primary activities? Once you've determined that piece of information, you can use market segmentation to group firms that are in a similar line of business.
- **Location.** The mantra in the real estate industry is that there are three things that matter: location, location, location. Just like with geographic segmentation in the B2C market, a marketer can choose a city, state, country or even a continent, depending on the line of business. For instance, depending on the cybersecurity challenges or threats faced by customers in different countries or regions, a cybersecurity firm may offer different cybersafety features in its software.[24]
- **Size.** Will your company target small and midsize operations or Fortune 500 companies? The needs of these organizations are vastly different. Firmographic size typically involves two components: revenue and number of employees.
- **Legal Structure.** In firmographics, legal structure denotes the legal status of a firm. For example, is the organization a sole proprietorship, a limited liability company, a corporation, or a nonprofit firm? Is it an independent business, a parent company, or a subsidiary of another business?[25] All of these factors are important to know in order to create targeted content.
- **Performance.** Customer segments can be broken down based on performance, such as market share, quarterly or annual sales figures, and growth and/or losses (both in employees and revenue).

Segmenting Customers Based on Technographics

Technographic segmentation is based on the various hardware and software technologies used by B2B customers. It allows the marketer to organize prospects by their technology ownership and usage and narrow the market to those prospects who want to invest in new technological solution in the future.[26]

Needs-Based Segmentation

Think about it: What's the point of marketing a product or a service to an organization that doesn't need it? **Needs-based segmentation** is the concept that a marketer should focus limited resources on those customers that need the product and have the ability to purchase it.

Needs-based segmentation clusters groups of customers on the basis of what they need or want when seeking a product. Does your company's product offer the features or benefits that the B2B buyer is seeking? Will the product meet the buyer's (or company's) needs? Those are the questions marketers need to answer when segmenting the B2B market based on needs. The late Theodore Levitt, an economist and a professor at Harvard Business School once said, "People don't want to buy a quarter-inch drill; they want a quarter-inch hole."[27] Accordingly, rather than segmenting a market based on firmographics, many marketers choose to segment it based on what is valued by decision influencers.

Value-Based Segmentation

Value-based segmentation (sometimes called tiering or profitability segmentation) groups customers according to the potential value they may bring to a business. It places potential customers with the same value level (or "transactional worth") into individual segments for target marketing. In its simplest terms, this approach is like the usage-based segmentation strategy of B2C markets. A marketer examines previous purchase data to determine how much a company buys, how frequently it buys, and the value of the purchases.[28]

Behavioral Segmentation

Behavioral segmentation considers the behavior of customers toward a company's products or services. We're not talking about two-way mirrors or covert operations here. This can be as simple as determining how the customer interacted with your company's website, what content they interacted with, and whether the customer opened your last marketing email. The marketer then segments customers on the basis of their interaction with the company and attempts to discern if customers within that segment have become more interested or less interested over time. Behavioral segmentation is often used together with value-based segmentation to identify which customers should be pursued to get greater value out of them.[29]

LINK TO LEARNING



The Importance of Segmentation

For more information on the importance of segmenting B2B customers, check out this video, The Importance of Segmenting Your Customers. This video is from B2B Business International Market Research, a market research company, and it speaks to the importance and value of knowing your customers.

The Importance of Segmenting Your Customers (https://openstax.org/r/theimportanceofsegmenting)

Knowledge Check

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

1. Hoffman Enterprises, a manufacturer of electronic controls for appliances, has segmented its customers based upon the size of the company in terms of revenue and its geographic location. What method of segmenting B2B markets is Hoffman Enterprises using?
   a. Technographics
   b. Behavioral
   c. Firmographics
   d. Needs Based
2. Matias is a marketing manager for a company whose product integrates with customer relationship management (CRM) systems such as Salesforce. In order to segment the market, he researches which companies currently use Salesforce as well as any other complementary or competing tools. On what basis is Matias segmenting the market?
   a. Technographics
   b. Value-based
   c. Behavioral
   d. Firmographics
3. Which form of B2B market segmentation differentiates customers according to their "transactional worth"?
   a. Behavioral
   b. Firmographics
   c. Value based
   d. Needs based
4. Which form of B2B market segmentation groups customers based on sets of characteristics such as industry, location, size, legal structure, and performance?
   a. Technographics
   b. Psychographics
   c. Firmographics
   d. Demographics
5. Which B2B market segmentation strategy clusters groups of customers on the basis of what features they normally look for in a product?
   a. Firmographics
   b. Behavioral
   c. Technographics
   d. Needs based

5.3 Segmentation of International Markets

Learning Outcomes

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

LO 1 Describe the challenges of segmenting international markets.
LO 2 Discuss the advantages of segmenting international markets.
LO 3 Explain methods of segmenting international markets.

Challenges of Segmenting International Markets

As we've outlined in this chapter, companies can't be all things to all people because buyers differ in terms of their needs, wants, and demands. Accordingly, just as with consumer markets and B2B markets, companies typically find it necessary to segment international markets.

That's not to say that segmenting international markets is easy; rather, the reverse is true: it adds a whole new

set of complications, including differences in cultural, economic, and political environments in various countries. Additionally, because of those cultural, economic, and political differences, consumers in international markets tend to be more diverse in character than domestic markets. Moreover, the range of income levels and populations and the diversity of lifestyles in international markets tend to be significantly greater than in the domestic market.[30] Accordingly, a single marketing strategy for all segments is questionable at best.

Advantages of Segmenting International Markets

The advantages of segmenting international markets aren't all that different from the advantages of segmenting the consumer or B2B markets, but there are some subtle differences. A marketer in the United States may have a much easier time understanding the needs and wants of US consumers, but that may not be the case with international consumers. Segmenting the international market and conducting market research allows the marketer to have a better understanding of international customers. It also enables the marketer to identify similarities and differences across international markets, which may lead them to combine segments across countries or even regions.[31]

Methods of Segmenting International Markets

There are four primary methods of segmenting international markets, as shown in Figure 5.8.

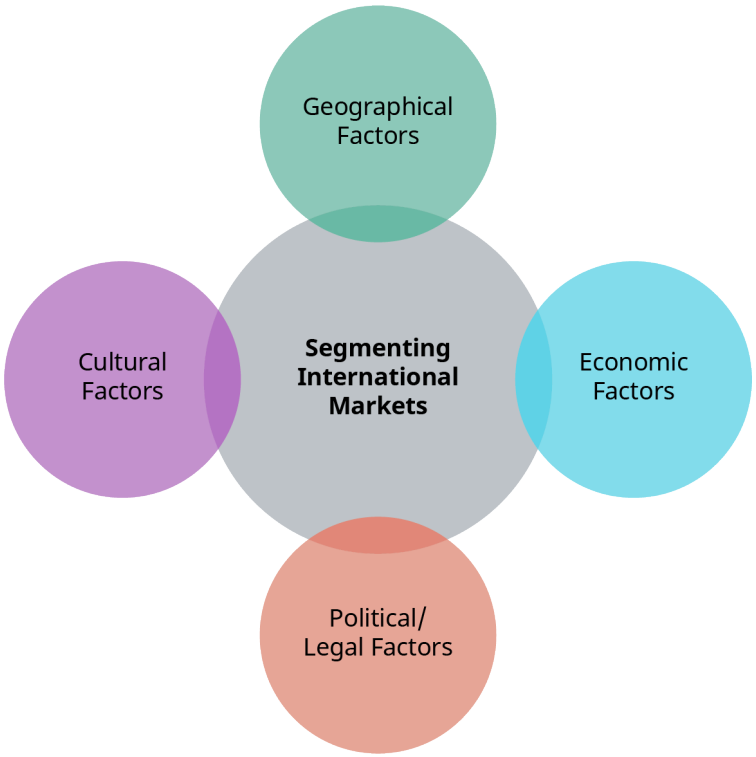

Figure 5.8 Segmenting International Markets (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Geographic Segmentation

Just as with domestic markets, international markets can be segmented geographically. A company might segment by regions, such as Western Europe, the Middle East, Africa, Latin America, etc. Keep in mind, however, that although geographic segmentation groups countries by location, they may be very different from one another in other respects. For example, if you were to consider the countries included in a Western European region, you'd find that, both culturally and economically, the United Kingdom and Scotland are very similar, but both differ significantly from neighboring Ireland.[32] Similarly, people in West Africa tend to share similarities in dress, cuisine, and music, but these characteristics aren't shared extensively with groups outside of West Africa.[33]

In terms of geographic segmentation, marketers also need to consider the infrastructure of the country—the basic physical systems of the nation, such as roads, sewage treatment, communication, water treatment, electricity, etc. You may have the best product for the consumers in the international market segment, but if the infrastructure is such that you can't reasonably get the products to the consumers, that represents a restraining force that limits the opportunity.

Although the project is controversial, China has invested billions of dollars in an effort to strengthen its economy and global trade through its Belt and Road Initiative (BRI), a vast network of railways, energy pipelines, and highways through six economic corridors, both westward through former Soviet republics and southward to Pakistan, India, and Southeast Asia. In order to expand maritime trade traffic, China is investing in port development along the Indian Ocean, from Southeast Asia to East Africa and parts of Europe. The BRI spans a multitude of infrastructure projects intended to promote the flow of goods and foreign investment and is expected to impact more than 80 countries.[34]

Segmentation Based on Political and Legal Factors

As you've seen from our discussion of segmenting consumer markets, it's often done on the basis of factors such as age, gender, product usage, personality, etc. That's true as well in international markets, but the marketer needs to add still another dimension: country characteristics. These characteristics are typically political and legal factors, such as the type and stability of the government, how receptive the government is to foreign firms, monetary regulations, and how complex the bureaucracy of the nation is.[35] There are numerous other governmental policies that can interfere with international trade, such as tariffs (taxes imposed on imports), import quotas, currency controls, and local content requirements.

In 2022, in response to Russia's invasion of Ukraine, major sanctions have been put in place against Russia by the United States, the European Union, and the United Kingdom. For example, the United Kingdom imposed a 35 percent tax on some Russian imports, and several international companies like McDonald's, Coca-Cola, Starbucks and Marks & Spencer have either suspended operations in Russia or have withdrawn altogether. It doesn't take much to imagine the financial impact on Russia as a result of these sanctions.[36]

Segmentation Based on Economic Factors

Still another way to segment markets internationally is on the basis of economic factors—the level of economic development and the income levels of the population. This is often differentiated on the basis of whether the country is developing, developed, or underdeveloped. This classification is based on the nation's economic status (i.e., gross domestic product, gross national product, per capita income, degree of industrialization, and standard of living).

Developed countries typically have a high rate of industrialization and a relatively high level of individual income. Unemployment and poverty are typically low in developed nations, and citizens enjoy a relatively high standard of living, along with higher life expectancy.[37] It's likely in developed nations that companies will focus their international marketing efforts. According to the United Nations in 2020, 36 countries were classified as developed; interestingly enough, all of these countries were located in either North America, Europe, or "Developed Asia and Pacific."[38]

Developing countries, on the other hand, have a lower standard of living, a lower per capita income, and a slow rate of industrialization. Unemployment and poverty tend to be relatively high compared to developed countries, as are infant mortality rates.[39] The United Nations categorized 126 countries as developing, and all of these were located in either Africa, Asia, Latin America or the Caribbean.[40]

Underdeveloped countries are less developed economically than most other nations. These countries typically have little industry, and the standard of living is considerably lower than in developed or developing countries. Infrastructure may also be compromised in terms of roads, sewage treatment, water quality, etc. As a general rule, although there may be an attractive market for your company's product or service in an underdeveloped

country, the challenges of getting the product into the customer's hands are often difficult to overcome.

Segmentation Based on Cultural Factors

Cultural factors, such as common language, religions, values, and attitudes, can also be used to segment a country or region. McDonald's uses a "think global, act local" strategy to help meet the cultural needs of various market segments. On one hand, it offers a standardized menu of offerings worldwide, like McNuggets and the McFlurry. On the other hand, it customizes other offerings on its menu to adapt to the cultural requirements of consumers. For example, in India, in order to appeal to vegetarian and non-beef-eating customers, McDonald's introduced the Maharaja Mac, which is made with a corn and cheese patty. The company also used the term "Maharaja" to appeal to India's history and liking of royalty and called it the "Social Burger" to suggest that it can be eaten quickly, giving people more time to spend with friends.[41]

McDonald's not only customizes its menu based on where it operates, but it also customizes its digital and TV advertisements depending on each country and consumer segment. For example, in Singapore, McDonald's ads attempted to appeal to consumers' love of nightlife by showing how McDonald's can enhance a night out, whereas in the United Kingdom, the company created cartoon ads focusing on Happy Meals to attract the large segment of children in the UK.[42]

Not to be outdone by McDonald's, Burger King also offers a wide variety of international menu items that aren't available in the United States. Did you know that there's a Spicy Shrimp Whopper available in Japan and a SufganiKing (Donut Burger) in Israel? In Norway, where there is one sauna for every two people, Burger King opened a fully operational spa complete with a 15-person sauna and media lounge where customers can enjoy their meals.[43]

One model that is particularly useful in assessing culture is social psychologist Geert Hofstede's cultural dimensions, originally published in the 1970s. Hofstede had studied IBM employees in over 50 countries and identified five dimensions that could be used to distinguish one culture from another.[44] Four of these dimensions directly affect marketing in different cultures:

- **Power Distance Index (PDI).** This dimension refers to how much power inequality exists within a culture and the degree to which people are accepting of this inequality. A high PDI score suggests that society accepts an unequal distribution of power, whereas a low PDI score means that power is shared and widely dispersed. If you're curious, the United States has a moderately low PDI score of 40 on a scale of 1 to 100, compared to a world average of 55.[45] This means that the United States is less accepting of hierarchy and authority than nations such as Malaysia, which has the highest power distance index in the world.[46] This cultural dimension plays an important role in marketing because, in countries where there is a high power distance index, marketers need to appeal to the leadership or the head of the family, whereas in low power distance index countries, it's more important to reach a broad range of "ordinary" people who will be the ultimate decision makers.
- **Individualism versus Collectivism (IDV).** This dimension refers to whether the culture emphasizes the needs and goals of the group as a whole or whether individual needs are paramount.[47] Think of individualism and collectivism as an "I" versus a "we" orientation. An individualistic society places emphasis on attaining personal goals, whereas a collectivist culture places emphasis on group goals and the well-being of the group. The United States has a very high individualism score of 91, compared to many Latin American countries such as Ecuador and Guatemala, which have single-digit individualism scores.[48] The implications for marketing are important here because for countries with high individualism, the marketing messages should emphasize how your products or services benefit them individually, such as by saving time and rewarding themselves. On the other hand, in countries with a low individualism ranking, it's more important to stress how buying your company's products will benefit the community as a whole.
- **Uncertainty Avoidance (UAI).** This dimension refers to the degree to which a society avoids risk or ambiguity. Societies with 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. The UAI for the United States is 46, putting it into the moderate range compared to European nations like Italy (UAI of 75) and Poland (UAI of 93).[49] Let's consider how this affects marketing. Cultures with high uncertainty avoidance generally prefer to have product characteristics clearly spelled out, complete with product warranties and money-back guarantees. For example, if you want to market automobiles in that type of culture, it would be important to focus on the safety features of the car. Conversely, cultures with low uncertainty avoidance are more accepting of trying something new.

- **Masculinity/Femininity (MAS).** This dimension refers to the degree to which gender-specific roles are valued in the society: Are "masculine" values such as achievement, ambition, and acquisition or "feminine" values such as quality of life and service to others valued more? In countries with a high masculinity ranking (e.g., Japan), men are intended to lead; women are supposed to follow. This is in direct contrast to countries with a low masculinity ranking (such as the United States and Canada), where women are treated equally to men and gender roles are more fluid. Societies with low masculinity would tend to respond negatively to gender-oriented promotion, so a neutral approach that appeals to both men and women would be more appropriate.[50] Consider how many brands in the United States focus on female empowerment and positive body image. That type of advertising would not appeal to a society with a masculine orientation.

Knowledge Check

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

1. The Hofstede cultural dimension that assesses the degree to which a society avoids risk or ambiguity is known as _____.
   a. masculinity/femininity
   b. uncertainty avoidance
   c. power distance index
   d. individualism versus collectivism

2. Jamal's company is looking to expand into a market in West Africa, but Jamal wants to ensure that there are roads, bridges, nearby airports, and shipping terminals from which to distribute the product. Jamal is examining the country's _____.
   a. infrastructure
   b. governmental stability
   c. inflation and unemployment rates
   d. culture

3. Alexis is making a sales presentation in Japan, and she realizes suddenly realizes that she is the only woman in the meeting. This suggests that Japan has a high _____.
   a. degree of uncertainty avoidance
   b. individualism ranking
   c. power distance index
   d. masculinity ranking

4. Jose's firm is looking to market its products in Venezuela, but the marketing department is concerned about the current inflation rate in the country. This would be considered a(n) _____ factor.
   a. geographic
   b. political
   c. economic
   d. cultural

5. Which Hofstede cultural dimension assesses the degree to which gender-specific roles are valued in a

society?

a. Power distance index
b. Masculinity/femininity
c. Uncertainty avoidance
d. Individualism versus collectivism

5.4 Essential Factors in Effective Market Segmentation

Learning Outcomes

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

LO 1 List and describe the essential factors in effective market segmentation.

Essential Factors in Effective Market Segmentation

There's an acronym you can remember for the essential factors in effective and successful market segmentation—**ADAMS**. The acronym stands for five criteria:

- **A**ccessible
- **D**ifferentiable
- **A**ctionable
- **M**easurable
- **S**ubstantial

First, a market segment should be accessible. Can you reach consumers in that segment at an affordable cost, given the strengths and abilities of your marketing department? For example, if you discover that certain segments respond more effectively to outdoor advertising, social media campaigns, TV infomercials, or print ads, does your organization have the capabilities (and budget) to reach that segment?

Second, a market segment should be differentiable. In an ideal world, a market segment should be internally homogeneous (i.e., consumers within that segment have similar preferences and characteristics) but externally heterogeneous (i.e., different segments should be quite distinct and different from each other). You have to clearly define the differences between market segments so that the marketing programs directed at them can be implemented without overlap.

Third, a market segment should be actionable. Is it practical (or profitable) to execute a marketing strategy aimed at that segment? A market segment should be able to respond to a certain marketing strategy and have outcomes—e.g., awareness, interest, or purchase—that can be easily quantified.

Fourth, a market segment should be measurable. You should be able to accurately estimate the size of the market segment in terms of either sales value or number of customers so that you can decide whether, how, and to what extent you should focus your efforts on that segment.

Finally, a market segment should be substantial. It doesn't make sense to waste resources to market the product or service to a group too small to justify the expenditure of resources.[51]

Knowledge Check

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

1. Mateus is a marketer for a consumer products company. His company is considering marketing a new breakfast drink, but Mateus wants to make certain that there is a sufficient number of consumers in his target audience to make the new product development process worthwhile. Which essential factor of market segmentation is he analyzing?
   a. Accessible

b. Differentiable
c. Actionable
d. Measurable

2. Wall Enterprises is considering developing a new product for a market segment that has been identified by marketing research. However, based on the research, it appears that the market segment may be smaller than originally anticipated. Which essential factor of market segmentation does this reflect?
   a. Accessible
   b. Differentiable
   c. Substantial
   d. Actionable
3. Alma is analyzing the market segment she has identified for a new service to determine whether her firm can reach the consumers in that market within the constraints of her budget, given the resources of the firm. Which essential factor of market segmentation does this reflect?
   a. Accessible
   b. Actionable
   c. Substantial
   d. Measurable
4. Idris has been researching a potential market segment for his company's new product. He is concerned that, although the product holds considerable promise, the advertising campaign would be beyond the company's budget. Which essential factor of market segmentation appears to be lacking in Idris's analysis?
   a. Differentiable
   b. Substantial
   c. Measurable
   d. Accessible
5. Which essential factor in selecting a target market refers to the ability to accurately determine the size of the market in terms of either sales volume or number of customers?
   a. Actionable
   b. Differentiable
   c. Measurable
   d. Substantial

5.5 Selecting Target Markets

Learning Outcomes

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

LO 1 Define target market.
LO 2 Explain target market strategies.

Target Markets Defined

Ultimately, the purpose of segmenting a market is to highlight the differences between groups of customers so that you can decide on which group(s) to focus your marketing efforts and resources—that's your **target market** (Figure 5.9).



Figure 5.9 Target marketing involves segmenting customer groups and focusing marketing resources on the segments that are most likely to purchase the product or service. (credit: "Three Arrows in the Centre of a Dart Board" by Marco Verch/flickr, CC BY 2.0)

Think of your target market in terms of focusing your marketing resources on segments that are more likely to buy from you. The bottom line is that target marketing is a more efficient, effective, and affordable way to reach customers and generate business. It's simply a subset of the total market.

Keep in mind that the target market isn't the same as the target audience. The target audience is narrower in that it refers to the group of consumers you expect to actually purchase the product. The audience may or may not overlap with the target market. For example, a children's toy may have a target market of boys between the ages of 6 and 12, but it's the boys' parents (who actually purchase the toy) who are the target audience. Let's take a look at how LEGO has mastered this concept.

MARKETING IN PRACTICE



LEGO



Figure 5.10 LEGO's segmentation strategy is to focus its marketing resources on parents who make the purchasing decisions and are interested in educating their children. (credit: "Lego" by Slack pics/flickr, CC BY 2.0)

You might think that children are the primary target market of toy manufacturers, but smart toy marketers know that they also have to market to parents because it's parents who actually buy the toys for their children. The marketers at LEGO (see Figure 5.10) seemed to have figured this out and have made the brand parent-approved by combining fun for children with an educational "twist."

LEGO brands its products not only as a creative outlet for children but also an opportunity to grow their interest in STEAM—a learning approach that incorporates science, technology, engineering, the arts, and mathematics. For example, one of its websites (https://openstax.org/r/educationlego) features education sets for children from preschool through middle school that promote learning through the toys. Another of its websites (https://openstax.org/r/aboutusdiscover) has an entire section of tips for playful parenting with LEGO bricks.[52] It also has websites for daily LEGO challenges and even daily build challenges and LEGO lessons for families at home.

Parents today want to buy their children toys that are safe and fun and that help them learn, and LEGO seems to have been able to win over the hearts (and money) of its target audience.

For more information about LEGO and STEAM, watch this video from Kansas City PBS.

Block by block: LEGO robotics builds interest in STEM (https://openstax.org/r/blockbyblock)

Another important concept in target marketing is what's known as a **buyer persona**. A buyer persona is a semi-fictional representation of an ideal customer that helps marketers understand and relate to the target market. Buyer personas are intended to help marketers "visualize" those to whom they are selling so they can fine-tune their marketing messages.

Best Buy used personas in precisely this way. Its buyer personas are "Buzz" (the young tech enthusiast), "Barry" (the wealthy professional), "Ray" (the family man), and "Jill" (a soccer mom who is the main shopper for the household but usually avoids electronics stores).[53]

What's typically included in the buyer persona? Some examples include the following:

- **Name.** It may seem silly to include a made-up persona name like Best Buy did, but it's done so that the marketing team can more easily discuss their customers and plan how to reach them.
- **Age.** The age (or age range) of a persona allows for understanding generation-specific characteristics. As we pointed out in our earlier discussion of using age as a way to segment the market, consumers within the same age group tend to share characteristics and purchase preferences.
- **Interests.** The interests of the buyer persona describe things like hobbies or what they do in their spare time.
- **Media Usage.** What media platforms does the buyer persona use? Television, radio, the Internet? This is important because the marketer wants to know where to reach these "people" with their marketing messages.
- **Finances.** The income and other financial characteristics of the buyer personas help marketers glean insights as to what types of products or services will pique the interests of these buyer personas. These financial characteristics also assist in making decisions about price points and promotions that would be successful in reaching these customers.
- **Brand Affinities.** Do they like certain brands? If so, this can provide the marketer with valuable information about the type of content to which they best respond.[54]

LINK TO LEARNING

Importance of Buyer Personas

Customer personas are a tool to help marketers better understand their potential customers. Learn what a customer persona is and how to develop them from this brief Go Daddy video.

How to Create a Customer Persona to Understand Your Ideal Client (https://openstax.org/r/creatingacustomerpersona)

Also, check out this video from HubSpot's Stephen Higgins on how to use buyer personas to drive your marketing strategy.

HubSpot's Stephen Higgins Explains Buyer Personas (https://openstax.org/r/hubspotsstephenhiggins)

Target Market Strategies

Thus far, we've discussed the how of segmenting a market and selecting target markets. At this point, it's up to the marketer whether the company will focus its efforts and resources on one or more of the identified segments or instead cater to the mass market. That choice is the determining factor in the company's marketing mix and its positioning plank. There are four generic target marketing strategies, as illustrated in Figure 5.11.



Figure 5.11 Target Marketing Strategies (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Let's look at each of these strategies more closely.

Undifferentiated Marketing (Mass Marketing)

Sometimes there are no strong distinctions in customer characteristics. In cases like this, the costs involved in developing separate marketing mixes for separate target markets doesn't make financial sense. That's when a

company may decide to use a single marketing mix for the entire market.

Let's imagine the entire market as one big apple pie. With undifferentiated marketing, the company doesn't take just one slice or perhaps a few slices of the pie—it takes the whole thing. The concept of **undifferentiated marketing** is quite simple. You want to reach as many people as possible and hope they'll jump on board with your product or service. Mass marketing is typically used when a brand has a product or service that has high market appeal, such as things that most (or maybe even all) people will always need or want. Consider a product that nearly everyone purchases, like soft drinks. Now think about all the advertising messages you get for a brand like Coca-Cola—you'll see TV commercials, magazine ads, billboards, banner ads in search engines, and the list goes on. That's the hallmark of mass marketing.

One of the biggest advantages of undifferentiated marketing is the scope and cost-efficiency of advertising on a much larger scale. Every single marketing message can be deployed across a variety of media channels and can potentially reach millions of consumers. This is where economies of scale come into play: with high-volume sales, production becomes less expensive because costs can be spread out over a larger amount of goods. That's a huge advantage compared to companies that produce products for smaller, more precisely targeted audiences. It's like buying in bulk at Sam's Club or Costco—because you buy so much of a product, the cost is lower. Companies that use undifferentiated marketing experience the same thing.[55]

Differentiated Marketing (Segmented Marketing)

Now let's take that same apple pie (the entire market), but instead of taking the whole thing, we're going to take only some of it. Perhaps we'll take just a few slices, or maybe we'll take more. It depends on how many target markets you want to serve. That's the premise of **differentiated marketing**.

This type of market targeting is one of the most common. A company identifies several target markets and designs separate, concentrated strategies for each. Separate brands are developed to serve each of the segments. Consider Nike, for example, which (like most apparel companies) offers different products for different segments. When Nike began its business, the founders were both competitive distance runners, so they targeted people like themselves as a segment of the running shoe market and the brand took off. However, in order to grow the business, Nike now focuses on three segments—women, young athletes, and runners.[56]

The automobile market is another good example of a clearly segmented market. Look around you on any given day, and you'll clearly see that people want different types of vehicles—small cars, big cars, SUVs, trucks, hybrids, and luxury cars. Many of the car makers like GM, Ford, Toyota, Honda, and others generally offer cars for most or all of the segments. For example, Honda's lineup includes models like the CR-V compact SUV, the Civic compact car, the midsize Honda Accord sedan, larger SUVs, and even a minivan.[57]

Concentrated Marketing (Niche Marketing)

Now we're going to take that same apple pie (remember, representing the entire market), and we're only going to take a single slice, and perhaps a small one at that. That's concentrated marketing.

Concentrated marketing doesn't mean that the company hasn't identified other target markets; it simply means that it chooses not to serve all of them. Some markets may not be attractive; other markets may not align with the company's business strengths. Therefore, the company focuses on just one target market with a single marketing mix. It channels all of its marketing efforts toward that specific segment with the aim of "owning" it over its competitors and creating strong brand loyalty.[58]

A good example of concentrated marketing is the eco-friendly cosmetics retailer LUSH. LUSH advocates for ethical buying and purity of handmade products and doesn't use animals in testing its products. As a matter of fact, at least half of its website is dedicated to fighting animal testing and overuse of plastic packaging and creating environmental awareness. The company also differentiates itself from its competitors with eco-friendly packaging and organic ingredients.[59]

This is a smart strategy for smaller companies or companies with limited resources that might be stretched thin if they attempt to compete in too many market segments. It has the added benefit that R&D and marketing can concentrate on understanding and meeting the needs of one group of customers rather than a diverse base of customers.

Micromarketing (Customized Marketing)

Micromarketing goes one step further than concentrated marketing and targets a specific group of individuals within a niche market based on specific information that has been collected about them.

For a good example of micromarketing, consider the real estate industry. A realtor may specialize in commercial sales or residential sales. Within the scope of residential sales, that realtor may drill down further and specialize in new construction, luxury properties, land and development, over-55 communities, or farms/ranches/equestrian properties.

Now let's assume that you're in the market for an expensive home in a particular area of the city. You'd likely contact a realtor who has developed a reputation in dealing with properties in a specific price range and knows the area where you'd like to move. That realtor is going to consider your specific needs and demands and will invest their efforts in finding a property that meets as many of your requirements as possible. That's micromarketing.

Stitch Fix is another good example of a company that uses micromarketing. Stitch Fix is an online personal styling service for men, women, and children that sends a selection of clothing and accessories to your door using a mix of machine learning, data, algorithms, and human stylists. The company uses "85 meaningful data points" about each customer, and based on those data points, it predicts clothing choices that the customer will want. If they doesn't like the product, they can just send it back with a prepaid, printable label within 30 days.[60] You can't get much more personalized than that!

Knowledge Check

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

1. M&M's addresses people of all ages and appeals to everyone looking for sweets (that melt in your mouth, not in your hand). What target marketing strategy does M&M's use?
   a. Differentiated marketing
   b. Concentrated marketing
   c. Undifferentiated marketing
   d. Micromarketing

2. A _____ is a semi-fictional representation of your ideal customer that helps you understand and relate to the audience to which you want to market your product and/or services.
   a. buyer persona
   b. target market
   c. niche market
   d. brand affinity

3. Lefty's is a retail shop that makes specific products like left-handed scissors and left-handed notebooks for the population of left-handed people. What target marketing strategy does Lefty's use?
   a. Undifferentiated marketing
   b. Differentiated marketing
   c. Concentrated marketing
   d. Micromarketing

4. A running shoe company specializes in designing sustainable sneakers from recycled and renewable materials for athletes who care about the environment, as well as performance models of running shoes

with less cushioning for runners who are concerned with speed. What target marketing strategy does the running company use?

a. Concentrated marketing
b. Undifferentiated marketing
c. Differentiated marketing
d. Micromarketing

5. 55places.com is a website for active adult "retirement" communities in the United States. It features unbiased information, current home sale listings, floor plans, photos, and third-party reviews. All the communities listed on the website are for residents who are age 55+. What target marketing strategy does the company use?

a. Undifferentiated marketing
b. Differentiated marketing
c. Micromarketing
d. Concentrated marketing

5.6 Product Positioning

Learning Outcomes

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

LO 1 Define product positioning.
LO 2 Explain approaches to product positioning.
LO 3 Describe the positioning statement and perceptual maps.

Product Positioning Defined

So far, you've segmented the market by dividing the market into distinct groups of customers using the segmentation process and you've determined which customer group(s) you want to focus your marketing efforts on—the target marketing process. **Product positioning** is the process of deciding and communicating how an organization wants its market to think and feel about a product or service.

This third and final step is contained in what's known as the segmenting, targeting, and positioning model, the **STP model**. With the STP model, a company segments the market, selects the target market, and positions its products and services into the existing marketplace (see Figure 5.12). In their book *Positioning: The Battle for Your Mind*, marketing gurus Al Ries and Jack Trout write, "The basic approach of positioning is not to create something new and different, but to manipulate what's already up there in the mind."[61]



Figure 5.12 The STP Model (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

The STP model is helpful in identifying your most valuable customers and developing products and marketing messages that are targeted specifically toward those customers. This allows you to interact with each market segment in a more meaningful way by personalizing your messages (and hopefully selling more of your product!).

For example, Marriott International owns several different hotel chains that target specific consumer groups:

- Courtyard by Marriott focuses on over-the-road travelers who aren't looking for luxury and all the amenities; they just want a basic, clean hotel in which to stay during their trip.
- Ritz-Carlton hotels are by their nature more luxurious and target those travelers who don't mind paying a premium price for more luxury and amenities.
- Marriott ExecuStay hotels are aimed at professionals who need a longer-term place to stay (i.e., an

extended stay hotel).

Since these target groups are seeking vastly different things from a hotel stay, Marriott tailors its marketing messages (and hotels) to appeal to the unique wants and needs of each specific group.[62]

As you can see, in this last step of the STP process, you want to first identify how you can most effectively position your product to target the customer segments that you've determined to be most valuable and then tailor the marketing mix that will be most effective in reaching them.

Approaches to Product Positioning

There are two main types of product positioning in marketing: head-to-head and differentiation. Let's take a look at both.

Head-to-Head Positioning

Head-to-head positioning focuses on comparison. It involves directly competing with competitors on similar product attributes in the same market. For instance, let's imagine that you have a small kiosk in a shopping mall where you serve freshly baked pretzels. If your kiosk makes different flavors of dough from scratch and your competitors use only processed frozen dough, you can set your pretzel business apart from your competitors in your customers' minds by emphasizing that selling point.

A classic example is when Avis (the car rental company) launched an advertising campaign that went head-to-head with Hertz, the market leader. Avis made a point of comparing itself to Hertz and made its position in the market a selling point using the slogan "When you're only No. 2, you try harder. Or else." This campaign positioned Avis as a direct competitor of Hertz and also did something unique: it highlighted its underdog status, turning it from a liability into an asset. The results? Prior to the ads, Avis was losing $3.2 million a year; after the ads, Avis improved its performance and earned $1.2 million. Remarkably, that was the first time in over a decade that Avis had been profitable.[63]

LINK TO LEARNING



Example of Head-to-Head Positioning

Another good example of head-to-head positioning is Wendy's, which launched an advertising campaign a few years ago saying that its beef is fresh, never frozen, versus its competitors, particularly McDonald's. Check out this Wendy's Super Bowl commercial from 2018 where it goes head-to-head with McDonald's.

Iceberg | Wendy's | Super Bowl 2018 Commercial (https://openstax.org/r/icebergwendyssuperbowl)

Differentiation Positioning

Differentiation positioning is all about emphasizing your product's or service's unique qualities vis-à-vis the competition. Similar to head-to-head positioning, you're going to focus on your offerings and attempt to convince customers to buy your products or services instead of those of the competition. However, dissimilar to head-to-head positioning, instead of competing in the same market, you'll attempt to identify new markets and seek out customers who may be interested in your offerings because of those unique qualities you've identified.[64] Common differentiation strategies are intended to draw consumers' attention to the value, quality, or uniqueness of your offering.

For instance, Curves, the largest women's fitness franchise in the world, succeeded by offering a fitness alternative to both home-based exercise routines and traditional health clubs. The experience of a Curves facility was entirely different from that of a typical health club. Instead of machines arranged in rows facing a TV, Curves arranged its machines in a circle to facilitate interaction among members. There were few (if any)

mirrors and no men staring. The result was that Curves did not compete head-to-head with other health and exercise concepts; rather, it created new demand.[65]

Positioning Statements

In your other college courses, you may have heard terms such as *vision statement* and *mission statement*. We're going to add a third term to your vocabulary—*positioning statement*. Essentially, a **positioning statement** briefly describes your brand, product, service, and target market. Not only does it define how your brand meets the customer's needs, but it also tries to clarify why it does so better than your competition. It answers the question "What experience do you want your customers to have with this product or service?"

Templates for writing your positioning statement abound. Here are just a few examples:

- [Your brand] provides [your offering/benefit that makes you better than competitors] for [your customers] who [customer needs] because [the reason why your customers should believe you are better than competitors].[66]
- For [target audience], [brand name] is the [your market] that delivers [your points of differentiation] so they can [end benefit] because [your evidence].[67]

Now let's take a look at some examples of positioning statements for companies with which you're likely familiar so that you can see these templates in action:

- Amazon: "For consumers who want to purchase a wide range of products online with quick delivery, Amazon provides a one-stop online shopping site. Amazon sets itself apart from other online retailers with its customer obsession, passion for innovation, and commitment to operational excellence."[68]
- Apple: "For individuals who want the best personal computer or mobile device, Apple leads the technology with the most innovative products. Apple emphasizes technological research and advancement and takes an innovative approach to business best practices—it considers the impact our products and processes have on its customers and the planet."[69]
- McDonald's: "For individuals looking for a quick-service restaurant with an exceptional customer experience, McDonald's is a leader in the fast-food industry, with friendly service and consistency across thousands of convenient locations. McDonald's dedication to improving operations and customer satisfaction sets it apart from other fast-food restaurants."[70]
- Coca-Cola: "For individuals looking for high quality beverages, Coca-Cola offers a wide range of the most refreshing options—each creates a positive experience for customers when they enjoy a Coca-Cola brand drink. Unlike other beverage options, Coca-Cola products inspire happiness and make a positive difference in customers' lives, and the brand is intensely focused on the needs of consumers and customers."[71]

Perceptual Positioning Maps and How They Are Used

A **perceptual map** is a visual diagram that shows how the average target market consumer perceives your product versus those of your competitors.[72]

A perceptual map uses two determinant attributes on a graph. **Determinant attributes** are those attributes that a customer uses in making their purchase decision. In other words, what you do believe consumers' "hot buttons" are with respect to your product or service offering? You've got a vast array of determinant attributes to use. You could use price versus quality, sugar versus protein, or any number of other attributes. The bottom line is that these attributes should reflect what customers are looking for in the product or service.

Once you've established the determinant attributes, you plot your product offering onto the map. Let's imagine that your company is getting ready to introduce a new nutritional drink for seniors. You might start out with determinant attributes like high/low sugar and high/low protein (although you could use other determinant attributes like price, taste, etc.). Step one of your perceptual map might look something like Figure 5.13.

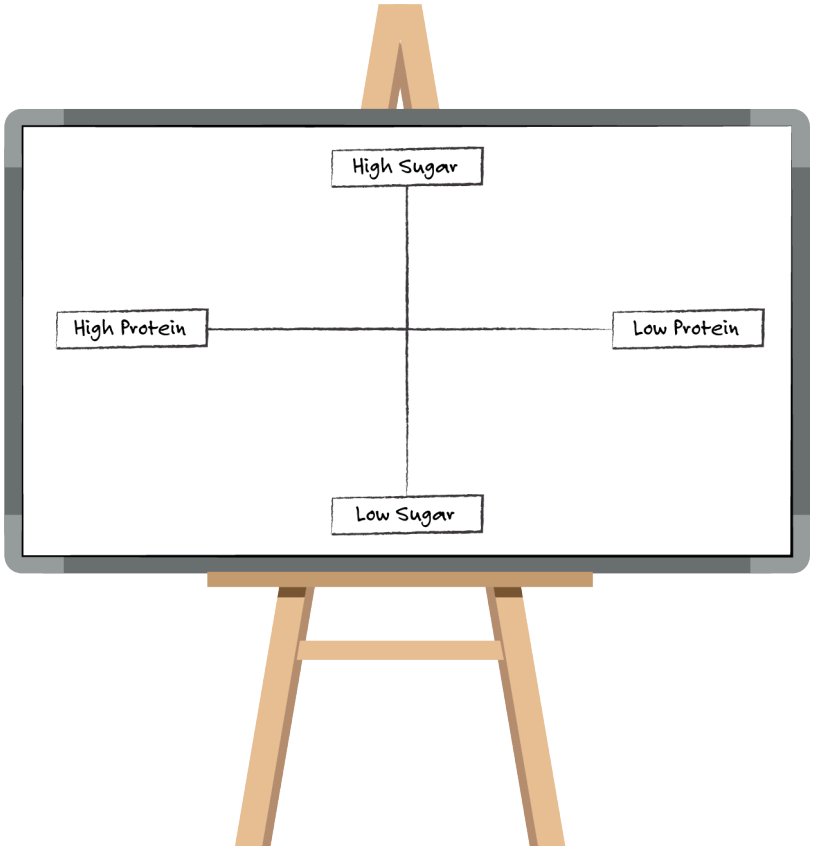

Figure 5.13 Perceptual Map Skeleton (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Now it's time to map your offering as well as the competitors' offerings on the perceptual map. The simple combination of these two scores places the product offering onto the map. It's not necessary to list every single competitor on this perceptual map, but you should try for a list of at least 5 to 10 competitors.

Once you've mapped your competitors' offerings on the perceptual map, it may look something like Figure 5.14 (although you would have brand names in the circles instead of "Brand A," "Brand B," etc.).

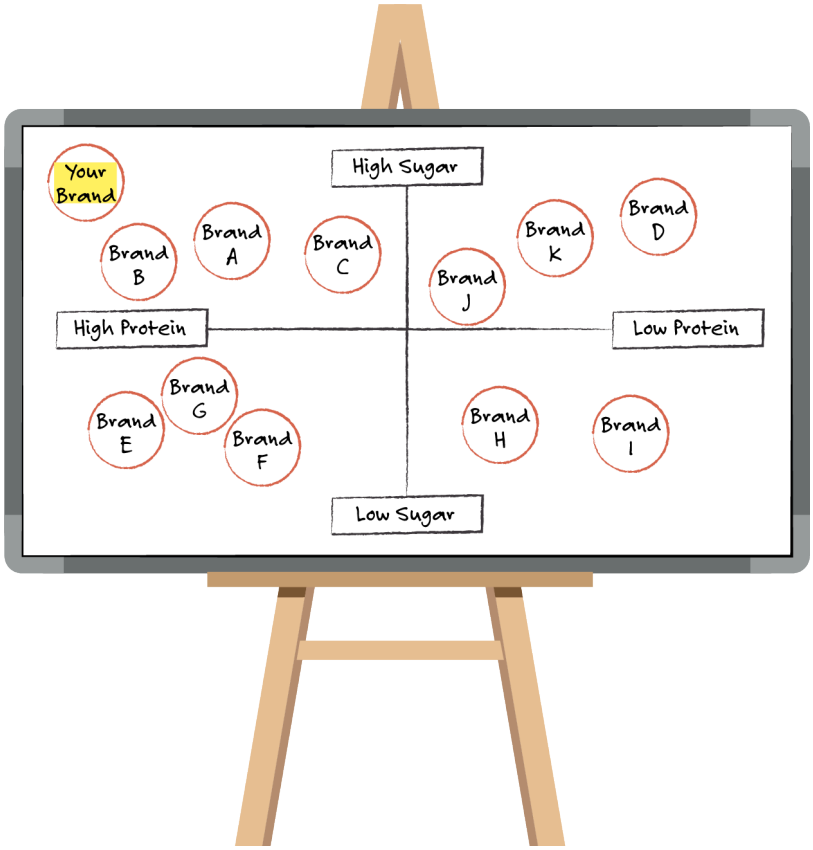

Figure 5.14 Sample Perceptual Map (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Once you have developed the perceptual map, you will have a clearer idea of where your product or service offering stands vis-à-vis your competition. You will look at which brands occupy the same space as your offering (or a nearly identical space) based on consumer attitudes. Things to look for on your perceptual map include:

- Do consumer attitudes toward your offering align with what you want them to think about it?
- Do consumer attitudes toward your competitors' offerings align what you thought consumers would think about them?
- Look at the map closely and determine which of your competitors' offerings consumers perceive as being closest to your offering.
- Perceptual maps are also an opportunity to determine if there are any holes or gaps in the map. This may signal that there is potential for new offerings.[73]

Some other things to think about once you've completed your perceptual map:

- If consumer attitudes toward your offering aren't what you expected, it may be necessary to change your marketing actions to correct or modify these consumers' attitudes.
- Let's assume for a minute that consumers view your competitors' offerings as being very similar to yours. If this is the case, you may want to think about ways to make your offering stand out from the competition rather than going head-to-head with competitors.
- If there are gaps in the map that you think you can fill based on your company's capabilities, you may want to consider introducing a new offering or moving your offering into an unfilled position by modifying its features and attributes.[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. Which of the following BEST describes a positioning statement?
   a. It is a brief description of your offering, how it meets the needs of a consumer, and why it is superior to your competitor's offerings.
   b. It sets forth the group(s) of people with shared characteristics that you've identified as potential customers for your products.
   c. It defines where your offering fits in the marketplace and why it is better than competitors' offerings.
   d. It is a visual tool designed to demonstrate the perception of your offerings by the average target market consumer vis-à-vis your competitors' offerings.

2. The STP process is an acronym for _____.
   a. segmentation, targeting, and positioning
   b. screening, targeting, and promotion
   c. sampling, test marketing, and publicity
   d. segmentation, training, and promotion

3. Build-A-Bear put a twist on buying cuddly toys by providing consumers with the ability to modify and personalize their toys. What type of positioning strategy did Build-A-Bear use?
   a. Undifferentiated positioning
   b. Differentiated positioning
   c. Head-to-head positioning
   d. Niche positioning

4. When Artesha is on the road for her job and wants some fast food for lunch, she is looking for speed of service, value, and cleanliness of the restaurant. The factors would be referred to as _____.
   a. her buyer persona
   b. a perceptual map
   c. her determinant attributes
   d. a positioning statement

5. A visual technique designed to show how the average target market consumer perceives the positioning of competing products in the market place is known as _____.
   a. a positioning statement
   b. head-to-head positioning
   c. differentiation positioning
   d. a perceptual map

5.7 Ethical Concerns and Target Marketing

Learning Outcomes

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

LO 1 Discuss ethical implications of target market selection.
LO 2 Provide an example of a company that displays ethics in target marketing.

Ethical Implications of Target Market Selection

To understand unethical target marketing, let's first review the notion of ethics in this realm. Ethics is the systematic study of morality—what people commonly refer to as "morals." The American Marketing Association (AMA) has a clear Statement of Ethics, and marketers are expected to conform to this ethical code. Before examining the issue of ethical target marketing, let's first review the general notion of ethics as it applies to marketing and other business disciplines.

Individuals and organizations choose to act morally—or immorally—when faced with a moral dilemma. The decision of whether to behave in a moral way or an immoral one has serious implications for oneself, for other

individuals, and for society as a whole. The bottom line is that morally responsible, ethical marketers both sympathize with and empathize with consumers and their legitimate needs and wants. However, there are moral issues in terms of who is targeted and with what purpose. To illustrate these points, let's review some examples of target marketing tactics that can reasonably be construed to be immoral or unethical.

Ethnic and Racial Profiling

Earlier in this chapter, we used the example of a firm advertising woodworking equipment in specialty magazines rather than general interest magazines in order to stretch its limited advertising dollars. Do-it-yourselfers, amateur woodworkers, or hobbyists would be considered an **affinity audience** to the firm—that group of potential customers who have interests or hobbies in common. That's the positive aspect of target marketing.

However, there's a negative aspect to targeting affinity audiences as well. Over the past few years, Facebook has been criticized for potential discrimination on its ad platform by excluding users who have been classified into certain racial or ethnic affinity groups. As a matter of fact, Facebook was sued by the US Department of Housing and Urban Development because its algorithms allowed advertisers to purposely target their ads by race, gender, and religion, potentially violating federal laws that prevent discrimination in ads for jobs, housing, and credit.[75]

Facebook's algorithm and machine learning allowed advertisers to purposely target their ads by race, gender, and religion. In itself, trying to reach an affinity audience through advertising isn't illegal. The problem comes in because Facebook's platform allowed advertisers to exclude users based on that algorithm. For example, with Facebook's "ethnic affinity" marketing product, the company has the ability to exclude users by race or ethnicity.[76]

Children and Teens

According to Statista, there are approximately 73 million children in the United States between the ages of 0 and 17.[77] That's a huge target market that can be extraordinarily lucrative for a marketer. Accordingly, it makes sense to target this demographic because of its potential value.

However, there are inherent ethical issues involved in marketing to children, including distinguishing intent, gender stereotypes, violence, and obesity. Let's first consider distinguishing intent. According to the American Psychological Association (APA), children under the age of 7 or 8 can't discern the "persuasive intent" of advertising. In other words, they don't realize that the marketing message is made to sell something to them. Instead, children tend to accept the content at face value and believe that it's true, accurate, fair, and unbiased. This lack of distinguishing intent can potentially exploit children because it takes advantage of their inability to make sound, calculated decisions about a product or service based on the available information.[78]

Now let's consider gender stereotypes. At approximately age 2, children become conscious of the physical differences between boys and girls, and according to the Campaign for a Commercial-Free Childhood (CCFC), gender-stereotyped messages can interfere with that process. Consider the number of gender-stereotyped toys on the market today (or go to the toy section of any big-box store). For example, there are approximately 40,000 Disney Princess items on the market today, typically aimed at girls, whereas toys like Transformers are typically marketed to boys.[79]

Violence is still another ethical issue to consider. Research indicates that more than half of TV shows and even some commercials (particularly those for video games) contain violence, and the concern is that watching violence may desensitize youth to it and may even suggest to youngsters that violence is an effective way to settle conflicts.[80]

Another ethical issue is childhood obesity. According to the Centers for Disease Control and Prevention (CDC), childhood obesity has "more than tripled since the 1970s," and it's estimated that one in five school-aged children is obese.[81] Yet watch the commercials on children's TV shows, and you'll find that they are almost

completely dominated by unhealthy food products like candy, sugary cereal, and snacks. To their credit, some forward-thinking companies have made it a practice not to advertise to children under 12 because of the association with childhood obesity. For instance, according to the Council of Better Business Bureaus, Brach's, Lemonhead, Ghirardelli, Jelly Belly, PEEPS, Mike and Ike, and Welch's Fruit Snacks avoid advertising to children under 12.[82]

Let's examine still another societal problem—vaping. According to recent studies, approximately four million students admit to vaping, an increase of over two million users. One of the major players in the industry is Juul, which has been criticized for targeting adolescents with colorful packaging; flavors like mint, crème, and mango; and a USB flash drive design that made the product small and easy to conceal in a backpack, pocket, or even a hoodie.[83] The problem has become so pervasive with young people that, in June of 2022, the US Food and Drug Administration was poised to issue an order removing Juul Labs vaping products from the market.[84]

Marketing to the Elderly

Older adults are also often exploited by target marketers. Older adults often have fixed incomes along with health problems, and this has made them a poplar target for products that give "assurances" of good health and affordability. The most common instances of bad ethics involve prescription drug targeting. Misleading statements about product efficacy are rampant, whether it's for a prominent drug manufacturer or a company that markets "natural" or "organic" products. The COVID-19 pandemic has seen this problem emerge in full force, with many brands touting a "cure-all" to alleviate the virus. The bottom line is that elderly audiences may make questionable purchasing decisions if they believe their health may be at risk as a result of not taking action.[85]

Low-Income Targeting

Low-income earners tend to be more susceptible to ads that promise a better way of life, such as high APR (annual percentage rate) credit cards and multilevel marketing schemes. Targeting low-income audiences can pose a threat to their safety and ultimately have dire legal ramifications.[86]

Low-income earners can also be wrongfully excluded from the market if companies curtail or fail to enable consumption of products because they "assume" the consumers cannot afford the product(s) at the specified price.

COMPANIES WITH A CONSCIENCE

Subway



Figure 5.15 There are numerous ways to target markets, and Subway has chosen what many would call an ethical strategy because it focuses on offering families healthy options, unlike some of its competitors. (credit: "Mmm... Sammich" by jeffreyw/flickr, CC BY 2.0)

We've just read about some of the ways that children are targeted in negative or unhealthy ways, so let's take a look at one company that tried to get it right, Subway (see Figure 5.15).

Back in 2014, Subway aligned itself with then–First Lady Michelle Obama's Let's Move! initiative. The company vowed to spend $41 million over a three-year period to promote a healthy-eating program aimed specifically toward children. The ad campaign bore the slogan "Playtime: Powered by Veggies."

But Subway didn't stop there. The company also teamed up with the Partnership for a Healthier America (PHA), a nonprofit organization that works with the private sector to help advance the goals of Mrs. Obama's Let's Move! initiative.

Suzanne Greco, vice president of operations for Subway, stated, "From a sign on each restaurant's door that says 'Playtime Powered by Veggies' to a video collaboration with Disney's The Muppets, [Subway] will build upon our ongoing efforts to create better choices for families."[87]

Watch this video on the partnership between Subway and the Let's Move! initiative.

First Lady Michelle Obama announced today that the Subway sandwich chain is launching a 3-year, $41 (https://openstax.org/r/subwaysandwichchain)

Chapter Summary

In this chapter, market segmentation is defined and the differences between segmenting B2C, B2B, and international markets are explored. Segmentation, plus targeting and positioning, are the major elements of a customer-driven marketing strategy. Smart marketers know they can't reach and serve every buyer, so they approach the broader market with tools that help them identify, select, and position their products for consumers who are most likely to need the company's products and services.

Better understanding B2C or B2B markets also helps marketers better understand unmet needs, assisting in the development of new products and services. Targeted marketing, top-notch customer service, and new product developments that are based upon customer needs result in customer experiences that successfully reinforce brand loyalty.

Key Terms

ADAMS the essential factors in effective market segmentation—accessible, differentiable, actionable, measurable, and substantial

affinity audience a group of potential customers who have interests or hobbies in common

behavioral segmentation method of grouping customers by their behavior patterns or interactions with a brand

buyer persona semi-fictional representation of an organization's ideal customers based on data and research

concentrated marketing marketing segmentation strategy in which the firm concentrates its efforts and resources on serving one segment of the market

demographic segmentation grouping customers and potential customers together by focusing on certain traits such as age, gender, income, occupation, and family status

determinant attributes those attributes of a product or service that consumers rely upon when making a purchase decision

differentiated marketing marketing strategy that involves creating marketing campaigns that appeal to two or more different target audiences, demographics, or marketing segments

differentiation positioning product/service positioning based on the differentiating characteristics or qualities that make an organization better than its competitors in the mind of the target audience

firmographics a grouping of B2B customers based on shared company attributes; includes five categories: industry, location, size, legal structure, and performance

geographic segmentation marketing strategy used to target products or services at people who live in or shop at a particular location

head-to-head positioning directly competing with competitors on similar product attributes in the same market

market segmentation the process of dividing a broad consumer or business market into subgroups based on shared characteristics

micromarketing marketing strategy used on a targeted group of customers in a niche market

multi-segment marketing marketing strategy in which the firm targets several different market segments simultaneously

needs-based segmentation dividing the market up into smaller groups of people who have approximately the same needs

perceptual map visual depiction of how target customers view and feel about a given brand or product

positioning statement short description of an organization's target market(s) and the product(s) provided to them

product positioning the process of deciding and communicating how an organization wants its market to think and feel about a product or service

psychographic segmentation dividing consumers into subgroups based on shared psychological

characteristics, including beliefs, motivations, and priorities

STP model three-step marketing framework in which an organization segments the market, selects target market(s), and positions its products or services

target market group of people with some shared characteristics that a company has identified as potential customers for its products

technographic segmentation organizing B2B prospects by their technology ownership and usage

undifferentiated marketing also called mass marketing, a strategy that entails creating one message for an entire audience

value-based segmentation evaluating groups of customers in terms of the revenue they generate and the costs of establishing and maintaining relationships with them

Applied Marketing Knowledge: Discussion Questions

1. Somewhat like the cola wars of the 1980s, quick-service food chains are engaging in chicken wars. List and discuss at least two ways Chick-fil-A, Popeye's, and Slim Chickens have differentiated and positioned their products as they fight for customers.
2. Why would a local hair salon choose to use geographic segmentation variables and a narrow, concentrated marketing strategy rather than psychographic, demographic, or behavioral variables plus undifferentiated, differentiated, or micromarketing strategies? Might the salon be more successful at reaching its target audience by utilizing multi-segment marketing?
3. Describe the major elements of a positioning statement. Which words in the following Walt Disney World positioning statement—"For the young and young-at-heart, Walt Disney World is the theme park that best delivers on an immersive and magical experience because Walt Disney World, and only Walt Disney World, connects you to the characters and worlds you most desire"—illustrate what Disney World promises customers and why it delivers on this promise better than competitors in the entertainment industry?
4. Have you ever watched cartoons? If so, have you seen content that you would consider to be unethical targeting by advertisers? Common examples of ethical lapses include ethnic and racial profiling, promoting gender stereotypes, depicting violence, and encouraging child obesity.

Critical Thinking Exercises

1. Mountain Dew was introduced in 1940 and marketed as "moonshine," complete with Willy the Hillbilly proclaiming "It'll tickle yore innards!" Since PepsiCo acquired the brand in the 1960s, Mountain Dew has cycled through new looks, logos, slogans, packaging, flavors, and brand personalities now connected with speed and velocity rather than soda brewed in a whiskey still. Research Mountain Dew's history and consider this question: How has Mountain Dew steadily moved away from other competitors in the soft drink industry in its positioning efforts, and do you believe this movement has grown consumers' brand loyalty?
2. The three-step STP model has proven successful in stepping systematically through the target market selection process. How has your college proceeded from segmentation to targeting to effectively positioning? Offer examples of each step and develop a perceptual map showing how the average high school student may perceive your college's attributes versus its competitors'.
3. Why might candy companies such as Lemonhead, Ghirardelli, Jelly Belly, PEEPS, Mike and Ike, and Welch's Fruit Snacks make the pledge not to advertise to children under the age of 12? Does this decision also send a message to parents?

Building Your Personal Brand

There are numerous examples of successful personal brands. For good examples, read this article from the

Webflow blog where 18 of the best personal brand examples in 2022 are listed. (https://openstax.org/r/personalbrandingexamples) Using what you learned in this chapter about marketing to target markets and using the inspiration and knowledge gained from this article, write the opening page to your website. Keep in mind the things shared in the article on what made the personal brands stand out. And know your target market so you can craft a message that will appeal to them.

What Do Marketers Do?

Utilize LinkedIn to find two sales managers in your geographic area and invite them to connect with you. Try using what you now know about segmentation, targeting, and positioning to consider industries you'd like to work in, where they might be located, and how you can make your resume appealing to them. Can you craft a compelling message that encourages sales managers to connect with you? Once linked, "interview" at least one sales professional and ask questions about what they enjoy most and least about their sales careers.

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, complete the following sections of your marketing plan:

- Market Segmentation
- Target Market
- Buyer Personas
- Positioning

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

Closing Company Case

Travelers Point Distillery

In early 2000, several friends got together to tell stories and drink bourbon. It was obvious that friends and stories come together with good bourbon. The best stories included the rich family history of Master Distiller Mel Lytton.

Dating back to the 1880s and into prohibition, Mel's great grandfather distilled bourbon in rural Virginia. Having grown up in a bourbon family, Mel not only had the ability to detect all the subtle flavors of a great bourbon, but he had the family recipe that had been passed down through the generations. And Mel knew how to distill it.

Mel had more stories than most. Having mastered the art of just about everything he set out to do, Mel was a stone mason, a blacksmith, and a carpenter skilled at woodworking. As Mel talked about the bourbon he was tasting and told stories of his family distilling in the mountains and backwoods of Virginia, an idea was born. The friends decided they would love to get into the business of distilling bourbon.

Bourbon is a truly American drink. It is generally aged in oak barrels and made with grain, primarily corn. Bourbon can range in price from thousands of dollars to $40–50 per bottle. In the early 1960s, Congress declared bourbon "America's Native Spirit."

While traditionally bourbon is mostly consumed by men, it is catching on with women too. In fact, bourbon is quickly gaining popularity among those 21 and over. "The Kentucky Bourbon Trail and the Kentucky Bourbon Trail Craft Tour have drawn more than 2.5 million visitors from all 50 states and 25 countries in the last five

years and have become leading educational and tourism attractions."[88]

With the growth and popularity of bourbon drinking and collecting, it was clear that there was room in the industry for one more bourbon brand.

Mel's family recipe and his history of distilling made the group of friends confident in their ability to provide a craft or small-batch bourbon that would be equal to if not better than many currently available. They formed the company and found the perfect location to open the distillery—an old granary in the heart of America's farming country in Kirklin, Indiana. The community is uniquely located in the middle of the state with a major highway passing through the middle of the town. Kirklin truly is the crossroads of America.

With the original group of investors and a few additions, the business was formed. Mel began distilling the bourbon. It was put in barrels and up in the rack room to age. The label, the brand, and the distribution were in the works.

The group determined that some of the best things in life included bourbon and travels. In fact, many of the stories they told over a great glass of bourbon included their many collective travels around the world. The name for their new bourbon was decided—Travelers Point. It wouldn't be long before Travelers Point began marketing its bourbon.

As the company considered its branding and value proposition, the founders knew they wanted to have a unique story of production along with a price point that ranked with some of the premium bourbon brands currently on the market. Travelers Point bourbon would sell for around $45–60 per bottle. This would put it in the ranks of some of the sought-after brands with a following among die-hard bourbon drinkers.[89]

The difference in Travelers Point is obvious to discerning bourbon drinkers. The bourbon profile is unique, with deep caramel notes and a rich combination of oak and vanilla. Many bourbon drinkers enjoy the hunt for the perfect bourbon. Travelers Point has something special. Finding the market segment that is ready for a new bourbon with a long history will be critical to its marketing success.

For more information about Travelers Point Distillery, check out their website (https://openstax.org/r/travelerspointdistillery).

Case Questions

1. Based on the price point and branding for Travelers Point bourbon, what is the recommended method the company should use to segment its market?
2. Which target market strategy would you recommend for Travelers Point, and why?
3. What approach to brand positioning do you recommend for Travelers Point? Support your answer.
4. Develop a perceptual map of the bourbon brands currently selling for $40–60 per bottle.

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6

Marketing Research and Market Intelligence

Figure 6.1 Marketing research provides companies with data-driven insights that allow for deep understanding of their customers in order to develop products and services that meet those customers' needs. (credit: modification of work "Workshop: Biodiversity Data Mobilization - Day 3" by Maheva Bagard Laursen/GBIF/flickr, CC BY 2.0)

Chapter Outline

6.1 Marketing Research and Big Data
6.2 Sources of Marketing Information
6.3 Steps in a Successful Marketing Research Plan
6.4 Ethical Issues in Marketing Research

In the Spotlight

When you think of LEGO, you may imagine a child building a spaceship or castle, but LEGO wanted to learn more about how children are encouraged or discouraged to play with its bricks. In 2021, LEGO launched a research study of close to 7,000 parents and children aged 6 to 14 years old in seven countries to determine how gender stereotypes influence play in creative activities.

During this study, LEGO learned that girls are more open to bending gender roles than boys but that parents have learned to stereotype some careers as being gender-specific. Additionally, parents are more likely to encourage girls to play dress-up (83 percent for girls, 17 percent for boys), dance (81 percent for girls, 15 percent for boys), and bake (80 percent for girls, 20 percent for boys), while they suggest computer coding (71 percent for boys, 29 percent for girls) and sports for boys (76 percent for boys, 24 percent for girls). Due to these findings, LEGO initiated its "Ready for Girls" campaign.

The data compiled in this study allowed LEGO to take a step forward in helping to break down some gender norms when it comes to its product. On October 11, 2021, the International Day of the Girl, LEGO announced a new program to encourage girls to show their creativity. "Get the World Ready for Me" was launched with a 10-step guide to collect information about how girls are engaging with LEGO. Due to this program, LEGO has launched a campaign of stories about how girls are involved with imagination and creativity.

Through this campaign, LEGO identified a way to encourage girls to challenge worldwide views of gender norms (see Figure 6.2). The background necessary for this campaign was researched and used in a way that would help the company stand out. For LEGO and many other companies and organizations, research is its

competitive advantage.[1]



Figure 6.2 Through the use of marketing research, LEGO was able to gain data-driven insights into gender stereotypes and launch a campaign that encouraged girls to challenge views on gender norms. (credit: "LEGO Shuttle Expedition and City Spaceport Comparison" by Adam Purves (S3ISOR)/flickr, CC BY 2.0)

6.1 Marketing Research and Big Data

Learning Outcomes

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

- LO 1 Define marketing research.
- LO 2 Explain how marketing information provides an understanding of the customer and the marketplace.
- LO 3 Explain the role of big data and the marketing information system.

What Is Marketing Research?

Oftentimes people think of marketing as the process of communicating with a target market—sharing messages, products, and value with customers. However, marketers know that understanding customers, learning about their wants and needs, and developing a relationship with them is essential for success. Marketing research allows marketers to listen and assess the needs of the market, to understand what's missing and how to reduce those gaps from their customers, target markets, and prospective clients. Managers need marketing information in order to make data-driven decisions rather than make assumptions about consumers. In this chapter we're going to investigate the importance of marketing research, some strategies employed in the field, and how to complete the marketing research process.

Marketing research is the work to gather information and data about customers and markets. Let's look at the definition, why it's important, and the influx of big data.

Marketing Research Defined

According to the American Marketing Association (AMA), **marketing research** "is the function that links the consumer, customer, and public to the marketer through information."[2] Marketing research presents information gained through various sources as a resource for managers to make data-driven business decisions. Additionally, the AMA states that "marketing research specifies the information required to address these issues, designs the method for collecting information, manages and implements the data collection process, analyzes the results, and communicates the findings and their implications."[3]

The Importance of Marketing Information

Marketing information, also known as business intelligence, competitive intelligence, or marketing intelligence, is information about the market that helps to identify opportunities in the market. This information helps to determine a company's strengths and weaknesses while also evaluating the external environment's opportunities and threats. Ideas generated through analysis of marketing information support business decision-making from a long-term strategic approach to smaller issues at a tactical level.

Marketing information is essential for a company or organization to stay competitive and also meet the customer's needs. As referenced above, LEGO used marketing research to gather information about how children use its product but also how parents felt about opportunities for their children. Universities and colleges use information gathered through marketing research to build next year's recruitment materials by asking students their perceptions of the previous year's items. Additionally, a fast-food restaurant might conduct an analysis of the time of day each of its items are more likely to be purchased. Obvious to most, coffee would probably be an item more likely ordered earlier in the day. Other items might not be as evident but could require different preparation times. By accounting for when each of these items is most likely to be ordered, the restaurant can plan its inventory and schedule of employees more efficiently.

Big Data and the Marketing Information System (MIS)

The amount of data currently available is not only vast but is growing at an exponential level every day, which describes the concept of big data. **Big data** is the countless number of records that continues in an increasing capacity and at a faster rate. Because of the constantly changing landscape of data, it's difficult for companies to develop an approach for analyzing it. Big data is often described through the use of the three Vs: volume, velocity, and variety. The amount of data, or volume, is more than we have ever witnessed. Additionally, it is growing at a fast rate; the velocity is also ever increasing. We expect that the velocity of data will continue to surge exponentially as each day more users are contributing to the data available. Finally, there is the variety of data that is part of this enormous data set—because each user is contributing to the cache of data available, the diversity of data is just as unique as its creators.

LINK TO LEARNING



What Is Big Data?

Big data is massive amounts of data. But what does that mean? Think of all the data a smartphone generates with texts, searches, emails, photos, etc. Now consider how many smartphone users there are in the world. Watch this video and learn how much data is generated on the internet each day and how it can be classified through the three Vs concept.

Big Data In 5 Minutes | What Is Big Data?| Big Data Analytics | Big Data Tutorial | Simplilearn (https://openstax.org/r/whatisbigdata)

"Big data has become one of the most valuable assets held by enterprises, and virtually every large organization is making investments in big data initiatives."[4] This statement was based on a 2021 NewVantage Partners survey of senior C-level executives at Fortune 1000 companies regarding their perceptions of big data and their utilization of its resources. NewVantage Partners learned that many companies are already pursuing this data, with 96 percent reporting that their companies have already had success using big data and artificial intelligence programs. Additionally, 99 percent of the executives surveyed are pursuing either new or existing big data programs. Why are companies so keen to invest in this source? It is estimated that the world creates approximately 2.5 quintillion bytes of data daily. This vast accumulation of data can be collected through various methods, such as point-of-sale databases, connected devices through the Internet of Things (IoT),

third-party marketing research firms, social media, location data from mobile devices, or surveys.[5] Tapping into the resource generators is helpful for companies to understand their customers, employees, or others.

So, who are these data generators? They are everyone, like you and your friends, who post content on social media, engage with web content through streaming services, and share stories through web applications. In addition, businesses are contributing to the massive amount of content available. Extra data (volume), at a faster rate (velocity), and from a more widely diverse set of people (variety) explain why it is called "big" data.[6] So how do businesses and individuals capitalize on this vast data world?

In order to be able to utilize and make the most of the availability of business data, businesses use a **marketing information system** to collect, analyze, and report interesting findings from internal and external data of the company. This system is an ever-changing database of content that is used to support the company or organization's marketing efforts. The marketing information system is the collection of data and requires actions taken by marketers to utilize the data saved.

CAREERS IN MARKETING



Market Research Analysts

Market research analysts are needed in numerous industries, and according to the US Bureau of Labor and Statistics (https://openstax.org/r/marketresearchanalysts), the job outlook has a much higher rate of growth than average. Read about the skills needed, typical pay, education requirements, and career outlook in this article (https://openstax.org/r/marketresearcher) and watch this video about the various types of jobs available as a market research analyst.

How to Become a Marketing Analyst (https://openstax.org/r/marketinganalyst)

Knowledge Check

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

1. Anaya is collecting information from a variety of sources to make a decision on where to market her new line of designer scarves. Anaya is conducting _____.
   a. market intelligence
   b. big data
   c. management information system
   d. marketing research

2. The collection of data the company has gathered over time and used to make marketing decisions on a regular basis is called its _____.
   a. big data
   b. marketing information system
   c. marketing research
   d. survey data

3. Ryan and Christie are uploading their recent pictures to Instagram, tagging the photographer and the venue. What is this content adding to?
   a. Market intelligence
   b. Big data
   c. Management information system
   d. Marketing research

4. Which of the following is not a reason why marketing research is important for the success of a business?
   a. It provides a guarantee of customer satisfaction.
   b. It identifies opportunities in the market to explore.
   c. It helps to quantify customer perceptions.
   d. It uncovers weaknesses within a company.

5. Which of the following would not be considered marketing research?
   a. Analyzing the product purchases of current customers
   b. Measuring the number of reactions to a social media post
   c. Examining a competitor's database of information
   d. Surveying potential employees about why they are interested in working for a company

6.2 Sources of Marketing Information

Learning Outcomes

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

LO 1 Identify sources of marketing information.
LO 2 Describe the different categories of marketing information.

Identify Sources of Marketing Information

Data, as mentioned in the first section of this chapter, comes from a variety of sources. In this section, we'll investigate the sources of important marketing information and how these resources can be accessed to meet the needs of the institution. Online resources such as company websites, journal databases, and e-commerce locations could provide valuable resources to someone opening a new business. For instance, if a new product is to be sold, some companies will review competitors' websites to glean information about comparable pricing before setting their price. The sources identified are closely aligned with the category of information and are described below.

Describe the Different Categories of Marketing Information

Marketing information can be derived from many sources. We will review three types in this section—internal data, external data, and competitive intelligence—and further explain other types of data in the next section. External and internal data both have unique qualities that make them essential for businesses to utilize. Additionally, competitive intelligence refer to specific types of data that must be examined to further the company or organization's continued success and effectiveness.

External Data and Databases

External data is data that originates from outside the organization. Examples of external data would be information gleaned from customers through a customer service survey or reviews of a competitor's website. Previously we learned about big data and the volume of information that is available daily. These data pieces would also be considered external data. Competitive and market intelligence is often gathered through these external sources of material. Data sources can include any interested parties of the business or a competitor's business, social media mentions, news articles, journal publications, and others. The only limitation of collecting external data is financial. Not all sources of information are free, and the time spent to collect these insights is also a valuable commodity as "time is money." Once external information is collected and available for those within the institution, it can be considered internal data.

Internal Data and Databases

Critical marketing intelligence can be data that already exists in the company's databases. This data is called **internal data** and gives the company a historic view of what has worked in the past as well as identifies times when the company did not meet its goals. Internal data includes sales, promotional effectiveness, pricing,

product launch information, research and development, and logistics information. Examples of internal data include the percentage of coupons redeemed, the sales volume at specific prices, the highest-grossing motion picture for a production company, and even the most-missed question on last unit's marketing exam.

Businesses, organizations, nonprofits, and even colleges and universities use these types of data sources to make day-to-day and more comprehensive decisions. A **database** is a collection of related data. For instance, at the school you are currently attending, there are multiple databases—one for current students, one for alumni, and still another for faculty. Within each of these databases, there is information about that specific population. The current student database will be a list of all students who are enrolled in courses this term, with additional information such as what courses they are enrolled in, any past enrollments, grades earned, major, hometown, and academic advisor's name.

Competitive Intelligence

Marketing research can be conducted on every aspect of business and marketing. Understanding the competition and its strengths and weaknesses through an analysis of the industry and competing forces gives a company a competitive edge. **Competitive intelligence** is the collection of that information from the marketplace. A company's position must be examined to determine if it matches with the needs of the customers.

This competitive intelligence may be related to any of the marketing mix elements: product, price, distribution, or promotion. Checking prices of competitors' products to make sure a company's pricing is competitive, conducting a promotional audit to verify reach of the messages, or examining the competitive industry's distribution channels may allow the company to identify a new location, and all help to make the company more educated on future decisions. When in a competitive space, why do customers choose the competitor over the company's products? Marketing research can come in many forms and helps managers to make data-driven decisions. Once this data is collected, it becomes part of the business or organization's internal data cache.

Knowledge Check

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

1. Which of the following is a source for external information?
   a. Sales receipts of your company's most popular product
   b. Employee salaries
   c. Comments received from a customer service survey
   d. Company's website content

2. Xin wants to determine the best price for a new product. What source of data would be the most appropriate to use?
   a. Price of a competitor's products
   b. Inventory expenses
   c. Journal articles
   d. Online news site

3. Which of the following is not a source of marketing information?
   a. Journal articles
   b. Social media posts
   c. Experiments
   d. Marketing information systems

4. Which of the following would be a good source of competitive intelligence?
   a. Experiments

b. Product sales of a company's products
c. Consumer responses to a poll on a company's new products
d. Competitor's website

5. Critical data that already exists within a company's databases is called _____.
a. big data
b. internal data
c. external data
d. competitive data

6.3 Steps in a Successful Marketing Research Plan

Learning Outcomes

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

LO 1 Identify and describe the steps in a marketing research plan.
LO 2 Discuss the different types of data research.
LO 3 Explain how data is analyzed.
LO 4 Discuss the importance of effective research reports.

Define the Problem

There are seven steps to a successful marketing research project (see Figure 6.3). Each step will be explained as we investigate how a marketing research project is conducted.

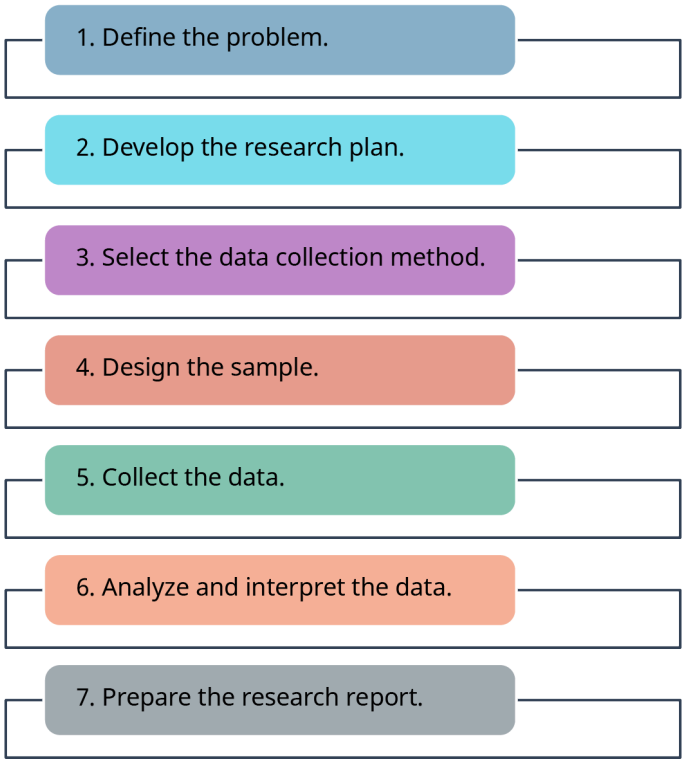

Figure 6.3 The Marketing Research Plan (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

The first step, defining the problem, is often a realization that more information is needed in order to make a data-driven decision. **Problem definition** is the realization that there is an issue that needs to be addressed. An entrepreneur may be interested in opening a small business but must first define the problem that is to be investigated. A marketing research problem in this example is to discover the needs of the community and also to identify a potentially successful business venture.

Many times, researchers define a research question or objectives in this first step. Objectives of this research study could include: identify a new business that would be successful in the community in question, determine the size and composition of a target market for the business venture, and collect any relevant primary and secondary data that would support such a venture. At this point, the definition of the problem may be "Why are cat owners not buying our new cat toy subscription service?"

Additionally, during this first step we would want to investigate our **target population** for research. This is similar to a target market, as it is the group that comprises the population of interest for the study. In order to have a successful research outcome, the researcher should start with an understanding of the problem in the current situational environment.

Develop the Research Plan

Step two is to develop the research plan. What type of research is necessary to meet the established objectives of the first step? How will this data be collected? Additionally, what is the time frame of the research and budget to consider? If you must have information in the next week, a different plan would be implemented than in a situation where several months were allowed. These are issues that a researcher should address in order to meet the needs identified.

Research is often classified as coming from one of two types of data: primary and secondary. **Primary data** is unique information that is collected by the specific researcher with the current project in mind. This type of research doesn't currently exist until it is pulled together for the project. Examples of primary data collection include survey, observation, experiment, or focus group data that is gathered for the current project.

Secondary data is any research that was completed for another purpose but can be used to help inform the research process. Secondary data comes in many forms and includes census data, journal articles, previously collected survey or focus group data of related topics, and compiled company data. Secondary data may be internal, such as the company's sales records for a previous quarter, or external, such as an industry report of all related product sales. **Syndicated data**, a type of external secondary data, is available through subscription services and is utilized by many marketers. As you can see in Table 6.1, primary and secondary data features are often opposite—the positive aspects of primary data are the negative side of secondary data.

	Strengths	Weaknesses
Primary Data	• Can be structured to be exactly what is needed • Under complete control of researchers • Timely, current data	• Expensive to implement • Takes time to compile • May not be generalizable beyond specific research question
Secondary Data	• Generally inexpensive or free • Can be accessed quickly • Available through a variety of sources	• May not match required parameters • Can be outdated • Same data accessible by competitors

Table 6.1 The Strengths and Weaknesses of Primary and Secondary Data

There are four research types that can be used: exploratory, descriptive, experimental, and ethnographic research designs (see Figure 6.4). Each type has specific formats of data that can be collected. **Qualitative research** can be shared through words, descriptions, and open-ended comments. Qualitative data gives context but cannot be reduced to a statistic. **Qualitative data** examples are categorical and include case

studies, diary accounts, interviews, focus groups, and open-ended surveys. By comparison, **quantitative data** is data that can be reduced to number of responses. The number of responses to each answer on a multiple-choice question is quantitative data. Quantitative data is numerical and includes things like age, income, group size, and height.

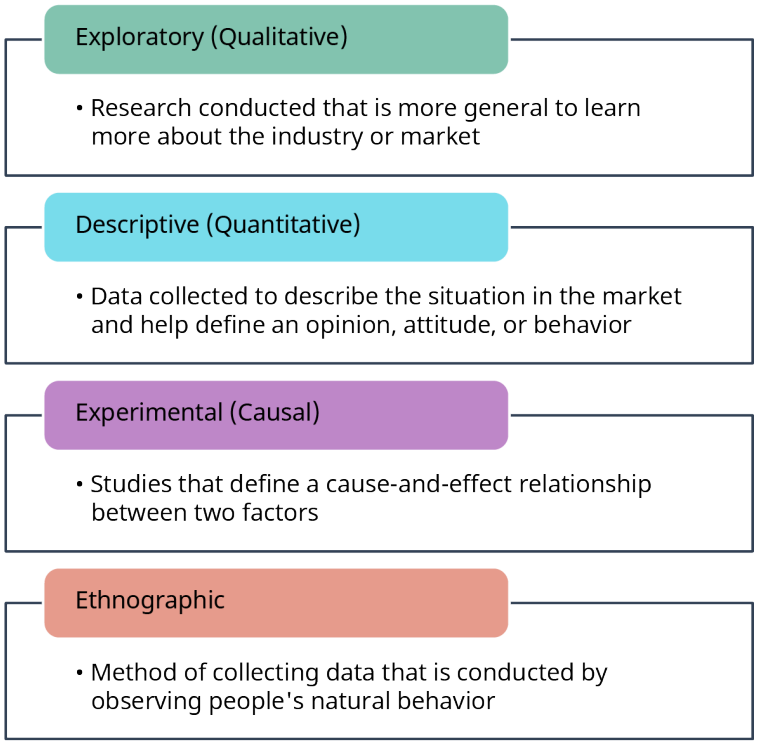

Figure 6.4 Four Research Types (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Exploratory research is usually used when additional general information in desired about a topic. When in the initial steps of a new project, understanding the landscape is essential, so exploratory research helps the researcher to learn more about the general nature of the industry. Exploratory research can be collected through focus groups, interviews, and review of secondary data. When examining an exploratory research design, the best use is when your company hopes to collect data that is generally qualitative in nature.[7]

For instance, if a company is considering a new service for registered users but is not quite sure how well the new service will be received or wants to gain clarity of exactly how customers may use a future service, the company can host a focus group. Focus groups and interviews will be examined later in the chapter. The insights collected during the focus group can assist the company when designing the service, help to inform promotional campaign options, and verify that the service is going to be a viable option for the company.

Descriptive research design takes a bigger step into collection of data through primary research complemented by secondary data. Descriptive research helps explain the market situation and define an "opinion, attitude, or behavior" of a group of consumers, employees, or other interested groups.[8] The most common method of deploying a descriptive research design is through the use of a survey. Several types of surveys will be defined later in this chapter. Descriptive data is quantitative in nature, meaning the data can be distilled into a statistic, such as in a table or chart.

Again, descriptive data is helpful in explaining the current situation. In the opening example of LEGO, the company wanted to describe the situation regarding children's use of its product. In order to gather a large group of opinions, a survey was created. The data that was collected through this survey allowed the company to measure the existing perceptions of parents so that alterations could be made to future plans for the company.

Experimental research, also known as **causal research**, helps to define a cause-and-effect relationship between two or more factors. This type of research goes beyond a correlation to determine which feature caused the reaction. Researchers generally use some type of experimental design to determine a causal relationship. An example is A/B testing, a situation where one group of research participants, group A, is exposed to one treatment and then compared to the group B participants, who experience a different situation. An example might be showing two different television commercials to a panel of consumers and then measuring the difference in perception of the product. Another example would be to have two separate packaging options available in different markets. This research would answer the question "Does one design sell better than the other?" Comparing that to the sales in each market would be part of a causal research study.[9]

The final method of collecting data is through an ethnographic design. **Ethnographic research** is conducted in the field by watching people interact in their natural environment. For marketing research, ethnographic designs help to identify how a product is used, what actions are included in a selection, or how the consumer interacts with the product.[10]

Examples of ethnographic research would be to observe how a consumer uses a particular product, such as baking soda. Although many people buy baking soda, its uses are vast. So are they using it as a refrigerator deodorizer, a toothpaste, to polish a belt buckle, or to use in baking a cake?

Select the Data Collection Method

Data collection is the systematic gathering of information that addresses the identified problem. What is the best method to do that? Picking the right method of collecting data requires that the researcher understand the target population and the design picked in the previous step. There is no perfect method; each method has both advantages and disadvantages, so it's essential that the researcher understand the target population of the research and the research objectives in order to pick the best option.

Sometimes the data desired is best collected by watching the actions of consumers. For instance, how many cars pass a specific billboard in a day? What website led a potential customer to the company's website? When are consumers most likely to use the snack vending machines at work? What time of day has the highest traffic on a social media post? What is the most streamed television program this week? **Observational research** is the collecting of data based on actions taken by those observed. Many data observations do not require the researched individuals to participate in the data collection effort to be highly valuable. Some observation requires an individual to watch and record the activities of the target population through **personal observations**.

Unobtrusive observation happens when those being observed aren't aware that they are being watched. An example of an unobtrusive observation would be to watch how shoppers interact with a new stuffed animal display by using a one-way mirror. Marketers can identify which products were handled more often while also determining which were ignored.

Other methods can use technology to collect the data instead. Instances of **mechanical observation** include the use of vehicle recorders, which count the number of vehicles that pass a specific location. Computers can also assess the number of shoppers who enter a store, the most popular entry point for train station commuters, or the peak time for cars to park in a parking garage.

When you want to get a more in-depth response from research participants, one method is to complete a **one-on-one interview**. One-on-one interviews allow the researcher to ask specific questions that match the respondent's unique perspective as well as follow-up questions that piggyback on responses already completed. An interview allows the researcher to have a deeper understanding of the needs of the respondent, which is another strength of this type of data collection. The downside of personal interviews it that a discussion can be very time-consuming and results in only one respondent's answers. Therefore, in order to get a large sample of respondents, the interview method may not be the most efficient method.

Taking the benefits of an interview and applying them to a small group of people is the design of a **focus group**. A focus group is a small number of people, usually 8 to 12, who meet the sample requirements. These individuals together are asked a series of questions where they are encouraged to build upon each other's responses, either by agreeing or disagreeing with the other group members. Focus groups are similar to interviews in that they allow the researcher, through a moderator, to get more detailed information from a small group of potential customers (see Figure 6.5).

LINK TO LEARNING

Focus Groups

Focus groups are a common method for gathering insights into consumer thinking and habits. Companies will use this information to develop or shift their initiatives. The best way to understand a focus group is to watch a few examples or explanations. TED-Ed has this video that explains how focus groups work.

How do focus groups work? - Hector Lanz (https://openstax.org/r/howfocusgroupworks)

You might be asking when it is best to use a focus group or a survey. Learn the differences, the pros and cons of each, and the specific types of questions you ask in both situations in this article (https://openstax.org/r/surveymonkey).

Preparing for a focus group is critical to success. It requires knowing the material and questions while also managing the group of people. Watch this video to learn more about how to prepare for a focus group and the types of things to be aware of.

Preparing for Focus Groups: Qualitative Research Methods (https://openstax.org/r/preparingforfocusgroups)

One of the benefits of a focus group over individual interviews is that synergy can be generated when a participant builds on another's ideas. Additionally, for the same amount of time, a researcher can hear from multiple respondents instead of just one.[11] Of course, as with every method of data collection, there are downsides to a focus group as well. Focus groups have the potential to be overwhelmed by one or two aggressive personalities, and the format can discourage more reserved individuals from speaking up. Finally, like interviews, the responses in a focus group are qualitative in nature and are difficult to distill into an easy statistic or two.



Figure 6.5 A focus group is a research method for collecting customer data that involves a moderator asking questions of a small

group of people who represent the target market. (credit: "Meeting" by UBC Learning Commons/flickr, CC BY 2.0)

Combining a variety of questions on one instrument is called a **survey** or **questionnaire**. Collecting primary data is commonly done through surveys due to their versatility. A survey allows the researcher to ask the same set of questions of a large group of respondents. Response rates of surveys are calculated by dividing the number of surveys completed by the total number attempted. Surveys are flexible and can collect a variety of quantitative and qualitative data. Questions can include simplified yes or no questions, select all that apply, questions that are on a scale, or a variety of open-ended types of questions. There are four types of surveys (see Table 6.2) we will cover, each with strengths and weaknesses defined.

	Strengths	Weaknesses
Mailed Surveys	• Ability to reach large population • Convenience of respondent	• Time delays • Expensive
Phone Surveys	• Respondent can ask questions • Collection in real time	• Time intensive • People don't answer calls from numbers they don't know
In-Person Surveys	• Respondent can ask questions • Follow-up questions can be asked based on answers	• Time intensive • People avoid talking with strangers
Electronic Surveys	• Less time intensive than other methods • Less expensive	• Identification as spam • Low response rate

Table 6.2 The Four Survey Method Options

Let's start off with **mailed surveys**—surveys that are sent to potential respondents through a mail service. Mailed surveys used to be more commonly used due to the ability to reach every household. In some instances, a mailed survey is still the best way to collect data. For example, every 10 years the United States conducts a census of its population (see Figure 6.6). The first step in that data collection is to send every household a survey through the US Postal Service (USPS). The benefit is that respondents can complete and return the survey at their convenience. The downside of mailed surveys are expense and timeliness of responses. A mailed survey requires postage, both when it is sent to the recipient and when it is returned. That, along with the cost of printing, paper, and both sending and return envelopes, adds up quickly. Additionally, physically mailing surveys takes time. One method of reducing cost is to send with bulk-rate postage, but that slows down the delivery of the survey. Also, because of the convenience to the respondent, completed surveys may be returned several weeks after being sent. Finally, some mailed survey data must be manually entered into the analysis software, which can cause delays or issues due to entry errors.

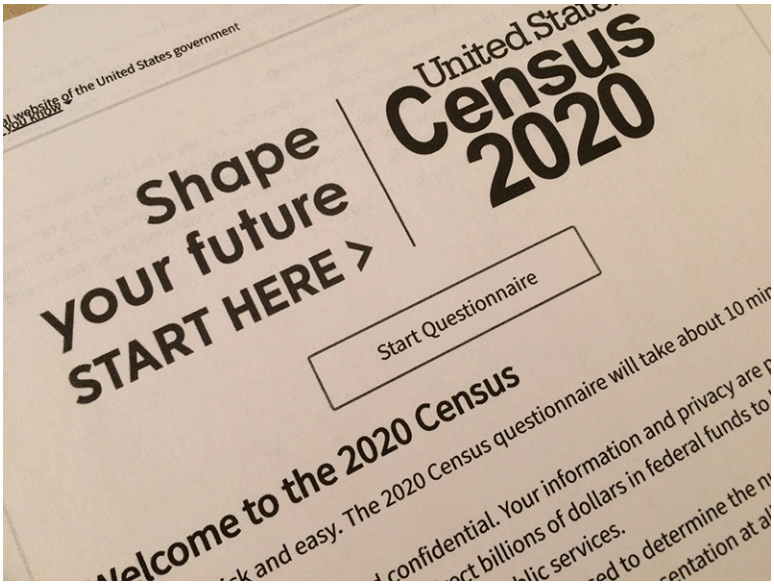

Figure 6.6 A mailed survey, like the US Census, is a research method for collecting customer data that utilizes the mail, which provides companies with a way to reach a large number of households. (credit: "Census" by KSRE Photo/flickr, CC BY 2.0)

Phone surveys are completed during a phone conversation with the respondent. Although the traditional phone survey requires a data collector to talk with the participant, current technology allows for computer-assisted voice surveys or surveys to be completed by asking the respondent to push a specific button for each potential answer. Phone surveys are time intensive but allow the respondent to ask questions and the surveyor to request additional information or clarification on a question if warranted. Phone surveys require the respondent to complete the survey simultaneously with the collector, which is a limitation as there are restrictions for when phone calls are allowed. According to Telephone Consumer Protection Act, approved by Congress in 1991, no calls can be made prior to 8:00 a.m. or after 9:00 p.m. in the recipient's time zone.[12] Many restrictions are outlined in this original legislation and have been added to since due to ever-changing technology.

In-person surveys are when the respondent and data collector are physically in the same location. In-person surveys allow the respondent to share specific information, ask questions of the surveyor, and follow up on previous answers. Surveys collected through this method can take place in a variety of ways: through door-to-door collection, in a public location, or at a person's workplace. Although in-person surveys are time intensive and require more labor to collect data than some other methods, in some cases it's the best way to collect the required data. In-person surveys conducted through a door-to-door method is the follow-up used for the census if respondents do not complete the mailed survey. One of the downsides of in-person surveys is the reluctance of potential respondents to stop their current activity and answer questions. Furthermore, people may not feel comfortable sharing private or personal information during a face-to-face conversation.

Electronic surveys are sent or collected through digital means and is an opportunity that can be added to any of the above methods as well as some new delivery options. Surveys can be sent through email, and respondents can either reply to the email or open a hyperlink to an online survey (see Figure 6.7). Additionally, a letter can be mailed that asks members of the survey sample to log in to a website rather than to return a mailed response. Many marketers now use links, QR codes, or electronic devices to easily connect to a survey. Digitally collected data has the benefit of being less time intensive and is often a more economical way to gather and input responses than more manual methods. A survey that could take months to collect through the mail can be completed within a week through digital means.

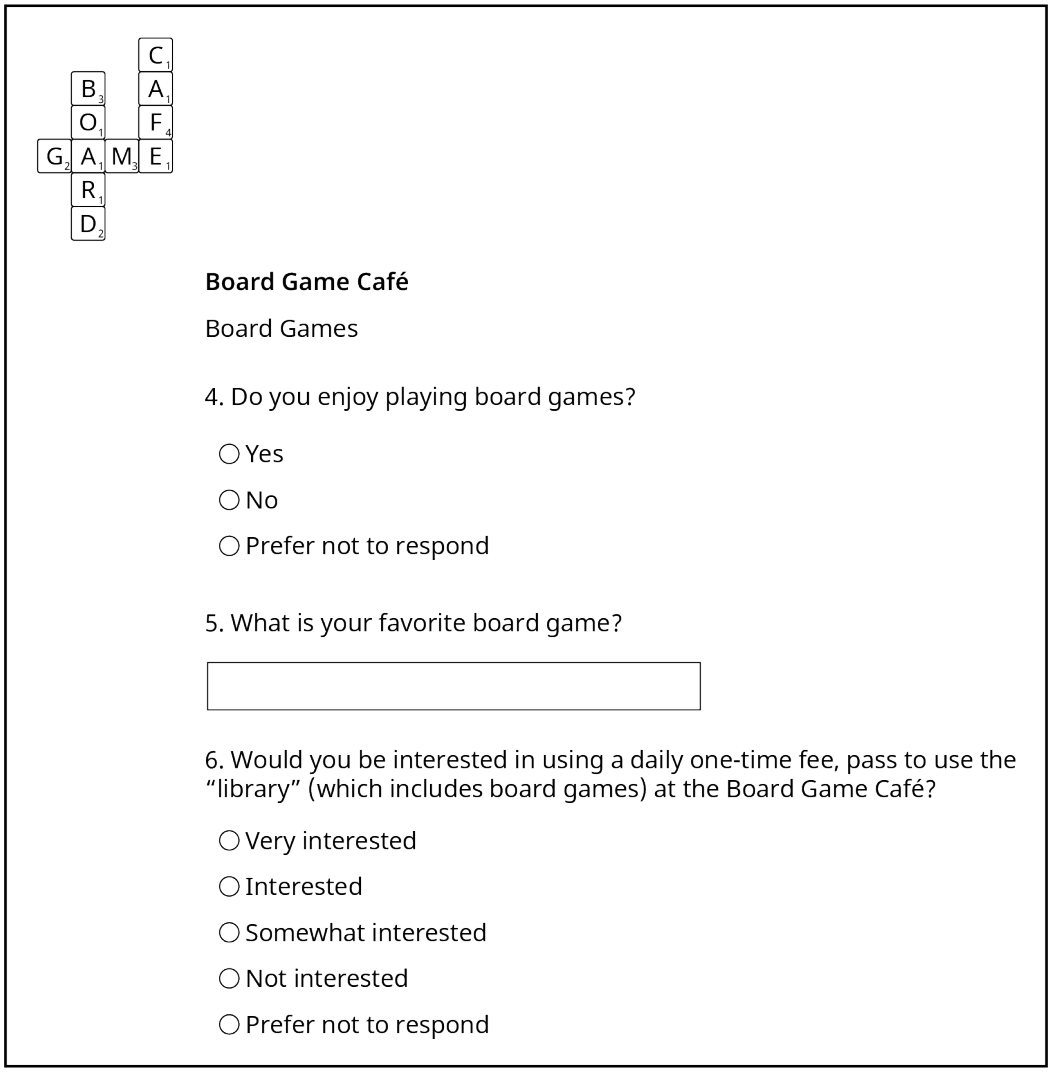

Figure 6.7 Online Survey Example (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Design the Sample

Although you might want to include every possible person who matches your target market in your research, it's often not a feasible option, nor is it of value. If you did decide to include everyone, you would be completing a **census** of the population. Getting everyone to participate would be time-consuming and highly expensive, so instead marketers use a **sample**, whereby a portion of the whole is included in the research. It's similar to the samples you might receive at the grocery store or ice cream shop; it isn't a full serving, but it does give you a good taste of what the whole would be like.

So how do you know who should be included in the sample? Researchers identify parameters for their studies, called **sample frames**. A sample frame for one study may be college students who live on campus; for another study, it may be retired people in Dallas, Texas, or small-business owners who have fewer than 10 employees. The individual entities within the sampling frame would be considered a **sampling unit**. A sampling unit is each individual respondent that would be considered as matching the sample frame established by the research. If a researcher wants businesses to participate in a study, then businesses would be the sampling unit in that case.

The number of sampling units included in the research is the **sample size**. Many calculations can be conducted to indicate what the correct size of the sample should be. Issues to consider are the size of the population, the confidence level that the data represents the entire population, the ease of accessing the units

in the frame, and the budget allocated for the research.

There are two main categories of samples: probability and nonprobability (see Figure 6.8). **Probability samples** are those in which every member of the sample has an identified likelihood of being selected. Several probability sample methods can be utilized. One probability sampling technique is called a **simple random sample**, where not only does every person have an identified likelihood of being selected to be in the sample, but every person also has an equal chance of exclusion. An example of a simple random sample would be to put the names of all members of a group into a hat and simply draw out a specific number to be included. You could say a raffle would be a good example of a simple random sample.

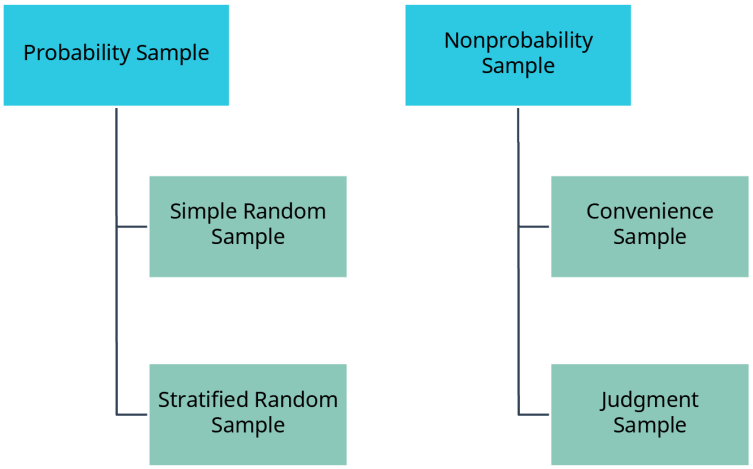

Figure 6.8 Type of Samples (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Another probability sample type is a **stratified random sample**, where the population is divided into groups by category and then a random sample of each category is selected to participate. For instance, if you were conducting a study of college students from your school and wanted to make sure you had all grade levels included, you might take the names of all students and split them into different groups by grade level—freshman, sophomore, junior, and senior. Then, from those categories, you would draw names out of each of the pools, or strata.

A **nonprobability sample** is a situation in which each potential member of the sample has an unknown likelihood of being selected in the sample. Research findings that are from a nonprobability sample cannot be applied beyond the sample. Several examples of nonprobability sampling are available to researchers and include two that we will look at more closely: convenience sampling and judgment sampling.

The first nonprobability sampling technique is a **convenience sample**. Just like it sounds, a convenience sample is when the researcher finds a group through a nonscientific method by picking potential research participants in a convenient manner. An example might be to ask other students in a class you are taking to complete a survey that you are doing for a class assignment or passing out surveys at a basketball game or theater performance.

A **judgment sample** is a type of nonprobability sample that allows the researcher to determine if they believe the individual meets the criteria set for the sample frame to complete the research. For instance, you may be interested in researching mothers, so you sit outside a toy store and ask an individual who is carrying a baby to participate.

Collect the Data

Now that all the plans have been established, the instrument has been created, and the group of participants has been identified, it is time to start collecting data. As explained earlier in this chapter, data collection is the process of gathering information from a variety of sources that will satisfy the research objectives defined in step one. Data collection can be as simple as sending out an email with a survey link enclosed or as complex as

an experiment with hundreds of consumers. The method of collection directly influences the length of this process. Conducting personal interviews or completing an experiment, as previously mentioned, can add weeks or months to the research process, whereas sending out an electronic survey may allow a researcher to collect the necessary data in a few days.[13]

Analyze and Interpret the Data

Once the data has been collected, the process of analyzing it may begin. **Data analysis** is the distillation of the information into a more understandable and actionable format. The analysis itself can take many forms, from the use of basic statistics to a more comprehensive data visualization process. First, let's discuss some basic statistics that can be used to represent data.

The first is the mean of quantitative data. A **mean** is often defined as the arithmetic average of values. The formula is:

$$\frac{\text{Sum of Values}}{\text{Number of Values}}$$

A common use of the mean calculation is with exam scores. Say, for example, you have earned the following scores on your marketing exams: 72, 85, 68, and 77. To find the mean, you would add up the four scores for a total of 302. Then, in order to generate a mean, that number needs to be divided by the number of exam scores included, which is 4. The mean would be 302 divided by 4, for a mean test score of 75.5. Understanding the mean can help to determine, with one number, the weight of a particular value.

Another commonly used statistic is median. The **median** is often referred to as the middle number. To generate a median, all the numeric answers are placed in order, and the middle number is the median. Median is a common statistic when identifying the income level of a specific geographic region.[14] For instance, the median household income for Albuquerque, New Mexico, between 2015 and 2019 was $52,911.[15] In this case, there are just as many people with an income above the amount as there are below.

Mode is another statistic that is used to represent data of all types, as it can be used with quantitative or qualitative data and represents the most frequent answer. Eye color, hair color, and vehicle color can all be presented with a mode statistic. Additionally, some researchers expand on the concept of mode and present the **frequency** of all responses, not just identifying the most common response. Data such as this can easily be presented in a frequency graph,[16] such as the one in Figure 6.9.

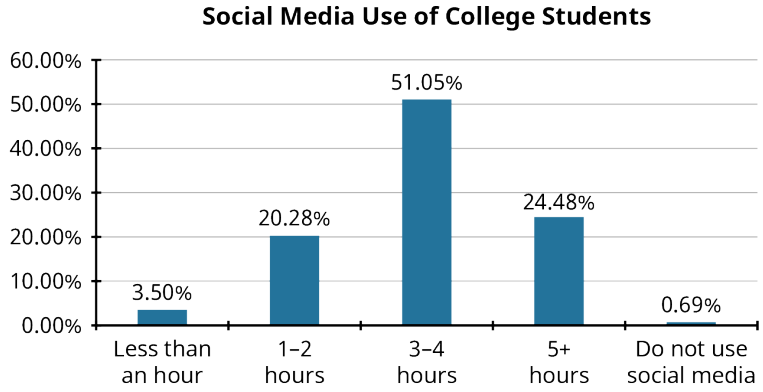

Figure 6.9 Frequency Graph (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Additionally, researchers use other analyses to represent the data rather than to present the entirety of each response. For example, maybe the relationship between two values is important to understand. In this case, the researcher may share the data as a **cross tabulation** (see Figure 6.10). Below is the same data as above regarding social media use cross tabulated with gender—as you can see, the data is more descriptive when you can distinguish between the gender identifiers and how much time is spent per day on social media.

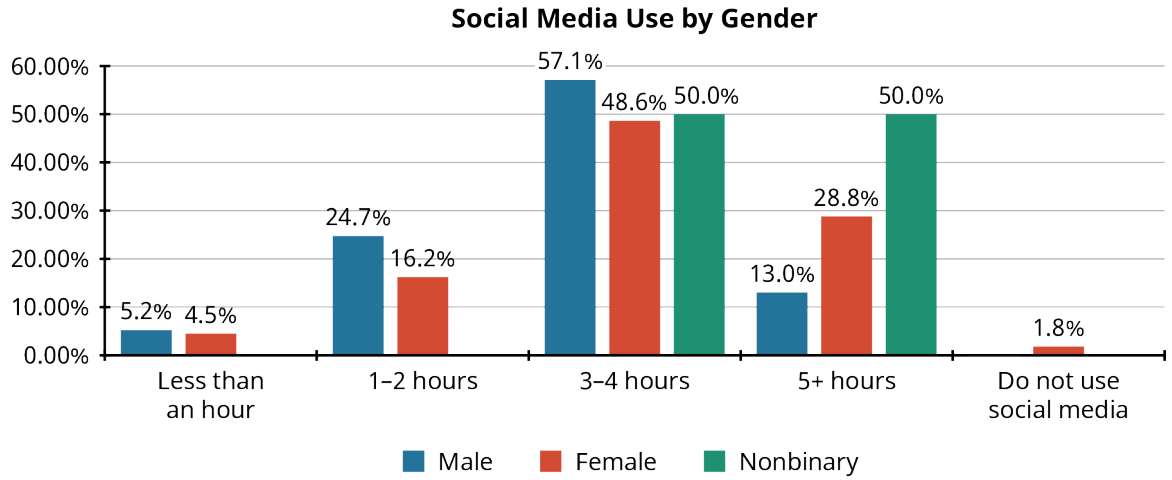

Figure 6.10 Cross Tabulation (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Not all data can be presented in a graphical format due to the nature of the information. Sometimes with qualitative methods of data collection, the responses cannot be distilled into a simple statistic or graph. In that case, the use of quotations, otherwise known as **verbatims**, can be used. These are direct statements presented by the respondents. Often you will see a verbatim statement when reading a movie or book review. The critic's statements are used in part or in whole to represent their feelings about the newly released item.

LINK TO LEARNING

Infographics

As they say, a picture is worth a thousand words. For this reason, research results are often shown in a graphical format in which data can be taken in quickly, called an **infographic**.

Check out this infographic on what components make for a good infographic. (https://openstax.org/r/whatmakesgoodinfographic) As you can see, a good infographic needs four components: data, design, a story, and the ability to share it with others. Without all four pieces, it is not as valuable a resource as it could be. The ultimate infographic is represented as the intersection of all four.

Infographics are particularly advantageous online. Refer to this infographic on why they are beneficial to use online (https://openstax.org/r/infographicsbenefits).

Prepare the Research Report

The marketing research process concludes by sharing the generated data and makes recommendations for future actions. What starts as simple data must be interpreted into an analysis. All information gathered should be conveyed in order to make decisions for future marketing actions. One item that is often part of the final step is to discuss areas that may have been missed with the current project or any area of further study identified while completing it. Without the final step of the marketing research project, the first six steps are without value. It is only after the information is shared, through a formal presentation or report, that those recommendations can be implemented and improvements made. The first six steps are used to generate information, while the last is to initiate action. During this last step is also when an evaluation of the process is conducted. If this research were to be completed again, how would we do it differently? Did the right questions get answered with the survey questions posed to the respondents? Follow-up on some of these key questions can lead to additional research, a different study, or further analysis of data collected.

Methods of Quantifying Marketing Research

One of the ways of sharing information gained through marketing research is to **quantify the research**. Quantifying the research means to take a variety of data and compile into a quantity that is more easily understood. This is a simple process if you want to know how many people attended a basketball game, but if you want to quantify the number of students who made a positive comment on a questionnaire, it can be a little more complicated. Researchers have a variety of methods to collect and then share these different scores. Below are some of the most common types used in business.

Awareness

Is a customer aware of a product, brand, or company? What is meant by awareness? **Awareness** in the context of marketing research is when a consumer is familiar with the product, brand, or company. It does not assume that the consumer has tried the product or has purchased it. Consumers are just aware. That is a measure that many businesses find valuable. There are several ways to measure awareness. For instance, the first type of awareness is **unaided awareness**. This type of awareness is when no prompts for a product, brand, or company are given. If you were collecting information on fast-food restaurants, you might ask a respondent to list all the fast-food restaurants that serve a chicken sandwich. **Aided awareness** would be providing a list of products, brands, or companies and the respondent selects from the list. For instance, if you give a respondent a list of fast-food restaurants and ask them to mark all the locations with a chicken sandwich, you are collecting data through an aided method. Collecting these answers helps a company determine how the business location compares to those of its competitors.[17]

Customer Satisfaction (CSAT)

Have you ever been asked to complete a survey at the end of a purchase? Many businesses complete research on buying, returning, or other customer service processes. A **customer satisfaction score**, also known as CSAT, is a measure of how satisfied customers are with the product, brand, or service. A CSAT score is usually on a scale of 0 to 100 percent.[18] But what constitutes a "good" CSAT score? Although what is identified as good can vary by industry, normally anything in the range from 75 to 85 would be considered good. Of course, a number higher than 85 would be considered exceptional.[19]

Customer Acquisition Cost (CAC) and Customer Effort Score (CES)

Other metrics often used are a customer acquisition cost (CAC) and customer effort score (CES). How much does it cost a company to gain customers? That's the purpose of calculating the customer acquisition cost. To calculate the **customer acquisition cost**, a company would need to total all expenses that were accrued to gain new customers. This would include any advertising, public relations, social media postings, etc. When a total cost is determined, it is divided by the number of new customers gained through this campaign.

The final score to discuss is the **customer effort score**, also known as a CES. The CES is a "survey used to measure the ease of service experience with an organization."[20] Companies that are easy to work with have a better CES than a company that is notorious for being difficult. An example would be to ask a consumer about the ease of making a purchase online by incorporating a one-question survey after a purchase is confirmed. If a number of responses come back negative or slightly negative, the company will realize that it needs to investigate and develop a more user-friendly process.

Knowledge Check

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

1. Sagar is completing a marketing research project and is at the stage where he must decide who will be sent the survey. What stage of the marketing research plan is Sagar currently on?
   a. Defining the problem
   b. Developing the research plan

c. Selecting a data collection method
d. Designing the sample

2. A strength of mailing a survey is that _____.
   a. you are able to send it to all households in an area
   b. it is inexpensive
   c. responses are automatically loaded into the software
   d. the data comes in quickly

3. Bartlett is considering the different types of data that can be pulled together for a research project. Currently they have collected journal articles, survey data, and syndicated data and completed a focus group. What type(s) of data have they collected?
   a. Primary data
   b. Secondary data
   c. Secondary and primary data
   d. Professional data

4. Which statistic can be used to show how many people responded to a survey question with "strongly agree"?
   a. Mean
   b. Median
   c. Mode
   d. Frequency

5. Why would a researcher want to use a cross tabulation?
   a. It shows how respondents answered two variables in relation to each other and can help determine patterns by different groups of respondents.
   b. By presenting the data in the form of a picture, the information is easier for the reader to understand.
   c. It is an easy way to see how often one answer is selected by the respondents.
   d. This analysis can used to present interview or focus group data.

6.4 Ethical Issues in Marketing Research

Learning Outcomes

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

LO 1 Describe ethical issues relating to marketing research.
LO 2 Discuss ways to avoid unethical research practices.

The Use of Deceptive Practices

In marketing research, there are many potential areas of ethical concern. Each day people share personal information on social media, through company databases, and on mobile devices. So how do companies make sure to remain ethical in decisions when it comes to this vast amount of research data? It is essential that marketers balance the benefits of having access to this data with the privacy of and concern for all people they can impact.

Too many times, we have heard about the lack of ethical decision-making when it comes to marketing research or personal data. Companies are hacked, share or sell personal information, or use promotion disguised as research. Each of these can be considered unethical.

LINK TO LEARNING



The Insights Association

There is an organization devoted to the support and integrity of quality marketing research. This organization, called The Insights Association (IA), "protects and creates demand for the evolving insights and analytics industry by promoting the indisputable role of insights in driving business impact."[21] Having a solid understanding of ethical practices is critical for any marketing professional. Become familiar with terminology, responsibilities, enforcements, and sanctions of the IA's code of standards and ethics (https://openstax.org/r/codesofstandards).

First, let's look at some deceptive practices that might be conducted through research. The first is representing something as research when it is really an attempt to sell a product. This is called sugging. **Sugging** happens when an individual identifies themselves as a researcher, collects some data, and then uses the data to suggest specific purchases.[22] According to the Insights Association Code of Marketing Research Standards, researchers should always separate selling of products from the research process.[23]

Other deceptive research practices include using persuasive language to encourage a participant to select a particular answer, misrepresenting research data subjectively rather than objectively while presenting the results, and padding research data with fabricated answers in order to increase response rate or create a specific outcome.

Invasion of Privacy

Privacy is another concern when it comes to marketing research data. For researchers, **privacy** is maintaining the data of research participants discretely and holding confidentiality. Many participants are hesitant to give out identifying information for fear that the information will leak, be tied back to them personally, or be used to steal their identity. To help respondents overcome these concerns, researchers can identify the research as being either confidential or anonymous.

Confidential data is when respondents share their identifying information with the researcher, but the researcher does not share it beyond that point. In this situation, the research may need some identifier in order to match up previous information with the new content—for instance, a customer number or membership number. **Anonymous data** is when a respondent does not provide identifying information at all, so there is no chance of being identified. Researchers should always be careful with personal information, keeping it behind a firewall, behind a password-protected screen, or physically locked away.

Breaches of Confidentiality

One of the most important ethical considerations for marketing researchers is the concept of confidentiality of respondents' information. In order to have a rich data set of information, very personal information may be gathered. When a researcher uses that information in an unethical manner, it is a **breach of confidentiality**. Many research studies start with a statement of how the respondent's information will be used and how the researcher will maintain confidentiality. Companies may sell personal information, share contact information of the respondents, or tie specific answers to a respondent. These are all breaches of the confidentiality that researchers are held accountable for.[24]

Although we hear about how companies are utilizing customers' data unethically, many companies operate in an ethical manner. One example is the search engine DuckDuckGo. The search industry generates millions of pieces of user data daily; most of the providers of searches capitalize on this data by tracking and selling this information. Alternatively, DuckDuckGo has decided NOT to track its users. Instead, it has built its business model on the fact that no user information is stored—ever. Ethically, DuckDuckGo offers users private

searches, tracker blocking, and site encryption. In an industry that is continuously collecting and selling personal search information, DuckDuckGo is the exception. There is no concern with being hacked because no data is collected.[25]

COMPANIES WITH A CONSCIENCE

Gallup



Figure 6.11 Due to ethical concerns around market research, companies like Gallup that specialize in market research must perform with high ethical standards in order to collect credible data so that their customers will value their work. (credit: "Survey" by EpicTop10.com/flickr, CC BY 2.0)

The Gallup Organization (https://openstax.org/r/gallup) is a market research firm that specializes in understanding market sentiment (see Figure 6.11). Every year among its numerous polls, Gallup completes an assessment of the honesty and ethical approach of different professions. In the 2021 survey, nursing was the top profession regarding these two measures.[26]

Gallup's research led additional findings about the state of ethics for businesses. "Ethical standards need to be at the core of an organization's purpose, brand and culture."[27] But what about Gallup's own ethical standards? Gallup is "a global analytics and advice firm that helps leaders and organizations solve their most pressing problems."[28] In order to be proficient and well-informed on the variety of topics Gallup investigates, it must hold itself and its employees to a high ethical standard.

Gallup completes multiple polls and research continuously. In order to meet the high standards of its public, Gallup must perform these practices in an ethical manner. Each step of the research process is completed with diligence and intention. For those reasons, Gallup is recognized for its ethically backed data. Gallup is a global leader in market insights and has locations in seven cities within the United States and an additional 27 locations internationally. According to Chuck Hagel, former Secretary of Defense of the United States, "Gallup is truly an island of independence—it possesses a credibility and trust that hardly any institution has. A reputation for impartial, fair, honest and superb work."[29]

Chapter Summary

In this chapter, we discovered the critical nature of marketing research on the success of a business. Big data, marketing intelligence, and marketing information systems were defined, and each was explained regarding its impact on the field of marketing research. Next, we learned about the seven steps of the marketing research process and how each step builds toward an actionable plan by management. The difference between secondary and primary data was clarified, and several sources of each were shared. Finally, ethical decision-making in research is essential as some very detailed information about consumers is collected.

Key Terms

aided awareness when a product, brand, or company list is provided to select from to measure awareness
anonymous data data in which the respondent is not identified
awareness a consumer's familiarity with a product, brand, or company
big data the countless number of records that continues in an increasing capacity and at a faster rate; often described as volume, velocity, and variety of data generated
breach of confidentiality a situation where the researcher promises to hold private information but discloses it in an unethical manner without permission
causal research studies that define a cause-and-effect relationship between two factors
census when all potential target population members are included in the research
competitive intelligence a collection of information about competitors from the marketplace
confidential data data that is tied back to a respondent, but the respondent's personal information is not shared
convenience sample a nonprobability sample type where potential respondents to the research are selected by convenience rather than through any scientific method
cross tabulation an analysis of two variables and the frequency of each answer in relation to the other variable
customer acquisition cost the total expenses a company spends to gain a new customer
customer effort score a survey used to measure ease of service experience with an organization
customer satisfaction score also known as a CES, a survey used to measure ease of service experience with an organization
data analysis the distillation of information into a more understandable and actionable format
data collection systematic gathering of information that addresses an identified problem
database a collection of related data
descriptive research data collected to describe the situation in the market and help define an opinion, attitude, or behavior
electronic surveys surveys sent through digital means to respondents; respondents also reply to the survey digitally
ethnographic research method of collecting data that is conducted by observing people's natural behavior
experimental research studies that define a cause-and-effect relationship between two factors
exploratory research research conducted that is more general to learn more about the industry or market
external data data that originates from outside the organization
focus group a small group, typically 8 to 12 people, who are asked several questions by a moderator and encouraged to build upon each other's responses
frequency a report of the number of each answer received
in-person surveys surveys conducted when the respondent and data collector are face-to-face
infographic a representation of data in a variety of visual presentations
internal data critical marketing intelligence that already exists in the company's records
judgment sample a nonprobability sample type where the potential participants are selected based on a perceived match to the sample frame

mailed surveys surveys sent to potential participants through a mail service, such as the US Postal Service
marketing information also known as business intelligence, competitive intelligence, or marketing intelligence; information about the market that helps to identify opportunities available
marketing information system a system used to collect, analyze, and report interesting findings from internal and external data of the company
marketing research the function that links the consumer, customer, and public to the marketer through information
mean an arithmetic average of values
mechanical observation the use of electronic monitoring to record the actions of the observed
median the middle number when all answers are organized from smallest to largest; if an even number of data, the mean of the two middle answers is the median
mode the most common response
nonprobability sample a situation which each member of the population has an unknown chance of being selected to be part of the sample
observational research data collected by watching consumers and recording actions
one-on-one interview an interview that happens on an individual level between researcher and respondent
personal observations observations that are collected by human recorders
phone surveys surveys conducted through the use of a telephone that can be completed through digital or human methods
primary data unique information that is collected by the researcher with the current project in mind
privacy maintaining the data of research participants discretely and holding confidentiality
probability sample a sample in which everyone has a known chance of being included in the research
problem definition the realization that there is an issue that needs to be addressed
qualitative data data that cannot be distilled into number of responses, such as responses to an interview
qualitative research data shared through words, descriptions, and open-ended comments
quantify the research to take a variety of data and compile it into a quantity that is easily understood
quantitative data data that can be reduced to number of responses, such as number of responses to each answer on a multiple-choice question
questionnaire also known as a survey, a series of several questions that can collect a variety of qualitative and quantitative data; can be distributed through several different methods
sample a portion of the entire population that is included in the research
sample frame a parameter that defines who will be included in the sample and who would not be included
sample size the number of respondents that are to be included in the research
sampling unit each individual entities that is included in the sample
secondary data any research that was completed, within the organization or outside of the organization, for another purpose
simple random sample a type of probability sample where every entity has an equal chance of being selected
stratified random sample a probability sample type where the population is divided into groups and then participants are selected from each stratum randomly
sugging suggesting a purchase disguised as research
survey also known as a questionnaire, a series of several questions that can collect a variety of qualitative and quantitative data; can be distributed through several different methods
syndicated data a type of secondary data that is available through a subscription service
target population the group of people that are of interest for a study
unaided awareness when no prompts or lists of potential products, brands, or companies are given to test awareness
unobtrusive observation a type of observation research where the observed is not aware they are being monitored
verbatims exact quotations of responses to a qualitative question

Applied Marketing Knowledge: Discussion Questions

1. Why is it vital for companies to understand and use customer insights in gathering and managing marketing information?
2. Public policies and laws supporting ethics in marketing research have resulted in companies like Meta (formerly Facebook) being accused of intruding upon consumer privacy, misusing information gathered from users, and exploiting children. As a consumer, how do you feel about companies tracing your digital footprint? As a marketer, what value do you see in tracing consumers' online activities?
3. What are the seven steps necessary in designing a marketing research project?
4. List two reasons why quantitative research data is better utilized to measure a population's attitudes and potential responses to new product releases than qualitative data. List two reasons why qualitative data is most often collected to provide deeper insights into consumer behavior.
5. Research codes of conduct are published by the American Marketing Association, the American Association for Public Opinion Research, the Council of American Survey Research Organizations, and the Marketing Research Association in order to define standards of ethical behavior. List three overlapping areas these organizations have identified as important in regulating the marketing industry.

Critical Thinking Exercises

1. Draw a diagram depicting a marketing information system. Show how the marketing research process connects marketing managers with the marketing environment in order to collect information through internal records, marketing intelligence, and marketing research. Remember that the overall intent is first to assess information needs in order to reduce information gaps between the company and its customers, target markets, suppliers, and prospective clients. Amassing timely information allows firms to address these gaps, design the method for collecting information, manage and implement the data collection process, analyze the results, and disseminate results and their implications.
2. Conduct a survey of five college students via email, social media, telephone, or in person to learn more about the student demographic. Explain that you are collecting data for a classroom assignment only and will not identify them by name.
   Ask these questions:

   A. If you could adopt a rescue animal today, what would it be?
   B. What is the best pizza topping?
   C. Would you rather sneeze for an hour or have hiccups for an hour?
   D. Would you rather get $1 million right now or $10,000 per month for a lifetime?
   E. What is your least favorite food?

   2a. Summarize and report your results in a chart.
   2b. C and D are structurally different questions than A, B, and E. What is different between these questions?
   2c. Can your findings be applied to all college students? Why or why not?

3. The US Census gathers and disseminates detailed big data about US residents. Visit Explore Census Data (https://openstax.org/r/datacensus) and type your hometown into the search box. The results will include maps, web pages mentioning your hometown, and tables of information gathered by the decennial census as well as the American Community Survey. What method was used to collect this data? Do these tables represent probability or nonprobability samples? Why might these tables be important informational sources for marketers? Check out the table reporting age and sex. What is the median age? Does this statistic surprise you?

Building Your Personal Brand

If you're a curious person, you may enjoy a career in data science, marketing research, or consumer insights. Businesses report that there is a growing need for data specialists—analysts, engineers, scientists, translators, and cybersecurity managers—to grasp the power of data insights to drive major business initiatives. Business professionals across organizations depend on analytical know-how to make informed decisions with real-time insights. Ongoing data evolution requires data scientists to learn and adopt new technology to accelerate organizational data strategies.

For budding professionals in the data science/consumer insights field, it's essential to have foundational knowledge in applied mathematics, statistics, data analytics and visualization, machine learning, computer science, or data engineering. These may be courses you wish to add to your upper-level academic work. You can also apply the resulting skill sets to your brand as you investigate internships and projects. Keep in mind that insights specialists must be able to communicate and present complex findings to cross-functional teams clearly and succinctly, driving data-driven decision-making from those findings.

Internal marketing departments generally rely on analysts to handle business intelligence and data scientists to aggregate company data. Read this article to better understand the role differences (https://openstax.org/r/marketinganalystsvsdatascientists) between a marketing analyst and a data scientist. Review the differences in salaries for marketing analysts and data scientists here (https://openstax.org/r/comparablysalaries).

Now build a chart summarizing the skills necessary for both roles and then identify which of those skills you feel you already possess and which of those you need to work on. For those skills that you need to develop, identify one or two steps you can take to add this to your personal brand.

What Do Marketers Do?

Research is a part of many career paths for marketers and business personnel. Financial planners, human resource managers, logistics analysts, and marketing strategists all use research on a daily basis. Most businesses now rely upon customer loyalty and product/service ratings as they attempt to gain distinction among competitors. Many companies now ask consumers to rate their products and services. That rating is the next best thing to asking friends and family members for product suggestions. Customers want proof that products or services are reputable. Customer reviews are vital in providing personalized experience and insights to promote customer relationships.

Speak to a consumer insights specialist from a local advertising agency or a professor at your college or another university—especially one who specializes in big data analytics—about the importance of data in making marketing decisions. To find an insights specialist or professor, conduct a Google and/or LinkedIn search. Also check out this list of top marketing professors on Twitter (https://openstax.org/r/connectedmarketingprofessors).

In your interview, you might ask the following questions, but be sure to also include any questions you might have.

- What is big data, and how do firms gather it?
- How do companies I may be familiar with analyze and use data on a regular basis to inform marketing efforts?
- What are metrics, dashboards, and actionable goals?
- I understand that employee turnover is a major consideration in customer satisfaction these days. How does data analysis help companies measure employee satisfaction?
- Are there specific methods to gather information about customer satisfaction?
- I've received emails after making a purchase online, asking for my feedback. How seriously is this feedback taken?
- Can you give an example of how researchers may use primary and secondary data?

- Are there specific courses I should take if I'm interested in the data side of marketing?

Marketing Plan Exercise

Complete the following information about the company and products/services you chose to focus on for this marketing plan exercise. You may need to conduct research to gather necessary information.

Instructions: Using the Marketing Plan Template file you created from Marketing and Consumer Value and expanded upon in Strategic Planning in Marketing and Market Segmentation, Targeting, and Positioning, complete the following section of your marketing plan: Current Market Situation/Situation Analysis.

Once complete, submit the marketing plan to your instructor for grading and feedback.

Closing Company Case

Nordstrom

One day a customer walked into an upscale fashion retail store in Anchorage, Alaska, to return a set of tires. The store had a wide selection of shoes, clothes, and accessories, but no tires. However, the store that previously occupied the space did sell tires. After much discussion, a Nordstrom store manager made the return and accepted the tires. The story is legendary in customer service circles. It is also true.

A leading fashion retailer based in Seattle, Washington, Nordstrom prides itself on customer service and innovative methods of serving the customer. Founded in 1901, the company now operates 358 retail stores in the United States and Canada as well as online retail.[30]

Nordstrom has long been famous for its customer-centric mindset. The "Nordstrom way" has always been about serving customers according to their needs and making them feel good about the shopping experience. Part of the experience is focused on ease, selection, and convenience.

In 2020, Nordstrom saw tremendous growth in online sales. By integrating online and in-store sales, the company realized that 50 percent of customers who buy in store at Nordstrom have first had a digital experience with the retailer. Identifying trends between in-store sales and online sales has assisted Nordstrom in formulating a more customer-centric strategy.[31]

To better serve customers and increase sales, Nordstrom sales associates are key. Sales associates develop connections with the customer. With good questions and involvement in the customer experience, the sales associates determine consumer needs and wants. Understanding consumer needs and wants leads Nordstrom to craft an experience unparalleled in retail.[32]

Through careful study of the customer and the analytics available in online and in-person shopping patterns, Nordstrom has developed a more robust system that allows for seamless coordination between all Nordstrom properties. In developing a better customer experience, Nordstrom worked to really understand how customers live and behave.

From customer interactions, observation, online data, and careful marketing research, Nordstrom Local emerged. One key piece of information was that 35 percent of customers who place an online order first visited a store to help guide the purchase decision.[33] With Los Angeles and New York as the top markets, Nordstrom needed methods to connect with and help ease the purchase process for its customers in these locations.

One significant aspect of the purchase process was to make online ordering easier, allowing for quick in-store pickups and returns while also including a method of getting alterations when and where it was most convenient. The creation of Nordstrom Local was the answer. Through a Nordstrom Local, available in the top markets, the customer could get the Nordstrom experience—closer to home.

Nordstrom realized the more channels a customer could use, the more they would spend with the retailer. In

fact, soon after opening Nordstrom Local, the company was able to determine that customers using the new locations spend 2.5 times the amount of all other customers. So how could the company better serve those customers and make transactions more profitable?

Part of the Nordstrom plan to connect the customer more fully with the "experience" included the ability to easily order online and pick up in-store—using Nordstrom Local made that possibility easier to achieve. Nordstrom Local also included tailors available at pickup, the exclusive Nordstrom Stylist who would travel to all stores within a local market area, easy returns and exchanges, and finally, Certified Gift-Wrapping Specialists to make special packages look styled for whatever the occasion.

Consumer insights help Nordstrom to provide curated merchandise for each store. When shopping at Nordstrom, you will find merchandise specific to the region and store location. Pop-up shops are a regular feature at Nordstrom. The pop-up allows for a preview of potential merchandise to meet the needs of the local market. A well-rounded plan to connect at every point of contact has allowed Nordstrom to create an experience unrivaled in the industry.

Case Questions

1. Nordstrom is legendary for providing the best customer experience. What are some of the ways Nordstrom has gathered marketing research from the consumer?
2. When Nordstrom analyzes the data found in its online sales platforms, what type of marketing research is it using?
3. In what ways has Nordstrom used data to enhance the customer experience?
4. Nordstrom realized a connection between online shopping and in-store shopping. It developed methods to capture the online customer and increase in-store sales. In what ways was Nordstrom able to understand customer shopping behaviors?

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7

Marketing in a Global Environment

Figure 7.1 International marketing opportunities can be advantageous for many companies if they are aware of global differences and potential challenges. (credit: modification of work "world-map-background1_0" by bmnnetwork/flickr, CC BY 2.0)

Chapter Outline

7.1 The Global Market and Advantages of International Trade
7.2 Assessment of Global Markets for Opportunities
7.3 Entering the Global Arena
7.4 Marketing in a Global Environment
7.5 Ethical Issues in the Global Marketplace

In the Spotlight

Starbucks is no stranger to the global marketplace. In 2020, the Seattle-based coffee company had over 30,000 stores in 80 countries.[1] Each fall, Starbucks's United States–based fans anticipate the release of the Pumpkin Spice Latte (or PSL, as it has come to be known). But what about other countries?

In 2021, the Starbucks Pumpkin Spice Latte was made available in stores across Europe, the Middle East, and Africa.[2] But the advertisements and the specific Pumpkin Spice Latte formula were modified from what you see in the United States because they were specifically crafted for each of the company's global markets. For example, in Portugal, the iced version of the Pumpkin Spice Latte is more popular, so it is marketed more heavily than the hot latte.[3]

Starbucks has seen its share of failures when expanding into global markets. In 2000, the company opened its first coffee shop in Australia. However, the company failed to allow the Australians to "develop an appetite for the Starbucks brand."[4] Asking locals to pay a premium for a brand that wasn't already ingrained in their culture didn't go over well. In the first seven years, the company reported losses of over $105 million and closures of 61 Australian stores.[5] Since then, Starbucks has changed its marketing strategy in Australia to focus on tourists rather than locals, and the result has been slower than desired.

The company has learned from its failures and successes across the globe. For example, in 2018, Starbucks opened its Starbucks Reserve Roastery in Milan, Italy. You might be surprised when visiting the Roastery as you can't order a Frappuccino, but instead, you can order wood-fired pizza and cocktails. The company

promotes its Milan location as a cup of coffee and an experience. “Milan Roastery is the crown jewel of Starbucks global retail footprint—a place where Italian customers can come to discover the art and science of coffee in a breath-taking environment.”[6]

Global markets vary by many factors. Look at our coffee example. Something as seemingly basic as coffee is perceived very differently across the globe, and marketers must be keenly aware of how to appeal to each market.

7.1 The Global Market and Advantages of International Trade

Learning Outcomes

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

- LO 1 Define global market opportunities.
- LO 2 Explain why international trade is advantageous to business.
- LO 3 Discuss the challenges of international trade.

Global Market Opportunities Defined

For some, the thought of expanding business operations into the global market is new, exciting, and fun. For others, it may seem daunting or impossible. At some point, most if not all companies will decide if and how they will expand into global markets based on global market opportunities. **Global market opportunities** simply refer to conditions that are favorable for a company to expand outside its home country market. These conditions include internal factors, such as the company’s ability and knowledge, as well as external factors, such as market growth, customer demand, and regulations or trade barriers within the industry.

Many companies have a presence in the global marketplace at some level. Consider a small Etsy shop that sells custom-printed T-shirts. While the T-shirts may be printed in the United States (maybe even in someone’s garage), the T-shirts may be purchased in foreign markets, such as China. While Etsy is a small-scale example, larger companies may have a greater presence in the global marketplace. Consider that Nike, founded in 1964, now sells its products in 170 countries that serve more than 30 major sports and consumer lifestyles.[7] While there are considerable risks to entering global markets, there are numerous advantages as well.

Advantages to International Trade

There are several advantages to international trade, including increased revenues, decreased competition, faster growth, diversification of risk, and the ability to more easily find buyers of excess inventory. Let’s look at each of these in more detail.

Increased Revenues

One of the most obvious advantages to international trade is an increase in revenue. Recall that revenue is the money earned from business operations, so the more countries in which a product or service is available, the more revenue will be generated.

Decreased Competition

A US-based company may have a great deal of competition. Consider the automobile industry. In the United States, most households own at least one vehicle. Competition in this industry is rather fierce, and it would be difficult for a new company to enter the market. However, in developing countries where automobiles are not as prevalent or infrastructure is still in development, competition for automobile buyers could be much lower.

Alternatively, fiercer automobile competition in some countries may force competitors to leave the market or choose not to enter at all. China is the world’s largest vehicle market in terms of both sales and manufacturing output.[8] As such, carmakers around the world continue to vie for the Chinese automobile market share. However, the market is mainly dominated by its domestic automakers, making international competition

difficult.[9]

For example, the Hongguang Mini EV, a battery electric microcar manufactured by China-based SAIC-GM-Wuling, has been a top EV seller since 2020.[10] In an effort to take market share, Ford has set the "groundwork to accelerate a refresh of the company's product portfolio in China by launching three new vehicles offered only in China."[11]

Faster Growth

For companies with a growth strategy, international expansion may be a viable option to achieve these goals. This is particularly true when the home country's market is saturated or experiencing slow or no growth. A market becomes saturated when there is enough capacity in the industry to meet all of consumer demand or when consumer demand begins to decrease. Either instance may make the international market an attractive opportunity for a business.

In addition to the growth of the company, as firms decide to expand into global markets, the international market will also experience growth. For example, when Amazon expanded its global operations to include a fulfillment center in Poland, the company had to hire employees to fulfill those orders. As of 2022, the Poland fulfillment center employed 25,000 people.[12] These individuals use their paychecks to purchase goods and services within their economy, causing the economy to grow. As new companies enter these markets, individuals are given the opportunity to consume a wider selection of goods and services and to move into higher standards of living.

Diversification of Risk

Risk refers to any situation or condition that leads a company to decreased profits or even failure.[13] Have you ever heard the saying "Don't put all your eggs in one basket"? It refers to putting all of your effort in one area and risking great loss. It's a reminder of how international expansion can help diversify business risk. Rather than focusing on one product or one market, companies are able to spread their risk across various markets. Additionally, while one country may be experiencing a recession and causing sales for a company to decline, another country may be experiencing a boom, which would likely result in an increase in sales for that same company. With operations in multiple countries, a company can potentially balance the up and down markets. A downturn in one or a few markets will not cause the company to fail completely because the demand in other markets may be growing.

Disposal of Surplus Goods

A final major advantage to international trade is the ability to dispose of surplus goods. For example, prior to each Super Bowl, the NFL makes clothing for both teams that states each is the winner so that supply is available immediately after the game. However, only the winning team's clothing is sold after the game. Rather than the losing team's clothing going to the landfills, it is donated to other countries, decreasing the waste of the unsold product.[14] Do not confuse the disposal of surplus goods with the concept of *dumping*, an illegal practice that will be discussed later in the chapter.

Challenges to International Trade

While there are numerous advantages to international trade, there are also challenges. Those challenges are discussed in more detail in the following sections.

Understanding the Business Environment

Regardless of where a business is located, its success depends largely on management's understanding of the business landscape. The **business landscape** refers to all internal and external factors of the business, its industry, and its environment. Companies that intend to expand internationally often make the grave mistake of assuming the landscape of a new market is the same of that in the home country, a concept known as **ethnocentrism**. In most instances, this causes companies to stumble or even fail. Understanding the nuances,

expectations, and regulations in international markets is one element that drives success.

Understanding the Target Country's Business Politics

Politics, laws, and industry relationships shape the environment of businesses both locally and abroad. The way business is conducted varies greatly from country to country, and businesspeople must not only be aware of these differences but must also have the ability to adapt to the local business politics.

Differences in Regulations and Marketing

Remember, there is no one-size-fits-all marketing campaign. You can imagine how this notion is amplified when thinking about marketing in various countries. Marketers must be in tune with their target markets to succeed. Additionally, marketing is perceived differently in various cultures, and it is important to understand how cultural differences influence consumer behavior.

For example, in the United States, it is not uncommon to see a plethora of advertisements for prescription medications targeting the general public. Most other countries do not regularly advertise prescriptions to the public but rather to the doctors prescribing those medications. In fact, the United States and New Zealand are the only countries where this type of marketing is allowed.[15] Each international market requires marketers to adapt or create new marketing strategies, which can vary considerably with each of the marketing mix elements—product, price, place, and promotion.

Cultural Differences

Local culture has an impact on marketing campaigns. It's common for marketers and other businesspeople to find it challenging to understand the differences between their own culture and the target market. Cultural sensitivity can help to alleviate these challenges when preparing marketing campaigns for other countries and cultures. **Cultural sensitivity** is the awareness and appreciation of and the ability to adapt to a cultural, ethnic, racial, or other group other than one's own.[16] By increasing cultural sensitivity, marketers can better create marketing campaigns that truly encompass the target market.

Two examples of companies not readily prepared come from Nivea and Gucci. In 2017, Nivea launched a social media campaigned stating "White Is Purity." The phrase was perceived by the public as being racially insensitive. To make matters worse, the slogan was then used by white supremacists in their propaganda.[17] While the company apologized and removed the campaign, these marketers should never have let the campaign leave the idea room. In 2019, luxury fashion designer Gucci introduced a balaclava knit jumper that had material that went up and around the mouth. The advertisement for this clothing featured a White woman modeling the sweater with bright red lipstick. Many critics noted its similarity to blackface. The company immediately pulled the $890 sweater from stores.[18]

LINK TO LEARNING

Gucci

Read more about the balaclava polo jumper from Italian designer Gucci (https://openstax.org/r/gucciwithdrawsjumper), the public commentary, and Gucci's official response. Also check out the details behind the Nivea "White Is Purity" ad (https://openstax.org/r/niveaadonline) and the uproar from consumers.

Cultural differences are an important factor in the marketing of a product, but these differences are also critical with business practices. Suppose you are meeting with a business partner in another country. Do you know if there is a gift-giving expectation? You may be aware that there are ethical concerns and sometimes prohibitions with gift giving in the United States, but in other countries it would be unprofessional to attend a

meeting without a gift. For example, in Japan, it is customary to bring a small gift with an initial sales call.[19] In the United States, some companies won't allow employees to accept gifts.

Using another US example, it is not unusual to "get right down to business" when meeting with others. Conversely, it may take several meetings of developing rapport with Japanese businesspeople before business is ever discussed. In addition, it's commonplace in Japan for people to not shake hands (see Figure 7.2) but rather bow to one another.[20]



Figure 7.2 Understanding cultural differences is important in marketing products and in business practice; for example, shaking hands is not globally accepted. (credit: "CC-BY-Mapbox-Uncharted-ERG_Mapbox-b053" by Mapbox Uncharted ERG/flickr, CC BY 3.0)

LINK TO LEARNING

Cultural Sensitivity

There are many ways you can begin to be more culturally sensitive. The first step is awareness. Read this short article (https://openstax.org/r/fiveways) on five ways to improve your cultural awareness. Also check out this video to learn how to develop cultural competency as a skill.

Introduction to Cultural Sensitivity (https://openstax.org/r/culturalsensitivity)

Knowledge Check

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

1. When conditions are favorable for a company to expand globally, the company is experiencing _____.
   a. global market opportunities
   b. international trade
   c. growth
   d. increased sales

2. Which of the following is NOT an advantage of international trade?
   a. Increased sales
   b. Growth
   c. Cultural barriers
   d. Diversification of risk

3. Being aware of and appreciating variations in culture is known as _____.
   a. cultural sensitivity
   b. cultural barriers
   c. cultural differences
   d. marketing regulations

4. Ashia is planning a business dinner with her new clients in Chile. She has never visited Chile before and is not familiar with their customs. Which of the following would you NOT advise Ashia to do?
   a. Tell Ashia she should consider talking with a colleague who has traveled to Chile before.
   b. Tell Ashia to study some of the most important Chilean customs so as not to embarrass herself or offend her dinner guest.
   c. Tell Ashia that if she is in doubt, she should follow her dinner guests' lead on what is appropriate.
   d. Tell Ashia not to worry about it because the Chilean businesspeople should adapt to her customs because her customs are the best ones to follow.

5. Which of the following is true regarding business politics?
   a. They do not vary from culture to culture.
   b. Business politics can vary greatly across cultures, and businesspeople should decide what is within their own ethical compass before deciding to conduct international business.
   c. Business ethics are the same across every culture.
   d. When conducting business in a foreign market, you should always do what is asked of you, even if it's unethical or illegal in your home country.

7.2 Assessment of Global Markets for Opportunities

Learning Outcomes

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

LO 1 Identify the different ways marketers can assess opportunity in global markets.
LO 2 Discuss effective methods of analyzing global opportunities.

Internal Assessment for Global Readiness

According to Douglas Quackenbos and his coauthors in their *Harvard Business Review* article "Does Your Company Have What It Takes to Go Global," "external factors only set the stage for an international opportunity."[21] In other words, even though a global market may represent an opportunity for the company, the organization also must be prepared internally to expand. The factors external to the organization—a country's economy, for example—is only half of the equation. Company leaders must do a thorough internal assessment of their organization to determine if it has what it will take to expand globally. Managers and marketers who will be working directly in the international market should have fully assessed the other countries' regulations, business landscape, and cultural differences, for example.

Harvard Business Review has a published list of the seven common characteristics found with companies that have been successful in international expansion.[22] The list includes attitude, aptitude, magnitude, latitude, rectitude, exactitude, and fortitude, each of which is defined in Table 7.1.

Characteristic	Definition
Attitude	Global expansion is a priority.
Aptitude	The company has the knowledge and skills to expand.

Table 7.1 Seven Characteristics of Firms That Win Globally

Characteristic	Definition
Magnitude	The scope of expansion is aligned with capabilities.
Latitude	The company has the ability to adapt.
Rectitude	The company has the legal and ethical flexibility to adapt to foreign markets.
Exactitude	Corporate culture aligns with flexibility and ambiguity of expansion.
Fortitude	There is a commitment to long-term expansion despite setbacks.

Table 7.1 Seven Characteristics of Firms That Win Globally

Economic Infrastructure

Economic infrastructure refers to the facilities of an economy that benefit the production and distribution of goods and services.[23] Infrastructure includes anything that would be required to produce and/or transport goods and services—for example, roads, railways, and high-speed Internet. Imagine that you are starting a lemon tree farm. You would not plan your farm in Michigan, where the temperatures often fall below freezing, because that would wipe out your lemon crops. Or imagine starting an online company where you sell art, but you live in a location where your Internet access is spotty and unreliable. Infrastructure considerations are critical in business needs evaluation.

Consumer Income and Purchasing Power

There are three types of income for you to be aware of:

- **Consumer income**, the amount of money a household or individual earns. Consumer income is often defined as the amount of money a household has to spend.
- **Disposable income**, the income available after taxes are paid.
- **Discretionary income**, the money available once consumers have paid taxes and living expenses such as, rent, food, heat, groceries, etc. This income is the predominant type of income that interests marketers because it's the money consumers typically have the most flexibility with.

Marketers evaluate discretionary and disposable income differently. It depends on the type of product or service they offer. For example, consider the impact of inflation. With inflation, the cost of goods and services increases but individual income does not also increase, meaning things cost more but there isn't additional income to cover the additional cost. When this happens, consumers purchase fewer items and prioritize their spending differently because with the increase in the cost of necessities, there is less discretionary income to spend. As a result, consumers will cut back on nonessential items. Due to this, marketers of luxury goods are concerned with discretionary income, while marketers of packaged consumer goods are concerned with disposable income.

Companies are also impacted by inflation. Just as it costs consumers more to purchase the same goods and services during inflation, inflation will increase the cost of production for companies to create the same number of products. Companies have various tactics on addressing environmental influences like inflation. One way in which companies of consumer-packaged goods avoid increasing prices during inflation is to decrease the size of products while not increasing the price, a practice known as shrinkflation. For example, Procter & Gamble's Charmin ultra-soft toilet paper 18-count mega package was decreased in 2022 from 264 double-ply sheets per roll to 244 two-ply sheets, yet the price either remained the same or was slightly increased.[24] Often with shrinkflation, consumers don't notice that a package is smaller, and they focus on their

ability to get as much as they can for the price.

Purchasing Power

Purchasing power is defined as how many goods can be purchased with one unit of currency. As you can imagine, purchasing power varies greatly across the globe and is of great importance when deciding whether to expand into foreign markets. For example, in a country where consumers have very little income and poor purchasing power, it would be difficult to sell expensive, nonessential goods. Consumers simply would not have the money to purchase them.

Currency Exchange Rates

Marketers and other business executives must understand foreign exchange rates and how fluctuations can affect marketing strategies.[25] An **exchange rate** is the rate at which one country's currency can be exchanged for that of another country. Because currency exchange rates fluctuate daily, the prices of goods and services in global markets will also fluctuate.[26] In turn, fluctuations in prices of goods and services will have an impact on the purchasing power of consumers and even larger effects on economic indicators such as jobs and inflation.

Suppose that in 1997, your US-based family imported British pantry items from the UK in order to create and export its own brand of barbecue sauce for sale in the UK. In 1997, it took $1.64 to buy 1 British pound (£).[27] So, $1.00 was worth £0.61 in British currency (1/1.6).[28] In this situation, the dollar is relatively weak compared to the British pound. One British pound would go a long way toward paying for that barbecue sauce.

Fast-forward 25 years. For the majority of 2021, it only took $1.37 to buy £1.00. So, $1.00 would buy £0.73 worth of British goods in 2021 (1/1.37). As you can see, the dollar had strengthened relative to the pound (which is the same as saying the pound had weakened relative to the dollar). This means that, by 2021, your dollar would buy more in terms of paying for British imports; conversely, consumers in the UK would have to pay more for your barbecue sauce!

LINK TO LEARNING



Exchange Rates

Exchange-Rates.org is a great resource (https://openstax.org/r/exchangeratesorg) for comparing exchange rates between hundreds of countries. Try it out by indicating countries in the From and To fields and check out the currency value between countries.

Analyzing Governmental Actions

Just as every economy in the world operates differently, so does each country's government. Businesses are greatly influenced by politics in every country (some more than others). Therefore, understanding how governmental actions impact the ability to be successful in a global market is imperative.

Political Stability

A country's political stability can impact nearly every facet of the country. Most notably, political stability has been linked to economic conditions in various countries. When there is increased political stability, the country's economy tends to stabilize or grow.[29] This is of keen interest to marketers as they consider new foreign markets to enter. As a country's stability increases, the opportunities to gain early entry into these markets grows. Conversely, many companies choose to avoid entering markets that lack political stability, not only because of the shaky economy but also because of potential changes in leadership, laws, and regulations.

Consider Russia's invasion of Ukraine in early 2022. In response, many companies pulled their operations out

of Russia in a show of support for Ukraine. McDonald's, which opened its first Russian location in 1990, was one of the first global companies to cease operations there. The company stated that the activities of the Putin government were not consistent with McDonald's values, but also that the turbulent operating environment made it untenable to continue operations there.[30]

Trade Regulations

In an effort to promote (or inhibit) trade with other countries, governments often have some level of trade regulations. These regulations can be within industries or with specific nations or groups of nations. The common trade regulations surrounding imports and exports around the world include tariffs, quotas, trade blocs, and embargoes. Additionally, countries have specific regulations for foreign companies hoping to establish business within their markets.

Tariffs are taxes that governments impose on imports coming into the country. Tariffs can be imposed as a percentage (most common) or dollar amount. Tariffs are generally used by governments to bring more money into a country. Japan, for example, has one of the lowest tariffs in the world at 2.5 percent for nonagricultural products.[31] Conversely, the East African nation of Seychelles once had a much higher tariff rate, averaging well over 50 percent prior to joining the World Trade Organization (WTO) in 2015.[32] After joining the WTO, tariffs were reduced to under 25 percent.[33]

Quotas are maximum allowable units to be imported into or exported out of a specific country. Quotas are often used by a country to protect a domestic industry. For example, if the US government limited the number of Japanese automobiles to 2 million imports per year, this would cause lower sales of imported vehicles and, in turn, higher sales of domestically produced vehicles.[34]

Embargoes are bans on trading a product with a specific country and are imposed between countries that have different political ideologies. The United States, for example, has embargoes against Cuba, Iran, North Korea, and Syria that prohibit all transactions with these countries without a license.[35]

Trade blocs are intergovernmental agreements that remove barriers of trade within regions of the world. There are currently 10 major trade blocs in the world.[36] The United States-Mexico-Canada Agreement (USMCA) and the EU27 are two prominent examples. The USMCA allows free trade among Canada, the United States, and Mexico.

There are a variety of examples of the sorts of approaches countries will take with trade regulations. For example, companies may impose strict laws and regulations on who can own the factors of production. In some instances, there are issues with corrupt governments requiring bribes and kickbacks.

Transparency International publishes an annual survey called the Corruption Perceptions Index (CPI). Marketers use this survey for insights into country dynamics and can evaluate market viability of their product or service offering. This guide helps company leadership determine how much work they may have in understanding a country's way of operating and what kind of work it would take to make their product or service successful.

LINK TO LEARNING



CPI

The Corruption Perceptions Index (CPI) is an interesting and interactive tool where you can select specific countries to find their CPI rating. One hundred eighty countries are each rated on a scale of 0 to 100, where 100 indicates very clean and 0 means highly corrupt. Interact with the index here (https://openstax.org/r/transparencyencpi) and learn more about the CPI rating scale and assessment by watching this video (https://openstax.org/r/howcpiscores).

If you'd like to learn more about the Transparency International organization and its work, check out this brief summary of its 2021 annual report (https://openstax.org/r/publicationsannualreport).

Analyzing Sociocultural Factors

While the economic and political factors of a foreign market will determine a firm's ability to *enter* a market, the sociocultural factors may be most important in determining whether goods and services will be *successful* in a market. **Sociocultural factors** include values, behaviors, culture, lifestyle, and language that shape a person's or group's way of living. As you can imagine, there are hundreds of cultures around the world, and every culture within a country has its own nuances, preferences, and even ways of conducting business. Marketers who want enter foreign markets must have a deep understanding of these factors to establish effective marketing strategies.

Lifestyles

The way a person or group lives is known as their **lifestyle**. Each person has their own unique lifestyle, while cultures and families share similar traits within their collective lifestyles. Marketers must get to know their consumers to understand their buying behavior and how their lifestyles affect it.

In 2009, toy manufacturer Mattel Inc. opened a huge, three-story, Barbie-inspired flagship store in Shanghai, China. What marketers failed to do before making this market-entry decision was to study the lifestyles of Chinese consumers. In China, the culture stresses educational toys and playtime that builds skills; Barbie was neither of those. The store closed after only two years.[37]

Marketers must also be careful to avoid stereotypes of other cultures and countries. **Stereotypes** are oversimplified perceptions, images, or ideas of a person or groups.[38] While they can be negative or positive, they are overgeneralized perceptions about an entire group or people. Companies sometimes learn the hard way to avoid stereotypes.

For example, in 2014, Delta Air Lines, a major US passenger airline carrier (see Figure 7.3), made a big stereotype blunder with its social media marketing. The company sent out a congratulatory tweet to the US team for its win over the Ghanaian team in the World Cup in which it used a photo of a giraffe to represent Ghana.[39] Unfortunately, Delta marketers failed to realize that there is not one wild giraffe in Ghana; this is a frequent stereotype about the entire continent of Africa. In fact, there are over 50 countries in Africa, but only around 20 have naturally wild giraffes.[40] The Twitter market caught on to this error quickly and proceeded to tease Delta for its stereotype mistake.



Figure 7.3 Marketing based on stereotypes can lead to big mistakes, such as when a social media post by Delta Air Lines incorrectly

assumed that Ghana was home to wild giraffes, resulting in the market openly teasing the company on Twitter for its blunder. (credit: "Phuket 2018" by un.cloned/flickr, CC BY 2.0)

Law and Politics

Laws and politics have a large impact on a country's economy and, in turn, how products will (or even can) be marketed. Political and legal decisions made within a country's system surrounding tariffs, labor laws, the environment, and even an expectation of bribery can impact a business's decisions. Even politics between two countries can have a big impact on decisions made by marketers.

In 2019, President Donald Trump increased the tariffs on Chinese goods to 25 percent. Several companies subsequently opted to pull their production facilities out of China. For example, Apple and Dell moved some of their production to Vietnam and other parts of Asia to avoid these tariffs.[41]

Education

Education impacts a consumer's product and service choices. Generally speaking, the more educated an individual is, the more discretion they use when purchasing products.[42] In other words, that person will spend more time researching various products before deciding which to purchase. Levels of education also effect an individual's choices in magazines, television shows, and other entertainment.[43] Therefore, platforms, messages, and even specific words marketers choose for the promotion mix will depend on the level of education that the target market holds. Is the market tech savvy? If not, using technical words and messages may confuse a consumer who doesn't understand the message.

Technology

The availability of technology within an international market will have several impacts on marketing efforts. First, the ability for consumers to access and use technology will directly impact the goods and services that are being marketed. Second, the company's access to technology to produce goods and services within the country will also be impacted.

For example, Uganda has the second-youngest population in the world.[44] It is also ranks among the poorest countries in the world.[45] Because of this, someone may make the mistake of thinking that Uganda would not be a market to enter with technology, but this is far from true. While many citizens of Uganda live without electricity or running water, the country's population of 45.74 million is estimated to own around 16 million cell phones, but only around 1 million homes have electric lights.[46] Due to the young population seeking to be more connected with others, the people of Uganda prioritize and are heavily reliant on their cell phones (see Figure 7.4).

But if there is limited electricity, how do Ugandans charge their cell phones? It has certainly been a challenge for many who have to share solar power with neighbors or travel to a nearby village that has electricity. However, the use of portable charging solutions has become more widespread. One company, Charge Ko Technologies, has turned this into an opportunity and created various portable charging solutions, including solar backpacks and energy generation through bicycle usage.[47] While some impoverished Ugandan consumers may not be able to afford these products, the company is hopeful that the wealthier will purchase enough to help bring the price down over time.



Figure 7.4 Cell phone use is widespread in Uganda because people prioritize connecting with other people, resulting in portable charging stations because electricity is a limited resource. (credit: Sarah Shepler, photographer)

Conducting a Cross-Cultural Analysis

When the Walt Disney Company decided to open Disneyland Hong Kong in 2005, the company struggled to gain momentum with its Chinese target market. Among other blunders, such as its high admission price, the company assumed that its Chinese market would love the Disney brand as much as Americans do. The company failed to realize that, unlike Americans, the Chinese did not grow up with the Disney brands and characters. Imagine walking into a fantasy theme park with characters you had never heard of or seen before. Unlike Americans, the Chinese do not view Disney characters as cultural icons. The fantasy aspect of the brand and park was another issue Disney faced. Its closest competitor, Ocean Park, provided visitors with real animals, educational material, and thrilling rides. The Asian market, which values education, found Disney's high ticket prices with little educational value to be wasteful when the park initially opened.[48]

Values

Cultural values are often unspoken. They include the aesthetics, socialization, and religious aspects woven throughout a culture. Consider the Disney example. Marketers stumbled with truly understanding the Chinese consumer culture when opening Disney Hong Kong by assuming that Chinese values were similar to those of Americans.

Customs and Cultural Symbols

Like other cultural values, customs are often unspoken. **Customs** consist of mannerisms or behaviors that are considered characteristics within a social system.[49] For example, in Spain, the afternoon siesta is a cultural custom. The siesta is an afternoon nap taken after the midday meal. Businesses will close for extended lunch breaks to allow employees to take their afternoon siesta.[50] If you are considering opening a business in Barcelona, you should expect to do the same!

Cultural symbols are physical representations of a culture's language, values, and traditions. They include items such as flags, gestures, holiday decorations, and many others. For example, in China, the national

animal is the giant panda, and it has significant cultural importance as a symbol.[51] Similarly, the maple leaf is symbolic of Canada[52] (see Figure 7.5).



Figure 7.5 Cultural symbols, like the Canadian maple leaf, are physical representations of a culture's language(s), values, and traditions. (credit: "Vancouver B.C. - Canadian Flag 'Maple Leaf'" by David Paul Ohmer/flickr, CC BY 2.0)

Language, Idioms, and Nuances

It may seem obvious, but even language differences play a large role in the marketer's job as products and services are rolled out in international markets. Brands and product names may have one meaning in the home country and a completely different meaning in another language. For example, Nestlé had problems when rolling out its Gerber baby food in France because "Gerber" translates to "puke" in French. For obvious reasons, this didn't appeal to French parents choosing food for their infants.[53]

Nuances are words, phrases, or beliefs that vary slightly from one culture to another and can cause miscommunication in translation. For example, UK citizens use the word "jelly" to describe what people in the United States would call "Jell-O," and they use the word "biscuit" for "cookie."[54]

Idioms are phrases used in a culture that mean something completely different. For example, if you hear someone say "break a leg" in the United States, it would mean "good luck." However, using this idiom in another culture may leave the other person quite confused or even offended, thinking it was meant literally to go break their leg.[55] In Spanish-speaking cultures, the popular idiom "a lot of noise and no walnuts (mucho ruido y pocas nueces)" means "all talk and no action," but it would have no meaning in the United States.[56]

However, even idioms can become problematic within and across languages and cultures. In 2022, Lizzo, a world-renowned pop star, issued an apology and a rerelease of a song because she had used a culturally insensitive word that she was unaware of at the time of recording.[57]

CAREERS IN MARKETING



Global Marketing Manager

With the increase in companies doing business internationally, global marketing managers' job roles are becoming more important. Global marketing managers work to understand what international markets need, the competition, rules and regulations, and local cultures and values. They then use this information to develop global marketing strategies that appeal to the local market. Learn more about this role from

these sources:

- Noodle article: "How to Become a Global Marketing Manager (https://openstax.org/r/managercareerguide)"
- Marketing Business Network video: "What Is Global Marketing?" What is Global Marketing? (https://openstax.org/r/whatisglobalmarketing)
- Learn.org: "What's the Job Description of a Global Marketing Professional (https://openstax.org/r/whatsthejobdescription)?"

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. During the Russian invasion of Ukraine in 2022, the Russian ruble's value decreased to less than one United States penny. This conversion from ruble to dollar is known as the _____.
   a. exchange rate
   b. business landscape
   c. purchasing power
   d. consumer income
2. Generally speaking, when a country's political stability improves, so does its _____.
   a. international business
   b. purchasing power
   c. economy
   d. consumer income
3. The assumption that all Chinese individuals are extremely gifted in mathematics is known as a _____.
   a. stereotype
   b. lifestyle
   c. culture
   d. sociocultural factor
4. During the Russian invasion of Ukraine in 2022, United States President Joe Biden halted all imports of Russian oil. This action is known as a(n) _____.
   a. tariff
   b. quota
   c. trade bloc
   d. embargo
5. The United States, Canada, and Mexico are part of a trade bloc known as _____.
   a. ASEAN
   b. USMCA
   c. tariffs
   d. embargoes

7.3 Entering the Global Arena

Learning Outcomes

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

LO 1 List the strategies used in global competition.
LO 2 Discuss the different forms of global competition.

Ways in Which an Organization Can Enter the Global Arena

After a company has decided to enter the global marketplace, managers must determine which method of international involvement is best for the company's strategic goals. These methods include exporting, franchising, licensing, joint ventures, strategic alliances, and direct foreign investment (see Figure 7.6). Each method represents a different level of involvement. Let's look at each of these in more detail.



Figure 7.6 Global Market Methods for Entering a Marketplace (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Exporting

The most basic and least involved method to enter global markets is through exporting. **Exporting** is when a company makes a product or service in one country and sells it in others. Many companies choose this method of entry into global markets because it requires the least amount of m risk and allows the firm's managers to learn the ins and outs of international business. For example, in the UK's East Midlands, the county of Northampton is home to Alfred Sargent & Sons, Church's, John Lobb, and other shoemakers. An increased emphasis on exporting allowed these dying businesses to see new life because people in other countries wanted a piece of traditional "English cobbling."[58]

Franchising

Franchising is a business strategy in which the owner (the franchisor) allows another person or entity (the franchisee) to operate a business using the franchisor's products, branding, and knowledge in exchange for a fee.[59] Over 90 percent of the McDonald's around the world are franchises owned by independent local businesspeople.[60] The cost to franchise a business varies. A person interested in opening a McDonald's franchise will need $500,000 in liquid assets and $45,000 for a franchise fee and should expect to spend between $1.3 million and $2.3 million over time.[61] On the other hand, franchising the exercise brand Jazzercise requires a one-time initial fee of $1,250 and liability insurance.[62]

Franchising rules and commitment vary by company for both home-based and international markets.

Licensing

Licensing is a contract in which one organization permits another to use its name, brand, or trademark on its own items. While licensing and franchising might seem similar, franchising involves all business operations, whereas licensing applies to a specific aspect (usually trademarked) of the business.[63] Licensing agreements allow the company to enter other markets without as high of a financial risk. However, with little business involvement in licensing by the licensee (the company licensing its brand), strong business relationships are critical in order to reduce the risk of the licensor damaging the brand's reputation. With licensing, the licensee loses brand control. Licensing is common in the fashion industry, where well-known apparel brands such as Armani license their names to companies that make eyeglass frames, fragrances, and watches.

Joint Venture

A **joint venture** is a business arrangement whereby two or more companies create one single enterprise or project. The joint venture can last for any length of time but typically is not permanent. The advantage of a joint venture is that the two companies share all the risks associated with the venture.[64] In 2012, Kellogg's and Wilmar International Limited announced a joint venture. Kellogg's wanted to expand its presence in the Chinese market. Creating a joint venture with Wilmar International provided the company with an extensive distribution network. Both companies benefited from this venture: Wilmar International through its financial incentives and Kellogg's with a way to penetrate the market.[65]

Strategic Alliance

A **strategic alliance** occurs when two companies from different countries agree to invest resources in a mutually beneficial way. For example, Microsoft relies heavily on alliances when entering new markets as a way to optimize the knowledge and market identification of local companies. Uber and Spotify entered into a strategic alliance to allow Uber riders to connect to their Spotify account and stream music while catching a ride.[66]

Direct Foreign Investment

The most involved and riskiest way for a business to get involved in the international arena is through direct foreign investment. **Foreign direct investment (FDI)** involves establishing operations within a foreign country. Consider automobile manufacturers. Nearly all producers have made significant investments in manufacturing outside of their home countries. For example, Tesla invested in a Shanghai factory to produce electric vehicles (EVs), and in 2022, the company announced it is "taking steps to ramp up output in order to double its original planned annual target to 1 million cars."[67]

Forms of Global Competition

Global competition can come from international firms, multinational firms, and transnational firms. Let's look at each to better understand their impact.

Any firm that operates on a global level is classified as an **international firm** regardless of the intensity of the involvement. International firms can further be classified as either multinational firms or transnational firms. Often, this classification depends on the business structure and products or services offered.

The most common characteristic of a multinational firm is its centralized business structure. Consider Amazon, whose headquarters are located in Seattle, Washington.[68] Amazon operates in over 50 countries across the globe.[69] However, the majority of all major decisions are made at its headquarters, making it a multinational firm.

Let's look at McDonald's again. The company's franchise strategy relies heavily on the brand name and similar core menu items across the globe. However, the company also allows for local responsiveness by allowing local menu items to be included in the menu. For this reason, McDonald's is often referred to as a **transnational firm**, one that allows for a higher degree of localization.[70]

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. Janai is considering opening a McDonald's in her home country of Nicaragua. Which type of market entry strategy would she use?
   a. Franchise
   b. Joint venture
   c. Strategic alliance
   d. Exporting

2. Imagine you are interested in entering the global marketplace. Which would be the easiest way for you to begin?
   a. Franchising
   b. Strategic alliance
   c. Exporting
   d. Joint venture

3. Ryana owns a T-shirt company in Japan. With her T-shirts, she applies Disney characters and pays Disney royalties based on each shirt sold and an agreement the two companies entered into. Which of the

following is Ryana most likely involved in?
a. Licensing
b. Unethical behavior
c. Trademark fraud
d. Franchising

4. A company wants to expand into a particular global market, but local firms are better equipped to handle some business processes, such as logistics. Additionally, it is particularly difficult to enter this market. Which of the following would you recommend to the expanding company?
a. Franchising
b. Exporting
c. Licensing
d. Joint venture

5. After being hired at ABC Corporation, you realize that all decisions for each facility in the world are made at the headquarters you work at in Pensacola, Florida. Which type of firm best describes the one you are working at?
a. Exporting firm
b. International firm
c. Transnational firm
d. Importing firm

7.4 Marketing in a Global Environment

Learning Outcomes

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

LO 1 Describe how marketing strategies are adapted for a global marketplace.
LO 2 Summarize how global strategies affect the 4Ps of marketing.

Adapting Marketing Strategies for the Global Marketplace

Until this point, we've mostly been learning about the bigger-picture decisions that a company must make when deciding whether to enter the global marketplace. Once these company-wide decisions are made, marketing managers must determine the most effective way to market their products in the new markets. They must determine if completely new products or existing products will be offered in the new market. Additionally, they must determine if the other marketing mix variables must be adapted to the local market.

Standardized Global Marketing

A **standardized global marketing strategy** is one in which a company uses the same marketing strategy in all markets. Coca-Cola primarily uses a standardized marketing strategy in all markets. The brand, brand name, and iconic cursive writing in white on red background can be seen all over the world. The advantage that Coca-Cola has in this strategy is that the company can spread the cost of marketing over all the regions in which it operates.[71]

Adapted Global Marketing

Conversely, a company may not find success in a one-size-fits-all marketing strategy. In this case, the company may choose an **adapted global marketing strategy**, one in which marketing strategies differ among global markets. If a company chose an adapted global marketing strategy, there would be high marketing costs associated with each of the markets in which the company conducted business. Netflix, for example, offers different content (movies and shows) in each of its markets based on the customer demands in each country.[72]

The 4Ps of Marketing in a Global Environment

Now that the company has chosen either a standardized or adapted marketing strategy for its global operations, it's time to consider each of the 4Ps of global marketing—product, price, place, and promotion.

Product

Companies entering new foreign markets have three choices surrounding the product. They include straight product extension, product adaptation, and product invention. Each has its own advantages and disadvantages and levels of risk. Let's take a look:

- **Straight Product Extension**
  A **straight product extension** is a strategy that entails maintaining the same product for both home and foreign markets. As you can imagine, this is the easiest product strategy and has the same advantages as a standardized marketing strategy. Some products are globally known and need no modifications in order to sell them.
- **Product Adaptation**
  Product adaptation is when companies modify products to align with the local culture. For example, Nike manufactures different styles of shoes based on the local culture's preferences, such as the Nike Air Zoom, a high-intensity interval training (HIIT) shoe that was released in Australia.[73] This particular shoe is not available in the United States and looks quite different than other performance shoes offered in the United States.[74]

  Consider another well-known company: McDonald's has around 38,000 franchises globally. However, not all global markets have the same tastes as what you might expect in the United States. In fact, it often goes beyond taste preferences and into religious and cultural norms. For example, there are over 160 of the Golden Arches in India, but none of them sell pork or beef, and they even keep separate kitchens for vegetarian and meat preparations. The company announced it would be opening vegetarian-only restaurants to better serve the Indian markets.[75]
- **Product Invention**
  The most involved product strategy used in global marketing is that of product invention. **Product invention** consists of creating entirely new products for a global market. Consider the earlier example of the Ugandan market. Because less than half of the population has access to electricity, there is a potential for companies to invent new products, such as cooling systems, that do not require electricity.[76]

LINK TO LEARNING



7-Eleven and Product Adaptation

There a numerous examples of product adaptation across markets. Check out this video on how 7-Eleven differs between American and Japanese markets.

US vs Japan 7-Eleven | Food Wars | Food Insider (https://openstax.org/r/foodwars)

Price

When pricing a product in a foreign market, there are other factors to evaluate in addition to home country considerations. Tariffs, the local economy, shipping, and other factors need to be considered because these will all have an impact on earnings and profit.

Do you know in which country it is the most expensive to purchase a car? You might be surprised to hear it is Singapore. The small island country doesn't have a lot of room to accommodate everyone having an

automobile, so the government has imposed high import taxes and yearly fees to keep the number of automobiles down.[77]

Place: Distribution Channels

When marketers are considering distribution channels in foreign markets, they may find themselves with limited options compared to their home country. In the United States, for example, most companies find themselves with many choices of wholesalers, retailers, and supply chains. However, in more remote areas of the world and developing countries, those options can be limited. Consider again our Uganda example. Most retailers, particularly outside the capital city of Kampala, are "mom-and-pop" stores. Additionally, there are few transportation routes, and the ones that do exist consist mostly of dirt roads and a few highways. Unlike the United States, it is rare to see tractor trailers (semis) carrying containers of goods from one location to another. Instead, taxis, motorbikes, and foot traffic are the main modes for product transportation.

It is imperative that marketers consider the whole channel when making distribution decisions. The **whole channel** refers to the design of the international channels that incorporates all members, including the manufacturing, retailer, and wholesaler sites as well as transportation.[78]

Have you seen the movie *Captain Phillips* starring Tom Hanks? The movie was loosely based on the true story of the Maersk Alabama container ship that was hijacked by Somali pirates off the coast of Somalia. Yes, pirates exist, and when they are able to capture large cargo ships, they can loot a lot of valuable cargo.[79] While many large vessels avoid pirate territory when considering the whole channel, pirates still exist today and are often waiting at sea to steal millions of dollars' worth of goods.

Promotion

Just as marketing managers must determine whether to adapt their product to new markets, they must also determine the best course of action for the promotion strategy. Nearly all promotion strategies will need to adapt to some degree in different markets, even if it is a simple product expansion.

Consider Coca-Cola, whose brand name remains unchanged. However, in some countries, the slogan is slightly tweaked to have a more local meaning, but with the same underlying promotional message. Refer to Table 7.2 for some of the Coca-Cola slogans used around the world.[80]

Country	Slogan
India	Always the Real Thing
United States	Real Magic
New Zealand	Real Magic
Spain	Siente El Sabor (Feel the Flavor)
Hungary	Kóstold meg az érzést (Taste the Flavor)
Indonesia	Rasakan Keajaiban (Real Magic or Feel the Magic)

Table 7.2 Coca-Cola Slogans

Knowledge Check

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

1. A company that uses the same marketing strategy in all markets is most likely utilizing which of the following?
   a. Standardized
   b. Adapted
   c. Invention
   d. Modified

2. Which of the following is correct regarding the promotion strategy of global markets?
   a. All promotion strategies should remain the same across markets.
   b. Promotion strategies of global markets should deviate only slightly from the home market.
   c. Promotion strategies should reflect the market, some to different degrees.
   d. Promotion strategies of global markets should always be completely different from the home market.

3. Which of the following Coca-Cola slogans is used in New Zealand?
   a. "Real Magic"
   b. "Always the Real Thing"
   c. "Feel the Flavor"
   d. "Feel the Magic"

4. Which of the following is part of the whole channel?
   a. Promotions
   b. Communications
   c. Price
   d. Distribution channel members

5. Which country has the highest automobile prices?
   a. China
   b. Singapore
   c. United States
   d. Canada

7.5 Ethical Issues in the Global Marketplace

Learning Outcomes

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

LO 1 Identify ethical issues facing global organizations.
LO 2 Provide an example of a company that displays ethics in the global marketplace.

Identifying Ethical Issues in the Marketplace

As with all business decisions, there are ethical matters to consider when entering into the global marketplace.

Outsourcing

Outsourcing refers to a business moving some of its operations to a foreign country for the purpose of saving money and time or to increase volume and quality. WhatsApp, an encrypted communication app owned by Meta Platforms (formerly Facebook), has been used globally for several years. Based out of California, the company realized that it would have difficulty growing if it did not outsource. In 2012, the company began utilizing Russian companies for a small fraction of what it would have had to pay within the United States.[81] While outsourcing has its advantages, many will argue that outsourcing eliminates jobs in the home country.

Work Standards and Conditions

Unlike most developed countries, those countries still developing often have much lower standards for working conditions. This has been a topic of hot debate for many years in the United States and around the

world as companies have moved some or all of their operations to countries with lower standards. In Xinjiang, China, more than half a million people from ethnic minority groups are forced to pick cotton for the fashion industry.[82] Well-known companies such as Nike, Apple, and Levi's have come under the same scrutiny in more recent years. While cheaper production costs will provide the company with more profits, more often than not, lower standards, working conditions, and otherwise unethical behavior will put them under a microscope. Alternately, many companies and experts will argue that even the worst of working conditions have a positive impact on developing nations.[83]

Workplace Diversity and Equal Opportunity

In recent decades, many countries have passed regulations to include and promote diversity in the workplace.[84] However, in other countries, diversity and equal opportunity remain human rights issues. Having a diverse workforce has numerous benefits, particularly in those companies expanding globally. Companies committed to diversity have increased chances of success in the global market; diversity often breeds an increase in ideas and cultural intelligence and creates a more agile workforce.[85]

Additionally, marketers must also be considerate of diversity within their marketing strategies. Alienating underrepresented groups of people within a target market might not only cost sales but also backfire in terms of representation. Procter & Gamble has utilized its many marketing platforms to not only include diversity but also to shed light on societal struggles of people of many racial identities in its target markets. The company has also extended diversity into its hiring practices to "mirror the US population."[86]

Child Labor

The use of child labor is seen by most Americans as unethical. The United Nations (UN) has implemented many treaties that establish human rights for children within member nations.[87] However, each country has its own standards for child labor and the minimum age at which a child can work.

Bribery and Corruption

Bribery and corruption may seem like a thing from the past, but in fact, both are still quite prevalent in both developed and developing nations. Nearly all countries have laws against bribery and corruption, but in many areas that are politically unstable, doing business means bribing officials. When a company decides to expand into international markets, the managers and marketers must decide to what degree they are willing to participate in practices that would otherwise be deemed illegal or unethical in the home country. The Foreign Corrupt Practices Act of 1977 "was enacted for the purpose of making it unlawful for certain classes of persons and entities to make payments to foreign government officials to assist in obtaining or retaining business."[88]

Dumping is a practice in which a company manufactures a very large of number of goods and exports them to a foreign market and the product is offered at an extremely low price to the consumer market. This often drives out all competition in the market. Once competition is driven out, the company then raises the price of the product, essentially creating a monopoly on the product. The United States and other countries have laws strictly prohibiting the practice of dumping, and many impose fines against those companies attempting to practice dumping.

LINK TO LEARNING



Free and Fair Trade

As a marketer, it's important to be aware of ethical practices. Learn more about the United States Department of Commerce and how it promotes free and fair trade (https://openstax.org/r/howdumpingandunfair).

COMPANIES WITH A CONSCIENCE

Kao Corporation



Figure 7.7 Global companies are also interested in ethical business practices; for example, Kao, a Tokyo-based company, and Costco, a US-based company, partnered to develop foldable containers for repeated product use. (credit: "Costco-Ribboncutting-21" by Baltimore County Government/flickr, Public Domain)

Founded in 1887 in Tokyo, Japan, Kao is a "16-time Ethisphere World's Most Ethical Companies honoree and [it has] been honored every year since Ethisphere started recognizing companies."[89] The company's strategies aim for zero waste when producing its cleaning and health and beauty products. Using leftover materials, Kao developed Bio IOS, a sustainable ingredient in its cleaning products. Its product development process encourages consumers to use refill packs to reduce waste.[90]

In 2022, Kao and Costco teamed up to begin testing foldable containers that allow for repeated use as packing materials in a Kanagawa Prefecture Costco warehouse (see Figure 7.7).[91] To read more about this initiative and to see the packaging, visit the Kao website (https://openstax.org/r/newssustainability).

The company has plans to expand the use of these reusable packing materials into other warehouses and hopefully further into the industry. Kao prides itself on the innovation of societal and environmentally friendly products as well as practicing gender equality and universal product design.[92]

Chapter Summary

As outlined in this chapter, transportation, technological developments, and business landscape and cultural considerations go hand in hand with globalization. Marketers must develop competitive marketing strategies in a realm far different than they're accustomed to. Decisions have expanded to encompass complex international considerations. Once a company has decided to enter an international marketplace, it must decide how best to make that entry. Some companies decide to export products, some determine a joint venture is the best approach, and others elect to invest in building manufacturing facilities. Each offers differing levels of investment, control, and potential profit. An additional and vital concern is whether the company will standardize its product offerings or shift products to adapt to cultural differences. In any event, successful businesses select their marketing partners and intermediaries carefully as they aim to add value global customers want.

Key Terms

adapted global marketing strategy a strategy in which a company utilizes different marketing strategies in different global markets
business landscape everything internal and external to the business, its industry, and its environment
consumer income the amount of money a household or individual earns
cultural sensitivity awareness and appreciation of and the ability to adapt to a cultural, ethnic, racial, or another group other than one's own
cultural symbols physical representations of a culture's language, values, and traditions
cultural values unspoken aesthetics, socialization, and religious aspects woven throughout a culture
customs mannerisms or behaviors that are considered characteristics within a social system
discretionary income the money individuals and households are left with after paying taxes and other living expenses, such as food and shelter
disposable income the money individuals and households are left with after paying taxes
dumping the practice in which a company manufactures a very large of number of goods and exports them to a foreign market to see cheaply
economic infrastructure the physical facilities of an economy that benefit product and distribution
embargoes trading bans on a product with a specific country; imposed between countries that have different political ideologies
ethnocentrism an assumption that the business landscape or culture of an international market is the same as the home country or personal culture
exchange rate the rate at which one country's currency can be exchanged for that of another country
exporting when a firm makes a product or service in one country and sells it in others
foreign direct investment (FDI) the process of establishing operations within a foreign country
franchising a business strategy in which the owner (the franchisor) allows another person or entity (the franchisee) to operate a business using the franchisor's products, branding, and knowledge in exchange for a fee
global market opportunities conditions that are favorable for a company to expand into the global marketplace
international firm a company that operates on a global level regardless of intensity of involvement
joint venture a business arrangement whereby two or more companies create a single enterprise or project
licensing a contract in which one organization permits another to use its name brand or trademark on its own items
lifestyle the way a person or group lives
outsourcing the process of moving some of a business's operations to a foreign country for the purpose of saving money and time or to increase volume and quality
product adaptation when companies modify products to align with the local culture

product invention when companies create entirely new products for a global market
purchasing power the goods that can be purchased with one unit of currency
quotas maximum allowable units (usually in currency) to be imported into or exported out of a specific country
risk any situation or condition that leads a company to decreased profits or even failure
sociocultural factors values, behaviors, culture, lifestyle, and language that shape a person's or group's way of living
standardized global marketing strategy a strategy in which a company uses the same marketing strategy in all markets
stereotypes oversimplified images, perceptions, or ideas of a person or group
straight product extension a strategy that entails maintaining the same product for both the home and foreign markets
strategic alliance when two companies from different countries agree to invest resources in a mutually beneficial way
tariffs taxes that governments impose on imports into the country
trade blocs intergovernmental agreements that remove barriers to trade within regions of the world
transnational firm a company that allows for a higher degree of localization
whole channel the design of the international channels that incorporates all members, including the manufacturing, retailer, and wholesaler sites as well as transportation

Applied Marketing Knowledge: Discussion Questions

1. Why do most global organizations envision the world as a huge market without borders?
2. Describe the differences between exporting products, forming joint ventures, and licensing products.
3. What factors do companies consider when determining a foreign country's market attractiveness?
4. Adding value to the delivery network is tricky and complex for international sellers. With whom do these sellers usually partner to move products seamlessly through distribution channels?

Critical Thinking Exercises

1. Marketers must consider the global marketing environment when determining strategy. In addition to the international trade system, economic environment, and cultural norms, what other environmental factor is a critical consideration? Use an example to illustrate the importance of this environmental factor.
2. Thousands of businesses must strike a balance between standardizing marketing practices on a global scale versus adapting products to local markets. List two companies within the same industry, such as Toyota and Volkswagen, that approach their global marketing strategy using product standardization or adaptation. Then check global sales to help determine which approach is most effective.
3. Procter & Gamble makes dozens of laundry detergents and adapts these products to market preferences around the world. Two of these brands include Ariel and Mif. Why might European markets prefer Ariel's formulation and Russian markets demand Mif? Build a list of three reasons why Western Europe and Eastern Europe may differ in their laundry detergent preferences.
4. You are working on a marketing campaign for the Japanese division of Malley's Chocolates. You have created a pitch to top executives for a commercial featuring a Japanese husband surprising his wife in her bedroom on Valentine's Day with a small box of chocolates containing four candies. Would this be a good idea for a commercial? Why or why not?

Building Your Personal Brand

There are ways to build skills that will help you in international markets. Consider the items shared in this

chapter and consider what you might do to enhance your skills. Then write a one-to-two-page document outlining a plan for what you will do to improve your skills. Be specific and include a timeline. You might also want to meet with international business instructors to help identify areas to include.

Here are several things to consider:

- Does your campus offer courses or workshops in diversity? Many diversity training opportunities also offer a certificate of completion that you can include in your resume.
- Is there a foreign language requirement at your university? If so, this education plus a study abroad experience will reinforce your language skills, business etiquette, and exposure to cultural realities. Satisfying college requirements can also work in your favor.
- Political science courses offer credits toward graduation that also may extend to the political realities of foreign countries or regions, enhancing your awareness of business practices, economic conditions, and historical underpinnings.

What Do Marketers Do?

Part of the International Trade Administration, Export Assistance Centers (found in the United States, Europe, the Middle East, Africa, and Asia) help US-based businesses plan, develop, and execute international strategies to succeed in today's global marketplace through the. Find the center nearest to you (https://openstax.org/r/uscommercialservice) and conduct a short interview with an export counselor there to learn more about their job. To learn more about global market opportunities through the International Trade Administration, watch the short video "Discover Global Markets."

Discover Global Markets: Powering & Building the Middle East & Africa (https://openstax.org/r/discoverglobalmarkets)

Here are some questions to ask:

- What services does the center offer?
- What is an "initial market check"?
- Does the center provide customized market research?
- Does the International Trade Administration work with US consulates and embassies?
- Are there training or networking events to attend where I can network and learn more?
- How does the export center help companies located in rural areas successfully export products?
- What training did you complete to qualify for your position?

Closing Company Case

Timmy Global Health

Founded in 1997 by Dr. Charles (Chuck) Dietzen, Timmy Global Health has a mission to empower communities to address health disparities in a sustainable way. For over two decades, Timmy has supported care sites across four countries in Latin America and Africa: Guatemala, Ecuador, the Dominican Republic, and Nigeria. Since its founding, it has served 100,000+ patients through medical service trips and local follow-up care. The most enduring legacy is the trusting relationships it has built with local communities.

With a vision to build a healthier world through a community of global health leaders, Timmy has been active at more than 18 colleges and universities throughout the United States. For two decades Timmy organized to provide medical clinics and much-needed supplies to people in underserved areas. All who went on the medical service trips learned the mission of health care firsthand by tending to those who most needed the care and resources.

Dr. Chuck founded Timmy Global Health in Greenwood, Indiana. His reputation as a physician and his connection to schools and community health leaders was a primary driver for his development of the

organization near the area where he lived and worked. However, it was the spirit of giving and the generosity that Hoosiers (Indiana natives) are known for that solidified his decision to have the organization headquartered in Greenwood.

Through the years, Dr. Chuck provided his vision and numerous resources to Timmy Global Health. Dr. Chuck was the biggest fundraiser and the visionary behind many of the programs and global community connections. Having traveled to over 30 countries himself, he knew the challenges and the opportunities around the globe.

When Dr. Chuck founded Timmy Global Health, his idea was to have an organization that was self-sustaining. With good leadership at the helm, the possibilities were endless for the work that could be conducted throughout the world. Timmy needed good leaders who had a passion for the underserved and a willingness to work in various capacities. It would take individuals who were interested in mission over profit.

Over the years, Timmy saw many challenges to the model of service. Good leadership was difficult to find, and over its path from infancy to maturity, Timmy had its share of both good leadership and poor leadership. As a nonprofit, it was fundamental that the organization always continue to raise money, spend conservatively, and hire people who were service minded. Through the work it did around the globe, Timmy was also dependent on workers in-country who could liaise with Timmy's partner organizations.

Each country Timmy worked with had a different political and economic system that required a network of individuals with a working knowledge of the country. Understanding and working around operational disparities was a job requirement for those who worked for Timmy Global Health. Moving medicine, supplies, and people to meet the needs of the underserved required a different set of resources in each country.

Timmy's mission was challenged in late 2019 when the COVID-19 pandemic disrupted its global network. Forced to shut down its mission trips and still work to support global health issues, the organization created an updated service model with a way to empower communities to achieve their stated health goals.

The organization had to streamline operations. It realized remote work was at the core of what it did. To that end, the organization sold its headquarters building, downsized its staff, and focused on building up its financial reserves. Continuing to work with its partners in the countries it serves, Timmy was able to pay for the salaries of local doctors, buy essential medications and supplies, provide personal protective equipment to clinic staff and patients, pay for the transport of patients, train community health workers, and even start new programs.

Looking toward the future, the organization is still exploring models of remote work that can lead to better utilization of resources. Technology is allowing for continued connection with the in-country partners. College chapters are continuing to raise money and awareness and provide local health care support for underserved communities in their own local areas. Timmy is looking to add more college chapters in the United States and abroad.[93]

The COVID-19 pandemic proved that global health care affects us all. As our world and how we work together changes, it is important to have fluid plans to address how we operate. How we care for each other may change, but the ability to do so should remain.

Read more about Timmy Global Health on its website (https://openstax.org/r/timmyglobalhealth), Facebook page (https://openstax.org/r/timmyglobalhealthfb), or Instagram account (https://openstax.org/r/timmyglobalhealthinsta).

Case Questions

1. To provide for the needs of underserved people in communities around the globe, Timmy Global Health faced many challenges. What are some of the most pressing challenges in the global landscape?
2. What are some of the global issues that have impacted Timmy Global Health and the work it does?

3. Marketers often have to adapt to international markets. What are some of the adaptations most prevalent for the work Timmy Global Health is doing?

4. Ethical issues are always a concern for any company. When working internationally, ethics can be a challenge since practices in a home country may be very different than in a foreign country. What are some ethical issues that may pose difficulties for Timmy Global Health?

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8

Marketing in a Diverse Marketplace

Figure 8.1 Diversity marketing is an adaptation strategy in which companies tailor their marketing mix (price, product, place, and promotion) to meet the preferences of targeted populations. (credit: modification of work "Diversity Quilt" by OregonDOT/flickr, CC BY 2.0)

Chapter Outline

8.1 Strategic Marketing: Standardization versus Adaptation
8.2 Diversity and Inclusion Marketing
8.3 Multicultural Marketing
8.4 Marketing to Hispanic, Black, and Asian Consumers
8.5 Marketing to Sociodemographic Groups
8.6 Ethical Issues in Diversity Marketing

In the Spotlight

Multinational consumer goods corporation Procter & Gamble is a good example of a company that understands the significance and impact of marketing in a diverse marketplace. P&G has a long history of reaching out to consumers from different sociocultural communities. In 1961, the company became one of the first major manufacturers in the United States to air a TV commercial in Spanish aimed at Hispanic consumers on a Spanish-language channel (later known as Univisión).[1]

After the Civil Rights Act was signed in 1964 and the Equal Employment Opportunity Commission (EEOC) was formed in 1965, P&G proactively launched its own affirmative action plans across all its business units. P&G instituted the changes even before the EEOC was fully functional. That same year, P&G also conducted product research with Hispanic consumers in Miami, focusing on the scent used in its Secret deodorant line. This commitment to diversity in business practices has remained strong through the years.

P&G continues to demonstrate how to embrace diversity marketing, not just through actions, but through core beliefs and values. The company debuted its "Widen the Screen" campaign in 2021 during the National Association for the Advancement of Colored People (NAACP) Image Awards. The commercial has several short episodes developed by a team of Black creators. Its message is intended to challenge stereotypes and negative attitudes toward the Black community. In a special TV interview, influencer and daytime TV celebrity Oprah Winfrey strongly praised the campaign's creative opportunities, since Black creators account for only 6

percent of all films made.[2] These types of initiatives are evidence that P&G remains steadfast in its support of cultural and societal values, as well as expanding marketing's horizons to be more inclusive.

Diversity in marketing is often shortsightedly thought of as simply featuring people, objects, or situations linked to various cultural or sociodemographic groups in marketing efforts. These are important components, but diversity marketing goes much deeper than that. In a 2021 keynote presentation about advancing diversity in advertising and business, P&G Chief Brand Officer Marc Pritchard emphasized that the company's commitment to consumers extends to race, ethnicity, and gender representation equal to the American population.[3]

Pritchard added that true and complete inclusion calls for having equitable representation throughout the entire business, including up and down the company's supply chain. This means that even subcontracted agencies, production crews, and media companies that P&G works with reflect the market's diverse demographics. P&G is a diversity marketing champion because it believes in the accurate representation of all people in advertising and communications, regardless of cultural or social group, to build a better society.

P&G's value-creating strategies and purposeful actions embody the concepts of this chapter. Marketing in a diverse marketplace is about understanding why and how to meet consumers' diversity-based needs, while achieving corporate objectives and driving business sustainability at the same time. P&G's campaign "Widen the Screen" invites viewers to widen their perspectives and appreciate the full picture of Black people's lives through a series of diverse everyday situations.

Procter & Gamble | Widen the Screen (https://openstax.org/r/widenthescreen)

8.1 Strategic Marketing: Standardization versus Adaptation

Learning Outcomes

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

- LO 1 Define marketing standardization.
- LO 2 Define marketing adaptation.
- LO 3 Explain when to use diversity marketing as an adaptation strategy.

Standardization Strategy Defined

To meet the marketplace's demands, companies must carefully formulate competitive strategies based on internal and external conditions. These strategies must balance the capabilities of the organization's business activities, such as marketing, sales, operations, customer service, finance, and human resources management, with multiple environmental factors in the market. Among these are competition, globalization, technology, culture, and changes in consumer demographics and behavior. Companies can choose between two types of strategic approaches, standardization or adaptation, depending on these internal and external variables.

Standardization is the process of purposefully applying identical or consistent guidelines to achieve uniformity. It is not limited to goods and services. Ideas, experiences, data, manufacturing processes, metrics, and operating practices within a business can also be standardized.

A standardized strategy is expressed through the sameness of an offering's features, packaging, pricing, messaging, or advertising to consumers in the marketplace. Companies adopt this strategy for several reasons. These include increasing sales, reducing costs, maximizing efficiencies, improving competitiveness, and gaining a larger customer base.

Think about Apple products. The company standardizes its iPhone, iPad, and Mac computers worldwide. Anywhere you go, Apple devices look and work the same. Only the devices' power source is changed, because of power voltage differences in different parts of the world. Standardization allows Apple to streamline production, speed up market launches, and increase device recognition around the globe.

Adaptation Strategy Defined

Adaptation is the process of adjusting a company's work efforts, goods, or services in response to specific needs, tastes, or expectations from different groups of consumers. An adaptation strategy typically involves two steps. The first is identifying the modifications required to increase an offering's appeal among a targeted audience. The second is implementing the changes based on the organization's abilities and resources. Both of these tasks are crucial to determine the strategy's viability.

Why do companies consider modifying products when doing so generally entails additional costs? The reason is that adaptations are useful to create unique market offerings, generate interest, or provide a competitive differentiation. In other words, this strategy is advisable when the outcome of the change results in reduced risks to the business. Companies can also adapt an existing product, instead of creating a new one, to reduce costs associated with producing new goods. For example, Ford Motor Company adapts the D4 automobile platform for chassis design and engine configuration to its Ford and Lincoln models to save money and offer cars at competitive price points.

Sometimes businesses need adaptation strategies because of market disruptions caused by socioeconomic issues, natural disasters, or health concerns like the COVID-19 pandemic. Zoom, the video conferencing company, was forced to adjust its practices at lightning speed to meet the unexpected demand uptick caused by the pandemic. In only five months (December 2019 to April 2020), Zoom's customer base grew from 10 million to 300 million users.[4] Zoom's adaptation strategy included new data centers, extended partnerships, price and service changes, and platform updates to serve all types of customers.

Diversity Marketing as an Adaptation Strategy

In marketing, an adaptation strategy translates into tailoring the **marketing mix**—product, price, place, and promotion—to suit the preferences of targeted populations. Adaptation strategies are often associated with entering a foreign country.

McDonald's is a good example of a company that adapts its marketing mix to be locally relevant to diverse global consumers. McDonald's introduced the McVeggie and the McAloo in India (see Figure 8.2), the Bai Shrimp Filet-O and the Bai Teriyaki Chicken Filet-O in Japan, poutine fries in Canada, the Picanha ClubHouse Burger in Brazil, and the Bubblegum Squash McFlurry in New Zealand. Besides adjusting the menu (product), McDonald's also aligns advertisements (promotion) and services with local expectations (price and place), while delivering a consistent customer experience from one country to another.



Figure 8.2 McDonald's McAloo Tiki Burger in India is an example of how one company adjusted its marketing mix to meet local preferences. (credit: "McAloo Tiki" by igb, CC BY 2.0)

This strategy is not limited to marketing in different parts of the globe. Companies can adjust any element of the marketing mix when expanding their market share within a region or a single country. This decision, however, should not be taken lightly. Adapting marketing efforts can be costly, time consuming, and disruptive to the business. Plus, unexpected changes in a product's message can be confusing to existing customers.

Marketing adaptation is clearly an option to grow the marketplace. When this strategy is based on a population's cultural or demographic differences, it is diversity marketing. Here is a good example from Nike. The "Nike by You" (see Figure 8.3) shoe-designing service enables the company to expand its appeal to different population segments. By allowing consumers to change the footwear's colors and materials, Nike delivers products adapted to audiences' ethnic and social preferences.[5]



Figure 8.3 The Nike by You shoe campaign is a shoe-customization product that lets consumers design their shoes to meet their individual preferences. (credit: "SSL10007" by cagbay/flickr, CC BY 2.0)

LINK TO LEARNING

Nike and Diversity

To prepare for a marketing career, learning from companies that are known for their diversity campaigns will help you with your future campaigns. According to eMarketer data (https://openstax.org/r/nikeleadsconsumer), Nike is a company with one of the highest levels of diversity in its advertising. Here are a few examples supporting information about Nike's diversity and inclusion campaigns:

- Emmy-winning You Can't Stop Us
  Nike - You Can't Stop Us: Case Study (2021) (https://openstax.org/r/youcannotstopus)
- You Can't Be Stopped campaign (https://openstax.org/r/nikeyoucantbestopped)
- Nike Unlimited You commercial
  nike: unlimited you (https://openstax.org/r/nikeunlimitedyou)
- Nike By You (https://openstax.org/r/nikebyyou)
- Nike Diversity, Equity, and Inclusion strategy (https://openstax.org/r/diversityequityinclusion)

There are other companies that are also known for their diversity and inclusion strategies. Read about some of them in this HubSpot article (https://openstax.org/r/inclusivemarketingcampaigns).

Diversity marketing is an effective response to consumers' cultural or demographic diversity in a market. Why is it an adaptation strategy? Because diversity marketing involves changing a product or service to match the needs, wants, and demands of a population's subgroup of consumers.

Knowledge Check

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

1. Choosing between standardization and adaption strategies includes _____.
   a. balancing internal capabilities, like operations, with external forces, like competition
   b. assessing only external forces, like technology, and consumer demographic changes
   c. adjusting only a company's resources, assets, and conditions to the market
   d. assessing and reducing the company's consumer base to be more effective

2. Which of the following is NOT a reason to implement a standardized marketing strategy?
   a. To increase sales and reduce costs
   b. To maximize a company's manufacturing or production efficiencies
   c. To improve competitiveness and increase customer base
   d. To increase flexibility with constrained standards

3. A marketing adaptation strategy involves _____.
   a. adjusting a company's efforts and the marketing mix to increase appeal
   b. responding to targeted consumers' specific needs, tastes, or expectations
   c. implementing company changes based on organizational abilities and resources
   d. All of these statements are correct.

4. Adaptations are useful for all the following EXCEPT _____.
   a. creating a unique market product
   b. generating interest for a service
   c. reducing production costs
   d. providing a competitive differentiation

5. An adaptation strategy to expand into culturally or demographically diverse markets can benefit a company by _____.
   a. reducing business disruptions
   b. increasing the customer base
   c. speeding up the execution time
   d. shifting the marketing focus solely to the company

8.2 Diversity and Inclusion Marketing

Learning Outcomes

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

- LO 1 Define diversity marketing, multicultural marketing, and sociodemographic marketing.
- LO 2 Explain why diversity marketing is needed in today's marketplace.
- LO 3 Explain the importance of diversity in market research.
- LO 4 List the factors that impact diversity marketing.

Diversity Marketing Defined

As you read in the previous section, **diversity marketing** is a strategic approach that involves identifying diverse subsegments of the population within a market and creating intentional marketing efforts to reach wider audiences. This last piece is key. It has an element of inclusion because it purposefully incorporates

identity-specific consumers that have been overlooked or pushed to the margins of society such as some ethnic minorities, people with disabilities, elderly adults, low-income persons, and other groups. **Marginalized consumers** are often excluded in mainstream advertising, translating into missed business opportunities. Diversity marketing is a strategy for marketers to include them.

Diversity marketing is more than just an awareness of minority identities, underrepresented communities, or racial distinctions. It is about being culturally responsive, meaning having an actionable understanding of diverse consumers' interests and preferences based on shared cultural and sociodemographic characteristics. Consider the five key parameters most often used to describe diversity: cultural, racial, and ethnic; gender and sexual identity; generational; religion; and disability.[6] Culture, race, and ethnicity are part of the cultural aspect, while the others are part of the sociodemographic aspect. Because of the broad scope of diversity marketing, as seen in Figure 8.4, this strategy can help marketers reach larger market audiences. Diversity marketing can also influence consumers' mindsets and generate positive attention.

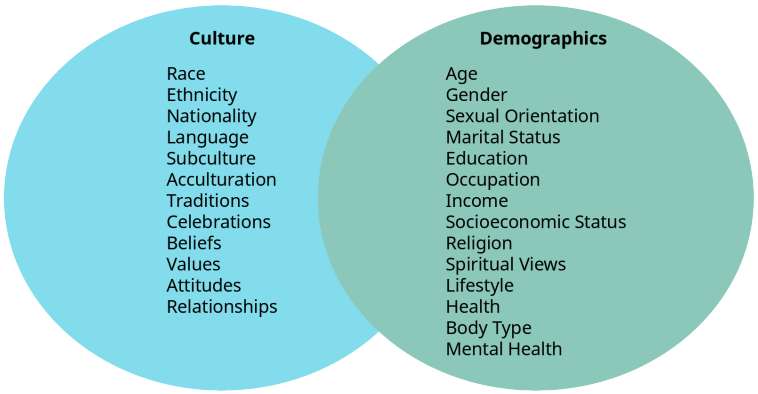


Figure 8.4 Diversity Marketing Dimensions (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Importance of Diversity Marketing

The idea of marketing driven by consumer diversity is very relevant and meaningful, because today's marketplace is changing dramatically. This evolution is happening not only in the United States but also around the globe. For marketers, this means that generalizing buyers, households, or communities anywhere in the world is a shortsighted perspective, because it limits business growth and commercial possibilities. Plus, oversimplifying population segments can also adversely affect a company's reputation by shifting the public's opinion in a negative way. The consequences can hurt sales, lead to missed opportunities, and undermine competitive status. This makes it essential to align markets and diversity marketing goals.

Even though "one size fits all consumers" type of tactics worked in past decades, that is no longer the case. Failure to recognize diversity marketing as an essential component of any marketing plan in these changing times is definitely a business blunder. In a study conducted by Adobe in 2019 among 2,000+ consumers, results showed that 61 percent of participants believed that diversity in marketing campaigns was important, and at least 38 percent were also said to be more inclined to trust brands that showed good diversity in advertisements.[7] Inclusion and diversity marketing are vital to a company's success in any market.

What It Means to Businesses

Leading the marketing strategy with a diversity-driven intention can increase customer satisfaction and build stronger brand loyalty. Top Design Firms surveyed hundreds of consumers in late 2020 and found that 67 percent would consider making repeat purchases from companies committed to diversity in marketing campaigns.[8]

Another report confirmed that these observations are not restricted to specific populations. Market analysis by Heat agency found that high diversity scores for brands translated into a whopping 83 percent higher preference by consumers.[9] Besides improving brand sentiment overall, studies show that companies that build

emotional ties through diversity marketing programs generate more revenue, increase stock price performance, and enhance brand perceptions.[10]

What It Means to Consumers

Diversity marketing is important on a personal level because of what it implies. Companies that prioritize this strategy clearly demonstrate a higher level of understanding, value, and respect for all individuals in society. The conscientious inclusion of racially, ethnically, culturally, and socially distinct groups in marketing efforts suggests a genuine desire to communicate and engage with everyone.

Acknowledging consumers' differences and adopting tactics to meet each group's needs and preferences also validates individuals' importance in the market. From a consumer standpoint, the application of diversity and inclusion measures in a company's marketing practices shows a universal recognition and appreciation for people.

Factors Impacting Diversity Marketing

As shown in Figure 8.4, diversity marketing is based on a variety of cultural and sociodemographic consumer characteristics. Marketers have to be mindful of these distinctions so marketing communication campaigns launched are sensitive to the audiences they are attempting to serve. After all, cultural and sociodemographic factors can greatly influence consumers' motivations, reactions, and decisions. Other related variables, such as behavioral and personal, can shape buyers' consumption levels and their receptiveness to marketing messages. Given the impact of these factors, for companies to be successful in any market, the focus of diversity marketing has to be **customer centric** rather than **company centric**. Being customer centric is when a company targets customers first regarding any decisions about its goods, services, or experiences, while company centric is when a company focuses decisions from the perspective of the organization. Building a proper sociocultural conscience in marketing starts with good research.

Market Research

Market research is essential for developing successful marketing strategies because it leads to consumer insights. It also identifies potential communication gaps. This means that diversity must be treated as a market research factor to learn about multidimensional audiences. Leveraging consumer diversity in the research process has several benefits. For instance, it provides the information needed to better understand people's cultural or social differences. This is useful for companies to avoid wrong assumptions and avert public mishaps.

To do good research, marketers do not have to belong to or identify with a specific consumer group. However, understanding how ethnic and sociocultural differences impact buyers' decisions and actions requires **diversity marketing intelligence (DMiQ)**. Diversity marketing intelligence refers to the capability of identifying, accepting, and valuing the diversity of consumers within a market and using this knowledge to tailor the marketing mix accordingly.

In early 2018, Tarte Cosmetics introduced to the market its highly anticipated Shape Tape Foundation. The launch featured 15 shades of makeup, almost all light tones. However, the product was not well received. Loyal customers were furious because of the lack of shades for people with darker skin. Tarte Cosmetics was accused of being a whitewashed brand and even making deeper skin-toned people feel inadequate.[11] The company quickly apologized for alienating customers and changed its product and marketing communication.

LINK TO LEARNING

Fenty Beauty

Rihanna did more than just lend her name to the brand Fenty Beauty—she also developed products that increased diversity in the beauty business with its 40-shade foundation range and a wide range of sizes, making $100 million in sales the first 40 days! The company has been criticized for use of child labor by some of its suppliers, and has made what its founder described as careless choices during a fashion show. But it remains known for continuing to reflect a more inclusive approach to beauty and clothing products. Read more about Fenty Beauty from this Latana article (https://openstax.org/r/buildbrandawareness) or this article from *Newsweek* (https://openstax.org/r/rihannafentybeauty).

When diversity marketing efforts fall short, as the Tarte Cosmetics case shows, it is often the result of racially or socially charged insensitivities and missteps. The outcome can have costly repercussions for companies. In 2017, PepsiCo (see Figure 8.5) received heavy backlash for its "Live for Now Moments Anthem" campaign featuring Kendall Jenner. The commercial was criticized for trivializing the Black Lives Matter (BLM) movement and undermining protesters' real-life hardships in pursuit of peace and justice.[12] It was described as insensitive and offensive.

LINK TO LEARNING

Live for Now Moments Anthem

Evaluating successful campaigns and failures is important in the learning process. Find as many opportunities as you can to learn from failures. Start by watching Live for Now Moments for an example of a campaign that failed because it was offensive and missed the mark.

Pepsi "Live For Now Moments Anthem" starring Kendall Jenner & feat "Lions" by Skip Marley (https://openstax.org/r/livefornowmomentsanthem)

PepsiCo defended its position as not intending to be socially disrespectful. However, PepsiCo withdrew the commercial, estimated to have cost $5 million to produce, and widely apologized to the market and to Jenner.[13] A final lesson here is that when diversity marketing efforts are done correctly—as Fenty Beauty did—it can boost brand awareness, consumer engagement, and sales.



Figure 8.5 The PepsiCo commercial "Live for Now Moments Anthem" was an expensive lesson for the company—a failed campaign that was criticized for making light of a culture's real-life hardships. (credit: "Pepsi" by Mike Mozart, JeepersMedia/flickr, CC BY 2.0)

Race and Ethnicity

Two out of every five individuals in the United States—over 40 percent of the population—identify racially or ethnically as other than non-Hispanic White.[14] Researchers expect this trend to keep growing in the coming decades, and as consumer diversity increases, cultural identification becomes even more important. Race, ethnicity, and culture give meaning to one another. This makes it critical for marketers to pay attention to how multiracial or multiethnic consumers identify culturally. Having a **multicultural identity** means that a person has been exposed to various cultures and self-identifies as being part of more than one racial or ethnic community or various social groups.[15] We will focus on four key multicultural identity segments of the American population: Hispanic, Black, Asian, and Native American/Alaska Native.

Being multicultural can take many forms. Multicultural individuals may speak multiple languages or have different sets of friends in each culture. From a marketing perspective, multicultural consumers may have different responses to brands or products depending on their multicultural affiliation.[16] Why is this significant? Because marketers must consider the effects of multiculturalism on the marketplace when developing the marketing mix. Race and ethnicity are clearly linked to diversity marketing.

Modelo Especial is a good example. Modelo Especial is a Mexican beer that has successfully capitalized on its heritage to target the Hispanic population while also appealing to the general market. Marketed by Constellation Brands, the beer has had strong sales in the United States since the 1990s.[17] In 2019, Hispanic consumers captured close to 70 percent of the brand's national sales, but Hispanic people are only about half of the customer base.[18] Over the course of several decades, various aspects of Hispanic culture have been widely embraced in the United States. Have you heard of artists like Jennifer Lopez, Pitbull, Bad Bunny, and J Balvin? The marketing team at Constellations Brands attributes the brand's mainstream appeal not only to connecting well with Hispanic consumers but also to the openness of millennial and Gen Z consumers to different cultures and lifestyles.

Sociodemographics

In marketing, **sociodemographics** describes the combination of social and demographic factors that characterize specific consumer groups in the market. These factors are mostly quantifiable, meaning they can be measured or verified to a certain extent. Though race and ethnicity are cultural factors, sometimes they are included in market research as sociodemographic parameters. This is done to increase the generalization of consumer findings and to uncover potential areas of concern linked to social issues.[19]

Sociodemographic variables typically consist of gender and sexual orientation, age or generation, family structure, religion, education level, and income. The latter two are also frequently associated with socioeconomic status. Disability is another variable that can be treated as a demographic factor. Figure 8.4 offers a more comprehensive list of diversity marketing's sociodemographic factors.

Just like with multicultural consumers, segmenting buyers based on shared sociodemographic factors allows companies to tailor goods or services to match the needs and preferences of this diverse group. This enables marketers to develop the right marketing mix—as well as create effective advertising content—to influence distinct consumers. Here is how Disney uses family structure as a sociodemographic factor to segment and target social media users. Disney on Ice is a music and skating show that brings the magic of Disney to ice rinks around the country. People with small children are more likely to consider family entertainment activities, so Disney on Ice targets these consumers on Facebook with tailored family-oriented ads.

Multicultural Marketing Defined

Multicultural marketing is a strategic approach to intentionally target audiences based on different racial, ethnic, and cultural identities and backgrounds. It focuses on relevant, value-rich, and culturally authentic communication tailored to multicultural consumers.

You are probably asking, Is multicultural marketing the same thing as diversity marketing? After all, both are often used interchangeably. The answer is no; they are not the same thing. Diversity marketing is an inclusive approach that results in reaching a wider portion of the entire market. Multicultural marketing is a *subcategory* of diversity marketing that is aimed at multicultural individuals.

Multicultural Populations

Racial and ethnic diversity continue to grow every day around the world. In the United States, in particular, demographers predict a majority–minority population shift by the mid-2040s, as Figure 8.6 shows. In other words, the bulk of American consumers will identify as multicultural, meaning racially and ethnically diverse people of color.

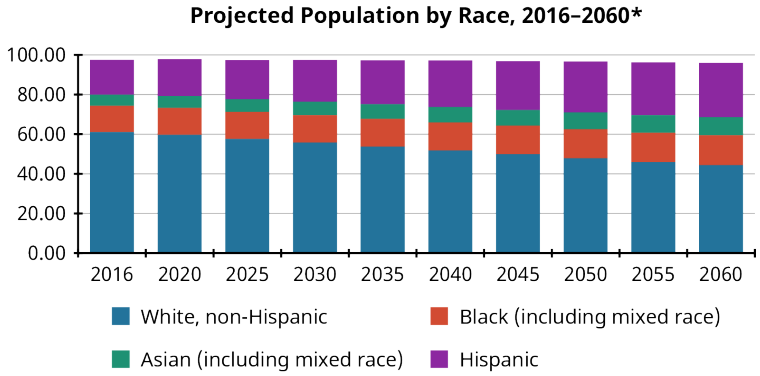
This projection has enormous marketing implications for companies and nonprofit organizations. As the marketplace becomes even more racially and ethnically diverse, marketing efforts must be aligned to the needs and expectations of multicultural groups to be effective.

Let's take a closer look at these key multicultural segments of the American population:

- **The Hispanic population** is the largest multicultural group in the nation and makes up about 19 percent of the total population. According to data-driven marketing company Claritas, the Hispanic population is one of the fastest-growing groups, with over 63 million individuals, and is also responsible for 59 percent of the country's population growth between 2010 and 2021.[20] Plus, by 2026, business strategists believe that nearly two out of every three consumers in the United States will belong to this ethnic group.[21] With a median age of 29, this group also has the youngest population in the country.
- **The Black population** is also a growing segment with 46.9 million individuals—or 14.2 percent of the total population—according to the 2020 US Census. This group is made up of three different subethnicities: individuals who identify as Black alone (single race), or as Black Hispanic, or as Black with another race such as White or Native American (multiracial). The Black population in general has the second youngest median age. In fact, almost 60 percent of this group were millennials or younger (under the age of 38) in 2019 based on findings from the American Community Survey.[22]
- **The Asian population** accounts for 7.2 percent of the American population with 24 million individuals from combined subethnicities as reported by the 2020 Census. Like Black people, Asian people also self-classify as either single race, Asian Hispanic, or multiracial individuals. Communities often included as part of the Asian multiracial composition are Native Hawaiians and Pacific Islanders. Asians' three classifications combined experienced the fastest population growth of all multicultural segments in the

nation between 2000 and 2019.[23] The Asian population has a median age of 34 and is expected to reach around 35 million individuals by 2040.[24]

- The **Native American/Alaska Native population** represents 1.1 percent of the population in the United States with 3.7 million individuals identifying as single race Native people. During the 2020 Census, these Native groups were combined with other races and ethnicities, boosting the number to 9.7 million people, or about 2.9 percent of the total population.[25]



* Figures do not equal 100 percent because of rounding. Not all ethnic groups are shown.

Figure 8.6 US Population Projections from 2016 to 2060 by Race and Ethnicity (data source: US Census Bureau; attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Sociodemographic Marketing Defined

Sociodemographic marketing is a strategic approach to intentionally target audiences based on shared social and demographic characteristics. Sounds familiar? Like multicultural marketing, sociodemographic marketing also focuses on relevant and authentic communications with consumers. Both strategies help business and organizations align their products and services with audiences' needs, preferences, and expectations.

In a 2019 study, nearly 3,000 consumers were asked to consider ads with sociodemographic attributes like gender identity, sexual orientation, age, socioeconomic status, and physical ability. Results showed 64 percent of consumers taking some sort of action after seeing an ad with sociodemographic diversity.[26]

You might be wondering, Is sociodemographic marketing the same thing as diversity marketing then? The answer is no. Again, as with multicultural marketing, sociodemographic marketing includes underrepresented and overlooked consumers in a large population. Sociodemographic marketing is another *subcategory* of diversity marketing.

Sociodemographic Populations

While all sociodemographic consumer groups are important, the following are essential segments of sociodemographic marketing:

- **LGBTQIA+ population**. LGBTQIA+ stands for lesbian, gay, bisexual, transsexual, queer/questioning, intersex, asexual, and other sexual identities. About 5.6 percent of American adults—roughly 14.4 million individuals—identify as LGBTQIA+ according to a 2020 survey.[27] In general, LGBTQIA+ consumers spend more at retail stores than other groups and have a higher percentage of online purchases compared to non-LGBTQIA+ households. Not only is this segment part of diversity marketing, but the LGBTQIA+ community is very diverse too.
- **Generational population**. Consumers are grouped into age clusters based on birth year. These populations include 21.7 million Traditionalist or Silent Generation (born between 1928 and 1945), 70.6 million baby boomers (born between 1946 and 1964), 65 million Generation X (born between 1965 and 1980), 72.2 million Generation Y or millennials (born between 1981 and1996), 67 million Generation Z or Zoomers (born between 1997 and 2009), and 27.6 million Generation Alpha (born between 2010 and 2025)

according to 2020 US Census data.[28] Every generation is unique and has different historical references, challenges, interests, and technological experiences that impact these consumers' preferences and appeals.

- **Socioeconomically disadvantaged population**. These individuals tend to come from low-income households, experience financial insecurity, and have less access to education. In the United States, the estimated number of people living in poverty was over 34 million individuals in 2019.[29] The majority of disadvantaged consumers are located either in poor rural areas or inner-city communities that lack social resources and infrastructure to reduce poverty.[30] Marketers must be careful targeting these consumers to avoid negative repercussions from the market.
- **Consumers with disabilities**. This group represents an estimated 61 million Americans. About one in four adults lives with some type of disability.[31] Disability is a classification derived from an impairment related to mobility, learning, intellectual, or other types of functions. This group is also considered very diverse because disabilities span cultural, social, and demographic factors. Consumers with disabilities have been traditionally underrepresented in marketing efforts, though studies show they are one of the largest sociodemographic market opportunities after baby boomers and other segments.[32]

CAREERS IN MARKETING



Multicultural Marketing Director

With the growing opportunities for multicultural marketing, demand is growing for multicultural marketing directors. If this job opportunity interests you, do your research on what type of skills are desired by hiring managers. To get you started, read this article about the 7 Must Have Qualities in a Multicultural Marketing Director (https://openstax.org/r/7musthavequalities). You can also learn directly from marketing executives in this article about how marketers can foster diverse cultures (https://openstax.org/r/20topmarketershowfoster) and who is getting hired and promoted in this area. The best way to learn is to follow others doing the work. Expand your network to include diverse and inclusive leaders. Start by checking out this list of 59 female marketing and growth influencers (https://openstax.org/r/femalemarketingandgrowth).

As you're building a portfolio of skills for the job market, remember to continue to develop your soft skills. Why, you might ask? Read this article: 7 Soft Skills You Need to Achieve Career Growth (https://openstax.org/r/marketingsoftskills).

Knowledge Check

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

1. Diversity marketing is a strategic approach that includes _____.
   a. identifying different subsegments of consumers
   b. creating advertisements to connect with specific consumers
   c. consumers that share cultural and sociodemographic characteristics
   d. All of these statements are true.

2. Which of the following is true regarding why diversity marketing is important?
   a. Today's marketplace is changing dramatically everywhere.
   b. Buyers, households, and communities are staying the same.
   c. Consumers don't believe that diversity in advertising is important.
   d. Diversity marketing has no impact on brand loyalty.

3. For companies to be successful in any market, the focus of diversity marketing should be _____.
   a. company centric
   b. brand centric
   c. consumer centric
   d. industry centric

4. Diversity in market research is a good idea because it can _____.
   a. help companies win over people from different population segments
   b. provide information to better understand cultural and social differences
   c. reduce wrong assumptions and avert public relations missteps
   d. All of these statements are true.

5. Which is not an example of a diversity marketing consumer segment?
   a. Multicultural segments like Hispanic, Black, and Asian people
   b. Sociodemographic segments like tech-savvy and digital natives
   c. Multicultural segments like American Indian and Alaskan Native people
   d. Sociodemographic segments like Gen Xers, Zoomers, and consumers with disabilities

8.3 Multicultural Marketing

Learning Outcomes

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

- LO 1 Define culture.
- LO 2 Explain the difference between tangible and intangible cultural objectives.
- LO 3 List the main elements through which culture is expressed.
- LO 4 Describe Hofstede's cultural dimensions.

What Is Culture?

You have already read about corporate culture in Marketing and Customer Value and cultural factors influencing buying behavior in Consumer Markets and Purchasing Behavior. Let's explore culture in more detail. After all, learning about culture is the first step to understand why the concept is a fundamental component of multicultural marketing and how it connects with diversity marketing.

Culture refers to the social norms, beliefs, behaviors, and accomplishments that characterize a particular set of individuals. Culture also encompasses shared customs, arts, language, foods, and knowledge. In essence, it is a snapshot of a society's accepted way of living at a given place or time. Figure 8.7 provides a more extensive view of the things that represent it. As you can see, culture clearly influences many aspects of life.

The term originates from the Latin word *cultura*, which is associated with nurturing, growing, and cultivating.[33] This explanation makes sense because some cultural aspects are taught or passed down from one generation to the next. Think of it as planting a seed—not a physical one, but a seed of inner values. Culture is also fostered through community socialization. The outcome of these shared learnings leads to the continued growth of a group's cultural identity and its idiosyncrasies.

To be effective in an increasingly diverse marketplace, marketers need to recognize the profound role that culture plays in consumers' behaviors and purchasing decisions. That is why multicultural insights are so important to diversity marketing.

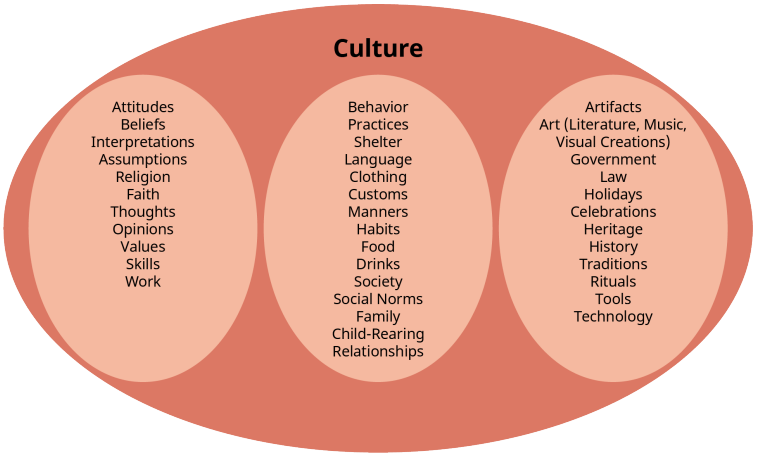


Figure 8.7 What Is Culture? (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Tangible versus Intangible Culture

Culture is both tangible and intangible. This means that it can be seen, but it can also be concealed. Anthropologist Edward T. Hall describes it as an iceberg with external and internal surfaces.[34] As Figure 8.8 depicts, some elements of culture are readily visible, like the tip of the iceberg. Traditions, music, languages, artifacts, clothing, and literature are just a few aspects that are easy to recognize. They are tangible and external. In other words, they are the conscious part of culture.

Other aspects of culture are like the bottom part of the iceberg. Did you know that 90 percent of an iceberg's mass is hidden below the waterline? Thought processes, assumptions, skills, beliefs, and interpretations are more difficult to observe. Can you see a person's thoughts? Can you understand a person's worldviews without asking? These things happen out of sight, making them the subconscious part of culture. Intangible and internal aspects are just like the larger portion of the iceberg in the sense that they are often beneath the surface.

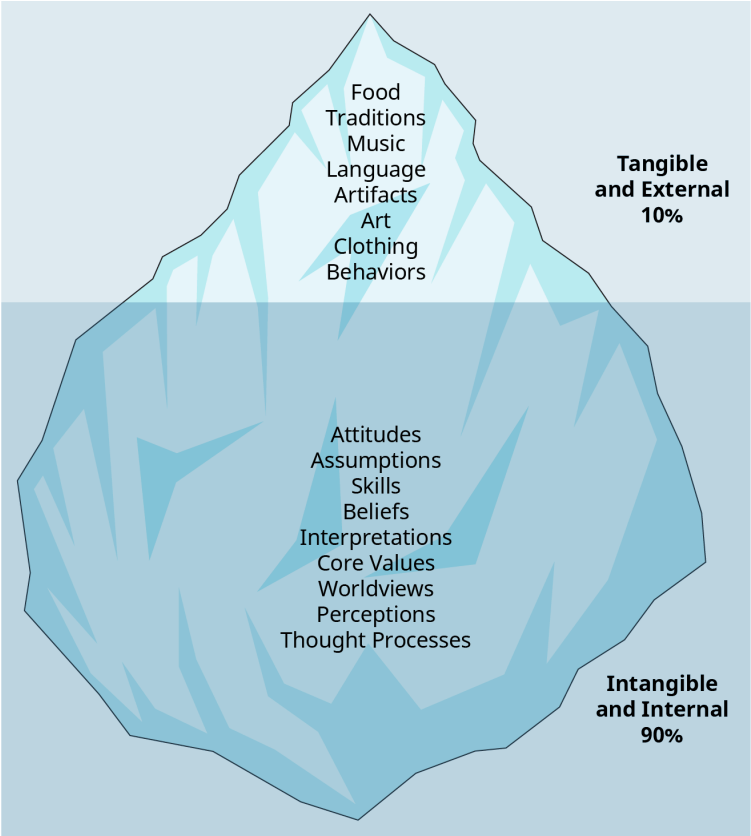


Figure 8.8 The Cultural Iceberg (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

The iceberg analogy gives us a valuable lesson about cultural insights. Connecting with multicultural consumers requires understanding not only those elements of culture that can be observed but also those that are deep-seated in a specific community.

The “Texican Whopper” campaign from Burger King (see Figure 8.9) makes this point clear. Burger King was forced to revise the ads that featured a tiny Mexican wrestler dressed in a poncho-style Mexican flag standing next to a tall American cowboy. Some Spanish-speaking customers thought the campaign was funny. However, others were offended. Insights about the distaste for stereotypes and the high respect for the flag as a national symbol could have prevented this situation. It could have also saved Burger King money because the campaign had to be redone.



Figure 8.9 Burger King's "Texican Whopper" campaign was a failure because the marketers lacked an understanding of the unseeable elements, or the internal and intangible aspects, of Mexican culture. (credit: "Burger King" by Mike Mozart, JeepersMedia/ flickr, CC BY 2.0)

Main Expressions of Culture

Culture is expressed through emotional experiences, symbols, linguistic communication, values and attitudes, and other practices. Cultural expressions are a vital part of a person's identity. They provide insights about what an individual believes in or why an individual behaves a certain way. How would you perceive somebody waving an American flag on a holiday like Memorial Day, Fourth of July, or Veteran's Day? You would probably think the person is patriotic, right? What about somebody with a colorful sugar skull face painting on Día de Los Muertos? Or how about someone with beautifully henna-decorated hands for Diwali? Visible manifestations of culture empower people to be comfortable with personal thoughts and feelings. Visible symbols also help people to be accepted in a given community by showing solidarity.

Symbols

Symbols are essential expressions of culture that represent a group's ideologies, values, and actions. They include things such as objects, ceremonial artifacts, designs, colors, and ideas. Printed characters, words, signs, and logos can be symbols too. Even punctuation marks, or emoticons, symbolize facial expressions or people's feelings. Marketers must be careful when using symbols because they can have different representations or meanings among different cultures. For instance, the emoticon :) symbolizes happiness in the United States. However, in Japan the emoticon for happiness looks more like this (^_^) or has a triangle-shaped mouth instead of a parenthesis.[35]

In the United States, the rainbow flag and its variations are symbols of the LGBTQIA+ community. Yet, for people who emigrated from Peru or have family in the Andes, the rainbow flag symbolizes the reign of the Inca empire.[36] As you can see in Figure 8.10, both flags are alike but not identical (the Andean rainbow flag has two blue stripes). Despite the similarities, the rainbow flag as a symbol has different meanings to both groups.



Figure 8.10 Marketers need to be aware of what symbols mean to different groups so that they can be sure the messages they share are interpreted as intended. (credit: "Rainbow Flag" by Dave/flickr, CC BY 2.0; "Cusco-Peru" by Paulo Guereta/flickr, CC BY 2.0)

Language

Like symbols, language is an important part of culture. Language communicates personal identity. It also shapes how people perceive the world around them. Have you heard of 9Lives? It is a popular brand of cat food in the United States owned by the J.M. Smucker Company. The brand's name comes from the popular expression that cats have nine lives. However, did you know that in Spanish and Portuguese, the expression is that cats only have seven lives? For these multicultural consumers, such language differences can influence their perceptions of the product.

Language takes verbal and nonverbal forms; it can be spoken, signed, or written. In fact, there were 7,139 living languages reported around the world in 2021, with 23 of them in particular adding up to a combined number of speakers totaling over half the globe's population.[37] The top 15 languages in Figure 8.11 are based on the number of native- and second-language speakers in the world. Language is a main expression of culture because it provides insights to connect with audiences.



Figure 8.11 The Languages Most Spoken around the World (data source: Ethnologue, 2022; attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

As you have read, consumer diversity in the marketplace is growing. That is why it is imperative for marketers to conduct language research with targeted populations to avoid miscommunication or lost opportunities.

This means that even within cultural groups, there are speech regionalisms and slang terms that can affect the success of marketing campaigns.[38]

The Hispanic population has multiple subethnicities that prove this point. Let's say that an automotive tire company wants to market its product to Hispanic consumers throughout the United States. The company could create several ad variations using words for *tire* that are popular among the subgroups. It could use the word *gomas* for Puerto Rican consumers in New York, *llantas* for Mexican buyers in Texas, *neumáticos* for Chilean clients in California, or *ruedas* for Cuban shoppers in Florida. The challenge for the company would be to decide if the effort and expense associated with creating multiple ads are justified. It should also consider if the words have other meanings among the subgroups. For example, for Puerto Ricans *ruedas* are thin wheels, not something associated with car tires.

Values and Attitudes

Values are cultural indicators of a society's standards for goodness and justice. They are described as basic beliefs that guide behavior and give meaning to actions and attitudes. Dutch social psychologist and diversity thinker Geert Hofstede created a survey to uncover how national culture reflects a society's values.[39] Hofstede summarized the survey's findings into the following dimensions:

- **Individualism versus Collectivism.** Culture is classified as either individualistic or collectivistic. In the United States, non-Hispanic White people and individuals of European descent tend to have an individualistic view. Individualism places a higher value on personal accomplishments and individual experiences. Hispanic, Black, and Asian people lean toward a collectivistic view.[40] Collectivism values achieving group or family goals above those of individuals. The level of individualism versus collectivism, however, varies within multicultural segments, so it is important not to make assumptions.
- **High versus Low Power Distance.** In addition to their basic function, products can also serve to display an individual's power or position in society. Think about flip phones and smartphones. Cost-wise, the traditional flip phones are a lot less expensive in general. Yet, smartphone ownership is on the rise. This is due not only to the additional capabilities of smartphones, but also to the fact that their ownership is seen as a symbol of social status. Hispanic and Black people also use smartphones more than other groups for online access to health information and educational content.[41]
- **Masculinity versus Femininity.** Gender can strongly impact the creative concept and messaging behind marketing promotions, ads, and social media. American society in general is masculine oriented, with Black men having a stronger view of masculinity than non-Hispanic White and Hispanic counterparts.[42] Achievement, power, and strength are considered masculine traits. For this reason, the message of many ads in the United States is about product performance and functionality. Some Asian groups such as Japanese and Chinese are also masculine oriented. However, other Asian subgroups are considered more feminine oriented.[43] For these consumers, visual ads that emphasize quality of life, people, and relationships would have a higher appeal.
- **Uncertainty Avoidance.** A high dislike for ambiguity and the unknown is not just an individual trait; it is a characteristic of societies in general. Cultures that do not tolerate uncertainty well seek safety and rules to reduce anxiety. These cultures also embrace technology to feel safer, which might explain why Hispanic people are such quick adopters of it. Black and Asian people also tend to avoid uncertainty and high risks more than non-Hispanic White people.[44]
- **Long-Term versus Short-Term Orientation.** This dimension describes how individuals believe and behave in society. It is also based on links to the past and challenges in the future. Cultures with long-term orientation value perseverance, orderliness, thriftiness, and having a sense of shame. Asian people overall rate extremely high in the long-term orientation.[45] Short-term cultures, on the other hand, focus more on personal steadiness, happiness, and stability. The challenge for marketers is to balance orientations to successfully reach diverse audiences and influence consumption.
- **Indulgence versus Restraint.** Societies that prioritize satisfaction, leading a happy life, and savoring leisure activities with family and friends are described as indulgent. On the other hand, societies that favor

living according to strict traditional norms and curbing life's enjoyment are seen as restrained.

How Culture Influences Diversity Marketing

Identifying multicultural population segments and engaging them with intentional efforts is at the core of multicultural marketing. However, this requires having cultural insights because culture influences consumers' decision-making processes and purchasing behaviors. The lack of cultural insights can spell disaster when marketing to this audience.

Let's look at some cultural perspectives about living experiences, outlook, and community involvement. Living in the present moment and sharing situations with loved ones is an important goal to 42 percent of Hispanic people in comparison to only 23 percent of non-Hispanic White people.[46] Based on this insight, marketers targeting Hispanic consumers should create advertisements that feature meaningful messages and friendly people sharing a profound experience instead of simply showing the features of a product or service.

Hispanic, Black, and Asian consumers overall are more optimistic than non-Hispanic White consumers. In a study about their financial outlook, multicultural consumers were twice as optimistic as non-Hispanic White consumers about reaching economic success in their lifetime. As collectivistic-oriented cultures, they also think more about family and community when making financial decisions. Plus, when it comes to community, Hispanic and Black consumers believe more can be achieved by working together than non-Hispanic White consumers.[47]

These insights suggest that expressions of culture and elements like confidence, hope, and teamwork are crucial for implementing multicultural marketing campaigns. As you read earlier, multicultural marketing is a subcategory of diversity marketing. This means that culture has a significant impact on diversity marketing as well.

Knowledge Check

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

1. Culture is described as which of the following?
   a. Social norms, beliefs, and accomplishments of particular individuals
   b. Elements taught or passed down from one generation to the next
   c. Something that influences consumers' decision-making processes and purchasing behaviors
   d. All of these

2. Which of the following are not examples of tangible or external expressions of culture?
   a. Actions and behaviors
   b. Traditions and customs
   c. Values and attitudes
   d. Music and visual arts

3. Marketers must be careful when using symbols as cultural expressions because _____.
   a. there are too many to choose from among different cultures
   b. they can have different meanings among different cultures
   c. they can have similar meanings among different cultures
   d. they are verbal and nonverbal forms of communication

4. An advertisement that appeals to personal accomplishments, independence, and assertiveness is an example of which of Hofstede's cultural dimensions?
   a. High power distance
   b. Masculinity
   c. Individualism
   d. Long-term orientation

5. An advertisement that is visually appealing and emphasizes quality of life, people, and relationships is an example of which of Hofstede's cultural dimensions?
   a. Femininity
   b. Masculinity
   c. Uncertainty avoidance
   d. Short-term orientation

8.4 Marketing to Hispanic, Black, and Asian Consumers

Learning Outcomes

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

- LO 1 Describe the Hispanic, Black, and Asian identities.
- LO 2 Define acculturation.
- LO 3 Explain how identity-related characteristics and factors connect Hispanic, Black, and Asian consumers.
- LO 4 Describe how to market to Hispanic, Black, and Asian consumers.

Hispanic, Black, and Asian Consumer Identities

The United States is a mixture of nationalities, backgrounds, cultures, and identities. This mixture has been shaped through many decades of immigration from people across many lands and by their interactions with their new environments. The US population is often referred to as consisting of majority and minority groups. The majority consists of non-Hispanic White people. The minority consists of other races, ethnicities, and communities. From a marketing standpoint, companies have historically treated the majority segment as the mainstream market. Conversely, the minority segment has been treated as a subgroup of consumers, or the multicultural market.

As you read earlier in the chapter, the demographics of the United States continue to change, and the majority segment will cease to exist in the future. The country is expected to become a "plurality nation" by 2050. This means that no group will have a *sizeable* majority. The non-Hispanic White population is projected to remain the largest single group.[48] However, the majority position will be lost in terms of population percentage. Check out Figure 8.6 again to compare the overarching segments.

Hispanic Identity

Let's examine the data from the 2020 US Census to better understand Hispanic consumers. The Hispanic population reached over 63 million people in 2020. Is this number significant? Yes, because it means that one out of every five people in the United States is Hispanic or of Hispanic descent. This is a 23 percent growth since the previous census! In fact, the Hispanic population has grown significantly in the last four decades. The Hispanic population is projected to reach almost 100 million individuals by 2050.

Hispanic people are not a uniform group or single ethnicity. On the contrary, the Hispanic population in the United States is very diverse. Hispanic people originate from 20 different countries, as shown in Figure 8.12, and can belong to any race. An overwhelming 83 percent of the Hispanic population belongs to just five subethnicities. These subgroups are Mexican (62.2 percent), Puerto Rican (9.5 percent), Cuban (3.9 percent), Salvadoran (3.9 percent), and Dominican (3.5 percent).[49] The rest of the population is made up of the other 15 Hispanic subethnicities.

You are probably familiar with the terms *Hispanic*, *Latino/Latina*, and *Latinx*. They are often used interchangeably but can have different meanings. *Hispanic* is a language-based term that describes individuals from a Spanish-speaking country. *Latino/Latina* is a location-based term that identifies gendered individuals whose families originate in Latin America regardless of the language they speak. For example, a person from Spain is considered Hispanic because of language but not Latino because of location. A person

from Brazil is considered Latino/Latina because of location but not Hispanic because of language (Brazilians speak Portuguese). Unlike *Latino/Latina*, the term *Latinx* is gender neutral. While *Latinx* has picked up momentum among some groups, many Hispanic people dislike the word or find it offensive.

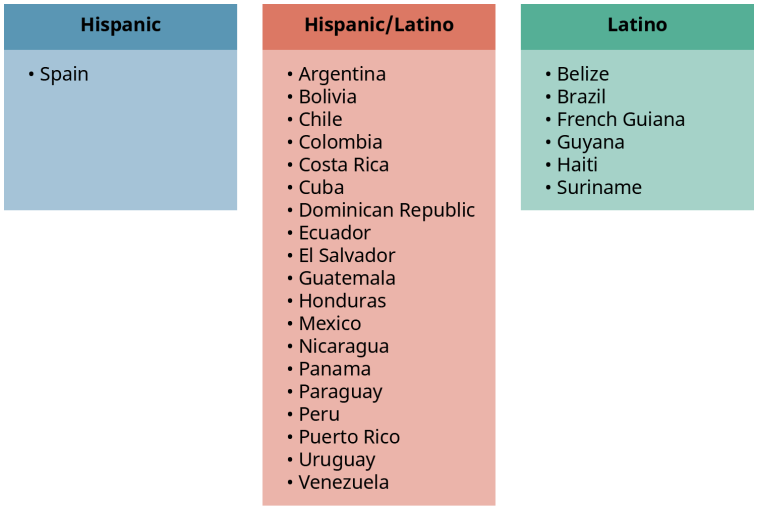


Figure 8.12 Hispanic People and Latinos in the United States by Country of Origin (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Many cultures integrate traditions in their lives as the generations progress. Hispanic people demonstrate this same movement of traditions, from their countries and cultures of origin into their family practices in the United States. Why is that? It has to do with identity. Identity is a person's self-image. **Cultural identity**, in particular, is how a person identifies with a given culture, ethnicity, or social group. It is a sense of belonging that influences personal thinking and actions.

For the majority of Hispanic people, identity is strongly linked to heritage or to their family's country of origin.[50] Customs and social practices are strong components as well. To increase its connection with these consumers, Target (see Figure 8.13) appealed to the Hispanic identity with its *sobremesa* commercial. The *sobremesa* is the additional time spent at the dinner table with friends and family after a big meal for relaxing or having meaningful conversations. This Hispanic tradition does not have a direct translation in terms of American culture. Target created the hashtag *#SinTraducción* for the campaign, which means "without translation" to further emphasize this. Target also used "There will always be a part of you that simply doesn't translate" as the slogan for social media outreach. The commercial is part of the retailer's first campaign ever aimed directly at Hispanic millennials.



Figure 8.13 Target created the *sobremesa* commercial as a way to appeal to the Hispanic identity. (credit: "Target" by Mike Mozart, JeepersMedia/flickr, CC BY 2.0)

LINK TO LEARNING

Target "Sobremesa" Commercial

Target's "Sobremesa" commercial shows an entire Hispanic family sitting at the table clearly *after* the meal has ended to share desserts and enjoy fun conversation as a group.

Target Sobremesa #SinTraduccion AVO (https://openstax.org/r/targetsobremesa)

Black Identity

Black people are the second largest multicultural group in the United States after Hispanic people. Let's consider the statistics from the 2020 US Census again. The Black population shows growth at 46.8 million people in 2020 versus 38.9 million people a decade earlier. Black consumers make up 14.2 percent of the country's total inhabitants. Another key point is that individuals who identify as Black in combination with another race have increased 88.7 percent since the last census. This "in combination" trend is not unique to the Black community; the "in combination" identification accounted for the majority of the changes in all the racial categories.[51]

This multicultural segment shows a couple of other interesting changes that impact consumer and consumption behaviors. For example, Black consumers are forecasted to account for 15–17 percent of the total population growth in the nation over the next decade. Black people have also had the largest change in education level in recent years. Since the 2010 census, the percentage of Black people with an undergraduate degree has increased by more than 55 percent. [52]

While Black people account for 14.2 percent of the population, this segment makes up just under 10 percent of spending on goods and services. This is because Black workers earn a lower median income than other demographics. However, this inequity in spending and wealth is showing signs of moving toward a better balance. The growing Black population is estimated by management consulting firm McKinsey to represent over $300 billion per year in unmet demand.[53]

A 2019 survey by the Pew Research Center shows that nearly 75 percent of Black people believe that race is at the center of their identity.[54] Race is deeply tied to how people perceive themselves. When it comes to defining the Black identity further, the community is also facing a unique challenge. There is a growing argument in the United States over differences between Black people who emigrated from Africa and those who did not. The debate is caused by the ancestral link to slavery that many American-born Black people have but immigrants do not. Plus, Black people can also have other subethnicities such as Black Hispanic and multiracial (White, Asian, or Native American). While the subethnicities may not be physically visible, marketers need to be aware that identity differences can be significant among the Black population.

These multicultural consumers also feel relatively well connected to the broader Black community and prioritize social activities that offer support to the group as a whole. To show solidarity with the BLM movement, popular ice cream brand Ben & Jerry's (see Figure 8.14) named one of its flavors "Justice ReMix'd" to raise awareness of racism and criminal justice reform. The company worked with the Advancement Project national office to advocate for social change and civil rights. Ben & Jerry's also enacted a multipoint corporate plan challenging other companies to champion the cause and join the conversation about racial inequalities.



Figure 8.14 Ben & Jerry's created a new flavor of ice cream as a way to connect with the Black Lives Matter movement and raise awareness around racism and criminal justice reform. (credit: "Peace, Love & Ice Cream" by Rob Olivera/flickr, CC BY 2.0)

Asian Identity

The Asian population in the United States has also increased since the last census. This growth has been fueled largely by foreign-born individuals. There were 19.9 million people in 2020 who identified as single-race Asians. This number is up from 14.7 million a decade earlier. There were also 4.1 million people in 2020 who identified primarily as Asian "in combination" with another race. In fact, this combination of single race and mixed race increased a whopping 55.5 percent from 2010 to 2020, making it one of the fastest-growing demographic segments.[55] Overall, the Asian population in the United States is 24 million individuals, which is 7.2 percent of the total country's inhabitants. The US Census Bureau projects this multicultural community to more than double by 2060.

Like the Hispanic population, the Asian population is very diverse too. Figure 8.15 shows the 22 different subethnicities that make up these multicultural consumers. Did you know that six of these origin groups account for 85 percent of the total Asian American community? These groups derive from the Asian continent and the Indian subcontinent. These origin groups are Chinese (24 percent), Indian (21 percent), Filipino (19 percent), Vietnamese (10 percent), Korean (9 percent), and Japanese (7 percent).[56] The remainder of the Asian people come from Native Hawaiian, Pacific Islander, and other subgroups.

Asian Origin Group	
• Bangladeshi	• Korean
• Bhutanese	• Laotian
• Burmese	• Malaysian
• Cambodian	• Mongolian
• Chinese (with Taiwanese)	• Okinawan
• Chinese (w/o Taiwanese)	• Nepalese
• Filipino	• Pakistani
• Hmong	• Sri Lankan
• Indian	• Taiwanese
• Indonesian	• Thai
• Japanese	• Vietnamese

Figure 8.15 Groups of Origin for the Asian Population in the United States (attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

The geographic distribution of this population is worth noting. There are over 9.8 million Asian people living in

the western region of the country. This is nearly half the entire Asian population! Plus, almost one-third of Asian consumers live in California alone, making Asians one of the state's largest population segments. The southern states have the second largest Asian population with 5.3 million individuals. Overall, Asian people are projected to be the largest source of immigrants by 2055, accounting for 36 percent of all immigration, followed by Hispanic people at 34 percent.[57]

As an immigrant group, Asian people have the fastest adoption rate of the English language. Almost 75 percent of Asian households speak English, and nearly two-thirds of American-born Asians speak English only. Asian people are also more likely than the average American household to live in a multigenerational setting.[58] Because of their diversity and unique characteristics, it is difficult to narrow it down to a uniform Asian identity. This poses a challenge for marketers. Creating generalized messages for Asian people or having a "one size fits all" marketing approach is unwise. Plus, making assumptions about consumers' purchasing behaviors as a singular market can be very tricky, if not inadvisable, because there is not a sole Asian cultural identity.

A 2019 survey about race found that 56 percent of Asian people said race was a key part of their identity.[59] Using this insight, Nike created two different—but very effective—commercials targeting different subsegments of Asian consumers. Nike's "The Great Chase" is inspired by the longtime Chinese tradition of gifting money in little red envelopes.

LINK TO LEARNING

Nike

Check out the "Great Chase" commercial and compare it to the upbeat "Da Da Ding" commercial featuring Indian women practicing many types of sports.

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

Access multimedia content (http://openstax.org/books/principles-marketing/pages/8-4-marketing-to-hispanic-black-and-asian-consumers)

The Acculturation Spectrum

People who immigrate to the United States from another country will probably experience some personal level of acculturation. Even American-born multicultural individuals whose families speak another language at home besides English may also experience acculturation. **Acculturation** is the process by which a person's family cultural patterns change because of direct and constant contact with a different culture.[60] Acculturation can happen in various degrees. The spectrum ranges from complete adoption to total rejection of the new culture. Individuals that simultaneously merge both cultures in daily life are considered bicultural.

Hispanic and Asian consumers can experience various degrees of acculturation. This depends on birthplace, immigration status, community connections, and personal comfort level. For instance, a person born in the United States to immigrant parents is more likely to be acculturated than unacculturated. For marketers, being aware of acculturation levels is important because they play a significant role in how these multicultural consumers respond to marketing messages. Here is another example. Hispanic people in general think of language as a tool to preserve the culture. As a result, unacculturated Hispanic consumers are more likely than acculturated consumers to support a brand that advertises to them in the Spanish language. This effort is seen as a sign of respect and appreciation.[61]

Identity-Connecting Characteristics and Factors

The Hispanic, Black, and Asian populations each have a general set of cultural characteristics based on their

multicultural identities. Being aware of each segment's personal characteristics helps marketers create effective marketing promotions and advertisements. In addition to internal characteristics, these consumers are also influenced by external factors such as social circumstances and market behaviors. Let's explore characteristics and factors in more detail.

Hispanic Consumers

Hispanic consumers in general are optimistic, family-oriented, warmhearted, and hospitable.[62] The culture's energy and liveliness are visible through elements like music, food, decor, and language. Hispanic people place a high value on relationships and social interactions. Have you noticed that some commercials aimed at Hispanic consumers show people in close proximity, touching, or hugging? Physical contact is important to this multicultural segment. It is seen as a way to build trust and group harmony. Did you notice it in Target's *sobremesa* commercial?

Hispanic consumers support brands that demonstrate cultural authenticity, transparency, and honesty. After all, openness and having meaningful connections are at the heart of these consumers' values. In terms of factors, the concept of product quality and service quality is deeply desirable to Hispanic consumers. Have you heard of Hispanic actress Jessica Alba? Alba, who is of Mexican descent, founded The Honest Company (see Figure 8.16) in 2012 with the mission of formulating safe, high-quality personal and beauty products for the family. Other factors that influence Hispanic consumers include companies' pledges to sustainability and social responsibility. Indeed, these are growing concerns that shape this community's purchasing behaviors.



Figure 8.16 Hispanic consumers support products that demonstrate the qualities that are important to them—optimistic, family-oriented, warmhearted, and hospitable—which is why the Honest Company's message of safe products for the family resonates. (credit: "A Few of My Favorite Fhings: Honest Company" by Abi Porter/flickr, CC BY 2.0)

Black Consumers

Two noteworthy characteristics of Black consumers in general are determination and self-expression. As you read earlier in the chapter, race is a key component of the Black identity. The social, educational, and economic struggles that Black people have faced because of racial discrimination and injustice have made these consumers highly determined to pursue their dreams regardless of the obstacles encountered. Self-expression

is also a significant cultural trait. It is a way to show personal pride in one's identity. Among Black consumers, self-expression is typically conveyed through fashion, music, sports, and the arts.

Like Hispanic consumers, Black people are optimistic and resilient. Strong community bonds, observance of religious practices, and deep commitments to social activism are factors closely linked to Black consumers' identities. The opportunity to raise a collective voice about key issues is a fueling factor too. In 2020, Beats by Dre launched the "You Love Me" campaign (see Figure 8.17).



Figure 8.17 Beats Electronics, founded by Black rapper Dr. Dre, launched its "You Love Me" campaign in 2020. (credit: "Beats by Dr Dre" by Mike Mozart, JeepersMedia/flickr, CC BY 2.0)

LINK TO LEARNING

Beats by Dr. Dre

Beats is a leading manufacturer of audio products cofounded by Black rapper Dr. Dre. The two-minute commercial plays on the audio pun and challenges viewers to emotionally listen by asking the question "You love Black culture, but do you love me?"

Beats by Dr Dre Presents You Love Me (https://openstax.org/r/youloveme)

Asian Consumers

Asian cultures are steeped in rich traditions and customs. Asian consumers are very proud of their heritage, and at the same time, they identify well with the American culture. Asian people share this **cultural duality** characteristic with Hispanic people. Cultural duality is not the same thing as acculturation. Cultural duality happens when an individual's cultures overlap with each other and the person feels a sense of belonging to both simultaneously. Did you know that almost 50 percent of Asian consumers in the United States watch TV in both English and in an Asian language?[63] This helps them stay current with American culture while keeping connected with their native culture.

Shared societal values are a trait that influence people's behaviors. One of these is collectivism. Think about Hofstede's cultural dimensions, individualism versus collectivism in particular. Collectivism places more emphasis on group activities than on individual ones. Overall, Asian societies are collectivistic, though the degree of collectivism varies among the populations' countries of origin.[64] Cultural celebrations are also a factor linked to identity. Instacart, Target, Wells Fargo, and Toyota are just a few companies marketing to Asian

consumers in the United States using traditional festivities like Diwali and Lunar New Year to appeal to the group's collectivism.

LINK TO LEARNING



Asian Celebrations

Two examples posted on social media platforms are Wells Fargo's Happy Lunar New Year on Instagram (https://openstax.org/r/wellsfargoinsta) and Toyota's Diwali tweet on Twitter (https://openstax.org/r/toyotastatus).

Marketing to Hispanic, Black, and Asian Consumers

As you have seen, marketing to each of these multicultural segments is unique. Marketers must do the research and understand the demographics, cultures, identities, and group characteristics of these targeted consumers. It is also equally important to recognize that none of these elements are static. They are dynamic and interact with one another.

Being successful with multicultural marketing, and ultimately with diversity marketing, includes many factors. Success also requires connecting with each consumer segment on a personal and intimate level. This inevitably means that marketers must recognize the similarities and differences between the cultural identities that shape daily life experiences in the United States.

In the upcoming decades, the meaning of the terms *minority* and *majority* segments are going to wane in significance. Groups that have been historically classified as the minority market are going to grow, while the group historically classified as the majority is going to shrink in size. This is setting the stage for a future of a "plurality nation," further emphasizing the importance of multicultural trends and diversity marketing.

Knowledge Check

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

1. Which of the following is the largest segment of multicultural consumers in the United States?
   a. Asian population
   b. Black population
   c. Hispanic population
   d. Native American and Alaskan Native population

2. Which ethnic term can be used for a person from Puerto Rico or of Puerto Rican descent?
   a. Only Hispanic
   b. Both Hispanic and Latino/Latina
   c. Only Latino/Latina
   d. None of these terms are correct.

3. Acculturation is the process by which a person's family cultural patterns change because of direct and constant contact with _____.
   a. their home culture
   b. a different culture
   c. many cultures simultaneously
   d. a high degree of global travel

4. When it comes to cultural identity, which of the following do the overwhelming majority of Black people

believe is a major contributor and attribute?
a. Cultural duality and relationships
b. Education and income level
c. Immigration status and conventionality
d. Race and community

5. Effectively marketing to Hispanic, Black, and Asian consumers requires _____ with each multicultural demographic and understanding _____.
a. connecting; segmentation
b. surveying; advertising
c. using influencers; social media
d. using culturally relevant idioms; fun advertising

8.5 Marketing to Sociodemographic Groups

Learning Outcomes

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

- LO 1 Define sociodemographic marketing.
- LO 2 Explain how to market to the LGBTQIA+ community.
- LO 3 Explain how to market based on generational differences.
- LO 4 Explain how to market to consumers with disabilities.
- LO 5 Describe how sociodemographic trends will impact future marketing.

Sociodemographic Marketing

As defined earlier in the chapter, sociodemographics is the combination of two distinct factors—social and demographic—within a given population. This combination results in a set of quantifiable variables for narrowing down customers in a large market. Social variables can be quite literally *anything* with which people identify. In other words, social variables are associated with identity. Because of that, they can include racial and ethnic identities too. Social variables are broad and can feel loosely defined. However, it is this unstructured nature that often provides important insights for marketers. Demographic variables, on the other hand, are more specific or have precise descriptions. These include things like gender, age or generation, religion, marital status, income, employment, education, political affiliation, disability, and more.

As you have already read, sociodemographic marketing is a subcategory of diversity marketing (refer back to Figure 8.4). It intentionally targets certain audiences with attractive advertising and promotions based on shared social and demographic variables. Overlaying these two factors has several worthwhile benefits for marketers. One of them, for instance, is that it makes it easier to detect market trends and shopping patterns based on a large number of consumers with variables in common. Such findings are indispensable for marketers to gauge the financial and emotional impact of their marketing efforts.

Another benefit is that sociodemographic marketing creates valuable opportunities for reaching historically underrepresented individuals or underserved communities. This outreach is significant because it demonstrates companies' commitments toward a more diverse and inclusive market. Sociodemographic marketing also enables marketers to adapt products, services, and messaging to be more effective for both businesses and consumers.

Marketing to the LGBTQIA+ Community

The LGBTQIA+ population is composed of consumers who express a diversity of gender identities, preferences, and sexual orientations. The acronym stands for lesbian, gay, bisexual, transgender, queer/questioning, intersex, and asexual. The plus sign (+) represents other sexual identities as well as allies who are not LGBTQIA+ members but support the community's cause. The acronym has evolved over the decades to

become more inclusive and capture diverse relationships, expressions, and identities.

The LGBTQIA+ community in the United States is growing. In 2012, only 3.5 percent of Americans self-identified as LGBTQIA+. American analytics company Gallup shows this number increasing to 5.6 percent in 2020 (see Figure 8.18). Did you know that one in six adults in Generation Z (born between 1997 and 2012) identifies as LGBTQIA+?[65] This indicates a growth trend reaching toward 16 percent in the future as other generations age out.

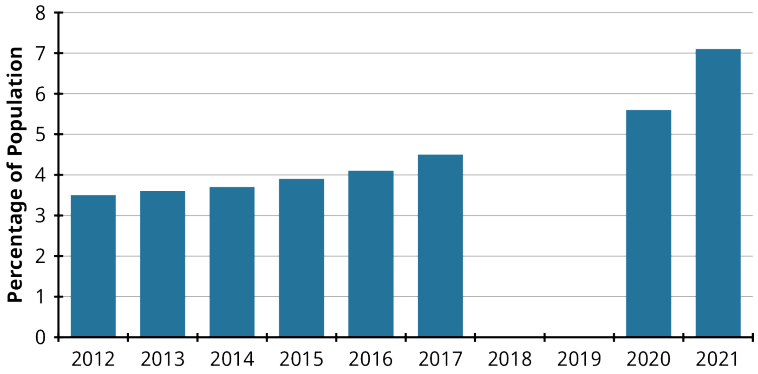


Figure 8.18 Americans' Self-Identification as LGBTQIA+ (data source: Gallup [survey data not available for 2018–2019]; attribution Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

You might be wondering what is driving this growth. Some of it is attributed to greater confidence in both societal acceptance and in the ability to find support within the LGBTQIA+ community itself. Sociologists and psychologists have known for a long time that a sense of belonging, whether to a family or a social group, is essential for normal and optimal human functioning. Therefore, the growth of the LGBTQIA+ community is also partly the result of this human need to belong. Plus, it is driven by a political and sociological need to be represented and treated fairly as well.

For marketers, focusing on the societal experience around belonging (acceptance, welcoming, support, and inclusion) is key for reaching the growing number of LGBTQIA+ consumers. Global furniture giant IKEA (see Figure 8.19) understands this very well. In 2021, IKEA promoted the #ProgressIsMade campaign in the United States during the entire month of June. The campaign featured rainbow-themed products like carrying bags and an audio speaker cover. IKEA donated up to $50,000 in proceeds from these limited-edition products to LGBTQIA+ nonprofit organization GLSEN. In Canada, IKEA displayed at select stores 10 different love seats as concept art inspired by Pride flags to increase its support for inclusion during Pride month.



Figure 8.19 IKEA's #ProgressIsMade campaign in the United States focused on the societal experience of belonging for LGBTQ+ consumers. (credit: "IKEA" by Rob Olivera/flickr, CC BY 2.0)

LINK TO LEARNING

IKEA Loveseats

Learn more about the IKEA love seat collection and see the designs by reading these articles:

- Insider (https://openstax.org/r/ikeadesigned10loveseats)
- Newswire (https://openstax.org/r/representationwithloveseats)
- NBC News (https://openstax.org/r/ikeadebutspride)
- Muse by Clio (https://openstax.org/r/ikeamade10special)

What can marketers do to be more successful in advertising to LGBTQIA+ consumers? Consider the following steps. First, review the company's values and have an open and honest conversation with leadership about authentic support of the LGBTQIA+ community. After all, genuine care and inclusiveness are the base for all marketing efforts. Second, establish guidelines on how to speak with and about the LGBTQIA+ community. This means the words, tone, imagery, and core messaging of marketing communications. Third, find experts to provide advice and insights into the community. This reduces the possibility of unknowingly offending this consumer segment. Plus, using group members for brainstorming and evaluation is extremely helpful too. Fourth, test and verify that products, services, and messaging are perceived as designed.

Marketing to the Generations

Age is a frequently used demographic statistic for segmenting populations. Age is also expressed or compared in terms of generational groups. This approach enables marketers to capture a larger number of consumers by grouping them into defined categories.

You read earlier in the chapter about these categories: Silent Generation, baby boomers, Generation X, millennials, Generation Z, and Generation Alpha. Figure 8.20 shows these generations based on their percentage among the American population. Think about this. A member of Generation Alpha (people born between 2010 and 2025) is born every *nine seconds* in the United States. This generation is expected to account for 2 billion individuals worldwide by 2025![66] Grouping consumers into generational segments helps maximize marketing efforts and reach a larger portion of the total market.

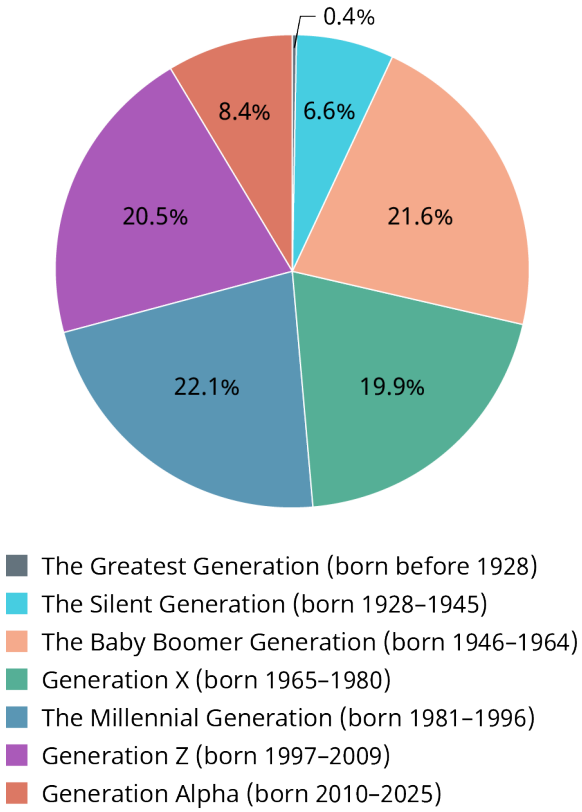


Figure 8.20 Distribution of Generations in the United States (data source: Statista; attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

It is crucial for marketers to keep in mind that each generation has unique life experiences built on social, economic, and political dynamics associated with their formative years. These experiences influence each generation's views and values, which subsequently impact their behaviors as consumers. Let's consider Generation Z and Generation Alpha again. Members of both generations are highly technologically literate. They have also been directly impacted by the COVID-19 pandemic's aftermath in terms of remote learning and reduced face-to-face interactions. Consequently, this "lockdown generation" has spent more time engaged with social media and virtual environments. Marketers need to consider how such situations will influence these generations' shopping behaviors and consumption patterns.

There are many factors that can be combined with a generational view of consumers. One of the more useful for marketers to keep in mind is economic influence. Figure 8.21 shows the wealth distribution by generation in the United States as of 2020. This chart tells a significant story.

Until 2008, the Silent Generation and earlier generations controlled a relatively equal amount of wealth. Two primary factors gradually shrunk the amount of wealth of these consumers: natural mortality and the 2008 recession. Conversely, the wealth of baby boomers grew. In fact, many have said that the Boomer Generation is the wealthiest generation to have ever lived. Generation X's wealth started to grow in 2015, but the ability of this generation to build riches has slowed down compared to preceding generations. Millennials' wealth building appears to be even slower (see Figure 8.22).

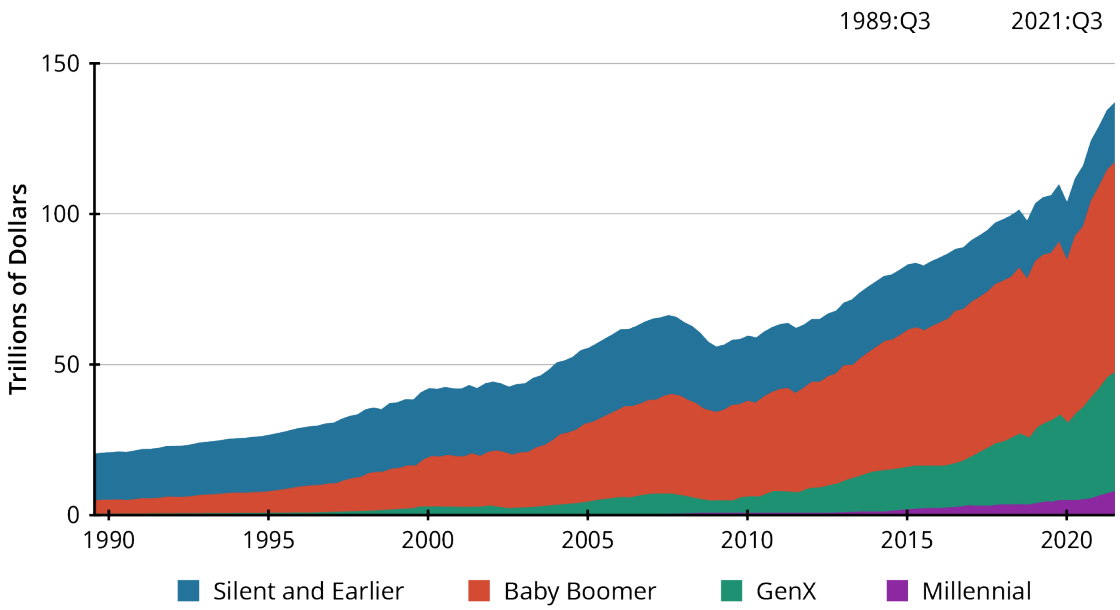


Figure 8.21 Wealth Distribution by Generation (data source: Board of Governors of the Federal Reserve System/federalreserve.gov, Survey of Consumer Finances and Financial Accounts; attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

What does this mean? Wealth and income level play a role in people's spending decisions, so marketers need to understand how it is shaped by generational groups. Here are some steps to consider to be more successful in advertising to consumers based on their generations. First, use deeper and more extensive combinations of sociodemographic variables. Grouping by generation alone is likely not enough. Adding another variable such as income, education, or social markers may prove useful. Second, use focus groups and individuals who fit the target group to provide direct input and ideas. Third, consider adapting the marketing communication to fit the norms of each generation. Fourth, test and verify that products, services, and messaging are perceived as designed.

Marketing to Consumers with Disabilities

Americans with disabilities make up a much larger segment of the market than you might realize. There are approximately 61 million Americans with disabilities. That number is over 18 percent of the total population of the United States. When the word *disability* is used, many people usually visualize a mobility difficulty like having trouble walking or climbing stairs. However, as seen in Figure 8.22, functional mobility makes up less than a third of the different types of disabilities. Other forms include cognitive or neurological, autonomous living, and sensory related. This makes consumers with disabilities a very diverse group too.

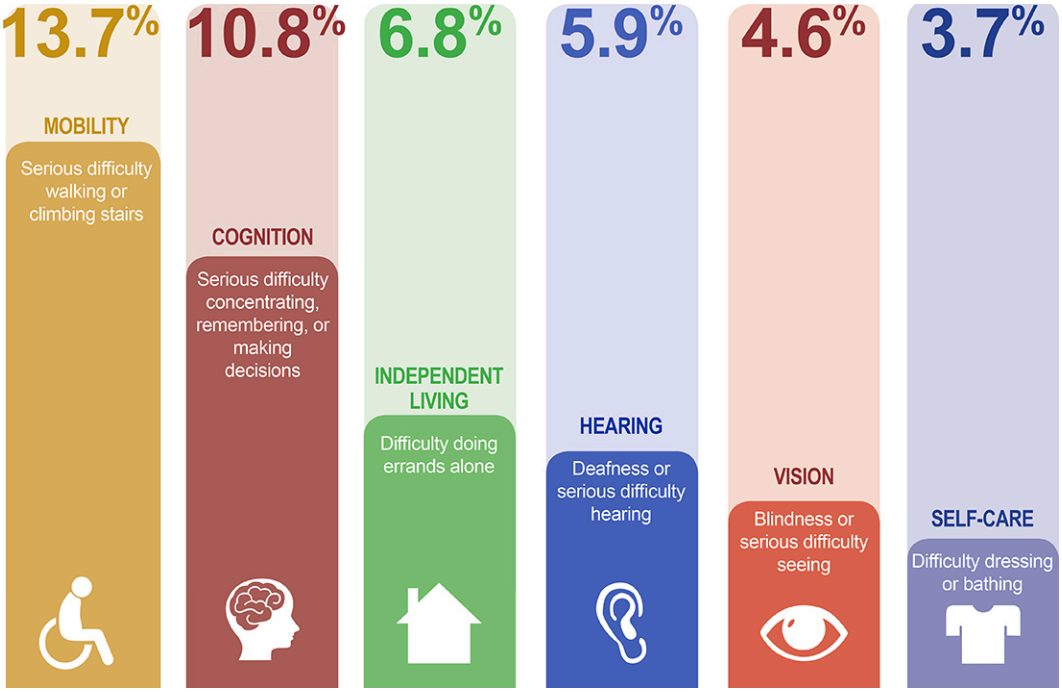


Figure 8.22 Percentage of Adults with a Functional Disability (credit: "Percentage of adults with functional disabilities" by Centers for Disease and Control and Prevention/CDC.gov, Public Domain)

Disability is more frequent in adults over the age of 65 and in women. Among racial and ethnic segments, it is more common in non-Hispanic, Native American, and Alaskan Native people. Adults living with a disability are also more likely to be obese, smoke, have heart disease, and have diabetes.[67] While disabilities are very often important and impactful aspects of people's lives, people with disabilities have many defining characteristics, goals, needs, and identities.

How can marketers best reach consumers with disabilities? By using an approach that ensures the company's efforts express humanity, authenticity, and inclusivity. Let's look at a couple of examples. In January 2019, a picture from a bridal boutique's window display went viral due to its powerful inclusivity message. The display showed a mannequin in a wheelchair dressed in a wedding gown. In February 2022, Hispanic model Sofia Jirau made history as the first person with Down syndrome to become a model for Victoria's Secret. These examples demonstrate that people with disabilities are not only part of our social fabric but also are an integral part of the overall market.

Other suggestions for marketers consist of ensuring that disabilities are properly represented. This means consulting or hiring individuals who have a disability rather than using actors or models who do not. Marketers also need to keep in mind how disabilities affect marketing communications. In other words, think about closed captioning on videos or the use of alternative text on images for websites. The types of disabilities are diverse, so marketing initiatives have to be diverse as well. That is what makes sociodemographic marketing a subset of diversity marketing.

Developing Sociodemographic Trends and Their Future Impact

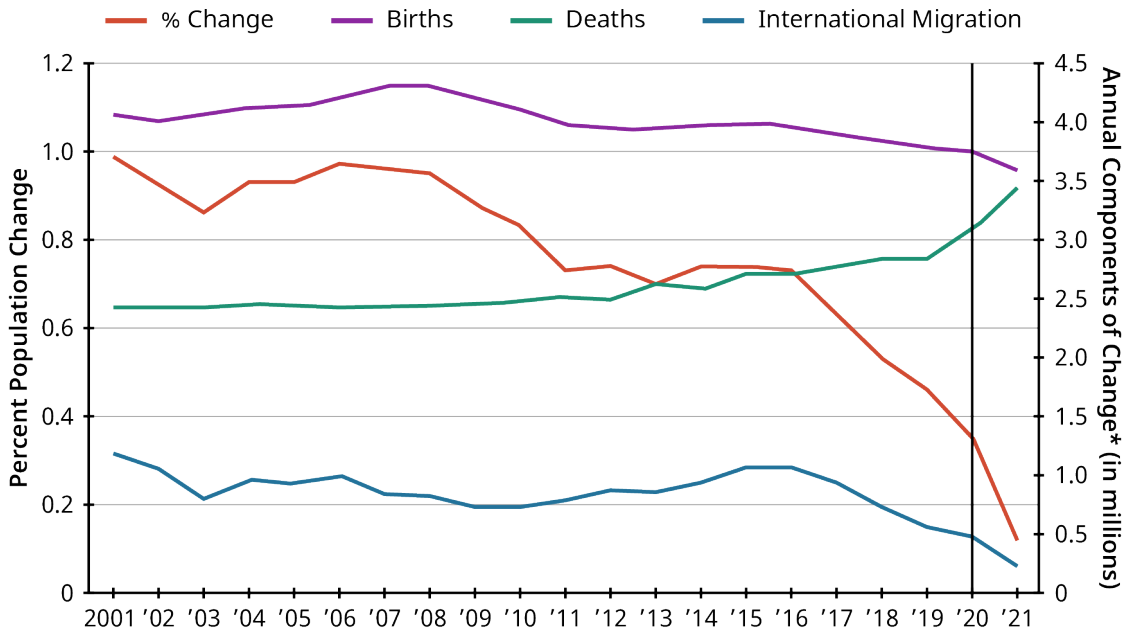
Discovering sociodemographic trends takes an enormous amount of study. To do an effective job, marketing researchers are constantly working with a multitude of variables. They set parameters, collect data, analyze it, and come up with ideas based on results. This work is done repeatedly over time. It is precisely the extended time frame that enables marketing researchers to see market patterns surface. Let's check out some current trends that will have a future impact for companies and marketers in general.

Population Stagnation

The population has been growing around the world at historically unprecedented rates for many years now.

Yet, there are several sources claiming that it will decline globally around the middle of the 21st century.[68] The United States has already been in a relatively steady population growth decline—or population stagnation—according to trends from the US Census Bureau. In fact, the American growth rate has slowed to its lowest point in over 120 years. If this trend continues, the United States will see its first net population decrease in the next couple of years.[69]

Marketers need to consider the sociodemographic factors that are contributing to this trend: births, deaths, and international migration. No doubt COVID-19 has impacted the death rate, which was already being fueled by the growth deceleration from years earlier. Figure 8.23 illustrates the population changes in the United States through 2021 based on some of these factors. The rapid percent change in 2020 and 2021 is probably due to the pandemic's effect.



*Components of change include births, deaths, and net international migration.

Figure 8.23 Population Change and the Components of Change: 2001–2021 (data source: United States Census Bureau/census.gov; attribution: Copyright Rice University, OpenStax, under CC BY NC-SA 4.0 license)

Consumer Spending Dominated by Baby Boomers

While this is not a new trend, it is certainly one that will continue through the 2030s as the baby boomer population ages out. The American Association for Retired Persons (AARP) reports that American workers over 65 years of age have a median income of $78,000 per year, while workers under age 65 have a median income that is only $55,000.[70] Keep in mind that this statistic is about individuals who are actively working, meaning not yet retired. Couple it with the wealth accumulation information you read about earlier. The baby boomer population certainly exerts outsized economic and purchasing influence, making this an important current and future market segment.

Understanding sociodemographic trends such as population growth and decline as well as market consumption based on generational groups is crucial for marketers to create relevant and effective marketing campaigns in the growing age of marketplace diversity.

Knowledge Check

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

1. Sociodemographic marketing is a subcategory of diversity marketing, and it targets audiences based on _____.

a. psychological distinguishing factors
b. political affiliation
c. geographical and governmental boundaries
d. shared social and demographic variables

2. Which of the following is a key marketing approach for reaching the LGBTQIA+ audience?
a. Focus on the societal experience around belonging.
b. Build empirical value differences in products and services.
c. Compare mainstream market adoption levels for new technology.
d. Use a personal argument as a persuasive purchasing strategy.

3. Which of the following is a useful step to improve a marketer's ability to reach a generational target audience?
a. Use deeper and more extensive combinations of sociodemographic variables.
b. Add variables such as income, education, or social markers.
c. Use focus groups to provide direct input and deeper insights and ideas.
d. All of these are useful steps.

4. When marketing specifically to consumers with disabilities, you can express inclusivity in advertising by using _____.
a. all individuals, even those who do not have a disability
b. impersonal and abstract images
c. individuals who have a disability
d. only nonvisual advertising media

5. Which of the following is an emerging sociodemographic trend that will impact future marketing?
a. Rapid population growth in the United States
b. Consumer spending dominated by baby boomers
c. Redistribution of economic wealth
d. Hemispherical global migration caused by global warming

8.6 Ethical Issues in Diversity Marketing

Learning Outcomes

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

LO 1 Identify the ethical issues related to diversity marketing.
LO 2 Discuss how to address different consumer values to reduce issues in marketing.

Ethical Considerations in Marketing

The issues related to business ethics reside within society's definitions and standards. Like with many topics, what is considered ethical business behavior or an accepted practice today can change tomorrow based on context. In other words, business ethics do not remain fixed. Ethical standards transform and adapt in conjunction with changes in the business environment.

Consider the following scenario. Let's say you are visiting the doctor for your annual checkup. How would you feel if the doctor walked into the exam room smoking a cigarette? Most people would have a negative reaction to this. In most places in the United States, it is against city ordinances to smoke indoors in public places unless it is a designated smoking area. These ordinances are enforced because the government recognizes that smoking is a health hazard. If your doctor walked into the exam room with a cigarette, it would pose several ethical concerns. However, did you know that until the 1950s, doctors approved of smoking and even appeared in cigarette ads? By the mid-1960s, the medical field developed clarity around the hazards of smoking, and norms were changed in society and in advertising. Figure 8.24 shows an advertisement making

this point.

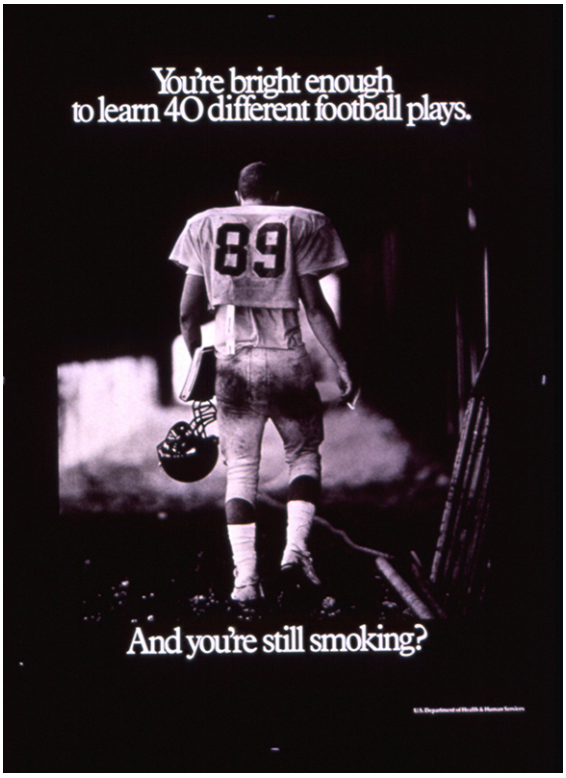


Figure 8.24 Evolving ethical standards impact marketing campaigns by requiring companies to transform their messages to meet new societal norms, as exemplified by modern anti-smoking advertisements. (credit: "You're Bright Enough to Learn 40 Different Football Plays" by NIH National Library of Medicine, CDC/nlm.nih.gov, Public Domain 1.0)

Where do business ethics come from? Ethics originate from the need and desire to promote both fair and equitable competition in the market. Ethics are supported by legislation such as the Sherman Antitrust Act from the US Department of Justice. Ethical considerations in diversity marketing have a similar background. They are linked to companies' fair and equitable outreach and representation of diverse audiences in the market. These include multicultural and sociodemographic consumer segments in particular.

Business ethics shape companies' and employees' work behaviors, corporate activities, and marketing efforts. This implies that ethics are inseparable from a company's brand. Why? Because a brand is essentially what a business stands for and what it represents. Consumers associate certain characteristics and traits with a company's brand. These expectations, in turn, influence purchasing actions. For this reason, marketers need to take great care in creating an accurate reflection of the company's ethics that are also culturally and socially sound.

Ethics are often contextual, so it is important to recognize that values and behaviors vary by culture, identity, and other demographic variables. This means it is imperative to truly understand targeted segments as thoroughly as possible. It is common for marketers to research things like buying patterns, consumption sentiment, desired features, and media efficacy. However, to succeed in a diverse marketplace, research must extend deeper. It needs to be ethically based on target segments' cultural sensitivities and social issues. Economic fairness, political viewpoints, differences in technological access, legal protections, and environmental risks should also be considered in ethical marketing research.

Ethical Issues in Diversity Marketing

One of marketing's primary functions is to reflect an organization's business ethics and values to the marketplace and to consumers. This must be done in an active and intentional manner. Marketers have a responsibility to ensure that efforts and communications are honest, balanced, and authentic to the company

and to the marketing profession. Creating awareness of cultural and social issues that impact ethical practices is also a key function of diversity marketing.

Cultural and Social Values

How messages are perceived and decoded in advertising is the most publicly visible representation of a company's ethics, values, and overall business culture. Marketers need to ensure that advertising campaigns do not reinforce harmful stereotypes and unconscious biases. This is not easy to do because, after all, cultural and social beliefs are deeply seated. This explains why some biases are unconscious.

Stereotypes and unconscious biases are evident in every facet of life. In fact, everybody has them. Cultural stereotypes and social biases are common in advertising. Let's explore some situations. Asian people share many cultural values and characteristics. As you have read, the Asian population in the United States is comprised of 22 different countries of origin. Red is considered a lucky color by most Asian people. When advertising to Chinese consumers, it is typical to see the color red used prominently. However, assuming that all Asian consumers feel the same about this color is stereotyping. For Japanese people, green symbolizes youth and vital energy; yellow is associated with vitality and light for Korean people.[71]

You may have seen ads that suggest that only boys or men play football or maybe that only girls and women cook. These types of ads perpetuate gender stereotypes. That's why campaigns like Procter & Gamble's groundbreaking 2014 "Like a Girl" campaign challenged people's stereotypes with its ads about what it means to do things as a female. Here is yet another example. Radio advertisers could ignore baby boomers in favor of millennials and Generation Z consumers. This bias is driven by the incorrect assumption that baby boomers are not active radio listeners, which is not true. Stereotypes and biases can cost companies a lot of money in negative publicity and lost opportunities. From an ethical perspective, biases can have unintended discriminatory results among diverse consumer segments.

Diversity Representation

Diversity marketing is about reaching a larger portion of the total market by including diverse population segments such as multicultural and sociodemographic audiences. Representation matters for a growing number of consumers. While trying to be inclusive, marketers need to steer clear of tokenism. **Tokenism** happens when an individual from either a minority group or an underrepresented community is included in ads or marketing communications to prevent criticism. Tokenism is a symbolic act that gives the appearance of representation. However, it is not a genuine desire to portray consumer diversity.

When it comes to ethical considerations such as advertisements' diversity balance, the focus is on ensuring positive associations. This inclusive balance is not limited to just people. It also applies to terms, phrases, and other forms of communication. For instance, the misuse of words or incorrect translations can inadvertently convey a lack of sensitivity to multicultural or sociodemographic consumers. Marketers may offend without intending to do so. As an example, as you read earlier in the chapter, some terms can be disliked by ethnic consumers.

Marketers need to intentionally consider every characteristic, factor, and set of values that shape diversity and inclusivity. These need to be weighed against the perceptions of each consumer segment. Doing a thorough job of research, design, and review goes a long way to ensuring a fair and equitable representation of all consumer segments.

COMPANIES WITH A CONSCIENCE



Culturally Sensitive and Socially Inclusive Marketing

Multinational industry leaders like Coca-Cola, Google, Adidas, Unilever, AT&T, Marriott International, and

Microsoft are just a few of the companies that, like P&G, are focusing their marketing efforts on being more culturally sensitive and socially inclusive. Even niche players, partnerships, and private companies such as Bumble, Fenty Beauty, and ThirdLove are also championing diversity as a core value through equal cultural and sociodemographic representation rather than just chasing a trend in marketing.[72]

Consider Coca-Cola's long history of advertisements and promotions, for example. In the early 1970s, Coca Cola released the "Hilltop" commercial (also known as "I'd Like to Buy the World a Coke"), which showed people from different races and cultures bonding over the beverage. In 2011, the company launched the groundbreaking campaign "Share a Coke" in Australia to connect with consumers in a personal way while influencing product purchases. The campaign went viral and became a global success.[73]

For the 2014 Super Bowl and the Winter Olympics in Sochi, Russia, Coca-Cola launched the "America Is Beautiful" campaign.[74] Recognizing the growth of multicultural consumers in the United States, the campaign's commercial featured seven young bilingual American women singing in different languages. It also showed culturally diverse consumers from all walks of life. Although the campaign was subject to severe criticism and sparked outrage and boycotts by some people, Coca-Cola was applauded by others for its commitment to a more inclusive marketing communication. That is what diversity marketing is all about.

Chapter Summary

Marketing reflects an organization's ethics and values as it communicates, especially with current and prospective customers. Marketers have learned to adjust over time to changes in the marketplace, especially as technology, the environment, politics, culture, and demographics have evolved and altered customer needs, wants, and demands. This chapter introduces concepts primarily concerned with culture and diversity and the need for businesses to focus more on customer individuality than on customer commonality. Research shows that companies that build emotional ties through diversity generate more revenue, increase stock price performance, and enhance brand perceptions.

Marketers must be constantly aware of demographic trends, especially in multicultural identities, generational differences, consumers with disabilities, and changes in spending. Ethics, too, transform and adapt to the business environment. Ethical norms not only promote fair and equitable competition, they also set standards for brand stewardship and social responsibility.

Finally, the focus of many successful marketers today is to rely on marketing intelligence to guide them toward establishing and maintaining positive customer associations across population characteristics.

Key Terms

acculturation the process by which a person's family cultural patterns change because of direct and constant contact with a different culture

adaptation the process of adjusting a company's work efforts, goods, or services in response to specific needs, tastes, or expectations—whether real or perceived—from different groups of consumers

Asian population third largest multicultural group in the United States; made up of 22 different subethnicities from the Asian continent, Hawaii, and islands of the Pacific; can belong to a single race or mixed races

Black population second largest multicultural group in the United States; made up of three different subethnicities: single race, Black Hispanic, or Black mixed with another race (White or Native American)

company centric a company's approach to focusing decisions and execution from the perspective of the organization rather than the customers

consumers with disabilities sociodemographic group living with some type of disability related to mobility, learning, intellectual, or other types of functions; a very diverse group because disabilities span cultural, social, and demographic factors

cultural duality characteristic of a multicultural individual for whom cultures overlap with each other and the person feels a sense of belonging to both at the same time

cultural identity how a person identifies with a given culture, ethnicity, or social group, which instills a sense of belonging that influences personal thinking and actions

culture objective and subjective elements like social norms, beliefs, behaviors, accomplishments, customs, arts, language, foods, and skills that characterize a particular group of individuals' way of life

customer centric a company's focus on putting targeted customers first regarding any decisions about its goods, services, or experiences to create satisfaction and strengthen loyalty

diversity marketing a strategic approach that involves identifying different subsegments of the population—*based on shared cultural and sociodemographic characteristics*—and creating intentional marketing efforts to connect with these consumer groups

diversity marketing intelligence (DMiQ) the capability of identifying, accepting, and valuing the diverseness of consumers within a market and using this knowledge to tailor the marketing mix accordingly

generational population sociodemographic category based on birth year clusters that includes Lost Generation (1883–1900), Greatest Generation (1901–1927), Traditionalist/Silent Generation (1928–1945), baby boomers (1946–1964), Generation X (1965–1980), millennials/Generation Y (1981–1996), Zoomers/Generation Z (1997–2009), and Generation Alpha (2010–2024)

Hispanic population largest multicultural group in the United States; made up of diverse subethnicities and

races originating from 20 different Spanish-speaking countries in North America, Central America, the Caribbean, South America, and Europe

LGBTQIA+ population community composed of individuals who express a diversity of genders, preferences, and sexual orientations that include lesbian, gay, bisexual, transsexual, queer/questioning, intersex, asexual, and other sexual identities

marginalized consumers populations of consumers that have been pushed to the margins of society and are often excluded in mainstream advertising

marketing mix the four key elements—product, price, place, and promotion—that shape the development and execution of marketing objectives to reach a target market

multicultural identity having an affinity with multiple racial or ethnic groups that a person has been exposed to and self-categorizing as being part of more than one of them

multicultural marketing a subcategory of diversity marketing aimed at intentionally targeting audiences based on different racial, ethnic, and cultural identities and backgrounds

Native American, Alaska Native population multicultural group of individuals of a single race and mixed races who are native to the United States and its territories including American Indians, Alaska Natives, Native Hawaiians, and American Samoans

sociodemographic marketing a subcategory of diversity marketing aimed at intentionally targeting audiences based on shared social and demographic characteristics such as gender and sexual orientation, age or generation, family structure, religion, education, income level, and disability

sociodemographics the combination of social and demographic factors that characterize specific consumer groups in the market

socioeconomically disadvantaged population disadvantaged community that lacks social resources and infrastructure to reduce poverty; members tend to be in low-income households, experience financial insecurity, and have less access to education

standardization the process of purposefully applying identical or consistent guidelines to goods or services to achieve uniformity

tokenism the practice of including an individual from either a minority group or an underrepresented community in marketing efforts simply as a symbol

Applied Marketing Knowledge: Discussion Questions

1. The Special Olympics offers businesses the opportunity to sponsor local, regional, national, and international events. Using what you have learned from this chapter, list three reasons why companies such as Procter & Gamble, Toyota, Coca-Cola, United Airlines, Microsoft, and the NFL would choose to spend millions of marketing dollars to partner with Special Olympics.
2. The United States is moving swiftly to a “plurality nation” status, according to the US Census Bureau. Identify two major multicultural trends that have and will continue to impact market segmentation.
3. Student Services on your campus likely has a diversity and inclusion staff that encourages an expansive range of cultural perspectives, experiences, voices, and methods for taking action on campus. How does your college or university market diversity and inclusion services to prospective students through its website?
4. Market fragmentation is the concept that all markets are increasingly diverse and comprised of smaller segments of consumers that respond differently to marketing messages. Media, too, has splintered, and in addition to having access to information provided by newspapers, magazines, TV, and radio, consumers now have access to millions of informational sources. However, severe fragmentation of both consumers and ways to communicate with them poses many challenges in marketing efficiency and branding. Why?
5. DMiQ reveals that baby boomers offer the best marketing opportunities for firms. Which sociodemographic group offers the next best marketing opportunity by sheer size of the segment?

Critical Thinking Exercises

1. Like Nike's marketing adaptation with "Nike by You," other retailers offer customers individualized products. For instance, you can design your own jeans (https://openstax.org/r/makeyourownjeans) online. Brainstorm five other products that may lend themselves to customized offerings that express cultural or sociodemographic differences.
2. Diversity marketing intelligence (DMiQ) refers to the capability of identifying, accepting, and valuing the diversity of consumers within a market and using this knowledge to tailor the marketing mix accordingly. Thus, capturing insights about consumers' heritage, experience, lifestyle, beliefs, or living situations helps explain the nuances and idiosyncrasies associated with diversity. These insights helped identify that the LGBTQIA+ community generally spends more money online and at retail stores. Additionally, the research firm Out Now estimates the LGBTQIA+ community spends more than $211 billion on travel. How can the travel industry employ DMiQ to derive more value from this group that enjoys travel and is willing to pay for it?
3. Research has shown that members of the baby boomer generation possess the most wealth in the United States and are responsible for 70 percent of annual spending on prescriptions and medical supplies. Are there any ethical considerations in developing marketing messages to this large and older segment of society that doesn't want to be pigeonholed as "elderly"?

Building Your Personal Brand

Students who are building their résumés have always been encouraged to set themselves apart from the competition for internships, jobs, and volunteer experiences. In other words, focus on what makes you stand out from other job seekers. If you are bilingual, why not prepare your résumé, blog, or LinkedIn profile in both languages? Are you especially knowledgeable in a particular area such as designing alternate reality games? Do you collect comic books or baseball trading cards? All of these interests, collections, and abilities not only have the potential to create a dialogue with potential employers, but they also highlight your heritage, lifestyle, or singularity to your advantage.

What Do Marketers Do?

Relatively few recent marketing graduates think about entering the nonprofit arena. Some of the key positions in nonprofits include marketing director, event coordinator, director of development, communications specialist, and volunteer coordinator.

There are many nonprofit organizations operating in the United States that strive to serve multicultural groups and sociodemographic communities. Some have purposeful objectives like equitable rights and inclusivity. Some national examples include Advancement Project, American Civil Liberties Union (ACLU), Asian Americans Advancing Justice (AAJC), Equal Justice Initiative (EJI), Human Rights Campaign Foundation, League of United Latin American Citizens (LULAC), National Association for the Advancement of Colored People (NAACP), National Immigration Law Center, National Organization on Disability, National Urban League, Prospanica, The Asian American Foundation (TAAF), The PhD Project, and The Trevor Project.

Contact a local nonprofit organization and interview an employee filling one of the above-mentioned roles. Questions may include:

- What drew you to this organization?
- What is its mission?
- What groups or communities does it serve?
- Does the position require specific training?
- How many volunteers do you have, and what are their responsibilities and time commitments?

Finally, consider whether volunteering for this organization may fulfill you, add to your résumé, and/or bring you in contact with future employees, colleagues, and friends.

Closing Company Case

Lineout

If 50 is the new 30, most 50-year-olds want to look 30. Consumers in their twenties want to look like their favorite Hollywood star or Instagram influencer. New methods, procedures, and products are flooding the market to appeal to the market demand for better skin, reduced facial wrinkles, and improved appearance. A big part of the market for skin care products is dermal fillers. According to Fortune Business Insights, the global dermal fillers market is projected to grow from $3.07 billion in 2021 to $6.28 billion in 2028 at a compound annual growth rate (CAGR) of 10.8 percent in the forecast period, 2021–2028.[75]

Noninvasive and minimally invasive procedures for smoother and younger-looking skin are rising in popularity among many different demographic groups. Through facial fillers or digitally enhanced photographs, many people are looking to improve their look. While most consumers may not have the money or the willingness to undergo surgical cosmetic procedures, many are very willing to take an alternate route—receive an injection that may last 3, 6, or 12 months and provide the appearance of younger-looking, smoother, line-free skin.[76]

Looking to break into the market of dermal fillers and provide excellence in the injection experience and outcome, Lineout jumped into the market. The company didn't want to be a typical medical spa with a wide breadth of services. Instead, it was looking to be a boutique provider of an in-demand service done with excellence and provided through a vast network of boutique locations nationwide.

Like the nail salon that only does nails, Lineout is a boutique that focuses only on facial fillers. The boutique experience with niche specialization was lacking in the industry. To provide facial injections with precision and only do the best for its clients, Lineout had a business model that could break into the market and be replicated throughout the country.

While most medical spas market primarily to middle-aged women, Lineout realized the market was much bigger and much more diverse than most medical spas recognized. Consumers of various ages, genders, and ethnicities were seeking facial fillers. Many of the medical spas were set up to cater to the female market. With feminine-sounding names, pink pastels, and soft floral graphics, the marketing was all focused toward this one demographic.

Lineout purposefully structured its business to meet the needs of a more diverse market. With simple graphics, a bright color palette, and marketing promotion through various channels, Lineout was able to tap a broader market.

The male audience skewed older.[77] To meet the needs of men who were wanting facial fillers, Lineout promotions included male-themed blogs, promotions through barbershops, and digital advertising with business and sports teams. For men "in the know," *lineout* is a rugby term. Rugged men saw Lineout as a product for them as they stepped into the facial filler's market.

On the opposite spectrum, young women had much different needs for facial fillers. Younger women primarily wanted lips that looked like the Kardashians and "line"-free foreheads, similar to what they were seeing from favorite celebrities and Instagram influencers. Media choices for women in their late teens and early twenties were primarily focused on TikTok and Instagram along with some select YouTube channels and reality shows. Lineout was able to connect with this audience by targeting messaging specific to the bigger, beautiful lip craze.

And finally, the biggest and most obvious market was middle-aged women who made facial fillers part of their skin care. Getting facial fillers for this demographic was as regular as a teeth cleaning or appointment with a hairstylist. Without hesitation, this market signed up for regular appointments and memberships that

provided discounts for frequent and regularly scheduled sessions.

Lineout counted this demographic as its bread and butter. Demand from this market segment is highest, and this consumer group is also the most discerning. Without all the traditional services offered by medical spas, Lineout had to ensure that the level of skill and the overall results were superior to other services in the market. To reach this market, Lineout created specific blogs to address the stated concerns and needs. Lineout used Facebook and select digital channels to court the older women seeking facial filler services.

While the marketing for each demographic is a bit different, the services and the experience are similar for each of the company's market segments. Men want specific things from their facial fillers, young women want something different, and middle-aged women are even more precise. Lineout provides for each diverse need while maintaining its niche focus of only doing facial fillers.

Learn more about the company from the Lineout website (https://openstax.org/r/lineoutaesthetics) and Instagram feed (https://openstax.org/r/instagramlineoutaesthetics).

Case Questions

1. How does Lineout adapt its marketing for each of the diverse markets it serves?
2. The trend in noninvasive cosmetic procedures grows every year. What are some of the factors that have impacted the demand for facial fillers?
3. What are the factors Lineout is considering when looking at how it changes its marketing to meet the needs of its different consumer markets?
4. The various consumer groups Lineout is serving have different and unique concerns. What are some of the factors that have created the concerns?

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