OBM3100

PRINCIPLES OF MARKETING

SELF INSTRUCTIONAL MATERIALS

ACADEMIC YEAR 2023

FACULTY OF BUSINESS, HUMANITIES & HOSPITALITY

BACHELOR OF COMMERCE (HONS) IN INTERNATIONAL BUSINESS

Topic 1 ► Marketing: Creating and Capturing Customer Value

LEARNING OUTCOMES

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

1. Define marketing and outline the steps in the marketing process.
2. Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts.
3. Identify the key elements of a customer-value driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.
4. Discuss customer relationship management and identify strategies for creating value *for* customers and capturing value *from* customers in return.
5. Describe the major trends and forces that are changing the marketing landscape in this age of relationships.

► INTRODUCTION

Marketing is managing profitable customer relationships. The aim of marketing is to create value for customers and to capture value in return. Marketing is defined as a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging value with others.

1.1 WHAT IS MARKETING?

MARKETING?

A simple definition of marketing is *engaging customers and managing profitable customer relationships.* Marketing must both attract new customers and grow the current customers. Every organization must perform marketing functions, not just for-profit companies. Non-profits (colleges, hospitals, churches, etc.) also must perform marketing.

Marketing Defined

Most people think of marketing as selling and/or advertising—"telling and selling." Selling and advertising are only part of a larger **marketing mix**—a set of marketing tools that work together to satisfy customer needs and build customer relationships. We define **marketing** as the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.

The Marketing Process

1. Understand the marketplace and customer needs and wants.
2. Design a customer-driven marketing strategy.
3. Construct a marketing program that delivers superior value.
4. Build profitable relationships and create customer delight.
5. Capture value from customers to create profits and customer quality.

In the first four steps, companies work to understand consumers, create customer value, and build strong customer relationships. In the final step, companies reap the rewards of creating superior customer value. By creating value *for* consumers, they in turn capture value *from* consumers in the form of sales, profits, and long-term customer equity.

1.2 UNDERSTANDING THE MARKETPLACE AND CUSTOMER NEEDS

Five core customer and marketplace concepts are critical: (1) *needs, wants, and demands*; (2) *market offerings (products, services, and experiences)*; (3) *value and satisfaction*; (4) *exchanges and relationships*; and (5) *markets*.

Customer Needs, Wants, and Demands
The most basic concept underlying marketing is that of **human needs.**

Human needs are states of felt deprivation. They include *physical, social, and individuals* needs. Marketers did not create these needs; they are a basic part of the human makeup.

Wants are the form human needs take as they are shaped by culture and individual personality. An American *needs* food but *wants* a Big Mac.

When backed by buying power, wants become **demands**.

Outstanding marketing companies go to great lengths to learn and understand their customers' needs, wants, and demands.

Market Offerings—Products, Services, and Experiences
Needs and wants are fulfilled through **market offerings**—some combination of products, services, information, or experiences offered to a market to satisfy a need or want. Market offerings are not limited to physical *products.* They also include *services*—activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything. **Marketing myopia** occurs when a company becomes so taken with their own products that they lose sight of underlying customer needs.

Customer Value and Satisfaction
Customers form expectations about the value and satisfaction that various market offerings will deliver and buy accordingly. Satisfied customers buy again and tell others about their good experiences. Dissatisfied customers switch to competitors and disparage the product to others. Customer value and customer satisfaction are key building blocks for developing and managing customer relationships.

Exchanges and Relationships

Exchange is the act of obtaining a desired object from someone by offering something in return. Marketing consists of actions taken to build and maintain desirable exchange *relationships* with target audiences.

Markets

A **market** is the set of actual and potential buyers of a product. Marketing means managing markets to bring about profitable customer relationships.

1.3 DESIGNING A CUSTOMER-DRIVEN MARKETING STRATEGY

Marketing management is defined as the art and science of choosing target markets and building profitable relationships with them.

The marketing manager must answer two important questions:

1. What customers will we serve (what's our target market)?
2. How can we serve these customers best (what's our value proposition)?

Selecting Customers to Serve

A company must decide *whom* it will serve. It does this by dividing the market into segments of customers (*market segmentation*) and selecting which segments it will go after (*target marketing*). Marketing managers know they cannot serve all customers. By trying to do so, they end up not serving any well. Marketing management is *customer management* and *demand management.*

Choosing a Value Proposition

A company's *value proposition* is the set of benefits or values it promises to deliver to consumers to satisfy their needs. (Facebook helps you "connect and share with the people in your life," whereas Twitter's Vine app gives you "the best way to see and share life in motion" through "short, beautiful, looping videos in a simple and fun way for your friends and family to see.")

Such value propositions *differentiate* one brand from another.

Marketing Management Orientations

Marketing management wants to design strategies that will build profitable relationships with target consumers. But what *philosophy* should guide these marketing strategies? There are five alternative concepts under which organizations design and carry out their marketing strategies:

1) The Production Concept

The **production concept** holds that consumers will favor products that are available and highly affordable. Management should focus on improving production and distribution efficiency.

2) The Product Concept

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

3) The Selling Concept

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

4) The Marketing Concept

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

The **selling concept** takes an *inside-out* approach, whereas the **marketing concept** uses an *outside-in* perspective. *Customer-driven* companies research current customers deeply to learn about their desires, gather new product and service ideas, and test proposed product improvements. *Customer-driving* marketing involves understanding customer needs even better than customers themselves do and creating products and services that meet existing and latent needs.

5) The Societal Marketing Concept

The **societal marketing concept** questions whether the pure marketing concept overlooks possible conflicts between consumer *short-run wants* and consumer *long-run welfare*. This has been called *Marketing 3.0* or *purpose-driven marketing.* The societal marketing concept holds that companies should balance three considerations in setting their marketing strategies: company profits, consumer wants, *and* society's interests.

1.4 PREPARING AN INTEGRATED MARKETING PLAN AND PROGRAM

The company's marketing strategy outlines which customers the company will serve and how it will create value for these customers.

Next, the marketer develops an integrated marketing program that will actually deliver the intended value to target customers.

The marketing program consists of the firm's *marketing mix*, the set of marketing tools the firm uses to implement its marketing strategy.

The marketing mix tools are classified into the *four Ps* of marketing: product, price, place, and promotion.

The firm blends all of these marketing mix tools into a comprehensive *integrated marketing program* that communicates and delivers the intended value to chosen customers.

1.5 ENGAGING CUSTOMERS AND MANAGING CUSTOMER RELATIONSHIPS

Customer Relationship Management

Customer relationship management is the most important concept of modern marketing.

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

It deals with all aspects of acquiring, keeping, and growing customers.

Relationship Building Blocks: Customer Value and Satisfaction

The key to building lasting customer relationships is to create superior customer value and satisfaction.

Customer-Perceived Value. This is the customer's evaluation of the difference between all the benefits and all the costs of a market offering relative to those of competing offers.

Customers often do not judge values and costs "accurately" or "objectively."

They act on *perceived* value.

Customer Satisfaction. Customer satisfaction depends on the product's perceived performance relative to a buyer's expectations.

If the product's performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is highly satisfied or delighted.

Although the customer-centered firm seeks to deliver high customer satisfaction relative to competitors, it does not attempt to *maximize* customer satisfaction.

A company can always increase customer satisfaction by lowering its prices or increasing its services. But this may result in lower profits.

The purpose of marketing is to generate customer value profitably.

Customer Relationship Levels and Tools

Companies can build customer relationships at many levels.

At one extreme, a company with many low-margin customers may seek to develop *basic relationships* with them.

At the other extreme, in markets with few customers and high margins, sellers want to create *full partnerships* with customers.

Many companies offer *frequency marketing programs* that reward customers who buy frequently or in large amounts.

Companies sponsor *club marketing programs* that offer members special benefits and create member communities. (For example, buy a Weber grill and you can join the Weber Nation – "the site for real people who love their Weber grills.")

Engaging Customers

Significant changes are occurring in the nature of customer brand relationships.

Customer Engagement and Today's Digital and Social Media

Yesterday's companies focused on mass marketing to all customers at arm's length.

Today's companies are using online, mobile, and social media to refine their targeting and to engage customers more deeply and interactively.

Old marketing involved marketing brands *to* consumers. The new marketing is customer-engagement marketing.

Customer-engagement marketing goes beyond just selling a brand to consumers. Its goal is to make the brand a meaningful part of consumers' conversations and lives.

Consumer-Generated Marketing. A growing part of the new consumer dialogue is consumer-generated marketing, by which consumers themselves are playing a bigger role in shaping their own brand experiences and those of others.

Harnessing consumer-generated content can be a time-consuming and costly process, and companies may find it difficult to glean even a little gold from all the garbage.

Consumer-generated marketing, whether invited by marketers or not, will be an increasingly important marketing force.

Partner Relationship Management

Marketers must not only be good at customer relationship management, they must also be good at partner relationship management – working closely with others inside and outside the company to jointly bring more value to customers.

The new thinking is that – no matter what your job is in the company – you must understand marketing and be customer focused.

Marketing channels consist of distributors, retailers, and others who connect the company to its buyers.

The *supply chain* describes a longer channel, stretching from raw materials to components to final products that are carried to final buyers.

Through *supply chain management*, many companies today are strengthening their connections with partners all along the supply chain.

CAPTURING VALUE FROM CUSTOMERS

The first four steps in the marketing process involve building customer relationships. The final step involves capturing value in return.

By creating superior customer value, the firm creates highly satisfied customers who stay loyal and buy more.

Creating Customer Loyalty and Retention

The aim of customer relationship management is to create not just customer satisfaction, but customer delight.

Companies realize that losing a customer means losing the entire stream of purchases the customer would have made over a lifetime of patronage. This is known as **customer lifetime value**.

Growing Share of Customer

S**hare of customer** is defined as the share the company gets of customers purchasing in their product categories. (Thus, banks want to increase "share of wallet.")

Building Customer Equity

Companies want not only to create profitable customers, but also to "own" them for life, capture their customer lifetime value, and earn a greater share of their purchases.

What Is Customer Equity?

Customer equity is the total combined customer lifetime values of all of the company's current and potential customers.

Clearly, the more loyal the firm's profitable customers, the higher the firm's customer equity.

Customer equity may be a better measure of a firm's performance than current sales or market share.

Building the Right Relationships with the Right Customers

Not all customers, not even all loyal customers, are good investments.

"Strangers" show low potential profitability and little projected loyalty. The relationship management strategy for these customers is simple: Don't invest anything in them.

"Butterflies" are potentially profitable but not loyal. The company should use promotional blitzes to attract them, create satisfying and profitable transactions with them, and then cease investing in them until the next time around.

"True friends" are both profitable and loyal. There is a strong fit between their needs and the company's offerings. The firm wants to make continuous relationship investments to delight these customers and retain and grow them.

"Barnacles" are highly loyal but not very profitable. There is a limited fit between their needs and the company's offerings.

Important point: Different types of customers require different relationship management strategies.

The goal is to build the *right relationships* with the *right customers.*

1.6 THE CHANGING MARKETING LANDSCAPE

This section looks at five major developments: the digital age, the changing economic environment, the growth in not-for-profit marketing, rapid globalization, and the call for sustainable marketing practices.

The Digital Age

More than 3 billion people—42 percent of the world's population—are now online; 58 percent of all American adults own smartphones.

At the most basic level, marketers set up company and brand Web sites that provide information and promote the company's products.

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

Social Media Marketing

Nearly 90 percent of all US companies now use social media as part of their marketing mix, and 71 percent believe that social marketing is core to their business.

Online social media provide a digital home where people can connect and share important information and moments in their lives.

Mobile Marketing

Mobile marketing is perhaps the fastest growing digital marketing platform.

Marketers use mobile channels to stimulate immediate buying, make shopping easier, and enrich the brand experience.

Most marketers are still learning how to use them effectively.

The Changing Economic Environment

The Great Recession of 2008-2009 and its aftermath hit American consumers hard.

After two decades of overspending, consumers tightened their purse strings and changed their buying attitudes and habits.

More than ever, marketers are emphasizing the *value* in their value propositions.

The Growth of Not-for-Profit Marketing

The nation’s nonprofits face stiff competition for support and membership. Sound marketing can help them to attract membership and support.

Government agencies have shown an increased interest in marketing. Various government agencies are now designing social marketing campaigns.

Rapid Globalization

Almost every company, large or small, is touched in some way by global competition.

The skillful marketing of European and Asian multinationals has challenged American firms at home.

McDonald’s now serves 70 million customers daily at more than 36,000 restaurants worldwide—some 68 percent of its revenues come from outside the United States.

Today, companies are buying more supplies and components abroad.

Sustainable Marketing—The Call for More Environmental and Social Responsibility

Marketers are being called upon to take greater responsibility for the social and environmental impact of their actions and to develop *sustainable marketing practices*.

Corporate ethics and social responsibility have become hot topics for almost every business.

Forward-looking companies view sustainable marketing as an opportunity to do well by doing good.

SELF CHECK

1-1. Define marketing and outline the steps in the marketing process. *Answer:*

1-2. Explain the importance of needs, wants and demands and how these frame a marketer's activities.

1-3. Discuss how technology is affecting marketing.

Points to Ponder/Takeaways

Marketing is the process of building profitable customer relationships by creating value for customers and capturing value in return.

The first four steps in the marketing process create value *for* customers.

The final step in the process allows the company to capture value *from* customers.

In building customer and partner relationships, marketers must harness marketing technologies in the new digital age, take advantage of global opportunities, and ensure that they act sustainably in an environmentally and socially responsible way.

References

Kotler, P., Armstrong, G. (2020). Marketing: An Introduction. New Jersey: Pearson/Prentice Hall.

Topic 2 Company and Marketing Strategies

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

1. Explain company-wide strategic planning and its four steps.
2. Discuss how to design business portfolios and develop growth strategies.
3. Explain marketing's role in strategic planning and how marketing works with its partners to create and deliver customer value.
4. Describe the elements of a customer value-driven marketing strategy and mix and the forces that influence it.
5. List the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing marketing return on investment.

►

► INTRODUCTION

In this chapter, we dig deeper into steps two and three of the marketing process—designing customer value-driven marketing strategies and constructing marketing programs.
First, we look at the organization's overall strategic planning.
Next, we discuss how marketers partner closely with others inside and outside the firm to serve customers.
We then examine marketing strategy and planning—how marketers choose target markets, position their market offerings, develop a marketing mix, and manage their marketing programs.
Finally, we look at measuring and managing return on marketing investment (marketing ROI).

2.1 COMPANY-WIDE STRATEGIC PLANNING: DEFINING MARKETING'S ROLE

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

Strategic planning sets the stage for the rest of the planning in the firm.

Companies usually prepare annual plans, long-range plans, and strategic plans.

The annual and long-range plans deal with the company's current businesses and how to keep them going.

In contrast, the **strategic plan** involves adapting the firm to take advantage of opportunities in its constantly changing environment.

The strategic planning process begins with the company defining its overall purpose and mission.

This mission is turned into objectives that guide the whole company.

Marketing planning occurs at the business-unit, product, and market levels.

Defining a Market-Oriented Mission

An organization exists to accomplish something, and this purpose should be clearly stated.

A **mission statement** is a statement of the organization's purpose—what it wants to accomplish in the larger environment.

A clear mission statement acts as an "invisible hand" that guides people in the organization.

Mission statements should be ***market oriented*** and defined in terms of customer needs.

A market-oriented mission statement defines the business in terms of satisfying basic customer needs.

Mission statements should be meaningful and specific, yet motivating.

A company's mission statement should not be stated as making more sales or profits; profits are a reward for creating value for customers.

Setting Company Objectives and Goals

The company turns its mission into detailed supporting objectives for each level of management.

Each manager should have objectives and be responsible for reaching them.

Marketing strategies and programs must be developed to support these marketing objectives.

Each broad marketing strategy must then be defined in greater detail.

Designing the Business Portfolio

A **business portfolio** is the collection of businesses and products that make up the company.

The best business portfolio is the one that matches the company's strengths and weaknesses to opportunities in the environment.

Business portfolio planning involves two steps:

1. The company must analyze its ***current*** business portfolio and decide which businesses should receive more, less, or no investment.

2. It must shape the ***future*** portfolio by developing strategies for growth and downsizing.

Analyzing the Current Business Portfolio

The major activity in strategic planning is business **portfolio analysis**.

Portfolio analysis is where management evaluates the products and businesses making up the company.

The steps in portfolio analysis are:

1. To identify the *strategic business units* (SBU). An SBU is a separately managed unit of the company with its own missions and objectives.

2. To assess the attractiveness of its various SBUs and decide how much support each deserves. Most companies are well advised to "stick to their knitting" when designing their business portfolios.

The purpose of strategic planning is to find ways in which the company can best use its strengths to take advantage of attractive opportunities in the environment.

Most standard portfolio-analysis methods evaluate SBUs on two dimensions:

1. The attractiveness of the market or industry, and

2. The strength of the position in that market or industry.

The Boston Consulting Group Approach

A company classifies all its SBUs according to the **growth-share matrix**.

The vertical axis: ***market growth rate*** provides a measure of market attractiveness.

The horizontal axis: ***relative market share*** provides a measure of company strength in the market.

The growth-share matrix defines four types of SBUs:

Stars*.* High-growth, high-share businesses or products. They will turn into cash cows.

Cash cows*.* Low-growth, high-share businesses or products. They produce a lot of cash that the company uses to pay its bills and support other SBUs that need investment.

Question marks*.* Low-share business units in high-growth markets. They require a lot of cash to hold their position.

Dogs. Low-growth, low-share businesses and products.

One of four strategies can be pursued for each SBU:

1. The company can invest to *build* its share.
2. It can invest just enough to *hold* its share.
3. It can milk its short-term cash flow, or *harvest.*
4. It can *divest* by selling it or phasing out.

As time passes, SBUs change their positions in the growth-share matrix. Each SBU has a life cycle.

Problems with Matrix Approaches

Difficult, time consuming, and costly to implement.

These approaches focus on classifying *current* businesses but provide little advice for *future* planning.

Many companies have dropped matrix methods in favor of customized approaches better suited to their specific situations.

Developing Strategies for Growth and Downsizing

A company's objective must be "profitable growth."

Marketing has the main responsibility for achieving profitable growth for the company.

The **product/market expansion grid** is used in identifying growth opportunities.

- **Market penetration**—making more sales to current customers without changing its products.
- **Market development**—identifying and developing new markets for its current products.

- **Product development**—offering modified or new products to current markets.
- **Diversification**—starting up or buying businesses outside of its current products and markets.

Companies must also develop strategies for **downsizing**.

When a firm finds brands/businesses that are unprofitable or no longer fit the overall strategy, it may prune, harvest, or divest them.

2.2 PLANNING MARKETING: PARTNERING TO BUILD CUSTOMER RELATIONSHIPS

Marketing plays a key role in the company's strategic planning.

1. Marketing provides a guiding *philosophy*—the marketing concept.
2. Marketing provides *inputs* to strategic planners.
3. Marketing designs *strategies* for reaching the unit's objectives.

Customer value is the key ingredient in the marketer's formula for success.

In addition to ***customer relationship management***, marketers must also practice ***partner relationship management*.**

Partnering with Other Company Departments

Each company department can be thought of as a link in the company's internal **value chain.**

Success depends on how well the various departments coordinate their activities.

A company's value chain is only as strong as its weakest link.

Ideally, a company's different functions should work in harmony to produce value for consumers.

Other departments may resist marketing's efforts because their actions can increase purchasing costs, disrupt production schedules, increase inventories, and create budget headaches.

Yet marketers must find ways to get all departments to "think consumer."

Partnering with Others in the Marketing System

Firms need to look beyond their own value chains and into the value chains of their suppliers, distributors, and customers.

Companies today are partnering with the other members of the supply chain to improve the performance of the customer **value delivery network**.

Competition takes place between the entire value-delivery networks created by competitors.

Consumers are in the center. Profitable customer relationships are the goal.

Marketing strategy is next—this is the broad logic under which the company attempts to develop profitable relationships.

Guided by the strategy, the company develops its marketing mix—product, price, place, and promotion.

Customer Value-Driven Marketing Strategy

Marketing requires a deep understanding of customers.

There are many different kinds of consumers, and they exhibit many different kinds of needs.

Companies cannot profitably serve them all.

Companies must divide up the total market, choose the best segments, and design strategies for profitably serving chosen segments.

This process involves ***market segmentation*****,** ***market targeting*****,** ***differentiation*****,** and ***positioning***.

Market Segmentation

Market segmentation is the process of dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviors and who might require separate products or marketing programs.

Every market has segments, but not all ways of segmenting a market are equally useful.

A **market segment** consists of consumers who respond in a similar way to a given set of marketing efforts.

Market Targeting

Market targeting involves evaluating each market segment's attractiveness and selecting one or more segments to enter.

A company with limited resources might serve only a few "market niches."

Market niches are segments that major competitors overlook or ignore.

Most companies enter a new market by serving a single segment. If this proves successful, they add segments.

Market Differentiation and Positioning

Product ***position*** is the place the product occupies relative to competitors in consumers' minds.

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

Positioning begins with **differentiation**—*differentiating* the company's market offering so that it gives consumers more value.

Developing an Integrated Marketing Mix

The **marketing mix** is the set of controllable, tactical marketing tools that the firm blends to produce the response it wants in the target market.

The marketing mix consists of the "four *P*s": ***product*, *price*, *place***, and ***promotion***.

- ***Product:*** the goods-and-services combination the company offers to the target market.
- ***Price:*** the amount of money customers have to pay to obtain the product.
- ***Place:*** the company activities that make the product available to target consumers.
- ***Promotion:*** the activities that communicate the merits of the product.

From the buyer's viewpoint, the four Ps might be better described as the four As:

- ***Product = Acceptability***
- ***Price = Affordability***
- ***Place = Accessibility***
- ***Promotion = Awareness***

Acceptability: extent to which the product exceeds customer expectations
Affordability: extent to which customers are willing and able to pay the product's price *Accessibility*: extent to which customers can readily acquire the product
A*wareness*: extent to which customers are informed.

2.3 MANAGING THE MARKETING EFFORT

Managing the marketing process requires the four marketing management functions of ***analysis, planning*, *implementation***, and ***control***.

Marketing Analysis

Analysis should be performed to understand the markets and marketing environment the company faces.

SWOT analysis is used to evaluate the company's strengths (S), weaknesses (W), opportunities (O), and threats (T).

- Strengths include capabilities, resources, and positive situational factors.
- Weaknesses include negative internal factors and negative situational factors.
- Opportunities are favorable external factors.
- Threats are unfavorable external factors.

Marketing Planning

A detailed marketing plan has to be developed for each business, product, or brand.

Marketing Implementation

Marketing implementation turns ***plans*** into ***actions***.

Implementation addresses the ***who, where, when,*** and ***how***.

Marketing Department Organization

The marketing organization must be designed so it can carry out the strategies/plans that are developed.

In small companies, one person may perform all the marketing functions. In large companies, many specialists are found. Many companies have now created the ***Chief Marketing Officer (CMO)*** position.

The ***functional*** organization is the most common form. This organizational form has the different activities headed by a functional specialist, such as sales, advertising, marketing research, etc.

A ***geographic*** organization might be utilized in a company that sells nationally or internationally.

A ***product management*** organization can be found in companies with many different products or brands.

A ***market*** or ***customer management*** organization is used in companies that sell one product to many different kinds of markets and customers.

Very large companies might utilize a ***combination*** of all these forms.

Marketing Control

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

The control process includes the following:

- ***Operating control*** checks the ongoing performance of the marketing programs against the annual plan.
- ***Strategic control*** looks at whether the company's basic strategies are matched to its opportunities.

SELF CHECK

2-1. Define *strategic planning* and briefly describe the four steps that lead managers and the firm through the strategic planning process. Discuss the role marketing plays in this process.

2-2. Describe how a company's mission statement and objectives affects the way management plans its business portfolio. (AACSB: Communication; Reflective Thinking)

2-3. Define each of the four Ps. What insights might a firm gain by considering the four Ps?

2-4. How are marketing departments organized? Which organization is best?

2-5. Why must marketers practice marketing control, and how is it done?

Points to Ponder/Takeaways

Marketing managers must ensure that their marketing dollars are being well spent.

Return on marketing investment (or ***marketing ROI***) is the net return from a marketing investment divided by the costs of the marketing investment.

Marketing ROI measures the profits generated by investments in marketing activities.

A company can assess return on marketing in terms of standard marketing performance measures, such as brand awareness, sales, or market share.

Marketing dashboards—meaningful sets of marketing performance measures in a single display used to monitor strategic marketing performance.

Marketers are using customer-centered measures of marketing impact, such as customer acquisition, customer retention, and customer lifetime value.

References

Kotler, P., Armstrong, G. (2020). Marketing: An Introduction. New Jersey: Pearson/Prentice Hall.

Topic 3 Analyzing Marketing Environment

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

1. Describe the environmental forces that affect the company's ability to serve its customers.
2. Explain how changes in the demographic and economic environments affect marketing decisions.
3. Identify the major trends in the firm's natural and technological environments.
4. Explain the key changes in the political and cultural environments.
5. Discuss how companies can react to the marketing environment.

► INTRODUCTION

This chapter shows that marketing does not operate in a vacuum but rather in a complex and changing environment.

Other actors in this environment—suppliers, intermediaries, customers, competitors, publics, and others—may work with or against the company.

Major environmental forces—demographic, economic, natural, technological, political, and cultural—shape marketing opportunities, pose threats, and affect the company's ability to serve customers and develop lasting relationships with them.

To understand marketing, and to develop effective marketing strategies, you must first understand the environment in which marketing operates.

A company’s marketing environment consists of the actors and forces outside marketing that affect marketing management’s ability to build and maintain successful relationships with target customers.

The microenvironment consists of the actors close to the company that affect its ability to service its customers.

The macroenvironment consists of larger societal forces that affect the microenvironment.

3.1 THE MICROENVIRONMENT

Marketing management’s job is to build relationships with customers by creating customer value and satisfaction.

The Company

All the interrelated groups form the internal environment.

All groups should work in harmony to provide superior customer value and relationships.

Suppliers

Suppliers provide the resources needed by the company to produce its goods and services.

Marketing managers must watch supply availability—supply shortages or delays, labor strikes, and other events can cost sales in the short run and damage customer satisfaction in the long run.

Marketing managers monitor the price trends of their key inputs.

Marketing Intermediaries

Marketing intermediaries help the company to promote, sell, and distribute its products to final buyers.

- ***Resellers*** are distribution channel firms that help the company find customers or make sales to them. These include wholesalers and retailers.
- ***Physical distribution firms*** help the company to stock and move goods from their points of origin to their destinations.
- ***Marketing services agencies*** are the marketing research firms, advertising agencies, media firms, and marketing consulting firms that help the company target and promote its products to the right markets.

- ***Financial intermediaries*** include banks, credit companies, insurance companies, and other businesses that help finance transactions or insure against the risks associated with the buying and selling of goods.

Marketers recognize the importance of working with their intermediaries as partners rather than simply as channels through which they sell their products.

Competitors

Marketers must gain strategic advantage by positioning their offerings strongly against competitors' offerings in the minds of consumers.

No single competitive marketing strategy is best for all companies.

Publics

A **public** is any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives.

Financial publics influence the company's ability to obtain funds.

Media publics carry news, features, and editorial opinions.

Government publics. Management must take government developments into account.

Citizen-action publics. A company's marketing decisions may be questioned by consumer organizations, environmental groups, etc.

Local publics include neighborhood residents and community organizations.

General public. The general public's image of the company affects its buying.

Internal publics include workers, managers, volunteers, and the board of directors.

Customers

Five types of customer markets:

1. *Consumer markets:* individuals and households that buy goods and services for personal consumption.

2. *Business markets* buy goods and services for further processing or for use in their production process.

3. *Reseller markets* buy goods and services to resell at a profit.

4. *Government markets* consist of government agencies that buy goods and services to produce public services.

5. *International markets:* buyers in other countries, including consumers, producers, resellers, and governments.

3.2 THE MACROENVIRONMENT

Demographic Environment

Demography is the study of human populations in terms of size, density, location, age, gender, race, occupation, and other statistics.

Changes in the world demographic environment have major implications for business.

Thus, marketers keep close track of demographic trends and developments in their markets, both at home and abroad.

Changing Age Structure of the Population

The U.S. population stands at nearly 321 million and may reach almost 364 million by the year 2030.

The single most important demographic trend in the United States is the changing age structure of the population.

Baby Boomers

The post-World War II baby boom produced 78 million **baby boomers**, born between 1946 and 1964.

Baby boomers account for nearly 35 percent of the population, account for almost 50 percent of total consumer spending, and hold 70 percent of the nation's disposable income.

Generation X

The baby boom was followed by a "birth dearth," creating another generation of 49 million people born between 1965 and 1976.

Author Douglas Coupland calls them **Generation X.**

Increasing parental divorce rates and higher employment for their mothers made them the first generation of latchkey kids.

They developed a more cautious economic outlook.

The GenXers are a more skeptical bunch.

Millennials (also called Generation Y or the echo boomers)

Born between 1977 and 2000, these children of the baby boomers number 83 million.

They don't just embrace technology; it's a way of life.

For them, technology is not something separate; it's just something they do.

They engage with brands in an entirely new way, such as with mobile or social media. More than sales pitches from marketers, Millennials seek authenticity and opportunities to shape their own brand experiences and share them with others.

Generation Z

Born after the year 2000.

In the U.S., Gen Zers consist of 72 million girls and boys (kids, tweens and teens) who spend an estimated $344 billion annually of their own money and influence another $200 billion of their parents' spending.

They have an utter fluency and comfort with digital technologies – even more so than Millennials.

More than half of all Generation Z tweens and teens do product research before buying a product or having their parents buy it for them.

Generational Marketing

Defining people by their birth date may be less effective than segmenting them by their lifestyle, life stage, or the commons values they seek in the products they buy.

The Changing American Family

The "traditional household" consists of a husband, wife, and children (and sometimes grandparents).

In the U.S.:

- Married couples with children under 18 make up 19 percent of the households;
- Married couples without children make up 23 percent;
- Single parents comprise 14 percent.
- Nonfamily households make up 34 percent.

Both husband and wife work in 60 percent of all married-couple families.

Geographic Shifts in Population

About 12 percent of all U.S. residents move each year.

The U.S. population has shifted toward the Sunbelt states.

Americans have been moving from rural to metropolitan areas.

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

The U.S. population is becoming better educated.

In 2012, 88 percent of the U.S. population over age 25 had completed high school and 32 percent had completed college.

Between 2010 and 2020, of 30 detailed occupations projected to have the fastest employment growth, 17 require some type of postsecondary education.

Increasing Diversity

The United States has become more of a "salad bowl" in which various groups have mixed together but have maintained their diversity by retaining important ethnic and cultural differences.

The U.S. population is about 62 percent white, 17 percent Hispanic, and 13 percent African American.

The Asian American population now totals about 5 percent of the population.

By 2060, Hispanics will comprise an estimated 28 percent of the U.S. population.

Many companies have begun to target gay and lesbian consumers.

Another attractive segment is the nearly 57 million adults with disabilities.

The Economic Environment

The **economic environment** consists of factors that affect consumer purchasing power and spending patterns.

Changes in Consumer Spending

In recent years, American consumers spent freely, fueled by income growth, a boom in the stock market, and rapid increases in housing values.

However, the global economic crisis has dashed this free-spending attitude. As a result, consumers who overindulged in the past have now adopted a ‘back-to-basics’ frugality.

Value marketing—just the right combination of product quality and service at a fair price.

Income Distribution

Income distribution in the United States is very skewed.

The top 5 percent of Americans earn 22 percent of the country’s adjusted gross income, and the top 20 percent of earners capture 51 percent of all income.

In contrast, the bottom 40 percent of American earners receive just 11.5 percent of the total income.

Natural Environment

The **natural environment** involves the natural resources that are needed as inputs by marketers or that are affected by marketing activities.

Trends in the natural environment:

1. *Shortages of raw materials*.
2. *Increased pollution*.
3. *Increased government intervention*.

Companies are developing *environmentally sustainable* strategies.

The Technological Environment

The **technological environment** is the most dramatic force now shaping our destiny.

Technology has released such wonders as antibiotics, robotic surgery, miniaturized electronics, laptop computers, and the Internet.

New technologies create new markets and opportunities; however, every new technology replaces an old technology.

Political and Social Environment

The political environment consists of laws, government agencies, and pressure groups that influence or limit various organizations and individuals in a given society.

Legislation Regulating Business

Governments develop ***public policy*** to guide commerce.

Legislation affecting business around the world has increased steadily over the years.

Business legislation has been enacted for a number of reasons.

1. To *protect companies* from each other.
2. To *protect consumers* from unfair business practices.
3. To *protect the interests of society* against unrestrained business behavior.

Because government agencies have discretion in enforcing laws, they can have an impact on a company's marketing performance.

Increased Emphasis on Ethics and Socially Responsible Actions

Socially Responsible Behavior*.* Enlightened companies encourage their managers to "do the right thing."

The boom in online, mobile, and social media marketing has created a new set of social and ethical issues.

Cause-Related Marketing*.* Many companies are now linking themselves to worthwhile causes.

Cause-related marketing has stirred some controversy.

Cultural Environment

The **cultural environment** is made up of institutions and other forces that affect a society's basic values, perceptions, preferences, and behaviors.

Persistence of Cultural Values

Core beliefs and values are passed on from parents to children and are reinforced by schools, churches, businesses, and government.

Secondary beliefs and values are more open to change.

Shifts in Secondary Cultural Values

Marketers want to predict cultural shifts in order to spot new opportunities or threats.

People's Views of Themselves

People vary in their emphasis on serving themselves versus serving others.

People use products, brands, and services as a means of self-expression.

People's Views of Others

Shifts in people's attitudes toward and interactions with others have been noted.

Trend trackers see "mass mingling"—people are using online social media and mobile communications to connect more than ever.

People's Views of Organizations

People are willing to work for major organizations and expect them to carry out society's work.

Many people see work as a required chore to earn money to enjoy their non-work hours.

People's Views of Society

People vary in their attitudes toward their society.

People's Views of Nature

Recently, people have recognized that nature is finite and fragile, that it can be destroyed by human activities.

The U.S. organic-food market generated $53.5 billion in sales last year, more than doubling over the last five years.

People's Views of the Universe
Religious conviction and practice have been dropping off gradually through the years.
33 percent of Americans (between 18 and 29 years of age) say they are not affiliated with any particular faith.

SELF CHECK

3-1. Name and describe the types of publics in a company's marketing environment.

3-2. Who are the Millennials, and why are they of so much interest to marketers?

3-3. Describe Generation Z. What differentiates it from other demographic groups, such as baby boomers, Generation X, and Millennials?

3-4. Compare and contrast core beliefs/values and secondary beliefs/values. Provide an example of each and discuss the potential impact marketers have on each.

Points to Ponder/Takeaways

Many companies think the marketing environment is an uncontrollable element to which they have to adapt.

Other companies take a ***proactive*** rather than ***reactive*** approach to the marketing environment.

References

Kotler, P., Armstrong, G. (2020). Marketing: An Introduction. New Jersey: Pearson/Prentice Hall.

Topic 4 Managing Marketing Information To Gain Customer Insights

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

1. Explain the importance of information in gaining insights about the marketplace and customers.
2. Define the marketing information system and discuss its parts.
3. Outline the steps in the marketing research process.
4. Explain how companies analyze and use marketing information.
5. Discuss the special issues some marketing researchers face, including public policy and ethics issues.

► INTRODUCTION

This chapter looks at how companies develop and manage information about important marketplace elements.

This chapter is an examination of marketing information systems designed to assess the firm's marketing information needs, develop the needed information, and help managers to use the information to gain actionable customer and market insights.

4.1 MARKETING INFORMATION AND CUSTOMER INSIGHTS

Companies use such customer insights to develop competitive advantage.

To gain good customer insights, marketers must effectively manage marketing information from a wide range of sources.

Marketing Information and Today's "Big Data"

With the recent explosion of information technologies, companies can now generate and find marketing information in great quantities.

Far from lacking information, most marketing managers are overloaded with data and often overwhelmed by it. This problem is summed up in the concept of **big data.**

Big data refers to the huge and complex data sets generated by today's sophisticated information generation, collection, storage, and analysis technologies.

Managing Marketing Information

The real value of marketing research and marketing information lies in how it is used—in the **customer insights** that it provides.

A **marketing information system (MIS)** consists of people and procedures for assessing information needs, developing the needed information, and helping decision makers to use the information to generate and validate actionable customer and market insights.

4.2 ASSESSING MARKETING INFORMATION NEEDS

A good marketing information system balances the information users would *like* to have against what they really *need* and what is *feasible* to offer.

Sometimes the company cannot provide the needed information, either because it is not available or because of MIS limitations.

By itself, information has no worth; its value comes from its *use*.

4.3 DEVELOPING MARKETING INFORMATION

Marketers can obtain the needed information from *internal data*, *marketing intelligence*, and *marketing research*.

Internal Data

Internal databases are electronic collections of consumer and market information obtained from data sources within the company network.

Information in the database can come from many sources.

Problems with internal data:

- It may be incomplete or in the wrong form for making marketing decisions.
- Keeping the database current requires a major effort because data ages quickly.
- All the data must be well integrated and readily accessible.

Competitive Marketing Intelligence

Competitive marketing intelligence is the systematic collection and analysis of publicly available information about consumers, competitors, and developments in the marketplace.

Marketing intelligence gathering has grown dramatically.

Firms use competitive intelligence to gain early warnings of competitor moves and strategies.

Much competitor intelligence can be collected from people inside the company.

Competitors often reveal intelligence information through their annual reports, business publications, trade show exhibits, press releases, advertisements, and Web pages.

Most companies are now taking steps to protect their own information.

The growing use of marketing intelligence raises a number of ethical issues.

4.4 MARKETING RESEARCH

Marketing research is the systematic design, collection, analysis, and reporting of data relevant to a specific marketing situation facing an organization.

1. Defining the Problem and Research Objectives

Defining the problem and research objectives is often the hardest step in the research process.

A marketing research project might have one of three types of objectives.

1. **Exploratory research:** to gather preliminary information that will help define the problem and suggest hypotheses.
2. **Descriptive research:** to describe things, such as the market potential for a product.
3. **Causal research:** to test hypotheses about cause-and-effect relationships.

Start with exploratory research and later follow with descriptive or causal research.

2. Developing the Research Plan

The research plan outlines sources of existing data and spells out the specific research approaches, contact methods, sampling plans, and instruments that researchers will use to gather new data.

Research objectives must be translated into specific information needs.

The research plan should be presented in a *written proposal*.

Secondary data consist of information that already exists somewhere, having been collected for another purpose.

Primary data consist of information collected for the specific purpose at hand.

Gathering Secondary Data

Researchers usually start by gathering secondary data.

Using *commercial online databases*, marketing researchers can conduct their own searches of secondary data sources.

Internet search engines can also be a big help in locating relevant secondary information sources.

Secondary data can usually be obtained more quickly and at a lower cost than primary data.

Secondary sources can sometimes provide data an individual company cannot collect on its own.

Secondary data can present problems.

- The needed information may not exist.
- The data might not be very usable unless it is:
    - *relevant* (fits research project needs),
    - *accurate* (reliably collected and reported),
    - *current* (up-to-date enough for current decisions), and
    - *impartial* (objectively collected and reported).

Primary Data Collection

In most cases, a company must also collect primary data. Care must be given to making certain the primary data is relevant, accurate, current, and unbiased.

Research Approaches

Observational Research involves gathering primary data by observing relevant people, actions, and situations.

Observational research can obtain information that people are unwilling or unable to provide.

Disadvantages:

- Some things cannot be observed.
- Long-term or infrequent behavior is also difficult to observe.
- Observations can be very difficult to interpret.

Ethnographic research involves sending trained observers to watch and interact with consumers in their "natural habitat."

Ethnographic research often yields the kinds of details that just don't emerge from traditional research questionnaires or focus groups.

Survey research, the most widely used method for primary data collection, is the approach best suited for gathering ***descriptive*** information.

The major advantage of survey research is its flexibility.

Disadvantages:

- Sometimes people are unable to answer survey questions.

- People may be unwilling to respond to unknown interviewers or about things they consider private.
- Respondents may answer survey questions even when they do not know the answer.
- People may not take the time, or they might resent the intrusion into their privacy.

Experimental Research is best suited for gathering ***causal*** information.

Contact Methods

Mail, Telephone, and Personal Interviewing

Mail questionnaires can be used to collect large amounts of information at a low cost per respondent.

Respondents give more honest answers to more personal questions.

No interviewer is involved to bias the respondent's answers.

Disadvantages:

- Not very flexible
- Take longer to complete
- The response rate is very low.
- The researcher often has little control over the mail questionnaire sample.

Telephone interviewing is one of the best methods for gathering information quickly, and it provides greater flexibility than mail questionnaires.

Interviewers can explain difficult questions.

Response rates are higher than with mail questionnaires.

Disadvantages:

- Cost per respondent is higher than with mail questionnaires.
- People may not want to discuss personal questions with an interviewer.
- Introduces interviewer bias

- Different interviewers may interpret and record responses differently.
- Increasingly high rates of hang-ups

Personal interviewing takes two forms—individual and group interviewing.

- *Individual interviewing* involves talking with people one-on-one.
- *Group interviewing* (**focus group interviewing)** consists of inviting six to ten people to meet with a trained moderator to talk about a product, service, or organization.

Online Marketing Research

Increasingly, researchers are collecting primary data through **online marketing research.**

The Internet is especially well suited for *quantitative* research.

More than 87 percent of Americans now use the Internet.

Web-based research offers many advantages over more traditional approaches:

- Speed
- Low costs
- More interactive and engaging
- Easier to complete
- Less intrusive

Sample size has little impact on costs.

The primary qualitative Web-based research approach is **online focus groups.**

Disadvantages:

- Restricted Internet access can make it difficult to get a broad cross section of respondents.
- Controlling who's in the online sample is difficult.
- Consumer privacy is a major issue.

Online Behavioral and Social Tracking and Targeting

Increasingly, online researchers are listening to and watching consumers by actively mining the rich veins of unsolicited, unstructured, “bottom-up” customer information already available on the Internet.

Behavioral targeting is the practice of marketers using online data to target ads and offers to specific consumers.

Sampling Plan

A **sample** is a segment of the population selected for marketing research to represent the population as a whole.

Designing the sample requires three decisions.

1. *Who* is to be surveyed (what *sampling unit*)?
2. *How many* people should be surveyed (what *sample size*)?
3. *How* should the people in the sample be *chosen* (what *sampling procedure*)?

The two types of samples are:

- *probability samples* and
- *nonprobability samples*.

Research Instruments

The ***questionnaire*** is the most common data collection instrument.

Closed-end questions include all the possible answers, and subjects make choices among them.

Open-end questions allow respondents to answer in their own words.

Care should be given to the *wording* and *ordering* of questions.

Researchers also use ***mechanical instruments*** to monitor consumer behavior. Checkout scanners are an example.

3. Implementing the Research Plan

This stage involves collecting, processing, and analyzing the information.

Researchers must process and analyze the collected data to isolate important information and findings.

4. Interpreting and Reporting the Findings

Researchers should present important findings and insights that are useful in the major decisions faced by management.

4.5 ANALYZING AND USING MARKETING INFORMATION

Customer Relationship Management (CRM)

Companies capture information at every possible customer ***touch point*.**

Customer relationship management (CRM) is used to manage detailed information about individual customers and carefully manage customer touch points in order to maximize customer loyalty.

CRM integrates everything that a company knows about individual customers to provide a 360-degree view of the customer relationship.

Big Data and Marketing Analytics

Today's big data can yield big results. But simply collecting and storing huge amounts of data has little value. Marketers must sift through the mountains of data to mine the gems—the bits that yield customer insights.

As one marketing executive puts it, "It's actually [about getting] *big insights* from big data. It's throwing away 99.999 percent of that data to find things that are actionable."

Says another data expert, "*right* data trumps *big* data." That's the job of *marketing analytics*.

Marketing analytics consists of the analysis tools, technologies, and processes by which marketers dig out meaningful patterns in big data to gain customer insights and gauge marketing performance.

The most common mistake is to view CRM and marketing analytics as technology processes only.

Distributing and Using Marketing Information

The marketing information system must make the information available to managers and others who make marketing decisions or deal with customers.

Many companies use an ***intranet*** to facilitate information distribution. The intranet provides ready access to data, stored reports, and so forth.

Companies are increasingly allowing key customers and value-network members to access account and product information, along with other information. The systems that do this are called ***extranets***.

4.6 OTHER MARKETING INFORMATION CONSIDERATIONS

Marketing Research in Small Businesses and Nonprofit Organizations

Managers of small businesses and nonprofit organizations can obtain marketing insights by ***observing*** things around them.

Managers can conduct *informal surveys* using small convenience samples.

Small businesses can collect a considerable amount of information at very little cost online.

International Marketing Research

International marketing researchers follow the same steps as domestic researchers.

The international researcher may have a difficult time finding good secondary data.

International researchers often must collect their own primary data.

Reaching respondents is often not easy in other parts of the world.

Cultural differences from country to country cause additional problems for international researchers.

Language is the most obvious obstacle.

Even when respondents are *willing* to respond, they may not be *able* to because of high functional illiteracy rates.

Public Policy and Ethics in Marketing Research

Intrusions on Consumer Privacy

Many consumers strongly resent or even mistrust marketing research.

Increasing consumer resentment has led to lower survey response rates in recent years.

The best approach is for researchers to ask only for the information they need, to use it responsibly to provide customer value, and to avoid sharing information without the customer's permission.

Misuse of Research Findings

Many research studies appear to be little more than vehicles for pitching the sponsor's products.

Several associations have developed codes of research ethics and standards of conduct.

SELF CHECK

4-1. What is *big data,* and what opportunities and challenges does it provide for marketers?

4-2. What is a marketing information system (MIS), and what characteristics should it possess?

4-3. Are ethnographic studies carried out in your country or region? If so, find and discuss an example of this type of research.

Points to Ponder/Takeaways

Marketing information is important to managers in capturing insights of customer behavior. As such, they able to introduce the marketing strategies that deemed fit to customers.

References

Kotler, P., Armstrong, G. (2020). Marketing: An Introduction. New Jersey: Pearson/Prentice Hall.

Customer Buyer Behaviour

Topic 5

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

1. Understand the consumer market and the major factors that influence consumer buyer behavior.
2. Identify and discuss the stages in the buyer decision process.
3. Describe the adoption and diffusion process for new products.
4. Define the business market and identify the major factors that influence business buyer behavior.
5. List and define the steps in the business buying decision process.

► INTRODUCTION

Consumer buyer behavior refers to the buying behavior of final consumers—individuals and households who buy goods and services for personal consumption. All of these consumers combine to make up the **consumer market**. The American consumer market consists of more than 320 million people.

5.1 CONSUMER MARKETS AND CONSUMER BUYER BEHAVIOR

Model of Consumer Behavior

The central question for marketers is: How do consumers respond to various marketing efforts the company might use? Marketing stimuli consist of the Four Ps. Other stimuli include major forces and events in the buyer's environment: economic, technological, political, and cultural. The marketer wants to understand how the stimuli are changed into responses inside the consumer's black box, which has two parts.

1. The buyer's characteristics influence how he or she perceives and reacts to the stimuli.

2. The buyer's decision process itself affects the buyer's behavior.

Characteristics Affecting Consumer Behavior

Cultural Factors

Culture is the most basic cause of a person's wants and behavior. Marketers are always trying to spot *cultural shifts.* **Subcultures** are groups of people with shared value systems based on common life experiences and situations. The ***African American*** market is growing in affluence and sophistication. The U.S. ***Hispanic market*** consists of more than 55 million consumers. ***Asian Americans*** are the most affluent U.S. demographic segment. By targeting segments such as Hispanics, African Americans, and Asian Americans with specially tailored efforts, marketers now embrace a **total marketing strategy**—the practice of including ethnic themes and cross-cultural perspectives within their mainstream marketing.

Social classes are society's relatively permanent and ordered divisions whose members share similar values, interests, and behaviors. Social class is not determined by a single factor but is measured as a combination of occupation, income, education, wealth, and other variables.

Social Factors

Groups and Social Networks. A person's behavior is influenced by many small **groups**. **Word-of-mouth influence** is the impact of the personal words and recommendations of trusted friends, associates, and other consumers on buying behavior. **Opinion leaders** are people within a reference group who, because of special skills, knowledge, personality, or other characteristics, exert social influence on others. This group is also called the ***influentials*** or ***leading adopters***. ***Buzz marketing*** involves enlisting or creating opinion leaders to serve as "brand ambassadors" who spread the word about a company's products. **Online social networks** are online communities where people socialize or exchange information and opinions. **Family** is the most important consumer buying organization in society. Husband-wife involvement varies widely by product category and by stage in the buying process. More than 50 percent of men grocery shop regularly. Women outspend men on new technology purchases, and they influence 80 percent of all car purchases. The nation's kids and tweens influence up to 80 percent of all household purchases. **Roles and Status.** A role consists of the activities people are expected to perform. Each role carries a status reflecting the general esteem given to it by society.

Personal Factors

Occupation. A person's occupation affects the goods and services bought.

Age and Life Stage. People change the goods and services they buy over their lifetimes. Tastes in food, clothes, furniture, and recreation are often age related.

Economic Situation. A person's economic situation will affect product choice.

Lifestyle is a person's pattern of living as expressed in his or her psychographics.

AIO dimensions are activities (work, hobbies, shopping, sports, social events), interests (food, fashion, family, recreation), and opinions (about themselves, social issues, business, products).

Personality and Self-Concept.

Personality refers to the unique psychological characteristics that lead to relatively consistent and lasting responses to one's own environment.

A ***brand personality*** is the specific mix of human traits that may be attributed to a particular brand. One researcher identified five brand personality traits:

Sincerity (down-to-earth, honest, wholesome, and cheerful)

Excitement (daring, spirited, imaginative, and up-to-date)

Competence (reliable, intelligent, and successful)

Sophistication (upper class and charming)

Ruggedness (outdoorsy and tough)

The basic ***self-concept*** **(*self-image)*** premise is that people's possessions contribute to and reflect their identities; that is, "we are what we have."

Psychological Factors

Motivation.

A **motive** (or drive) is a need that is sufficiently pressing to direct the person to seek satisfaction.

Freud suggests that a person's buying decisions are affected by subconscious motives that even the buyer may not fully understand.

Motivation research refers to qualitative research designed to probe consumers' hidden, subconscious motivations.

Many marketers are using *interpretive consumer research* to dig deeper into consumer psyches and develop better marketing strategies.

Perception is the process by which people select, organize, and interpret information to form a meaningful picture of the world.

Selective attention is the tendency for people to screen out most of the information to which they are exposed.

Selective distortion describes the tendency of people to interpret information in a way that will support what they already believe.

Selective retention is the retaining of information that supports their attitudes and beliefs.

Subliminal advertising refers to marketing messages received without consumers knowing it. Studies find no link between subliminal messages and consumer behavior.

Learning describes changes in an individual's behavior arising from experience.

A ***drive*** is a strong internal stimulus that calls for action.

A drive becomes a **motive** when it is directed toward a particular ***stimulus object***.

Cues are minor stimuli that determine when, where, and how the person responds.

Beliefs and Attitudes.

A ***belief*** is a descriptive thought that a person has about something.

Attitude describes a person's relatively consistent evaluations, feelings, and tendencies toward an object or idea.

The Buyer Decision Process

The buyer decision process consists of five stages:

1. *need recognition*,
2. *information search*,

3. *evaluation of alternatives*,
4. *purchase decision*, and
5. *postpurchase behavior*.

Need Recognition

The buyer recognizes a problem or need.

The need can be triggered by either an:

- *internal stimuli* or
- *external stimuli*.

Information Search

Information search may or may not occur.

Consumers can obtain information from any of several sources.

- *Personal sources* (family, friends, neighbors, acquaintances),
- *Commercial sources* (advertising, salespeople, dealer Web sites, packaging, displays),
- *Public sources* (mass media, consumer-rating organizations, Internet searches), and
- *Experiential sources* (handling, examining, using the product).

Commercial sources ***inform*** the buyer.

Personal sources ***legitimize*** or ***evaluate*** products for the buyer.

Evaluation of Alternatives

Alternative evaluation: how the consumer processes information to arrive at brand choices.

How consumers go about evaluating purchase alternatives depends on the individual consumer and the specific buying situation.

In some cases, consumers use careful calculations and logical thinking.

At other times, the same consumers do little or no evaluating; instead they buy on impulse and rely on intuition.

Purchase Decision

Generally, the consumer's **purchase decision** will be to buy the most preferred brand.

Two factors can come between the purchase ***intention*** and the purchase ***decision***.

1. *Attitudes of others*
2. *Unexpected situational factors*

Postpurchase Behavior

Consumer satisfaction is determined by the difference between the consumer's expectations and the perceived performance of the good purchased.

If the product falls short of expectations, the consumer is disappointed; if it meets expectations, the consumer is satisfied; if it exceeds expectations, the consumer is said to be delighted.

Cognitive dissonance, or discomfort caused by postpurchase conflict, occurs in most major purchases.

5.2 THE BUYER DECISION PROCESS FOR NEW PRODUCTS

A **new product** is a good, service, or idea that is perceived by some potential customers as new.

The **adoption process** is the mental process through which an individual passes from first learning about an innovation to final adoption.

Adoption is the decision by an individual to become a regular user of the product.

Stages in the Adoption Process

Consumers go through five stages in the process of adopting a new product:

Awareness: The consumer becomes aware of the new product but lacks information about it.

Interest: The consumer seeks information about the new product.

Evaluation: The consumer considers whether trying the new product makes sense.

Trial: The consumer tries the new product on a small scale to improve his or her estimate of its value.

Adoption: The consumer decides to make full and regular use of the new product.

Individual Differences in Innovativeness

People differ greatly in their readiness to try new products.

The five adopter groups have differing values.

1. *Innovators* are venturesome—they try new ideas at some risk.
2. *Early adopters* are guided by respect—they are opinion leaders in their communities and adopt new ideas early but carefully.
3. *Early mainstream adopters* are deliberate—although they rarely are leaders, they adopt new ideas before the average person.
4. *Late mainstream adopters* are skeptical—they adopt an innovation only after a majority of people have tried it.
5. *Lagging adopters* are tradition bound—they are suspicious of changes and adopt the innovation only when it has become something of a tradition itself.

Influence of Product Characteristics on Rate of Adoption

Five characteristics are important in influencing an innovation's rate of adoption.

Relative advantage: the degree to which the innovation appears superior to existing products.

Compatibility: the degree to which the innovation fits the values and experiences of potential consumers.

Complexity: the degree to which the innovation is difficult to understand or use.

Divisibility: the degree to which the innovation may be tried on a limited basis.

Communicability: the degree to which the results of using the innovation can be observed or described to others.

5.3 BUSINESS MARKETS AND BUSINESS BUYER BEHAVIOR

Business buyer behavior refers to the buying behavior of the organizations that buy goods and services for use in the production of other products and services that are sold, rented, or supplied to others.

In the ***business buying process,*** business buyers determine which products and services their organizations need to purchase, and then find, evaluate, and choose among alternative suppliers and brands.

Business-to-business (B-to-B) marketers must do their best to understand business markets and business buyer behavior.

Business Markets

Business markets involve far more dollars and items than do consumer markets.

The main differences between business markets and consumer markets relate to the following:

- *market structure and demand*
- *nature of the buying unit*
- *the types of decisions and the decision process involved*

1. Market Structure and Demand

Many business markets have ***inelastic demand*****;** that is, total demand for many business products is not affected much by price changes.

Business markets have more ***fluctuating demand*****.**

The business marketer normally deals with ***far fewer but far larger buyers*** than the consumer marketer does.

Business demand is **derived demand**—it ultimately derives from the demand for consumer goods.

2. Nature of the Buying Unit

Business purchases usually involve ***more decision participants*** and a ***more professional purchasing effort***.

3. Types of Decisions and the Decision Process

Business buyers usually face ***more complex*** buying decisions than do consumer buyers.

The business buying process tends to be ***more formalized***.

The buyer and seller are often much ***more dependent*** on each other.

Supplier development involves systematically developing networks of supplier-partners to ensure an appropriate and dependable supply of products and materials that they will use in making their own products or resell to others.

Business Buyer Behavior

Within the organization, buying activity consists of two major parts:

1. The buying center and
2. The buying decision process.

Major Types of Buying Situations

Straight rebuy: the buyer reorders something without any modifications.

Modified rebuy: the buyer wants to modify product specifications, prices, terms, or suppliers.

New-task buy: the company is buying a product or service for the first time.

Systems selling (solutions selling) is often a key business marketing strategy because many business buyers prefer to buy a packaged solution to a problem from a single seller.

In this situation, a buyer may ask sellers to supply the components and assemble the package or system.

Participants in the Business Buying Process

A **buying center** consists of all the individuals and units that play a role in the business purchase decision-making process.

The buying center is not a fixed and formally identified unit within the buying organization.

Major Influences on Business Buyers

Most B-to-B marketers recognize that emotion plays an important role in business buying decisions.

When suppliers' offers are very similar, buyers can allow personal factors to play a role in their decisions.

However, when competing products differ greatly, business buyers tend to pay more attention to economic factors.

Environmental factors include the current and expected economic environment, as well as shortages of key materials.

Technological, political, and competitive developments can also affect business buyers.

Culture and customs can also influence buyer reactions to the marketer's behavior and strategies.

Organizational factors are important because each buying organization has its own objectives, policies, procedures, structure, and systems.

Interpersonal factors influence the business buying process. These can be very difficult to ascertain.

Individual factors are involved as well. Each participant in the business buying process brings in personal motives, perceptions, and preferences.

Individual factors are, in turn, influenced by personal characteristics such as age, income, education, professional identification, personality, and attitudes toward risk.

1. **Problem recognition**: The buying process begins when someone in the company recognizes a problem or need that can be met by acquiring a specific product or service.

2. A **general need description** is generated to describe the characteristics and quantity needed of an item.

3. The **product specification** includes the technical product specifications. ***Product value analysis*** is an approach to cost reduction in which components are studied carefully to determine if they can be redesigned, standardized, or made by less costly methods of production.

4. A **supplier search** is conducted to find the best vendors. The newer the buying task, and the more complex and costly the item, the greater the amount of time the buyer will spend searching for suppliers.

5. The **proposal solicitation** is the stage in which the buyer invites qualified suppliers to submit proposals.

6. **Supplier selection** occurs after the buying center reviews the proposals.

7. An **order-routine specification** includes the final order with the chosen supplier or suppliers. Many large buyers now practice *vendor-managed inventory*, in which they turn over ordering and inventory responsibilities to their suppliers.

8. Buyers conduct a **performance review**. This review may lead the buyer to continue, modify, or drop the arrangement with the seller.

Engaging Business Buyers with Digital and Social Marketing

E-Procurement and Online Purchasing

Online purchasing (**e-procurement**) has grown rapidly in recent years.

Companies can do e-procurement in any of several ways.

- They can conduct *reverse auctions*, in which they put their purchasing requests online and invite suppliers to bid for the business.
- They can use online *trading exchanges,* through which companies work collectively to facilitate the trading process.
- Companies can set up their own *company buying sites.*
- They can create *extranet links* with key suppliers.

Business-to-business e-procurement yields many benefits.

1. t shaves transaction costs and results in more efficient purchasing for both buyers and suppliers.
2. It reduces the time between order and delivery.
3. It frees purchasing people to focus on more-strategic issues.

The use of e-purchasing presents some problems.

1. It can erode decades-old customer-supplier relationships.
2. It can create potential security disasters.

Business-to-Business Digital and Social Media Marketing

Today's B-to-B marketers are now using a wide range of digital and social media marketing approaches.

Digital and social media marketing have rapidly become *the* new space for engaging business customers.

Compared with traditional media and sales approaches, digital and social media can create greater customer engagement and interaction. B-to-B marketers know that they aren't really targeting ***businesses,*** they are targeting ***individuals*** in those businesses who affect buying decisions.

SELF CHECK

5-1. Discuss the stages of the consumer buyer decision process and describe how you or your family used this process to make a purchase.
5-2. Name and describe the stages in the adoption process and discuss the importance of this model for marketers.
5-3. How does the market structure and demand faced by business marketers differ from that faced by consumer marketers?
5-4. Compare and contrast the types of business buying situations.

Points to Ponder/Takeaways

Each phase of customer buying process will provide their responses on products offered. As such, marketers can modify the marketing strategies accordingly.

References

Kotler, P., Armstrong, G. (2020). Marketing: An Introduction. New Jersey: Pearson/Prentice Hall.

Topic 6 Customer Driven Strategy

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

1. Define the major steps in designing a customer-driven marketing strategy: market segmentation, market targeting, differentiation, and positioning.
2. List and discuss the major bases for segmenting consumer and business markets.
3. Explain how companies identify attractive market segments and choose a market-targeting strategy.
4. Discuss how companies differentiate and position their products for maximum competitive advantage.

INTRODUCTION

This chapter looks further into key customer value-driven marketing strategy decisions—how to divide up markets into meaningful customer groups (***segmentation***), choose which customer groups to serve (***targeting***), create market offerings that best serve targeted customers (***differentiation***), and position the offerings in the minds of consumers (***positioning***).

Then, the chapters that follow explore the tactical marketing tools—**the Four Ps**—by which marketers bring these strategies to life.

Market segmentation involves dividing a market into smaller groups of buyers with distinct needs, characteristics, or behaviors that might require separate marketing strategies or mixes.

Market targeting (or **targeting**) consists of evaluating each market segment's attractiveness and selecting one or more market segments to enter.

Differentiation involves actually differentiating the firm's market offering to create superior customer value.

Positioning consists of arranging for a market offering to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.

6.1 MARKET SEGMENTATION

Through market segmentation, companies divide large, heterogeneous markets into smaller segments that can be reached more efficiently and effectively with products and services that match their unique needs.

Segmenting Consumer Markets

Geographic Segmentation

Geographic segmentation calls for dividing the market into different geographical units such as nations, regions, states, counties, cities, or even neighborhoods.

Demographic Segmentation

Demographic segmentation divides the market into groups based on variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race, generation, and nationality.

Demographic factors are the most popular bases for segmenting customer groups.

With **age and life-cycle segmentation,** firms offer different products or use different marketing approaches for different age and life-cycle groups.

Gender segmentation has long been used in clothing, cosmetics, toiletries, and magazines.

Income segmentation has long been used by the marketers of products and services such as automobiles, clothing, cosmetics, financial services, and travel.

Psychographic Segmentation

Psychographic segmentation divides buyers into different groups based on social class, lifestyle, or personality characteristics.

Marketers use ***personality*** variables to segment markets.

Behavioral Segmentation

Behavioral segmentation divides buyers into groups based on their knowledge, attitudes, uses, or responses concerning a product.

Occasion segmentation involves grouping buyers according to occasions when they get the idea to buy, actually make their purchase, or use the purchased item.

Benefit segmentation is grouping buyers according to the different *benefits* that they seek from the product.

User status refers to segmenting markets into nonusers, ex-users, potential users, first-time users, and regular users of a product.

Usage rate involves grouping markets into light, medium, and heavy product users.

Loyalty status is dividing buyers into groups according to their degree of loyalty.

Using Multiple Segmentation Bases

Marketers rarely limit their segmentation analysis to only one or a few variables.

Experian's Mosaic USA system (one of the leading segmentation systems) classifies every American household into one of 71 lifestyle segments and 19 levels of affluence.

Segmenting Business Markets

Consumer and business marketers use many of the same variables to segment their markets.

Business marketers also use some additional variables, such as customer *operating characteristics*, *purchasing approaches*, *situational factors*, and *personal characteristics*.

Segmenting International Markets

Companies can segment international markets using one or a combination of several variables.

- ***Geographic factors:*** Nations close to one another will have many common traits and behaviors.
- ***Economic factors:*** Countries may be grouped by population income levels or by their overall level of economic development.
- ***Political and legal factors:*** Type and stability of government, receptivity to foreign firms, monetary regulations, and the amount of bureaucracy should be considered.

- ***Cultural factors:*** Markets can be grouped according to common languages, religions, values and attitudes, customs, and behavioral patterns.

Intermarket segmentation is segmenting consumers who have similar needs and buying behaviors even though they are located in different countries.

Requirements for Effective Segmentation

To be useful, market segments must be:

Measurable: The size, purchasing power, and profiles of the segments can be measured.

Accessible: The market segments can be effectively reached and served.

Substantial: The market segments are large or profitable enough to serve.

Differentiable: The segments are conceptually distinguishable and respond differently to different marketing mix elements and programs.

Actionable: Effective programs can be designed for attracting and serving the segments.

6.2 MARKET TARGETING

Evaluating Market Segments
In evaluating different market segments, a firm must look at three factors:
1. Segment size and growth,
2. Segment structural attractiveness, and
3. Company objectives and resources.

The largest, fastest-growing segments are not always the most attractive ones for every company.
The company also needs to examine major structural factors that affect long-run segment attractiveness.
- A segment is less attractive if it already contains many strong and aggressive ***competitors***.
- The existence of many actual or potential ***substitute products*** may limit prices and the profits.
- The relative ***power of buyers*** also affects segment attractiveness.
- A segment may be less attractive if it contains ***powerful suppliers*** who can control prices.

Selecting Target Market Segments
Undifferentiated Marketing
Using an **undifferentiated marketing** (or **mass-marketing**) strategy, a firm might decide to ignore market segment differences and target the whole market with one offer.
This mass-marketing strategy focuses on what is ***common*** in the needs of consumers rather than on what is ***different***.

Differentiated Marketing
Using a **differentiated marketing** (or **segmented marketing**) strategy, a firm decides to target several market segments and designs separate offers for each.

Concentrated Marketing
When using a **concentrated marketing** (or **niche marketing**) strategy, instead of going after a small share of a large market, the firm goes after a large share of one or a few smaller segments or niches.
It can market more ***effectively*** by fine-tuning its products, prices, and programs to the needs of carefully defined segments.
It can market more ***efficiently***, targeting its products or services, channels, and communications programs toward only consumers that it can serve best and most profitably.

Micromarketing
Micromarketing is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations.
Micromarketing includes ***local marketing*** and ***individual marketing***.
Local marketing involves tailoring brands and promotions to the needs and wants of local customer groups—cities, neighborhoods, and even specific stores.
Local marketing has drawbacks.

- It can drive up manufacturing and marketing costs by reducing economies of scale.
- It can create logistics problems.
- The brand's overall image might be diluted if the product and message vary too much in different localities.

Individual marketing is the tailoring of products and marketing programs to the needs and preferences of individual customers.
Individual marketing has also been labeled ***one-to-one marketing*, *mass customization*,** and ***markets-of-one marketing***.

Choosing a Targeting Strategy
Which strategy is best depends on:

- *Company resources;*
- *Product variability;*
- *Product's life-cycle stage;*
- *Market variability; and*
- *Competitors' marketing strategies*.

Socially Responsible Target Marketing
Target marketing sometimes generates controversy and concern. Issues usually involve the targeting of vulnerable or disadvantaged consumers with controversial or potentially harmful products.

Problems arise when marketing adult products to kids, whether intentionally or unintentionally.

The growth of the Internet and other carefully targeted direct media has raised concerns about potential targeting abuses.

The issue is not so much who is targeted, but how and for what. Controversies arise when marketers attempt to profit when they unfairly target vulnerable segments or target them with questionable products or tactics.

Socially responsible marketing calls for segmentation and targeting that serve not just the interests of the company, but also the interests of those targeted.

6.3 DIFFERENTIATION AND POSITIONING

Value proposition: How a company will create differentiated value for targeted segments and what positions it wants to occupy in those segments.

A **product's position** is the way the product is ***defined by consumers*** on important attributes.

Positioning Maps

Perceptual positioning maps show consumer perceptions of their brands versus competing products on important buying dimensions.

Choosing a Differentiation and Positioning Strategy

The differentiation and positioning task consists of three steps:

1. Identifying a set of differentiating competitive advantages upon which to build a position,
2. Choosing the right competitive advantages, and
3. Selecting an overall positioning strategy.

Identifying Possible Value Differences and Competitive Advantages

To the extent that a company can differentiate and position itself as providing superior customer value, it gains **competitive advantage**.

It can differentiate along the lines of *product*, *services*, *channels, people*, or *image*.

Choosing the Right Competitive Advantages

How Many Differences to Promote

Ad man Rosser Reeves believes a company should develop a *unique selling proposition* (USP) for each brand and stick to it.

Other marketers think that companies should position themselves on more than one differentiator.

Which Differences to Promote

A difference is worth establishing to the extent that it satisfies the following criteria:

Important: The difference delivers a highly valued benefit to target buyers.

Distinctive: Competitors do not offer the difference, or the company can offer it in a more distinctive way.

Superior: The difference is superior to other ways that customers might obtain the same benefit.

Communicable: The difference is communicable and visible to buyers.

Preemptive: Competitors cannot easily copy the difference.

Affordable: Buyers can afford to pay for the difference.

Profitable: The company can introduce the difference profitably.

Selecting an Overall Positioning Strategy

More for More positioning involves providing the most upscale product or service and charging a higher price to cover the higher costs.

More for the Same positioning involves introducing a brand offering comparable quality but at a lower price.

The Same for Less positioning can be a powerful value proposition—everyone likes a good deal.

Less for Much Less positioning is offering products that offer less and therefore cost less.

“Less-for-much-less” positioning involves meeting consumers’ lower performance or quality requirements at a much lower price.

More for Less positioning is the winning value proposition.

In the long run, companies will find it very difficult to sustain such best-of-both positioning.

Developing a Positioning Statement

Company and brand positioning should be summed up in a **positioning statement**.

The statement should follow the form: *To (target segment and need) our (brand) is (concept) that (point of difference).*

Communicating and Delivering the Chosen Position

Once it has chosen a position, the company must take strong steps to deliver and communicate the desired position to target consumers. All the company's marketing mix efforts must support the positioning strategy.

SELF CHECK

6-1. Name and briefly describe the four major steps in designing a customer value-driven marketing strategy.

6-2. How can marketers use behavioral segmentation in consumer markets? Give an example for each method of behavioral segmentation.

6-3. Discuss the three factors firms consider when evaluating market segments. Which is most important?

Points to Ponder/Takeaways

Marketing shall target right customers from their segmentation in order able to position their product to customers.

References

Kotler, P., Armstrong, G. (2020). Marketing: An Introduction. New Jersey: Pearson/Prentice Hall.

Topic 7 Product, Services, and Brand

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

1. Define *product* and describe the major classifications of products and services.
2. Describe the decisions companies make regarding their individual

► INTRODUCTION

In this and the next chapter, we'll study how companies develop and manage products and brands. The product is usually the first and most basic marketing consideration.

This chapter begins with a deceptively simple question: *What is a product*? After addressing this question, we look at ways to classify products in consumer and business markets.

Then we discuss the important decisions that marketers make regarding individual products, product lines, and product mixes.

Next, we examine the characteristics and marketing requirements of a special form of product—services.

Finally, we look into the critically important issue of how marketers build and manage brands.

7.1 WHAT IS A PRODUCT?

A **product** is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need.

Broadly defined, "products" also include services, events, persons, places, organizations, ideas, or mixes of these.

Services are a form of product that consists of activities, benefits, or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything.

Products, Services, and Experiences

A company's *market offering* often includes both tangible goods and services.

At one extreme, the offer may consist of a ***pure tangible good****,* such as soap or toothpaste.

At the other extreme are ***pure services****,* for which the offer consists primarily of a service.

To differentiate their offers, marketers are creating and managing customer ***experiences*** with their brands or companies.

Product planners need to think about products and services on three levels.

1. *Core customer value* addresses the question: *What is the buyer really buying?*
2. *Actual product*
3. *Augmented products* are built around the core benefit and actual product by offering additional consumer services and benefits.

When developing products, marketers first must identify the ***core customer value*** that consumers seek from the product. They must then design the ***actual*** product and find ways to ***augment*** it in order to create this customer value and the most satisfying customer experience.

Product and Service Classifications

Consumer Products

Consumer products are products and services bought by final consumers for personal consumption.

- **Convenience products** are consumer products and services that customers usually buy frequently, immediately, and with a minimum of comparison and buying effort.
- **Shopping products** are less frequently purchased consumer products and services that customers compare carefully on suitability, quality, price, and style.
- **Specialty products** are consumer products and services with unique characteristics or brand identifications for which a significant group of buyers is willing to make a special purchase effort.
- **Unsought products** are consumer products that the consumer either does not know about or knows about but does not normally think of buying.

Industrial Products

Industrial products are those purchased for further processing or for use in conducting a business.

The distinction between a consumer product and an industrial product is based on the ***purpose*** for which the product is bought.

There are three groups of industrial products and services:

- ***Materials and parts*** include raw materials and manufactured materials and parts.
- ***Capital items*** are industrial products that aid in the buyer's production or operations, including installations and accessory equipment.
- ***Supplies and services*** include operating supplies and maintenance and repair services.

Organizations, Persons, Places, and Ideas

Organization marketing consists of activities undertaken to create, maintain, or change the attitudes and behavior of target consumers toward an organization.

Person marketing consists of activities undertaken to create, maintain, or change attitudes or behavior toward particular people.

Place marketing involves activities undertaken to create, maintain, or change attitudes or behavior toward particular places.

Social marketing is the use of commercial marketing concepts and tools in programs designed to influence individuals' behavior to improve their well-being and that of society. (*social ideas)*

7.2 PRODUCT AND SERVICE DECISIONS

Product and Service Attributes

Developing a product or service involves defining the benefits that it will offer. These benefits are communicated and delivered by product attributes such as ***quality***, ***features***, and ***style and design*****.**

Product quality involves creating customer value and satisfaction.

Total quality management (TQM) is an approach in which all the company's people are involved in constantly improving the quality of products, services, and business processes.

Product quality has two dimensions: **level** and **consistency**.

The quality level means performance quality or the ability of a product to perform its functions. Quality conformance means quality consistency, freedom from defects, and consistency in delivering a targeted level of performance.

Product features are a competitive tool for differentiating the company's product from competitors' products.

The company should periodically survey buyers who have used the product and ask these questions: How do you like the product? Which specific features of the product do you like most? Which features could we add to improve the product?

Product style and design is another way to add customer value.

Style describes the appearance of a product. ***Design*** contributes to a product's usefulness as well as to its looks.

Branding

A **brand** is a name, term, sign, symbol, or design, or a combination of these, that identifies the maker or seller of a product or service.

Branding helps buyers in many ways.

- Brand names help consumers identify products that might benefit them.
- Brands say something about product quality and consistency.

Branding gives the seller several advantages.

- The brand name becomes the basis on which a whole story can be built about a product.
- The brand name and trademark provide legal protection for unique product features.
- The brand name helps the seller to segment markets.

Packaging

Packaging involves designing and producing the container or wrapper for a product.

Labeling

Labels perform several functions.

- The label ***identifies*** the product or brand.
- The label ***describes*** several things about the product.
- The label ***promotes*** the brand.

Labeling also raises concerns. As a result, several federal and state laws regulate labeling.

The most prominent is the Fair Packaging and Labeling Act of 1966.

Labeling has been affected in recent times by:

- ***unit pricing*** (stating the price per unit of standard measure),
- ***open dating*** (stating the expected shelf life of the product), and
- ***nutritional labeling*** (stating the nutritional values in the product).

Product Support Services

The first step is to survey customers periodically to assess the value of current services and to obtain ideas for new ones.

Next, the company can take steps to fix problems and add new services that will both delight customers and yield profits to the company.

Product Line Decisions

A **product line** is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges.

Product line length is the number of items in the product line.

Product line filling involves adding more items within the present range of the line.

Product line stretching occurs when a company lengthens its product line beyond its current range.

Companies located at the upper end of the market can stretch their lines ***downward***.

Companies located at the lower end of the market can stretch their product lines ***upward***.

Companies located in the middle range of the market can stretch their lines in ***both directions***.

Product Mix Decisions

Product mix (or **product portfolio**) consists of all the product lines and items that a particular seller offers for sale.

A company's product mix has four dimensions: **width, length, depth,** and **consistency**.

- Product mix ***width*** refers to the number of different product lines the company carries.
- Product mix ***length*** refers to the total number of items the company carries within its product lines.

- Product mix ***depth*** refers to the number of versions offered of each product in the line.
- Product mix ***consistency*** refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way.

The company can increase its business in four ways.

1. It can add new product lines, widening its product mix.
2. It can lengthen its existing product lines.
3. It can add more versions of each product, deepening its product mix.
4. It can pursue more product line consistency.

7.3 SERVICES MARKETING

Services account for close to 80 percent of U.S. gross domestic product.

Services make up 64 percent of gross world product.

The Nature and Characteristics of a Service

(1) **Service intangibility** means that services cannot be seen, tasted, felt, heard, or smelled before they are bought.

(2) **Service inseparability** means that services cannot be separated from their providers, whether the providers are people or machines. Because the customer is also present as the service is produced, ***provider-customer interaction*** is a special feature of services marketing.

(3) **Service variability** means that the quality of services depends on who provides them as well as when, where, and how they are provided.

(4) **Service perishability** means that services cannot be stored for later sale or use.

Marketing Strategies for Service Firms

Just like manufacturing businesses, good service firms use marketing to position themselves strongly in chosen target markets.

The Service-Profit Chain

In a service business, the customer and front-line service employee *interact* to create the service.

The **service-profit chain** consists of five links:

- *Internal service quality:* superior employee selection and training, a quality work environment, and strong support for those dealing with customers, which results in...

- *Satisfied and productive service employees:* more satisfied, loyal, and hardworking employees, which results in...

- *Greater service value:* more effective and efficient customer value creation and service delivery, which results in...

- *Satisfied and loyal customers:* satisfied customers who remain loyal, make repeat purchases, and refer other customers, which results in...

- *Healthy service profits and growth:* superior service firm performance.

Internal marketing means that the service firm must orient and motivate its customer-contact employees and supporting service people to work as a *team* to provide customer satisfaction.

Interactive marketing means that service quality depends heavily on the quality of the buyer-seller interaction during the service encounter.

Service companies face three major marketing tasks: They want to increase their ***service differentiation*****,** ***service quality*****,** and ***service productivity*****.**

Managing Service Differentiation

The *offer* can include innovative features that set one company's offer apart from competitors' offers.

Service companies can differentiate their service *delivery* by having more able and reliable customer-contact people, by developing a superior physical environment in which the service product is delivered, or by designing a superior delivery process.

Service companies can work on differentiating their *images* through symbols and branding.

Managing Service Quality

Service quality is harder to define and judge than product quality.

Service quality will always vary, depending on the interactions between employees and customers.

Good ***service recovery*** can turn angry customers into loyal ones.

Managing Service Productivity

Service firms are under great pressure to increase service productivity.

- They can train current employees better or hire new ones who will work harder or more skillfully.

- They can increase the quantity of their service by giving up some quality.
- They can harness the power of technology.

7.4 BRANDING STRATEGY: BUILDING STRONG BRANDS

Some analysts see brands as *the* major enduring asset of a company.

Brand equity is the differential effect that knowing the brand name has on customer response to the product or its marketing.

Young & Rubicam's Brand Asset Evaluator measures brand strength along four consumer perception dimensions:

1. ***differentiation*** (what makes the brand stand out),
2. ***relevance*** (how consumers feel it meets their needs),
3. ***knowledge*** (how much consumers know about the brand), and
4. ***esteem*** (how highly consumers regard and respect the brand).

Brand value is the process of estimating the total financial value of a brand.

High brand equity provides a company with many competitive advantages.

- High level of consumer brand awareness and loyalty
- More leverage in bargaining with resellers
- Greater ability to launch line and brand extensions
- Defense against fierce price competition
- Basis for building strong and profitable customer relationships

The fundamental asset underlying brand equity is ***customer equity***—the value of the customer relationships that the brand creates.

Brand Positioning

Marketers can position brands at any of three levels.

1. They can position the brand on ***product attributes.***
2. They can position the brand with a desirable ***benefit***.
3. They can position the brand on ***beliefs and values*.**

Brand Name Selection

Desirable qualities for a brand name include the following:

(1) It should suggest something about the product's benefits and qualities.

(2) It should be easy to pronounce, recognize, and remember.

(3) The brand name should be distinctive.

(4) It should be extendable.

(5) The name should translate easily into foreign languages.

(6) It should be capable of registration and legal protection.

Brand Sponsorship

A manufacturer has four sponsorship options:

(1) The product may be launched as a ***manufacturer's brand*** (or ***national brand***).

(2) The manufacturer may sell to resellers who give it a ***private brand*** (also called a ***store brand*** or ***distributor brand***).

(3) The manufacturer can market ***licensed brands***.

(4) Two companies can join forces and ***co-brand*** a product

National Brands versus Store Brands

National brands (or manufacturers' brands) have long dominated the retail scene. In recent times, an increasing number of retailers and wholesalers have created their own **store brands** (or *private brands*).

Private brands yield on average a 38 percent savings.

Store brands have grown much faster than national brands in recent years.

In the ***battle of the brands*** between national and private brands, retailers have many advantages.

- Retailers often price their store brands lower than comparable national brands.
- Store brands yield higher profit margins for the reseller.
- Store brands give resellers exclusive products that cannot be bought from competitors.

Licensing

Name and character licensing has grown rapidly in recent years.

Annual retail sales of licensed products in the United States and Canada have grown from only $4 billion in 1977 to $55 billion in 1987 and more than $252 billion today.

Co-branding

Co-branding occurs when two established brand names of different companies are used on the same product.

Co-branding offers many advantages.

- The combined brands create broader consumer appeal and greater brand equity.
- Co-branding also allows a company to expand its existing brand into a category it might otherwise have difficulty entering alone.

Co-branding also has limitations.

- Such relationships involve complex legal contracts and licenses.
- Co-branding partners must carefully coordinate their advertising, sales promotion, and other marketing efforts.

- Each partner must trust that the other will take good care of its brand.

Brand Development

(1) **Line extensions** occur when a company extends existing brand names to new forms, colors, sizes, ingredients, or flavors of an existing product category.

(2) **Brand extensions** extend a current brand name to new or modified products in a new category.

(3) **Multibrands** introduce additional brands in the same category.

(4) New brands

Megabrand strategies involve weeding out weaker brands and focusing marketing dollars only on brands that can achieve the number-one or number-two market share positions in their categories.

Managing Brands

Brand position must be continuously communicated to consumers.

The ***brand experience*** involves customers coming to know a brand through a wide range of contacts and touch points.

Companies need to periodically audit their brands' strengths and weaknesses.

SELF CHECK

7-1. What is a service? Can services be differentiated as consumer services and industrial services?

7-2. Compare and contrast the two dimensions of product quality.

7-3. What is a product line? Discuss the various product line decisions marketers make and how a company can expand its product line.

7-4. What is a product mix? Name and describe the four important dimensions of a product mix.

Points to Ponder/Takeaways

Understanding product, services and brand characteristics able to provide insights in developing strategies.

References

Kotler, P., Armstrong, G. (2020). Marketing: An Introduction. New Jersey: Pearson/Prentice Hall.

Topic 8 New Product Development & Product Life Cycle

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

1. Explain how companies find and develop new product ideas.
2. List and define the steps in the new product development process and the major considerations in managing this process.
3. Describe the stages of the product life cycle and how marketing strategies change during a product's life cycle.
4. Discuss two additional product issues: socially responsible product decisions and international product and services marketing.

► INTRODUCTION

In this chapter, we'll look into two product topics:

1. Developing new products
2. Managing products through their life cycles.

8.1 INTRODUCTION

Every product seems to go through a life cycle.

This product life cycle presents two major challenges:

1. Because all products eventually decline, a firm must be good at developing new products to replace aging ones (the challenge of *new-product development*).

2. The firm must be good at adapting its marketing strategies in the face of changing tastes,

technologies, and competition as products pass through life-cycle stages (the challenge of *product life-cycle strategies*).

8.2 NEW-PRODUCT DEVELOPMENT STRATEGY

By *new products* we mean original products, product improvements, product modifications, and new brands that the firm develops through its own research and development (R&D) efforts.
A firm can obtain new products in two ways.

1. *Acquisition*—by buying a whole company, a patent, or a license to produce someone else's product.
2. **NEW-PRODUCT DEVELOPMENT STRATEGY**
3. **New-product development** efforts.

8.3 THE NEW-PRODUCT DEVELOPMENT PROCESS

1. **Idea Generation**

Idea generation is the systematic search for new-product ideas.

Internal Idea Sources

Using ***internal sources***, the company can find new ideas through formal research and development. Or it can pick the brains of employees—from executives to salespeople to scientists, engineers, and manufacturing staff.

External Idea Sources

Companies can also obtain good new-product ideas from any of a number of external sources, such as ***distributors and suppliers*** or even ***competitors***.

Perhaps the most important source of new-product ideas is ***customers*** themselves.

Crowdsourcing

Many companies are now developing *crowdsourcing* new-product idea programs. Crowdsourcing invites broad communities of people into the new-product innovation process.

2. Idea Screening

The first idea-reducing stage is **idea screening**, which helps spot good ideas and drop poor ones as soon as possible.

3. Concept Development and Testing

A ***product idea*** is an idea for a possible product that the company can see itself offering to the market.

A ***product concept*** is a detailed version of the idea stated in meaningful consumer terms.

A ***product image*** is the way consumers perceive an actual or potential product.

Concept Development

In **concept development**, several descriptions of the product are generated to find out how attractive each concept is to customers. From these concepts, the best one is chosen.

Concept Testing

Concept testing calls for testing new-product concepts with groups of target consumers.

Marketing Strategy Development

4. Marketing strategy development involves designing an initial marketing strategy for a new product based on the product concept.

The ***marketing strategy statement*** consists of three parts.

1. A description of the target market; the planned value proposition; and the sales, market share, and profit goals for the first few years
2. An outline of the product's planned price, distribution, and marketing budget for the first year
3. A description of the planned long-run sales, profit goals, and marketing mix strategy

5. Business Analysis

Business analysis involves a review of the sales, costs, and profit projections for a new product to find out whether they satisfy the company's objectives.

6. Product Development

In **product development**, R&D or engineering develops the product concept into a physical product.

The product development step calls for a large jump in investment.

7. Test Marketing

Test marketing is the stage at which the product and marketing program are introduced into realistic market settings.

8. Commercialization

Commercialization involves introducing the new product into the market.

Decisions must be made about introduction *timing* as well as *where* to launch the new product.

8.4 MANAGING NEW-PRODUCT DEVELOPMENT

Customer-Centered New-Product Development

New-product development ***must*** be customer centered.

Customer-centered new-product development focuses on finding new ways to solve customer problems and create more customer-satisfying experiences.

Team-Based New-Product Development

Under the ***sequential product development*** approach, one company department works individually to complete its stage of the process before passing the new product along to the next department and stage.

This orderly, step-by-step process can help bring control to complex and risky projects. But it also can be dangerously slow.

In order to get their new products to market more quickly, many companies use a **team-based new-product development** approach.

Under this approach, company departments work closely together in cross-functional teams, overlapping the steps in the product development process to save time and increase effectiveness.

Instead of passing the new product from department to department, the company assembles a team of people from various departments that stay with the new product from start to finish.

Systematic New-Product Development

An ***innovation management system*** can be used to collect, review, evaluate, and manage new-product ideas.

The innovation management system approach yields two favorable outcomes.

1. It helps create an innovation-oriented company culture.

2. It will yield a larger number of new-product ideas, among which will be found some especially good ones.

New-Product Development in Turbulent Times

In difficult times, innovation more often helps than hurts in making the company more competitive and positioning it better for the future.

8.5 PRODUCT LIFE-CYCLE STRATEGIES

The product life cycle has five distinct stages:

Product development begins when the company finds and develops a new-product idea. During product development, sales are zero, and the company's investment costs mount.

Introduction is a period of slow sales growth as the product is introduced in the market. Profits are nonexistent in this stage because of the heavy expenses of product introduction.

Growth is a period of rapid market acceptance and increasing profits.

Maturity is a period of slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits level off or decline because of increased marketing outlays to defend the product against competition.

Decline is the period when sales fall off and profits drop.

The PLC concept can describe a ***product class*** (gasoline-powered automobiles), a ***product form*** (SUVs), or a ***brand*** (the Ford Escape).

Product classes have the longest life cycles.

Product forms have the standard PLC shape.

Product brand PLC can change quickly because of changing competitive attacks and responses.

The PLC can be applied to styles, fashions, and fads.

- A **style** is a basic and distinctive mode of expression.
- A **fashion** is a currently accepted or popular style in a given field.
- **Fads** are temporary periods of unusually high sales driven by consumer enthusiasm and immediate product or brand popularity.

Strategies for each of the other life-cycle stages:

Introduction Stage

The **introduction stage** starts when the new product is first launched.

In this stage, profits are negative or low, promotion spending is relatively high, and only basic versions of the product are produced.

A company, especially the *market pioneer*, must choose a launch strategy that is consistent with the intended product positioning.

Growth Stage

The **growth stage** is where sales begin to climb quickly.

New competitors will enter the market. They will introduce new product features, and the market will expand.

The increase in competitors leads to an increase in the number of distribution outlets.

Prices remain stable.

Profits increase during the growth stage.

Maturity Stage

The **maturity stage** is characterized by slowing product growth.

The slowdown in sales growth results in many producers with many products to sell.

Competitors begin marking down prices, increasing their advertising and sales promotions, and upping their product-development budgets to find better versions of the product.

These steps lead to a drop in profit.

Product managers should consider modifying the market, product, and marketing mix. In ***modifying the market***, the company tries to increase the consumption of the current product.

In ***modifying the product***, the company tries changing characteristics such as quality, features, style, or packaging to attract new users and to inspire more usage.

In ***modifying the marketing mix***, the company tries changing one or more marketing mix elements.

Decline Stage

The sales of most product forms and brands eventually dip. This is the **decline stage**.

Management may decide to ***maintain*** its brand without change in the hope that competitors will leave the industry.

Management may decide to ***harvest*** the product, which means reducing various costs (plant and equipment, maintenance, R&D, advertising, sales force) and hoping that sales hold up

Management may decide to ***drop*** the product from the line.

8.6 ADDITIONAL PRODUCT AND SERVICE CONSIDERATIONS

Product Decisions and Social Responsibility

Marketers should consider public policy issues and regulations regarding acquiring or dropping products, patent protection, product quality and safety, and product warranties.

Regarding new products, the government may prevent companies from adding products through acquisitions if the effect threatens to lessen competition.

Manufacturers must comply with specific laws regarding product quality and safety.

The litigation phenomenon has resulted in huge increases in product liability insurance premiums, causing big problems in some industries.

Some companies are now appointing *product stewards*, whose job is to protect consumers from harm and the company from liability by proactively ferreting out potential product problems.

International Product and Services Marketing

International product and service marketers face special challenges.

- They must figure out what products and services to introduce and in which countries.
- They must decide how much to standardize or adapt their products and services for world markets.
- Packaging presents new challenges for international marketers.

The trend toward growth of global service companies will continue, especially in banking, airlines, telecommunications, and professional services.

SELF CHECK

8-1. Define crowdsourcing and describe an example not already presented in the chapter.

8-2. Why is it increasingly the case that customers are vital in the creation of innovative new products and services? How has this come about?

8-3. What is performed in the business analysis step of the new product development process? How does a business carry out this step?

8-4. How can companies adopt a holistic approach to managing new product development?

Points to Ponder/Takeaways

The first part of this chapter lays out a process for finding and growing successful new products. In the second part of the chapter, we see that every product passes through several life-cycle stages and that each stage poses new challenges requiring different marketing strategies and tactics. Finally, we look at two additional considerations: social responsibility in product decisions and international product and services marketing.

References

Kotler, P., Armstrong, G. (2020). Marketing: An Introduction. New Jersey: Pearson/Prentice Hall.

Topic 9 Pricing Strategies

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

1. Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

2. Identify and define the other important internal and external factors affecting a firm's pricing decisions.

3. Describe the major strategies for pricing new products.

► INTRODUCTION

In this chapter, we begin with the question, “What is a price?” Next, we look at three major pricing strategies – customer value-based, cost-based, and competition-based pricing – and at other factors that affect pricing decisions.

Finally, we examine pricing strategies for new-product pricing, product mix pricing, price adjustments, and dealing with price changes.

9.1 WHAT IS A PRICE?

In the narrowest sense, **price** is the amount of money charged for a product or service.

More broadly, **price** is the sum of all the values that customers give up in order to gain the benefits of having or using a product or service.

Price is the only element in the marketing mix that produces revenue.

Price is one of the most flexible marketing mix elements.

9.2 MAJOR PRICING STRATEGIES

Customer Value-Based Pricing

In the end, the customer will decide whether a product’s price is right.

Customer value-based pricing uses buyers’ perceptions of value, not the seller’s cost, as the key to pricing.

Price is considered along with the other marketing mix variables *before* the marketing program is set.

Cost-based pricing is product driven.

"Good value" is not the same as "low price."

Two types of value-based pricing are *good-value pricing* and *value-added pricing*.

1. **Good-value pricing** involves offering just the right combination of quality and good service at a fair price.

Everyday low pricing (EDLP). EDLP involves charging a constant, everyday low price with few or no temporary price discounts.

High-low pricing involves charging higher prices on an everyday basis but running frequent promotions to lower prices temporarily on selected items.

2. **Value-added pricing** is the strategy of attaching value-added features and services to differentiate their offers and thus support higher prices.

Cost-Based Pricing

Whereas customer-value perceptions set the price ceilings, costs set the floor for the price that the company can charge.

Cost-based pricing involves setting prices based on the costs for producing, distributing, and selling the product plus a fair rate of return for effort and risk.

Types of Costs

Fixed costs (also known as overhead) are costs that do not vary with production or sales level.

Variable costs vary directly with the level of production. They are called variable because their total varies with the number of units produced.

Total costs are the sum of the fixed and variable costs for any given level of production.

Cost-Plus Pricing

The simplest pricing method is **cost-plus pricing (markup pricing) –** adding a standard markup to the cost of the product.

Does using standard markups to set prices make sense? Generally, no.

Markup pricing remains popular for many reasons.

1. Sellers are more certain about costs than about demand.

2. When all firms in the industry use this pricing method, prices tend to be similar and price competition is thus minimized.

Another cost-oriented pricing approach is **break-even pricing**, or a variation called **target profit pricing**. The firm tries to determine the price at which it will break even or make the target profit it is seeking.

Target return pricing uses the concept of a break-even chart, which shows total cost and total revenue expected at different sales volume levels.

The major problem with this analysis is that it fails to consider customer value and the relationship between price and demand.

Typically, as the *price* increases, *demand* decreases.

Competition-Based Pricing

Competition-based pricing involves setting prices based on competitors' strategies, costs, prices, and market offerings.

What principle should guide decisions about what price to charge relative to those of competitors? The answer is simple in concept but difficult in practice.

Be certain to give customers superior value for the price.

9.3 OTHER INTERNAL AND EXTERNAL CONSIDERATIONS AFFECTING PRICE DECISIONS

Overall Marketing Strategy, Objectives, and Mix

Price is only one of the marketing mix tools that a company uses to achieve its marketing objectives.

Price decisions must be coordinated with product design, distribution, and promotion decisions to form a consistent and effective integrated marketing program.

Companies often position their products on price and then tailor other marketing mix decisions to the prices they want to charge.

Target costing starts with an ideal selling price based on customer-value considerations, and then targets costs that will ensure that the price is met.

Companies may deemphasize price and use other marketing mix tools to create ***nonprice*** positions.

Organizational Considerations

In small companies, prices are often set by top management rather than by the marketing or sales departments.

In large companies, pricing is typically handled by divisional or product line managers.

In industrial markets, salespeople may be allowed to negotiate with customers within certain price ranges.

In industries in which pricing is a key factor, companies often have pricing departments to set the best prices or to help others in setting them.

The Market and Demand

Pricing in Different Types of Markets

Pure competition: The market consists of many buyers and sellers trading in a uniform commodity.

No single buyer or seller has much effect on the going market price.

In a purely competitive market, marketing research, product development, pricing, advertising, and sales promotion play little or no role. Thus, sellers in these markets do not spend much time on marketing strategy.

Monopolistic competition: The market consists of many buyers and sellers who trade over a range of prices rather than a single market price. A range of prices occurs because sellers can differentiate their offers to buyers.

Oligopolistic competition: The market consists of a few sellers who are highly sensitive to each other's pricing and marketing strategies.

There are few sellers because it is difficult for new sellers to enter the market.

Pure monopoly: The market consists of one seller. The seller may be a government monopoly, a private regulated monopoly, or a private nonregulated monopoly.

Analyzing the Price-Demand Relationship

In a normal case, demand and price are inversely related; that is, the higher the price, the lower the demand.

In a monopoly, the demand curve shows the total market demand resulting from different prices.

If the company faces competition, its demand at different prices will depend on whether competitors' prices stay constant or change with the company's own prices.

Price Elasticity of Demand

Price elasticity: How responsive demand will be to a change in price.

If demand hardly changes with a small change in price, we say demand is ***inelastic***.

If demand changes greatly with a small change in price, we say the demand is ***elastic***.

The Economy

Economic conditions can have a strong impact on the firm's pricing strategies.

In the aftermath of the recent Great Recession, consumers have rethought the price-value equation. Many consumers have tightened their belts and become more value conscious.

The most obvious response to the new economic reality is to cut process. Rather than cutting prices, many companies are shifting their marketing to focus on more affordable items in their product mixes.

Remember, even in tough economic times, consumers do not buy based on price alone.

The key is to offer great *value for the money.*

Other External Factors

The company must also consider what impact its prices will have on other parties in its environment, such as *resellers* and the *government*.

Social concerns may have to be taken into account.

9.4 NEW-PRODUCT PRICING STRATEGIES

Market-Skimming Pricing

Market-skimming pricing (or **price skimming**) is setting high initial prices to "skim" revenues layer by layer from the market.

Market skimming makes sense under certain conditions.

1. The product's quality and image must support its higher price and enough buyers must want the product at that price.

2. The costs of producing a smaller volume cannot be so high that they cancel the advantage of charging more.

3. Competitors should not be able to enter the market easily and undercut the high price.

Market-Penetration Pricing

Market-penetration pricing is setting a low initial price in order to ***penetrate*** the market quickly and deeply—to attract a large number of buyers quickly and win a large market share.

Several conditions must be met for this strategy to work.

1. The market must be highly price sensitive so that a low price produces more market growth.

2. Production and distribution costs must fall as sales volume increases.

3. The low price must help keep out the competition, and the penetration pricer must maintain its low-price position.

9.5 PRODUCT MIX PRICING STRATEGIES

In **product line pricing**, management must decide on the price steps to set between the various products in a line.

The price steps should take into account cost differences between the products in the line.

Optional product pricing is offering to sell optional or accessory products along with a main product.

In **captive product pricing,** companies make products that must be used along with a main product.

In the case of services, captive-product pricing is called ***two-part pricing***. The price of the service is broken into a ***fixed fee*** plus a ***variable usage rate*.**

Using **by-product pricing**, the company seeks a market for the by-products produced in the generation of some products and services.

Using **product bundle pricing**, sellers often combine several of their products and offer the bundle at a reduced price.

9.6 PRICE ADJUSTMENT STRATEGIES

Discounts include:

- ***Cash discount*** is a price reduction to buyers who pay their bills promptly.
- ***Quantity discount*** is a price reduction to buyers who buy large volumes.
- ***Functional discount*** (also called a ***trade discount***) is offered by the seller to trade-channel members who perform certain functions.
- ***Seasonal discount*** is a price reduction to buyers who buy merchandise or services out of season.

Allowances are a reduction from the list price.

- ***Trade-in allowances*** are price reductions given for turning in an old item when buying a new one.
- ***Promotional allowances*** are payments or price reductions to reward dealers for participating in advertising and sales support programs.

Segmented pricing occurs when the company sells a product or service at two or more prices, even though the difference in prices is not based on differences in costs.

- ***Customer-segment pricing:*** different customers pay different prices for the same product or service.
- ***Product-form pricing****:* Different versions of the product are priced differently but not according to differences in their costs.
- ***Location-based pricing:*** A company charges different prices for different locations, even though the cost of offering each location is the same.
- ***Time-based pricing:*** A firm varies its price by the season, the month, the day, and even the hour.

Psychological pricing occurs when sellers consider the psychology of prices and not simply the economics.

One aspect of psychological pricing is **reference prices**—prices that buyers carry in their minds and refer to when looking at a given product.

With **promotional pricing**, companies will temporarily price their products below list price and sometimes even below cost to create buying excitement and urgency.

- ***Discounts:*** A reduction from normal prices to increase sales and reduce inventories.

- ***Special-event pricing:*** Pricing differently in certain seasons to draw more customers.

- ***Limited-time offers (flash sales):*** Create buying urgency and make buyers feel lucky to have gotten in on the deal.

- ***Cash rebates:*** Offered to consumers who buy the product from dealers within a specified time; the manufacturer sends the rebate directly to the customer.

Promotional pricing can have adverse effects.

1. Price promotions can create "deal-prone" customers who wait until brands go on sale before buying them.

2. Constantly reduced prices can erode a brand's value in the eyes of customers.

3. Promotional pricing can lead to industry price wars.

Geographical Pricing involves deciding how to price products for customers located in different parts of the country or world.

- **FOB-origin pricing:** The goods are placed ***free on board*** (hence, *FOB*) a carrier. At that point the title and responsibility pass to the customer, who pays the freight from the factory to the destination.

- **Uniform-delivered pricing** is the opposite of FOB pricing. Here, the company charges the same price plus freight to all customers, regardless of their location.

- **Zone pricing** falls between FOB-origin pricing and uniform-delivered pricing. All customers within a given zone pay a single total price; the more distant the zone, the higher the price.

- **Basing-point pricing**: The seller selects a given city as a "basing point" and charges all customers the freight cost from that city to the customer location, regardless of the city from which the goods are actually shipped.

- **Freight-absorption pricing**. Using this strategy, the seller absorbs all or part of the actual freight charges in order to get the desired business.

Dynamic and Online Pricing

Dynamic Pricing is adjusting prices continually to meet the characteristics and needs of individual customers and situations.

Dynamic pricing is extremely prevalent online where the Internet seems to be taking us back to a new age of fluid pricing.

Dynamic pricing offers many advantages:

- Online sellers can mine their databases to gauge a specific shopper's desires, measure his or her means, and instantaneously tailor products to fit that shopper's behavior, and price products accordingly.
- Buyers can also negotiate prices at online auction sites and exchanges.
- Online buyers benefit from the Web and dynamic pricing. A wealth of price comparison sites—such as Yahoo! Shopping and PriceGrabber—offer instant product and price comparisons from thousands of vendors.

International Pricing

The price that a company should charge in a specific country depends on many factors, including economic conditions, competitive situations, laws and regulations, and development of the wholesaling and retailing system. Costs play an important role in setting international prices.

9.7 PRICE CHANGES

Initiating Price Changes

Initiating Price Cuts

Several situations may lead a firm to consider cutting its price.

- Excess capacity
- Falling demand in the face of strong price competition
- Desire to dominate market

Initiating Price Increases

A major factor in price increases is cost inflation.

When raising prices, the company must avoid being perceived as a price gouger.

One technique for avoiding this problem is to maintain a sense of fairness surrounding any price increase.

Buyer Reactions to Price Changes

Customers do not always view price changes in a straightforward or rational way. They may view price *cuts* or price *increases* in several ways.

Competitor Reactions to Price Changes

Competitors are most likely to react when the number of firms involved is small, when the product is uniform, and when the buyers are well informed about products and prices.

Responding to Price Changes

The firm needs to consider several issues: Why did the competitor change the price? Is the price change temporary or permanent? What will happen to the company's market share and profits if it does not respond? Are other competitors going to respond?

1. The company could ***reduce its price*** to match the competitor's price.
2. The company could maintain its price but ***raise the perceived value*** of its offer.
3. The company could ***improve quality and increase price***, moving its brand into a higher price-value position.
4. The company could ***launch a low-price "fighter brand"***—adding a lower-price item to the line or creating a separate lower-price brand.

9.7 PUBLIC POLICY AND PRICING

Pricing Within Channel Levels

Federal legislation on ***price-fixing*** states that sellers must set prices without talking to competitors. Otherwise, price collusion is suspected.

Sellers are prohibited from using ***predatory pricing***—selling below cost with the intention of punishing a competitor or gaining higher long-run profits by putting competitors out of business.

Pricing Across Channel Levels

The Robinson-Patman Act seeks to prevent unfair ***price discrimination*** by ensuring that sellers offer the same price terms to customers at a given level of trade.

Laws prohibit ***retail (or resale) price maintenance***—a manufacturer cannot require dealers to charge a specified retail price for its product.

Although the seller can propose a manufacturer's ***suggested*** retail price to dealers, it cannot refuse to sell to a dealer who takes independent pricing action, nor can it punish the dealer by shipping late or denying advertising allowances.

Deceptive pricing occurs when a seller states prices or price savings that mislead consumers or are not actually available to consumers.

Other deceptive pricing issues include ***scanner fraud*** and ***price confusion***.

SELF CHECK

9-1. Name and describe the two types of value-based pricing methods.

9-2. Name and describe the four types of markets and the challenges they pose with respect to setting prices.

9-3. What is captive-product pricing? What is this pricing tactic called in the case of services? Give examples.

9-4. Name and describe the two broad new product pricing strategies. When would each be appropriate?

Points to Ponder/Takeaways

Firms successful at creating customer value with the other marketing mix activities must capture this value in the prices they earn.
Despite its importance, many firms do not handle pricing well.

References

Kotler, P., Armstrong, G. (2020). Marketing: An Introduction. New Jersey: Pearson/Prentice Hall.

Topic 10 Marketing Channels

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

1. Explain why companies use marketing channels and discuss the functions these channels perform.
2. Discuss how channel members interact and how they organize to perform the work of the channel.
3. Identify the major channel alternatives open to a company.
4. Explain how companies select, motivate, and evaluate channel members.
5. Discuss the nature and importance of marketing logistics and integrated supply chain management.

► INTRODUCTION

The first part of this chapter explores the nature of marketing channels and the marketer's channel design and management decisions.

We then examine physical distribution—or logistics—an area that is growing dramatically in importance and sophistication.

10.1 SUPPLY CHAINS AND THE VALUE DELIVERY NETWORK

The ***supply chain*** consists of "upstream" and "downstream" partners.

Upstream from the company is the set of firms that supply the raw materials, components, parts, information, finances, and expertise needed to create a product or service.

Marketers have traditionally focused on the "downstream" side of the supply chain—on the ***marketing channels*** (**or** ***distribution channels***) that look forward toward the customer.

A better term would be ***demand chain*** because it suggests a ***sense-and-respond*** view of the market.

Under this view, planning starts with the needs of target customers, to which the company responds by organizing a chain of resources and activities with the goal of creating customer value.

As defined in Chapter 2, a **value delivery network** is made up of the company, suppliers, distributors, and ultimately customers who "partner" with each other to improve the performance of the entire system.

10.2 THE NATURE AND IMPORTANCE OF MARKETING CHANNELS

Producers try to forge a **marketing channel** (or **distribution channel**)—a set of interdependent organizations that help make a product or service available for use or consumption by the consumer or business user.

How Channel Members Add Value

The role of marketing intermediaries is to transform the assortments of products made by producers into the assortments wanted by consumers.

Members of the marketing channel perform many key functions. Some help to complete transactions:

Information: Gathering and distributing marketing research and intelligence information about actors and forces in the marketing environment needed for planning and aiding exchange.

Promotion: Developing and spreading persuasive communications about an offer.

Contact: Finding and communicating with prospective buyers.

Matching: Shaping and fitting the offer to the buyer's needs, including activities such as manufacturing, grading, assembling, and packaging.

Negotiation: Reaching an agreement on price and other terms of the offer so that ownership or possession can be transferred.

Others help to fulfill the completed transactions:

Physical distribution: Transporting and storing goods.

Financing: Acquiring and using funds to cover the costs of the channel work.

Risk taking: Assuming the risks of carrying out the channel work.

Number of Channel Levels

A **channel level** is each layer of marketing intermediaries that performs some work in bringing the product and its ownership closer to the final buyer.

A **direct marketing channel** has no intermediary levels; the company sells directly to consumers.

An **indirect marketing channel** contains one or more intermediaries.

From the producer's point of view, a greater number of levels means less control and greater channel complexity.

9.3 CHANNEL BEHAVIOR AND ORGANIZATION

Channel Behavior

A marketing channel consists of firms that have partnered for their common good. Each channel member depends on the others.

Each channel member plays a specialized role in the channel. The channel will be most effective when each member assumes the tasks it can do best.

Disagreements over goals, roles, and rewards generate **channel conflict**.

Horizontal conflict occurs among firms at the same level of the channel.

Vertical conflict occurs between different levels of the same channel.

Vertical Marketing Systems

A **conventional distribution channel** consists of one or more independent producers, wholesalers, and retailers. Each is a separate business seeking to maximize its own profits, perhaps even at the expense of the system as a whole.

A **vertical marketing system (VMS)** consists of producers, wholesalers, and retailers acting as a unified system. One channel member owns the others, has contracts with them, or wields so much power that they must all cooperate.

A ***Corporate VMS*** integrates successive stages of production and distribution under single ownership.

A ***Contractual VMS*** consists of independent firms at different levels of production and distribution, who join together through contracts to obtain more economies or sales impact than each could achieve alone.

The **franchise organization** is the most common type of contractual relationship—a channel member called a ***franchisor*** links several stages in the production-distribution process.

There are three types of franchises.

1. The *manufacturer-sponsored retailer franchise system*—for example, Ford and its network of independent franchised dealers.

2. The *manufacturer-sponsored wholesaler franchise system*—Coca-Cola licenses bottlers (wholesalers) in various markets who buy Coca-Cola syrup concentrate and then bottle and sell the finished product to retailers in local markets.

3. The *service-firm-sponsored retailer franchise system*—examples are found in the auto-rental business (Avis), the fast-food service business (Burger King), and the motel business (Holiday Inn).

In an ***Administered VMS,*** leadership is assumed not through common ownership or contractual ties but through the size and power of one or a few dominant channel members.

Horizontal Marketing Systems: Two or more companies at one level join together to follow a new marketing opportunity.

Multichannel Distribution Systems: Occurs when a single firm sets up two or more marketing channels to reach one or more customer segments.

Changing Channel Organization

Disintermediation occurs when product or service producers cut out intermediaries and go directly to final buyers, or when radically new types of channel intermediaries displace traditional ones.

9.4 CHANNEL DESIGN DECISIONS

Marketing channel design calls for analyzing consumer needs, setting channel objectives, identifying major channel alternatives, and evaluating them.

Analyzing Consumer Needs

As noted previously, marketing channels are part of the overall *customer-value delivery network*.

The company must balance consumer needs not only against the feasibility and costs of meeting these needs but also against customer price preferences.

Setting Channel Objectives

Companies should state their marketing channel objectives in terms of targeted levels of customer service.

The company should decide which segments to serve and the best channels to use in each case.

The company's channel objectives are influenced by the nature of the company, its products, its marketing intermediaries, its competitors, and the environment. Environmental factors such as economic conditions and legal constraints may affect channel objectives and design.

Identifying Major Alternatives

Types of Intermediaries

A firm should identify the *types*, *number*, and *responsibilities* of channel members available to carry out its channel work.

Number of Marketing Intermediaries

Companies must also determine the number of channel members to use at each level.

Three strategies are available:

1. **Intensive distribution:** Ideal for producers of convenience products and common raw materials. It is a strategy in which they stock their products in as many outlets as possible.
2. **Exclusive distribution:** Purposely limit the number of intermediaries handling their products. The producer gives only a limited number of dealers the exclusive right to distribute its products in their territories.
3. **Selective distribution:** This is the use of more than one, but fewer than all, of the intermediaries who are willing to carry a company's products.

Responsibilities of Channel Members

The producer and intermediaries need to agree on the terms and responsibilities of each channel member.

They should agree on price policies, conditions of sale, territorial rights, and specific services to be performed by each party.

Evaluating the Major Alternatives

Using ***economic criteria***, a company compares the likely sales, costs, and profitability of different channel alternatives.

Using ***control issues*** means giving them some control over the marketing of the product, and some intermediaries take more control than others.

Using ***adaptive criteria*** means the company wants to keep the channel flexible so that it can adapt to environmental changes.

Designing International Distribution Channels

In some markets, the distribution system is complex and hard to penetrate, consisting of many layers and large numbers of intermediaries.

At the other extreme, distribution systems in developing countries may be scattered, inefficient, or altogether lacking.

Sometimes local customs can greatly restrict how a company distributes products in global markets.

9.5 CHANNEL MANAGEMENT DECISIONS

Marketing channel management calls for selecting, managing, and motivating individual channel members and evaluating their performance over time.

Selecting Channel Members

When selecting intermediaries, the company should determine what characteristics distinguish the better ones.

Managing and Motivating Channel Members

The company must sell not only *through* the intermediaries but *to* and *with* them.

Most companies practice strong ***partner relationship management (PRM)*** to forge long-term partnerships with channel members.

Evaluating Channel Members

The company should recognize and reward intermediaries who are performing well and adding good value for consumers.

Those who are performing poorly should be assisted or replaced.

Companies need to be sensitive to their channel partners.

9.6 PUBLIC POLICY AND DISTRIBUTION DECISIONS

Exclusive distribution occurs when the seller allows only certain outlets to carry its products.

Exclusive dealing occurs when the seller requires that these dealers not handle competitors' products.

Exclusive arrangements exclude other producers from selling to these dealers. This brings exclusive dealing contracts under the scope of the Clayton Act of 1914.

Exclusive territorial agreements occur when the producer agrees not to sell to other dealers in a given area, or the buyer may agree to sell only in its own territory.

Full-line pricing occurs when producers of a strong brand sell it to dealers only if the dealers will take some or all of the rest of the line. This is also known as a ***tying agreement.***

In general, sellers can drop dealers "for cause."

9.7 MARKETING LOGISTICS AND SUPPLY CHAIN MANAGEMENT

Nature and Importance of Marketing Logistics

Marketing logistics—also called **physical distribution**—involves planning, implementing, and controlling the physical flow of goods, services, and related information from points of origin to points of consumption to meet customer requirements at a profit.

Marketing logistics involves ***outbound distribution*** (moving products from the factory to resellers and ultimately to customers), ***inbound distribution*** (moving products and materials from suppliers to the factory) and ***reverse distribution*** (moving broken, unwanted, or excess products returned by consumers or resellers).

It involves the entirety of **supply chain management**—managing upstream and downstream value-added flows of materials, final goods, and related information among suppliers, the company, resellers, and final consumers.

Companies today are placing greater emphasis on logistics for several reasons.

1. Companies can gain a powerful competitive advantage by using improved logistics to give customers better service or lower prices.
2. Improved logistics can yield tremendous cost savings to both the company and its customers.
3. The explosion in product variety has created a need for improved logistics management.
4. Improvements in information technology have created opportunities for major gains in distribution efficiency.
5. Logistics affects the environment and a firm's environmental sustainability efforts (the development of a *green supply chain*).

Sustainable Supply Chain

Designing sustainable supply chains is simply the *right* thing to do. It's one more way that companies can contribute to saving our world for future generations.

Not only are sustainable channels good for the world, they're also good for a company's bottom line.

Companies green up their supply chains through greater efficiency, and greater efficiency means lower costs and higher profits.

Goals of the Logistics System

The goal of marketing logistics should be to provide a ***targeted*** level of customer service at the least cost.

Major Logistics Functions

Warehousing

A company must decide ***how many*** and ***what types*** of warehouses it needs and ***where*** they will be located.

Storage warehouses store goods for moderate to long periods.

Distribution centers are designed to move goods rather than just store them.

Inventory Management

Just-in-time logistics systems: Producers and retailers carry only small inventories of parts or merchandise, often only enough for a few days of operations.

Transportation

Trucks have increased their share of transportation steadily and now account for 40 percent of total cargo ton-miles.

70 percent of all the freight tonnage moved in the United States goes on trucks.

Trucks are highly flexible in their routing and time schedules, and they can usually offer faster service than railroads.

They are efficient for short hauls of high-value merchandise.

Railroads account for 26 percent of total cargo ton-miles moved.

They are one of the most cost-effective modes for shipping large amounts of bulk products—coal, sand, minerals, and farm and forest products—over long distances.

Water carriers account for 7 percent of cargo ton-miles and transport large amounts of goods by ships and barges on U.S. coastal and inland waterways.

Although the cost of water transportation is very low for shipping bulky, low-value, nonperishable products, it is the slowest mode and may be affected by the weather.

Pipelines account for 17 percent of cargo ton-miles and are a specialized means of shipping petroleum, natural gas, and chemicals from sources to markets.

Air carriers transport less than 1 percent of the nation's goods. Airfreight rates are much higher than rail or truck rates.

The ***Internet*** carries digital products from producer to customer via satellite, cable, or phone wire.

Multimodal transportation: Combining two or more modes of transportation.

- ***Piggyback:*** Rail and trucks;
- ***Fishyback:*** Water and trucks;
- ***Trainship***: Water and rail;
- ***Airtruck:*** Air and trucks.

Logistics Information Management

Electronic data interchange (EDI) is the computerized exchange of data between organizations.

Vendor-managed inventory **(VMI)** systems or ***continuous inventory replenishment*** systems, is the customer sharing real-time data on sales and current inventory levels with the supplier. The supplier then takes full responsibility for managing inventories and deliveries.

Integrated Logistics Management

Integrated logistics management is a concept which recognizes that providing better customer service and trimming distribution costs require ***teamwork***, both inside the company and among all the marketing channel organizations.

Cross-Functional Teamwork inside the Company

The goal of integrated supply chain management is to harmonize all of the company's logistics decisions.

Close working relationships among departments can be achieved in several ways.

- Permanent logistics committees, made up of managers responsible for different physical distribution activities
- Supply chain manager positions that link the logistics activities of functional areas
- System-wide supply chain management software

Building Logistics Partnerships

***Cross-functional, cross-company teams*:** For example, Nestlé's Purina pet food unit has a team of dozens of people working in Bentonville, AR, the home of Wal-Mart. They work jointly with their counterparts at Wal-Mart to find ways to squeeze costs out of their distribution system.

***Shared projects*:** For example, Home Depot allows key suppliers to use its stores as a testing ground for new merchandising programs.

Third-Party Logistics

Third-party logistics (3PL) providers help clients tighten up overstuffed supply chains, slash inventories, and get products to customers more quickly and reliably. (Also called ***outsourced logistics*** or ***contract logistics.***)

Companies use third-party logistics providers for several reasons.

1. These providers can often do it more efficiently and at lower cost.
2. Outsourcing logistics frees a company to focus more intensely on its core business.
3. Integrated logistics companies understand increasingly complex logistics environments.

SELF CHECK

10-1. Compare and contrast upstream and downstream partners in a company's supply chain. Explain why value delivery network might be a better term to use than supply chain.

10-2. Compare direct marketing channels and indirect marketing channels. Name the various types of resellers in marketing channels.

10-3. Name and describe the three strategies available when determining the number of marketing intermediaries.

10-4. List and briefly describe the major logistics functions. Provide an example of a decision a logistics manager would make for each major function.

Points to Ponder/Takeaways

This chapter deals with distribution. An individual firm's success depends not only on how well *it* performs but also on how well its *entire marketing channel* competes with competitors' channels. To be good at customer relationship management, a company must also be good at partner relationship management.

References

Kotler, P., Armstrong, G. (2020). Marketing: An Introduction. New Jersey: Pearson/Prentice Hall.

Topic 11 Marketing Ethics and Responsibility

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

1. Define *sustainable marketing* and discuss its importance.
2. Identify the major social criticisms of marketing.
3. Define *consumerism* and *environmentalism* and explain how they affect marketing strategies.
4. Describe the principles of sustainable marketing.
5. Explain the role of ethics in marketing.

► INTRODUCTION

First, the chapter defines sustainable marketing and then looks at some common criticisms of marketing as it impacts individual consumers and public actions that promote sustainable marketing.

Finally, we look at how companies can benefit from proactively pursuing sustainable marketing practices that bring value not just to individual customers but also to society as a whole.

11.1 SUSTAINABLE MARKETING

Sustainable marketing calls for socially and environmentally responsible actions that meet the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs. The *marketing concept* recognizes that organizations thrive from day to day by determining the current needs and wants of target group customers and fulfilling those needs and wants more effectively and efficiently than competitors do. However, satisfying immediate needs and desires doesn't always serve the future best interests of either customers or the business. Whereas the *societal marketing concept* considers the future welfare of consumers and the *strategic planning concept* considers future company needs, the *sustainable marketing concept* considers BOTH.

11.2 SOCIAL CRITICISMS OF MARKETING

Marketing's Impact on Individual Consumers

Consumer advocates, government agencies, and other critics have accused marketing of harming consumers through high prices, deceptive practices, high-pressure selling, shoddy or unsafe products, planned obsolescence, and poor service to disadvantaged consumers.

High Prices

Many critics charge that the American marketing system causes prices to be higher than they would be under more "sensible" systems.

High Costs of Distribution. A long-standing charge is that greedy channel intermediaries mark up prices beyond the value of their services.

How do resellers answer these charges? They argue that intermediaries do work that would otherwise have to be done by manufacturers or consumers.

High Advertising and Promotion Costs. Modern marketing is accused of pushing up prices to finance heavy advertising and sales promotion.

Marketers respond that advertising does add to product costs. But it also adds value by informing potential buyers of the availability and merits of a brand.

Excessive Markups. Critics charge that some companies mark up goods excessively.

Marketers respond that most businesses try to deal fairly with consumers because they want to build customer relationships and repeat business.

Deceptive Practices

Deceptive practices fall into three groups:

1. Promotion
2. Packaging
3. Pricing

Deceptive promotion includes practices such as misrepresenting the product's features or performance or luring customers to the store for a bargain that is out of stock.

Deceptive packaging includes exaggerating package contents through subtle design, using misleading labeling, or describing size in misleading terms.

Deceptive pricing includes practices such as falsely advertising "factory" or "wholesale" prices or a large price reduction from a phony high retail list price.

The Wheeler-Lea Act gives the Federal Trade Commission (FTC) power to regulate “unfair or deceptive acts or practices.”

“**Puffery”** is defined as innocent exaggeration for effect.

High-Pressure Selling

Marketers have little to gain from high-pressure selling.

Such tactics may work in one-time selling situations for short-term gain. However, most selling involves building long-term relationships with valued customers.

Shoddy, Harmful, or Unsafe Products

There are a number of typical product complaints:

- Products are not made well and services are not performed well.
- Product safety has been a problem for several reasons, including company indifference, increased product complexity, and poor quality control.
- Many products deliver little benefit, or they might even be harmful.

Planned Obsolescence

Critics also have charged that some companies practice planned obsolescence, causing their products to become obsolete before they actually should need replacement.

Other companies are charged with *perceived obsolescence*—continually changing consumer concepts of acceptable styles to encourage more and earlier buying. An obvious example is the fast-fashion industry with its constantly changing clothing fashions

Marketers respond that consumers *like* style changes; they get tired of the old goods and want a new look in fashion. Or they *want* the latest high-tech innovations, even if older models still work.

Poor Service to Disadvantaged Consumers

The American marketing system has been accused of serving disadvantaged consumers poorly.

Critics accuse major chain retailers of **redlining**, drawing a red line around disadvantaged neighborhoods and avoiding placing stores there.

Clearly, better marketing systems must be built to service disadvantaged consumers.

In cases where marketers do not step in to fill the void, the government likely will.

Marketing's Impact on Society as a Whole

False Wants and Too Much Materialism

Critics have charged that the marketing system urges too much interest in material possessions.

People are judged by what they *own* rather than by who they *are*.

These criticisms overstate the power of business to create needs.

Too Few Social Goods

Business has been accused of overselling private goods at the expense of public goods.

A way must be found to restore a balance between private and public goods.

Some options include:

- Making producers bear the full social costs of their operations.
- Making consumers pay the social costs.

Cultural Pollution

Critics charge the marketing system with creating ***cultural pollution*.** They feel our senses are being constantly assaulted by marketing and advertising.

Marketers answer the charges of "commercial noise" with these arguments:

1. Because of mass-communication channels, some ads are bound to reach people who have no interest in the product and are therefore bored or annoyed.
2. Ads make much of television and radio free to users and keep down the costs of magazines and newspapers.
3. Today's consumers have alternatives.

Marketing's Impact on Other Businesses

Critics charge that a company's marketing practices can harm other companies and reduce competition.

Three problems are involved:

1. Acquisitions of competitors
2. Marketing practices that create barriers to entry
3. Unfair competitive marketing practices.

11.3 CONSUMER ACTIONS TO PROMOTE SUSTAINABLE MARKETING

The two major movements have been *consumerism* and *environmentalism.*

Consumerism

Consumerism is an organized movement of citizens and government agencies to improve the rights and power of buyers in relation to sellers.

Traditional ***sellers' rights*** include:

- The right to introduce any product in any size and style, provided it is not hazardous to personal health or safety; or, if it is, to include proper warnings and controls.
- The right to charge any price for the product, provided no discrimination exists among similar kinds of buyers.
- The right to spend any amount to promote the product, provided it is not defined as unfair competition.
- The right to use any product message, provided it is not misleading or dishonest in content or execution.
- The right to use any buying incentive programs, provided they are not unfair or misleading.

Traditional ***buyers' rights*** include:

- The right not to buy a product that is offered for sale.
- The right to expect the product to be safe.
- The right to expect the product to perform as claimed.

Consumer advocates call for the following additional consumer rights:

- The right to be well informed about important aspects of the product.
- The right to be protected against questionable products and marketing practices.

- The right to influence products and marketing practices in ways that will improve the "quality of life."
- The right to consume now in a way that will preserve the world for future generations of consumers.

Consumers have not only the ***right*** but also the ***responsibility*** to protect themselves instead of leaving this function to someone else.

Environmentalism

Environmentalism is an organized movement of concerned citizens, businesses, and government agencies to protect and improve people's living environment.

Environmentalism is concerned with damage to the ecosystem caused by global warming, resource depletion, toxic and solid wastes, litter, and other problems.

In recent years, most companies have accepted responsibility for doing no harm to the environment.

Environmental sustainability - Environmental sustainability is about generating profits while helping to save the planet.

The **greening** activities pay off for the firm in the short run.

Pollution prevention - Eliminating or minimizing waste before it is created.

Product stewardship - Minimizing not just pollution from production and product design but all environmental impacts throughout the full product life cycle, and all the while reducing costs.

Design for environment (DFE) and ***cradle-to-cradle*** practices involve thinking ahead to design products that are easier to recover, reuse, or recycle and developing programs to reclaim products at the end of their lives.

New clean technology. Many organizations that have made good sustainability headway are still limited by existing technologies. To create fully sustainable strategies, they will need to develop innovative new technologies.

Sustainability vision. Serves as a guide to the future. It shows how the company's products and services, processes, and policies must evolve and what new technologies must be developed to get there.

Public Actions to Regulate Marketing

Many of the laws that affect marketing are listed in Chapter 3.

The task is to translate these laws into the language that marketing executives understand as they make decisions.

11.4 BUSINESS ACTIONS TOWARD SUSTAINABLE MARKETING

Sustainable Marketing Principles

Under the sustainable marketing concept, a company's marketing should support the best long-run performance of the marketing system.

Enlightened marketing consists of five principles.

1. ***Consumer-Oriented Marketing***

Consumer-oriented marketing means that the company should view and organize its marketing activities from the consumer's point of view.

Only by seeing the world through its customers' eyes can the company build lasting and profitable customer relationships.

2. ***Customer-Value Marketing***

Customer-value marketing means the company should put most of its resources into customer value-building marketing investments.

By creating value *for* consumers, the company can capture value *from* consumers in return.

3. ***Innovative Marketing***

Innovative marketing requires that the company continuously seek real product and marketing improvements.

4. ***Sense-of-Mission Marketing***

Sense-of-mission marketing means that the company should define its mission in broad ***social*** terms rather than narrow ***product*** terms.

5. ***Societal Marketing***

Societal marketing means an enlightened company makes marketing decisions by considering consumers' wants and interests, the company's requirements, and society's long-run interests.

Products can be classified according to their degree of immediate consumer satisfaction and long-run consumer benefit.

- **Deficient products** have neither immediate appeal nor long-run benefits.
- **Pleasing products** give high immediate satisfaction but may hurt consumers in the long run.
- **Salutary products** have low appeal but may benefit consumers in the long run.
- **Desirable products** give both high immediate satisfaction and high long-run benefits.

Marketing Ethics

Corporate marketing ethics policies are broad guidelines that everyone in the organization must follow.

What principle should guide companies and marketing managers on issues of ethics and social responsibility?

One philosophy is that such issues are decided by the free market and legal system.

A second philosophy puts responsibility not on the system but in the hands of individual companies and managers.

Written codes and ethics programs do not ensure ethical behavior.

Ethics and social responsibility require a total corporate commitment.

The Sustainable Company

Sustainable marketing goes beyond caring for the needs and wants of today's customers.

Sustainable marketing provides the context in which companies can build profitable customer relationships by creating value for customers in order to capture value from customers in return, now and in the future.

SELF CHECK

11-1. What is sustainable marketing? Explain how the sustainable marketing concept differs from the marketing concept and the societal marketing concept.

11-2. What is planned obsolescence? How do marketers respond to this criticism?

11-3. How can marketing be criticized in terms of its negative impact on competitors and competition?

Points to Ponder/Takeaways

This final chapter focuses on the concepts of sustainable marketing, meeting the needs of consumers, businesses, and society – now and in the future – through socially and environmentally responsible marketing actions.

References

Kotler, P., Armstrong, G. (2020). Marketing: An Introduction. New Jersey: Pearson/Prentice Hall.