Author’s Note

This Principles of Marketing e-text is my first effort at writing a textbook. I have tried to gather and record the areas of marketing that meet two goals. First, I have included the information that is most likely to be used by a typical marketing student. Second, I have written about principles of marketing that are true principles, that is, that are less likely to change fundamentally in the foreseeable future. In choosing material to cover, I have tried to consider the fact that most people who learn this material do not have their primary professional responsibility in marketing. Therefore, I have attempted to focus on material that will be most helpful to those who will not work primarily in the marketing area. If you learn this material and are not a marketing person at least it will help you work more effectively with those who are in marketing and improve your ability to be a better consumer.

I hope you enjoy your experience with this e-book. As with any project, I will be trying to continuously change this book to meet the needs of its users, so please let me know of any suggestions, recommendations you may have particularly as they apply to your ability to learn and apply the material presented.

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# Principles of marketing: An applied, collaborative learning approach

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Chapter One – What is marketing and how does it differ from sales, advertising, and promotion?

Marketing is one of the most misunderstood and confusing terms used in business. How would you define it? Think about what you believe marketing is and write your definition down now:

Marketing is: "__________________________________________________________
__________________________________________________________".

Save this definition to compare it to other definitions of marketing we cover later on.

Why is the term “marketing” surrounded by confusion?

First, the word ‘marketing’ means very different things to different people in different industries. For example, a coal producer in Kentucky just needs to understand what price the local buyer will be paying for the product and s/he can then plan to ‘market’ (or just sell) the coal produced to the local buyer. Second, think about how much different the above situation is from another case in which ‘marketing’ must be done. Let’s say that you are a product-marketing engineer at Agilent Technologies and your Product Marketing Manager has informed you that you will be responsible for ‘marketing’ a new product that has been conceptualized by engineers in the Research and Development (R&D) Department. Finally, assume a good friend of yours who has invented a new way for people to wash their car. She has asked you ‘to market’ her product for her. In all three of these situations, the product has already been conceptualized and produced. It won’t help the individual marketer at all to consider how the market will react to the product. In situation one, the coal miner must just extract the coal from the ground and deliver it to a local coal broker for sale. In situation two, the product manager at Agilent must first figure out what the new product will be good for and who might want to buy it. Finally, in situation three, your friend has already invented the product; it just remains for you to figure out who the people are who wash their own car and how to reach them. In all three situations, the marketer is faced with coming up with a way to sell what has already been produced. This definition of marketing, unfortunately, is how most people would define marketing, that is, “Marketing is how an organization or individual sells its product or service.” Thus in this definition, marketing is relegated to finding and exploiting a market of buyers for the product or service.

But is that how marketing practitioners and people who teach marketing define it? Let’s review some alternate definitions of marketing from the business literature.

The American Marketing Association’s definition. The American Marketing Association (AMA) is the leading organization in the U.S. representing the academic side of marketing. The organization is comprised of and primarily impacted by people who teach marketing at the college level. In 1948, the AMA defined marketing as follows:
“The performance of business activities directed toward, and incident to, the flow of goods and services from producer to consumer or user.”
(AMA, 1948).

Note that the definition above focuses on the DISTRIBUTION aspect of marketing and doesn’t really include the ‘Four P’s’: Product, price, promotion, place (distribution).

In 1985, the AMA definition was changed to “the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.” (AMA 1985)

Compare these two definitions: How are they similar and how do they differ?
Why do you think the AMA made the change in the definition of marketing?

Now, compare the above discussion to YOUR definition of marketing. How do the definitions differ from yours? How are they similar?

Speaking of confusion, type in the key word “marketing” into your favorite search engine on the internet and see what you find.

The Seven Steps in the Marketing Process

It is natural that people in different situations define marketing differently. However, we will approach the definition of marketing by first learning about the seven steps in the process of marketing. While this process is not always followed, it is important that any student of marketing understand what steps must be taken to be successful in a marketing effort. The marketing process can be described in the following seven steps:

A. Understand the market wants/needs of interest
B. Based on relative size and needs of the market, select certain segments of the market that are of the most interest to you and your organization
C. Thoroughly describe these segments based on their individual needs
D. Create a product or service that will meet the specific needs identified
E. Communicate the concept of the product or service to the targeted customer in a way that makes sense to the customer
F. Deliver the product or service to the targeted customer in a way that will be convenient to the customer
G. Solicit feedback from the customer about how your product or service could be improved to meet the customers’ needs even better

This process is applicable to most situations encountered by those wanting to market a product or service. The process of marketing can be divided into ‘upstream’ and ‘downstream’ activities. That is, steps A through D are all ‘upstream’ activities that should be performed before a product actually exists. Surely, there are many readers
who will say, “Wait, this won’t work for me, I am like those people who you described at first, I already HAVE a product to sell, I just need to find somebody to BUY IT!” As marketers, we understand that many sellers don’t have the option or input to create a new product or service. However, this e-book is designed for people who want to do marketing the right way. If you must pick up the process after steps A, B, and C have already been performed, realize that some steps have already been done, and you should check to see if they have been done correctly.

Also note that marketing research plays an integral role in each of these stages. That is, the organization that is truly focused on customer needs must be driven by an active research effort.

**Definition of marketing we will use in this book**

Based on the seven-step approach to marketing, we will define marketing as:

“The conceptualization and delivery of customer satisfaction” – the first part of this definition would be covered in steps A through D in the marketing process above and the final aspect ‘delivery’ would be represented by steps E, F, and G. Of course, in order to deliver ‘customer satisfaction,’ one must do customer research, thus step G will provide feedback into the continuation of the seven-step marketing process over time.

**Upstream and Downstream Marketing Activities in the Marketing Process**

What marketing activities are performed and how they are performed will have a lot to do with how many choices you have in managing the steps marketing process and the focus of the organization’s marketing effort. The organization will view the marketing function’s responsibilities based on the history of the organization and its orientation to doing business. For example, there are several different orientations that organizations use to approach doing business or serving their customers. Usually, the firm does not specifically state this orientation. For example, if a firm defined its product policy as “research leading to creation of the most sophisticated, highest quality products and services in the world” then it has decided to use a “Product or Production Orientation.” That is, the organization has decided for itself what customers want (sophisticated, highest quality products) and has ignored the first three steps in the marketing process we described above.

As a consumer, do all customers want the most sophisticated, highest quality products and services? Do you as a consumer always seek out the most sophisticated, highest quality products and services?

**Write your answer to this question in the following line:**
Another approach or orientation to managing the marketing function can be called “Sales (or Promotion) orientation”. In this approach, marketing is seen as serving the same function as with personal selling and advertising, and marketing’s primary job in the organization is to ‘sell, sell, sell.’ In this approach, steps A through C of the marketing process are largely ignored and marketing resources are instead placed on generating more sales.

There is an approach to marketing called the “Customer as Monarch (or Marketing) Concept” and while it has been around under different names for many decades, it is still a good guide to managing marketing activities. It can be described by the slogans ‘we do it all for you,’ ‘have it your way’ a former Burger King slogan, or just by the simple saying which perhaps you have already heard, “find a need and fill it”. The Marketing Concept would rephrase this saying a bit, and be represented by an approach of “find a need, and fill it profitably and more effectively than the competition.” Yes, this is a demanding task, but in these times, we exist in an extremely competitive world. Note that this competition includes organizations in both the for-profit sector and the not-for-profit sector, with the latter being as competitive as the former.

The ‘Customer as Monarch’ and the ‘Marketing Concept’ are related to the Seven Step Marketing Process

The marketing concept can be thought of as having four parts as follows:

**Part I – Understand and meet customers needs**, said another way, provide satisfying products and services to your target customers

**Part II – Meet organizational goals** – this is applicable for both for-profit and not-for-profit organizations. For-profit organizations should have goals other than profit, a for-profit goal being ‘make a fifteen percent return on investment’. A longer-term goal that is ultimately tied to profits but immediately is tied to customer satisfaction might be: “Be a recognized leader in customer satisfaction in our industry.” Not-for-profit organizations have goals non-financial performance such as ‘provide thirty hours of client services per week consistent with our organizational mission.’

**Part III – Integrate marketing activities** – this part can be the most complex, but also the most critical. That is, when the organization has agreed on a marketing strategy, it must execute the strategy in an efficient and effective way. For example, “fifty-percent-off” coupons appearing in the Sunday newspaper will not reach the goal of inducing new product trial if the product is not available in stores due to a problem with product distribution and if sale catalogs are printed by a central office without coordination with local business outlets, there will be regular inventory understocks or overstocks.

**Part IV – Satisfy customers better than the competition.** A indicated above, EVERY ORGANIZATION has competition. If there are not similar product solutions that provide similar benefits available then there will be competing uses for expenditure of the customer’s income.
Like the Seven Step Marketing Process, the Marketing Concept serves as a guide for applying organizational resources directed at marketing.
Chapter One Exercises:

1. Summarize on a one-page report what you find after you get on the internet and search the keyword ‘marketing.’ Organize your answer according to the different categories you find in your search.

2. In a one-page essay, compare the different definitions of marketing discussed including your own definition. Has your definition of marketing changed? If so, how?

3. Identify an organization that you believe is fulfilling each step in the marketing concept. In your analysis, go step by step to better explain your answer.

4. Identify an organization that you believe is not fulfilling each step in the marketing concept. In your analysis, go step by step to better explain your answer.

5. Write a job description for a manager of the marketing function (that is, what would be his/her duties and major responsibilities) in the following orientations: production orientation, sales orientation, market (customer) orientation.

6. In a one-paragraph answer, explain how you believe the personal selling effort should be related to marketing in a modern organization.

7. Given what you have learned in Chapter One, explain the difference between the terms “marketing” and “promotion.”
Chapter One Glossary

Marketing - “The conceptualization and delivery of customer satisfaction”
Upstream marketing activities – understanding, selecting, describing target markets, and creating a product or service to meet the needs of those target markets
Downstream marketing activities – communicating a product or service concept to the chosen target market and providing customer satisfaction in the process by delivering that product or service
Customer as Monarch, or marketing concept – a philosophy of doing business in which the organization places utmost importance on delivering customer satisfaction, meeting organizational goals, and outperforming the competition while integrating all marketing activities.
Chapter Two – What is Marketing Management and what do product managers and marketing managers do?

The Meaning of the terms Marketing Manager and Marketing Management

Traditionally if a person had the title of “manager,” it meant that s/he had responsibility for helping guide the activities of at least some number of employees. While this terminology has changed over the years, we still consider someone who has the title of ‘manager’ to be responsible for overseeing the allocation of resources for the organization. For example, as an ‘individual contributor’ I might have the responsibility of performing certain work (for example, writing marketing literature for the firm’s products), but not be responsible for the activities of anyone other than myself. In high technology industries, the word manager is often replaced with “Director” to indicate that a person has primary responsibility for a certain organizational function. For example, the ‘marketing director’ may be responsible for all marketing activities in the firm. At other firms, the term ‘marketing manager’ would be used to describe the same thing. In some organizations, the Vice-President of Marketing may perform the same functions. The term Product Manager is often used in high technology industries to assign responsibility to a specific individual or group for the successful supervision of all marketing activities related to a specific product or service. Sometimes the product manager’s responsibility is defined in terms of the product s/he is overseeing and sometimes the responsibility is defined in terms of a specific technology. For example, one high-tech firm might use the title of Product Manager-Digital Systems to describe the job of the person who is responsible for digital versus analog customer solutions. This brings up still another consideration. The use of titles varies across industries and size of organizations. We will discuss how different firms organize the marketing function in a later chapter.

What is marketing management?

We will use the following definition of marketing management: “Marketing management is the process allocating the resources of the organization toward marketing activities.” Thus, a marketing manager is someone who is responsible for directing expenditures of marketing funds. Related to the term ‘management’ is the term ‘strategy.’ Many words in the vocabulary of business management were taken from the field of military science. For example, the word ‘strategy’ has been used in the military for many decades to indicate a long-term commitment of resources toward accomplishing a certain goal. Thus it is often said that management is responsible for conceptualizing strategies, and other employees are responsible for implementing those strategies. The time-honored Management-by-Objectives programs in which a supervisor will formulate strategies and other employees will choose the method of reaching those objectives is an example of this relationship in action. As the reader can see, a discussion of ‘strategy, objectives, and goals’ can very quickly develop into a miasma of terms and confusion. Thus, we will use the following definitions. First, we will consider goals and objectives to be identical terms. Second, we will use the term ‘objective’ to refer to a broad-based
design of where the organization would like to be at some point in the future. For example, as an objective, the organization might decide to be the ‘leader in product quality as judged by customer surveys of our organization and our five leading competitors.’ We will define the term ‘strategy’ as a method used to reach an objective. For example, to reach our product quality objective, our organization might decide to enroll in a ‘total quality program’ offered by most large consulting firms. Thus, strategy will have two meanings. First, it is the overall orientation an organization choosing to allocate its resources, and second, strategy is a specific action used to implement plans. Thus, there is a two-tiered nature to strategy. One at the top, as a broad guide to preferred action, and one below helping to implement objectives. Use ‘strategy’ as a keyword search on the internet and see what you find.

In marketing, we often use the ‘four P’s’ to designate the areas of control a marketing manager has at his/her command. The ‘four P’s’ as you probably already know are: Product, Price, Promotion, and Place. The ‘four P’s’ represents a convenient way to summarize the main factors involved in any ‘marketing strategy.’ However, seen in a contemporary sense, the four P’s may mistakenly be limited to downstream marketing activities only and as Chapter One indicates, there are also upstream marketing activities that are related to the marketing mix. If this does not make sense to you, please go back and review the terms used in Chapter One.

The Marketing Management Cycle

The planning cycle is composed of five basic steps. First, Planning is the process of examining and understanding the surroundings within which the organization functions. For example, “environmental scanning” is the process of studying and making sense of all the things that might impact the firm’s operation that are external to the firm. This would include studying and gaining an understanding of such things as: competition, legislation and regulation, social and cultural trends, and technology. Both present and developing trends in each of these areas must be identified and monitored.

Second, Implementation is the process of putting plans that have been made into action. It is the transition from expected reality to existing reality.

Third, Monitoring is the process of tracking plans and identifying how plans map to changes that take place during program operation when more information is acquired. Correction is the stage in which we take action to return our plan to the desired state based on feedback obtained in the monitoring stage. If we find that return to the planned state is not practicable, we may adjust our planning outcomes. Thus, Monitoring and Correction may be considered two stages because after plans are put into action, one must continually monitor performance and make adjustments to the plan based on the feedback gathered through these monitoring activities. In summary, the marketing management cycle composed of planning, implementing, monitoring, and correcting. We use the use the term ‘PIMC’ as a device to remember the stages.
**An example of the marketing management cycle in action:**

**Let’s Get It Together Family Organization Services**

The organizational mission of this service firm is: “We provide families with means to improve their peace of mind and quality of life.” Representatives of the firm meet with families, question them to understand how the family operates at present, do an on-site ‘activities audit’ that models patterns of daily life for the family, and then offer suggestions about how the family can be better organized and more efficient in its use of time. Let’s Get It Together is owned and operated by a mother of three children. After conducting several informal focus groups, she decided to start this business because she realized that her family and most other families she observed lived in a state of chaos. After attending a seminar on creativity and innovation, she decided that there was a real need in the marketplace for a not-for-profit educational institution to pass along all of the knowledge families have about how to manage their household activities more effectively.

After she came up with the idea, the owner realized that she must get organized herself, thus based on the “Five W’s and H Technique” (Who, What, Where, When, Why, and How) she composed the following questions:

What will the customer satisfaction entail, that is, what are the needs I am trying to meet?  
Who will receive customer satisfaction?  
Why will my organization deliver this particular customer satisfaction?  
Who will deliver customer satisfaction?  
Where will I deliver customer satisfaction?  
When will I deliver customer satisfaction?  
How will I deliver customer satisfaction?

The owner then modeled the marketing management cycle as follows:

**Planning:** First answer the seven questions I have formulated.

**Answers to questions:**

**Question # 1:** What will the customer satisfaction entail, that is, what are the needs I am trying to meet?  
*Answer:* Provide easy-to-follow guidance on improving family organization

**Question # 2:** Who will receive customer satisfaction?  
*Answer:* Families who perceive a need for being better organized.

**Question # 3:** Why will my organization deliver customer satisfaction?  
*Answer:* First, there is a already perceived need to be better organized. Second, there are ways to fulfill that need that are not being provided to families.

**Question # 4:** Who will deliver customer satisfaction?
Answer: Let’s get it together, through a small staff of highly trained and ethical individuals, will provide this service to families.

Question # 5: Where will I deliver customer satisfaction?
Answer: The service will be provided through small introductory seminars and through meetings in the homes of the families, if preferred.

Question # 6: When will I deliver customer satisfaction?
Answer: Customer satisfaction will start with the first seminar and continue through a continuing association with Let’s get it together.

Question # 7: How will I deliver customer satisfaction?
Answer: Through a personal and caring approach with my clients involving seminars and continuing personal contacts.

If you review the seven questions, and the answers above, you can see that some of the planning has been done. What remains is to identify specific actions that must take place to ensure success such as identifying the characteristics of the best candidates for our service, creation of the service materials (seminar materials, etc.) and details of the logistics by which the service will be promoted and provided.

A brief example of one aspect of this organization’s marketing planning is: “We will provide seminars that last one-half day to families who perceive the need for help in organizing their activities, thus we must identify likely places to offer these seminars. We have obtained a list of community centers, where space is provided free-of-charge for such activities, and will offer our seminars there, initially. However, we may change that approach after initial seminars are offered (monitoring and correction) and move our seminars to more centrally located sites such as hotels and churches.”

The Business Plan

The business plan is an overall blueprint for the anticipated activities for the organization over a coming time period, usually one-year (short term) or five-year (long-term). We should mention that many businesses are moving their long term planning periods to ten years and beyond in order to better prepare for the future. These businesses often make use of creativity techniques to attempt to outline what changes may occur in their respective environments and how the organization should respond to those changes.
The Marketing Plan

To formulate effective marketing programs an organization needs to create and follow a marketing plan. A marketing plan is a document that describes the activities in which the organization intends to engage in a coming time period, usually one-year. However, there are often situations in which an organization will have a medium-term marketing plan (two to five years) and a long-term marketing plan that covers plans for a five-year period or greater.

While there are many different approaches to preparing a marketing plan, the following conditions should exist:

1. those who do the plan are responsible or accountable for the plan’s implementation
2. this same group is committed to the plan’s success
3. management is committed to the plan’s success and is willing to expend the necessary resources for its implementation
4. the marketing plan is created in the context of the organization’s overall business plan
5. people in the organization share a similar orientation to the marketing function

If these five conditions are met, the organization is much more likely to be able to successfully create and implement its marketing plan.

An example for the marketing is as follows:

I. Executive summary (a one-page to two-page overview of the contents of the plan)
II. Vision for the marketing plan (a paragraph that briefly describes the aspirations for the coming time period and the theme of the plan)
III. SWOT analysis outlining the strengths and weaknesses (internal to the organization) of the organization and the opportunities and threats (external to the organization) that the organization faces.
IV. Description of market/customer types and products/services that will provide satisfaction to those markets and customers
   a. Market grid of markets and customers
   b. Product/service positioning strategy
V. Marketing objectives for the coming period (objectives should be “SUMAC” or specific, understandable, measurable, attainable, and consistent)
VI. Description of marketing programs with timeline (a calendar of major marketing events planned, with a description of each event)

This outline should be combined with the PIMC model described earlier in the chapter. The PIMC serves as a good guide for on-going implementation of the marketing plan.

While the outline above is simplified, it touches on the critical areas for a marketing plan. It is important to point out, however, that a plan is only as good as its implementation,
thus, it is usually better to have a poor plan and good implementation than a great plan that never gets implemented.
Chapter Two Exercises

8. Call your local grocery or supermarket and ask to interview the store manager. Schedule an interview and in the interview ask the manager how s/he would define marketing management. And how his/her job relates to marketing management.

9. If you have an industry of interest, explore the definition of marketing management in that industry by interviewing someone who works in that industry.

10. Apply the PIMC planning cycle (planning, implementation, monitoring, and correction) to model the actions necessary for a ten year old to set up a lemonade stand. Write a one-page essay on your analysis, identifying activities conducted in each step in the PIMC cycle.

11. Use the marketing plan outline in the chapter to prepare a marketing plan for the lemonade stand. Limit your marketing plan to two pages using keywords to describe your plan.

12. Search the internet for the term “Product manager” and write a one-page summary of your findings.

13. Write a job description for a marketing manager of the marketing function. How does it compare to the description you gave in answer to question six in chapter one?

14. In a one page essay, make observations on ‘Let’s Get It Together’ Family Organization Services,’ including the benefits families can expect from participation and your estimate of demand for this new service. To what segment, if any, do you believe this service will appeal? Describe this segment of families using factors like family income, education, lifestyle, etc.
Chapter Two – Glossary

Marketing management - the process allocating the resources of the organization toward marketing activities
Marketing plan - a document that describes the activities leading to customer satisfaction the organization anticipates intends to engage in a coming time period, usually one-year.
Chapter Three – How do we identify and understand markets?

As a student of marketing, you have already learned that the main purpose of modern marketing is to serve customers. If the organization really believes in this philosophy, that is, “the Customer Rules,” it only remains for the organization to focus on researching and understanding its customers and then delivering products and services to the customer that will not only meet the customer’s needs, but satisfy the customer in a way that will keep the customer coming back to our organization to do business with us. Therefore, often the first assignment for the marketing function is to gather and analyze information about customers. Today, that usually means first attempting to understand the structure of the marketplace.

Understanding the Marketplace and Different Customer Segments

The main goal of market segmentation (dividing the market into different portions based on differences in customers) is to better understand the needs of our customers thus we need a structured approach to attain this goal. A simple seven-step approach follows:

Step One: Identify the type of market with which you will be dealing

Step Two: Analyze the areas of satisfaction you are attempting to provide to this market, that is, what wants or needs do you intend to satisfy?

Step Three: Select dimensions with which to segment the market

Step Four: Based on the selected dimensions, identify the segments in the market under study

Step Five: Evaluate whether the segment in which you are interested meets the four criteria for effective segmentation

Step Six: Create a profile of the customer identified including purchasing behavior expectations

Step Seven: Combine the segmentation analysis with other analyses related to the product, market, and business strategy.

Step One: Identify the type of market with which you will be dealing

Types of Markets

Market segmentation is an approach by which we identify, define, and understand different sub-markets for products and services. For example, the automobile market is
comprised of many segments including passenger cars, vans, sports utility vehicles, pickup trucks, and many others. Notice, that if you choose one segment, for example, passenger cars, there are many segments within that segment (for example, Two-door sports sedans, four-door station wagons, convertibles, etc.). The first step to market segmentation is understanding and defining the market with which you are working. For example, if we examine the market for toothpaste, we might first look at the type of market we are looking at. Normally, in marketing, we can identify four types of markets.

1. **consumer markets** – people who buy for their own, personal non-business use (for example, you buy a lawnmower at Wal-Mart to mow your own yard).
2. **organizational markets** – organizations buy goods and services for use in the operation of their businesses or for resale. For example, Compaq computer buys many of its microprocessors from Intel Corporation and your local dentist must obtain supplies and materials to provide his/her services to patients.
3. **government markets** – Local, state, and federal governments taken together constitute for the largest demand for goods and services in the U.S. For example, your local police department must buy patrol cars.
4. **institutional markets** – these markets include universities, hospitals, and other similar organizations. For example, a hospital cafeteria must purchase food and other supplies to run its operation.

Note that each of these types of markets has demand for both goods (tangible products that we can touch, feel and see) and services (intangible products that we cannot touch, feel, and see). After identifying the type of market, we can then begin to identify segments within that market. For example, if we are analyzing the consumer market for toothpaste, we realize that there are many segments identified in that market already: health (that is, fluoride, tartar control, sensitive gums, and so forth), attractiveness (whitening, breath freshener, etc.), special needs (smokers’ toothpaste, kids’ toothpaste, etc.). Note that there are several different dimensions for segmenting markets. For example, the last category we mentioned ‘special needs’ includes both a lifestyle segment – smokers, and an age segment – children. We will address this issue later in the chapter.

Different types of markets often require a separate basis for market segmentation. For example, we frequently use age as a way to understand and segment consumer markets because age often accounts for significant differences in the wants and needs of consumers. For example, consider passenger cars. Many people in their early years choose cars on the basis of styling, economy, acceleration, and, of course, price. Seniors may choose their car based primarily on brand name and safety issues. Thus age is often an important criterion in what satisfies a particular consumer. However, age is rarely used to identify differences between organizations because usually, the age of an organization does not usually significantly impact its particular demand for products and services. As in many cases in marketing, the exceptions to this statement only serve to prove the rule.
Step Two: Analyze the areas of satisfaction you are attempting to provide to this market, that is, what wants or needs do you intend to satisfy?

As we will discuss in following chapters, people and organizations usually purchase benefits: not products or product features. Therefore, market segmentation analysis requires a clear definition of the benefits customers are expecting to receive through purchase. For example, people buy vacuum cleaners to attain their personal goal of having a clean, sanitary carpet. The form of the product doesn’t matter as much as the product’s ability to provide those benefits. What would you do if you were marketing manager of a company that has vacuum cleaner bags as its sole product when more and more vacuums are ‘bagless?’ The implications for product design will be discussed in a later chapter.

When deciding on how to distribute a product, one organization may choose the internet based on its customers’ desire for efficiency in buying and familiarity with the world-wide web, while another organization may choose to distribute its products through a traditional retail outlet because the segment chosen prefers to ‘touch and feel’ the product.

For an additional example, consider a small gift shop. If a market research study indicated that customers of the shop preferred a lot of assistance in the product choice process because over three-fourths of the products purchased in the store were purchased as gifts, the product would be distributed through a physical location within which the customer could compare alternatives. Thus, the primary benefits sought in this shop were finding a good gift idea with a sense of security against giving an inappropriate gift. Notice that the store’s owner might change from an inventory similar to her competitors to a differentiated set of product choices aimed at meeting her customers’ purchasing goals of quality and uniqueness.

Step Three: Select dimensions with which to segment the market

The dimensions used to segment the different types of markets will be organized according to type of market because the dimensions used for segmentation vary substantially.

Dimensions for Segmenting Consumer Markets

As discussed earlier, people in consumer markets buy for their own, personal non-business use, thus segmentation dimensions for this type of market focus on the characteristics of the buyer. Four dimensions are traditionally used to segment consumer markets. These dimensions are:

a. demographic dimensions - demo’ means people, and ‘graphics’ means some representation of thereof. So, demographics consists of all those
characteristics of people that are used to describe the size and composition of the population including age, gender, amount of income, level of education, and other such attributes.

b. psychographic dimensions - ‘psycho’ from Greek means ‘spirit or mind’ so while demographics deals with the statistical characteristics of the market segment, psychographics refers to the characteristics of peoples’ spirits and minds. For example, psychographics is usually broken down into personality, life style, and motivation.

c. geographic dimensions – this dimension, not surprisingly, relates to where people live, for example, the demand for snow skis is higher in the mountainous states in the U.S. than it is in the Plains states.

d. behavioristic (or intended use) – this dimension relates to benefits sought and expected use by the customer. For example, many products are sold in multiple packages such as six-packs because customers expect to consume multiple units in relatively short periods of time.

Dimensions for Segmenting Organizational Markets

Customers in organizational markets buy products either to use in the operation of their business or to resell to other organizations. For example, Walmart must purchase cleaning products to keep Walmart Stores clean and attractive, but Walmart also buys cleaning products to sell to their customers. Given this situation, different segmentation strategies are required based on the intended use of products bought by organizational customers. Bases often used include:

a. intended use of products bought
b. expected benefits to be provided by products purchased
c. size of organization
d. SIC (or NAIC) code* of organization’s or organization’s products
e. Other characteristics of organization or specific industry

*Standard Industrial Classification or North American Industry Classification System codes are numbers derived from the core business in which the organizations are engaged. These codes are useful for segmentation because all industrial activities are given a code in the U.S. This scheme has been widened to include Canada and Mexico subsequent to the NAFTA agreement. Check out the website at http://www.census.gov/epcd/www/naics.html.

Step Four: Based on the selected dimensions, identify the segments in the market under study

After dimensions have been selected to use in defining the segments, segments then must be identified in the market under study. For example, if we are trying
to analyze the market for personal computers, we might choose to identify the following segments: desktop, laptop, PDA (personal digital assistant). Which of the four dimensions did we use to create those segments? Primarily, behavioristic (intended use), because portability and computing power are two important benefits sought by different pc users.

Step Five: Evaluate whether the segment in which you are interested meets the four criteria for effective segmentation

To be useful, an approach to segmenting markets, the segments must be:

1. measurable (we can estimate how many people or organizations are in the segment)
2. accessible (we can reach the segment through available means)
3. compatible (the segment is consistent with the overall goals of the organization)
4. substantial (the segment is large enough to justify our develop of products or services just for that segment)

These four dimensions are helpful for understanding any market structure. However, we must first understand the market, itself. For example, try using this information to analyze a market with which you are familiar. Identify the different segments in that market and list the four factors above, and the concerns for each factor as it relates to the product or service you picked. For example, segment the market for shampoo or soup, listing each criterion above followed by an explanation about how this characteristic will be present in the target market.

Step Six: Create a profile of the customer identified including predictions of expected purchasing behavior

As one might expect, there is a large body of literature related to buying behavior in marketing because marketing focuses on the buyer and his/her characteristics. While we will cover parts of this literature the reader should realize that there are hundreds of thousands, if not millions of pages published in this area.

Usually when we attempt to model the buying process of our target customer. Of course, this process differs considerably across different types of markets as well as across different types of customers.

Understanding the significance of the purchase for the target customer
Very often, marketers overestimate the importance of purchases to consumers. Naturally, if one researches, manufactures, and distributes a product to consumers, one is intimately involved with the product often virtually every working hour. This circumstance often results in a heavy emphasis on customer decision-making when in fact the customer may only react on a very shallow psychological plane to products offered and the purchase decision is in reality almost an afterthought. However, it is important for marketers to attempt to model the expected buyer behavior involved for their product. We will discuss this issue further in the following chapter.

**Marketing Strategy**

We will define ‘marketing strategy’ as “a marketing mix aimed at a specific target market.” While this definition is a use of the ‘lower level’ of the term strategy, we believe that the definition is appropriate for beginning students in marketing. If we look closer at this definition we can see that a marketing strategy is:

<table>
<thead>
<tr>
<th>A Marketing Mix</th>
<th>Product or service</th>
<th>AIMED AT a Target Market</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Price</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Distribution (Place)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Promotion</td>
<td></td>
</tr>
</tbody>
</table>

We will use this definition throughout our study of marketing principles and you will soon become comfortable thinking in these terms.

**Example of seven-step segmentation process**

‘Let’s Get It Together’ Family Organization Services

**Step One: Identify the type of market with which you will be dealing**

“The consumer market”

**Step Two: Analyze the areas of satisfaction you are attempting to provide to this market, that is, what wants or needs do you intend to satisfy?**

“We seek to enhance family life for parents and children alike by providing practical tools to improve organization in family life”

**Step Three: Select dimensions with which to segment the market**

Demographic, Psychographic, Geographic, Behavioristic

(a note to the reader: segmentation doesn’t always require the use of all four of these factors in creating a profile, but we suggest you always use each dimension in your analysis, whether or not you decide to drop one later on in the process)
Step Four: Based on the selected dimensions, identify the segments in the market under study

Demographic – household income over $80,000, at least one parent is college educated, both parents work, two children or more in household suburban location in medium to large city
Geographic – every geographic region of the U.S. has families who fit our profile, also see Demographic, above
Psychographic – ‘busy or hectic’ lifestyle as described by people in segment
Behavioristic – family perceives life is ‘too hurried, too complicated, too little quality time together’

(Please note: Our marketing research studies indicated these facts and allowed us to formulate our customer profile)

Step Five: Evaluate whether the segment in which you are interested meets the four criteria for effective segmentation

Measurable – we were able to assess this segment and understand by using only the census data published by the U.S. Bureau of the Census (Website is http://www.census.gov/)
Accessible – we can easily identify and communicate with households in profile. However, selecting specific households that may want our service is much more difficult.
Compatible – our organizational mission is aimed at serving this segment, so, yes, the segment is compatible with our organization and other products/services
Substantive – our research and projections indicate that there are millions of households in our target market. Therefore, we are starting our service in one city and expanding the service over the coming years.

Step Six: Create a profile of the customer identified including purchasing behavior predictions

See Step Four above. Also, we know that purchase behavior is a high involvement transaction for our target families.

Step Seven: Combine the segmentation analysis with other analyses related to the product and market
While we believe our concept has a lot of promise, we must continue to flesh it out and do research. Organizational research will continue while we conceptualize and offer our first seminars to keep track of changes in the social environment of our chosen geographic markets. We will also maintain a research effort with all people contacted in relation to our concept including families who participate, healthcare professionals, and community leaders.
**Chapter Three Exercises**

15. Summarize in a one-page report what you find after you get on the internet and search the keyword ‘market segmentation.’ Organize your answer according to the different categories you find in your search.

16. Go to your local grocery store or supermarket and visit a specific product section. Breakfast cereal, bread, and personal care products are three good areas, but there are many others. Pick a product category that is of interest to you. Observe the products offered and identify product categories that are based on different consumer segments, in your opinion. Prepare a one-page report on your findings.

17. Using the four dimensions of segmentation for consumer markets, describe a market segment with which you are familiar. In this exercise, list each of the four dimensions and describe the segment with those dimensions. For example, the market segment that Saturn Automobiles has worked towards pleasing is men and women with a college education, in the middle-income category. They lead a relatively frugal lifestyle and seek economy and quality in their purchases.

18. Check out the website of American Demographics Magazine at [http://www.americandemographics.com/](http://www.americandemographics.com/) Read an article and write a one-page summary of the article and its relevance to marketing.

19. If you have an industry of interest, explore the markets and types of customers served by that industry. (For example, the local utility company may be owned by government, so as a customer it will be considered a government market.)

20. Apply the seven-step process of market segmentation to a new product idea that you conceive listing your activities and comments in each step in the process.

21. Do an internet search on each of the four dimensions of market segmenting consumer markets (demographics, psychographics, geographics, and behavioristics) to compare your findings to the material in your Principles of Marketing e-book.

22. Apply the PIMC planning model (planning, implementation, monitoring, evaluation, correction) to a club to which you belong. Identify each step clearly.

23. Write a job description for a manager of the marketing function. How does it compare to the description you wrote in answer to question six in chapter one?
Chapter Three Glossary

**market segmentation** - dividing the market into different portions based on differences in customers

**demographic dimensions** – grouping potential customers on objective factors, for example, age/income/gender/ethnicity and level of education

**psychographic dimensions** – grouping potential customers on psychological factors including personality, life-style, and motivation for purchases

**behavioristic (or intended use) dimension** – used for market segmentation, this dimension relates to benefits sought and expected use by the customer

**marketing strategy** - a marketing mix designed for and aimed at a specific target market
Chapter Four - Why do we study buying behavior in Marketing and what have we learned?

In Chapter Three we explored the different types of markets and the process of dividing those markets into smalls portions called market segments. In this chapter we examine a few basic concepts related to buying behavior. We use the term “a few” because in marketing, more has been written about buying behavior than in any other area. Why do you suppose this is true?

Of course, you already know the answer: Marketers believe the “Customer Rules” thus we know our primary responsibility to the organization is to gain an intimate knowledge of our customers: what satisfies them and makes them happy and what benefits they are seeking in the marketplace.

Consumer Buying Behavior

Researchers in marketing have studied most areas of consumer behavior including the impact of everything from music to lighting on how people behave and how they consume products. This is not surprising considering the fact that we live in a consumption-driven culture. We will focus on the basic constructs accepted today in the study of buying behavior.

Consumer Decision-Making

Most studies of the decision-making process in marketing have used an adaptation of the scientific method. This decision-making process is as follows:

a. Problem recognition – the consumer recognizes a problem. For example, her car has had major mechanical problems for the last two months.

b. Information search – internal and external. The consumer thinks about options she may have to remedy her situation (internal search). And then she seeks external sources of information such as friends, newspapers, TV, and the internet.

c. Alternative identification and evaluation – she has some ideas about what alternatives she has and how to approach them. She now must compare and contrast the options she has.

d. Choice and purchase – based on this process of consideration the consumer now purchases the most attractive option she has identified.

e. Post purchase evaluation – the consumer experiences her choice and determines if she is happy with it.

f. Feedback learning for future consumption behavior – the consumer remembers how she feels about her purchase and makes note of it for future reference (internal search).

As a student, learning this approach is worthwhile for you so that you will have a general framework to understand your purchasing behavior and the purchasing behavior of others for purposes of marketing research.
Of course, there are exceptions to the rather rigid, mechanistic process above. First, we often don’t go through all of the steps. This fact sometimes has to do with *involvement*. Involvement can be defined as the personal importance and social significance of the purchase. The importance can be a function of how much the product or service costs and whether there are any social risks involved. Involvement is often classified as ‘high’ or ‘low’. We would add ‘medium’ to the categories, because many products we buy fit into that area. For example, we rarely buy new cars, laser surgery for vision correction, and new houses (all three of these would be high involvement) and while we frequently buy low involvement products (coffee, soft drinks, chewing gum) we also buy many more durable products that can be considered medium involvement. For example, if a college student buys a new CD player for his car or a new sports-coat, both of these would probably be considered medium involvement because they are in the medium price range as far as his budget is concerned and there is some level of risk surrounding the purchase.

There is also another important consideration called *situational effects*. Situational effects are all of the circumstances surrounding our purchases that may strongly impact our decision-making process. For example, a female college student is preparing to go out with her friends for the evening. She and her ‘buds’ have decided to go to a club where there will be music, dancing, and, most importantly, young men. The student decides to go to Dillard’s and buy a new blouse and a pair of new ‘dressy’ slacks in preparation for the night out. She also buys some makeup and fragrance. Just last night in the midst of studying for an exam when the same student went out with her friends for pizza at a local pizza parlor, she wore jeans and a ragged sweatshirt. Why was there such a difference in her dress and preparation? The social nature of the two evenings was very different, thus situational effects strongly impacted this person’s buying behavior. We have all had a battery ‘go out’ in our car and most of us don’t think of shopping for a battery until our present battery goes dead. Again, the situation strongly impacts what are willing and able to do as far as buying behavior. Usually, we just try to find a battery wherever we can and as soon as we can to solve our problem.

We, as consumers, feel no responsibility ‘to follow the rules’ thus we may engage in unorthodox buying behavior that defies classification. For example, go to Walmart and observe customers there. You will see all types of people buying all kinds of things: some of those purchases will be planned and some will be unplanned, although, of course, you won’t be able to tell which is which. Often, a ‘shopping trip’ is directed not to a specific, planned purchase but just to ‘see what available’ – so while the cognitive perspective on shopping is useful, there is also a lot of buying behavior that defies understanding. For example, think a situation in which you engaged in an ‘impulse purchase.’ An impulse purchase is an unplanned purchase in which we just decide to buy the product with very little prior consideration.

**Group/Social Variables that impact Buying Behavior**
While there are many different impacts on consumer buying behavior that have to do with groups, we consider the following three as the most important overall.

**Reference Groups**

First, reference groups are collections of other people who strongly affect what we buy and how we go about buying it. What do you think is the most influential reference group for most people? If you guessed “family” you are absolutely right. The family is not only the most important reference group for children, a person’s family background can impact his or her buying behavior throughout life in many ways. Sometimes adults buy ‘what our family bought’ and sometimes they ‘won’t touch what my family liked’. This has been shown to be true in durable goods such as cars and appliances, as well as, nondurable goods like laundry detergent and shampoo. The family is a membership reference group whereas other reference groups may be nonmembership reference groups. The U.S. Marines recruits people based on the attractiveness of being “A U.S. Marine, the Few, the Proud.” This brings another factor into consideration. If you consider the reference groups available to you, some will be groups you would like to be a member of but are not (for example, Beta Gamma Sigma, the business student honor society [http://www.betagammasigma.org/](http://www.betagammasigma.org/) and other groups you would not like to be a member of: perhaps an example would be the “winning lottery ticket losers club.”

Groups you would like to be a member of but are not, are called Aspirant Reference Groups, groups to which you don’t really expect membership, but still want to be somehow related to are called Associative Reference Groups and groups in which you would not seek membership are termed Disassociative Reference Groups.

Many adopt the appearance of their aspirant or associative groups by engaging in consumption behavior to express their personal sentiment. For example, one may buy a Colorado Rockies Hat and wear in public because s/he is a fan of that particular baseball team. This person would belong to an associative reference group but not be a member of an aspirant reference group because in our example the fan does not really expect to be able to join the Rockies team in any official capacity.

**Ethnicity - Culture/Sub culture**

The ethnic landscape of the U.S. has changed constantly over the last few thousand years and that process continues. Native Americans continually shifted geographic habitat due to weather and other human adversaries. As our country developed in the eighteenth, nineteenth, and twentieth centuries, different ethnic groups joined the growing population. Today the ethnic composition of the U.S. is still changing. An excellent overview of this important material can be found on the internet at [http://www.census.gov/population/cen2000/c2kbr01-2.pdf](http://www.census.gov/population/cen2000/c2kbr01-2.pdf).

Incumbent in these changes in ethnicity are changes in Culture for the U.S. Historically dominated by the thoughts and mores of a Western European tradition, the U.S.
changing rapidly to accommodate many new ideas and ways of doing things. We define “culture” as the totality of artifacts and behaviors handed down from one generation to the next. A subculture can be any segment of society that hands down its own beliefs across an extended period of time. If we look at the great blues music tradition of the U.S. We see a subculture of music, introduced by the music of African-Americans and adopted by large segments of the white population. Thus, different subcultures intermingle their ideas and art forms in a ethnically diverse society.

Individual/Psychological Variables that Impact Buying Behavior

Learning

We, as human beings are constantly learning about our environment and a portion of this learning is related to what we consume and when and how we consume it. Therefore, learning is an important concept in consumer buying behavior. Learning can be defined as “changes in attitudes or behavior based on experience.” We learn constantly about products and services available and adjust our consumption patterns to what we learn. However, we sometimes obtain knowledge that does impact our consumption patterns for some time. Marketers cannot assess such learning easily. Although as a marketing person you can’t assess it, you must remain aware and track changes occurring in the environment. For example, today most people do not perceive significant risks in consuming hamburger meat, however, that may be changing quietly across our U.S. population in response the “Mad Cow” and “foot and mouth disease” outbreaks in the United Kingdom (check out this website: [http://www.mad-cow.org/](http://www.mad-cow.org/)). Many people are aware of this threat presently, and it would not take much to drive them away from consuming beef and hamburger meat in all forms. If you were a marketing manager for a food company, you would be well advised to continually gather information on and be aware of this trend as consumers become more aware of this threat to health.

Attitude

There are probably more studies of attitude in the marketing literature than any other individual variable affecting consumer buying behavior. An attitude can be defined ‘predisposition to respond to stimuli.’ In plain English, an attitude is simply how we feel about something. If you are apathetic about a certain product or issue, you don’t really have an attitude related to it. “Neutral attitude” is an oxymoron, it is internally contradictory. Attitude formation can follow several different patterns. However, we can use a simple approach to understand how people form an attitude towards a product or service. Attitudes are usually comprised of three parts: cognitive, evaluative, and behavioral. That is, a consumer normally goes through three stages when forming an attitude. The stages may differ in the order they occur. For example, for a high involvement product, most consumers will probably first think about a product (cognitive stage), develop a feeling towards that product (evaluative stage) and then, if s/he likes the product, purchase it (behavioral stage). We will expand our discussion of attitude formation in the chapter on marketing communications.
The most common attitude model applied in business is the ‘belief/importance weight model’ also called the ‘multiattribute attitude model (MAM).’ The MAM orientation to measuring attitudes is a simple but effective way to understand how people feel about products and services. The MAM can be expressed in formula as follows:

\[ A = \sum E_i * I_i \]

Where: 
- \( A \) = an attitude toward a product, service, or idea
- \( E \) = evaluation of attribute ‘i’
- \( I \) = importance of attribute ‘i’

A brief example will be offered to explain this approach.

Let us say that Mike has just graduated from college and is preparing to buy a new car. He has visited several dealerships, talked to his friends, and read product reviews on the internet (external search). He has prepared the following list of products and his evaluation of each product across four attributes (cost, economy, quality, and acceleration):

<table>
<thead>
<tr>
<th>Product</th>
<th>Saturn</th>
<th>Ford Contour</th>
<th>Pontiac Grand Am</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>5</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Economy</td>
<td>7</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Quality</td>
<td>8</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Acceleration</td>
<td>4</td>
<td>5</td>
<td>8</td>
</tr>
</tbody>
</table>

Mike’s importance weights are as follows:
- Cost = 40
- Economy = 10
- Quality = 10
- Acceleration = 40

( Mike used the ‘constant sum scale for his importance weights and the weights add up to one-hundred)

What is Mike’s attitude toward the brands he is considering?

Solution
- Saturn – 5*40 + 7*10 + 8*10 + 4*40 = Attitude toward (Saturn) = ?
- Ford Contour – 7*40 + 5*10 + 7*10 + 5*40 = Attitude toward Ford = ?
- Pontiac – 7*40 + 4*10 + 6*10 + 8*40 = Attitude toward Pontiac = ?

This approach to assessing attitudes is easy and can be a helpful tool for marketers attempting to understand how to improve their product offerings.

Perception

Perception can be defined as ‘the way we experience life.’ That is, perception is how we attach meaning to all of the inputs that we are exposed to in daily living. These inputs can be new words, a new song, or an advertisement about a product. Marketers have been interested in perception because they are constantly trying to communicate product
and service ideas to their target markets and they need to understand how that information will be received and understood. Humans normally go through several stages in the process of perceiving meaning. These stages include exposure, attention, attached meaning, and retention. You may see a TV ad for Coca Cola (check it out at: http://www.cocacola.com/). For example, first, you were present by the TV to be exposed to the ad. Second, it may have gained your attention because you liked the music in the ad. Third, you attached meaning to the ad, recognizing the product and the musical theme, and finally, you find yourself humming the musical theme “Life tastes good” later in the day.

Much has been written about ‘subliminal perception’ over the years. Several popular writers have made considerable money on books they published warning consumers that “You are being manipulated and you don’t even know it.” While, this is really an exciting conspiracy theory that persists in media study, you as a college student, and soon to be graduate, should be in possession of the facts. Subliminal perception means literally ‘below the level of consciousness’ thus if you can identify symbols or words in an ad, you are not dealing with subliminal perception. Research indicates that while subliminal perception exists, if exposed to subliminal stimuli, you may see a red bottle of Coca-Cola and decide you are seeing Santa Claus. That is, subliminal perception is not efficient at all. However, check out the following website for research on the matter of subliminal perception before you make up your own mind: (http://www.parascope.com/articles/0397/sublim.htm.)

Perception remains an important construct in marketing because the study of perception can give information to marketing communications professionals about when and how people receive and make sense of information.

Risk

Risk, in the consumer buying behavior area, can be defined as the potential negative consequence of a certain action including buying or using a certain product or service. In marketing, we usually use the term ‘perceived risk’ because the person or persons we are trying to understand determine the amount of risk. That is, we can advertise that there is no risk associated with taking aspirin for a headache, but some of the populace will perceive a health risk (physical risk) because they have heard that aspirin is dangerous. There are several types of risk that have been identified in research. We will cover four kinds of risk:

a. Physiological risk - associated with threats to one’s health
b. Financial risk – risk associated with the loss of economic wealth or financial security
c. Psychological risk – threats associated with some psychological construct, for example, a threat to one’s self-esteem
d. Social risk – a threat to one’s social standing or social comfort
Surely, you are familiar with each type of risk as a consumer. You can see that marketers want to understand not only how they can use risk to make their products more appealing for purchase (for example, home security systems). Also, one can see how companies live in fear of hoaxes that will cause consumers to avoid the company’s products (check out these websites to see some present hoaxes in our society.

http://search.yahoo.com/search?p=hoaxes&n=25
http://hoaxbusters.ciac.org/

Organizational Buying Behavior

Organizational Decision-Making

Organizations often make decisions in a very similar fashion to consumers. In fact, there has been substantial disagreement about whether the differences in consumer decision-making and organizational decision-making are adequate to justify separate models of decision-making for the two. We agree that the differences are small, and don’t necessarily justify separate treatment. However, we do want to point out a couple of important differences that exist in a fairly universal way. First, organizational purchase decisions are frequently made by a group of individuals. One might argue that families are similar and we would agree. However, the group decision-making approach is consistent across most organizations whereas families may be less oriented to this form of decision-making at least for many decisions. Second, the decision-making process for organizations is certainly more formalized. Most families don’t consider any structured approach to their decision-making as a group and many organizations find it necessary to codify many details about how purchase decisions shall be made. Government agencies are legend for incredibly complex buying approaches.

Thus, marketers must strive to understand how organizations in their chosen markets reach the buying decision. In considering the organizational purchase process we would recommend that the student remember two differences between consumer decision-making and organizational decision-making related to purchasing. First, we would suggest adding a stage to the consumer decision-making process covered earlier in this chapter. Organizations often solicit bids from an approved bidder list or publish specifications related to the product they are seeking to obtain. Second, there has been considerable research on the ‘roles’ assumed by people who impact the buying decision. These people, taken as a group, are called the buying center.

A list of the roles usually existing in the buying center might include:

a) initiator – this person first recognizes the need for the product or service and may or may not have a say in the purchase decision.
b) user – this person will be responsible for operating the product that is bought or consuming the service that is purchased. Again, this person may or may not have a say in what is purchased.
c) influencer – this person’s role may be only tangential to product use, but s/he will still have an impact on the purchase decision.
d) buyer – this person is responsible for obtaining the product, though s/he may or may not have any impact on what is purchased.
e) decider – this person is responsible for the final determination of what will be purchased.

You should become familiar with these roles and be able to understand how they would be expressed in a group-buying scenario. You should also be able to explain why a marketer would be interested in who plays what role.

**Group/Social Variables that impact Organizational Buying Behavior**

While there are group variables that affect organizational buying behavior, the amount of research in this area is relatively small. Certainly, organizational relationships and organizational culture, for example, may have a strong impact on what is ultimately purchased.

**Individual/Psychological Variables that Impact Organizational Buying Behavior**

While there has been a limited amount of research regarding these variables, the average business-to-business marketer doesn’t really have easy access to much knowledge in this area. There are some studies on perceived risk that indicate risk is an important personal consideration for industrial buyers as supported by the saying “No one have ever been fired for buying from IBM.”

Other individual/psychological variables including learning, perception, attitudes, and organizational culture also are important considerations in organizational buying as well as consumer decision-making. There is still a lot to be learned in this area.

**Customer Relationship Management (CRM)**

This area of organizational marketing is one of the most vibrant, intriguing areas in today’s marketing landscape. While many marketers have realized for years that the key to long-term success is at least in part customer knowledge and customer care. However, this initiative is often lost in promotion without creation of a service delivery system to ensure that customers are treated as ‘number one.’

While this catch phrase has gained added space in trade magazines and academic journals, some companies will see this as another opportunity to be ‘sales driven’ and use the concept as a way to promote their ‘customer care’ programs. Sadly, such programs often are not really directed at customer satisfaction and relationship building but only represent something else to advertise that may increase sales. Many organizations that aggressively advertise such programs haven’t really done the research and made the commitment necessary to make the programs successful in the long term.
However, many businesses in organizational markets have realized the importance of relationship building and have made this a priority in their business planning activities.
Chapter Four Exercises

24. Write a one-page essay on your thoughts about how you would classify your behavior and orientation to products you buy?
25. Use the consumer decision-making process to describe a recent purchase you made. Make comments on each stage of the process.
27. Identify and fully describe one of each of the types of reference groups discussed in this chapter.
28. Give an example of a low involvement, a medium involvement, and a high involvement purchase you have made recently. Describe how your decision-making behavior was different for each purchase.
29. Explain how situational effects might impact a person’s decision-making in each of the following examples:
   a) Mark has a job interview on Friday and is wondering what to wear
   b) Janie is driving across Utah to visit her parents and, due to a broken radiator hose, her car overheats on the interstate.
   c) The Marvin family is headed to Texas to visit relatives and wants to stop at a restaurant for lunch.
   d) You have a first date tonight with a person to whom you are very attracted and are thinking about where to buy dinner.
30. “Learning always changes behavior. Otherwise, it is not learning and not important to marketers.” Agree or disagree and explain.
31. Compare and contrast consumer-buying behavior and organizational behavior.
32. Identify the principal type of risk involved in each of the following:
   a) Janet undergoes a lab test for a health problem.
   b) Adam buys a new mini-compact car and is not sure about what his friends will say.
   c) Glenn misses a marketing exam and fails to contact anyone beforehand.
   d) Jerri decides to take a vacation and plans a trip to Africa.
   e) Jamie invests her tip income every week in a local ‘.com’ company.
Chapter Four Glossary

**consumer behavior** - the processes people employ to obtain and use various products and services.

**consumer decision** - making the approach that a consumer employs in arriving at a purchase decision

**consumer involvement** - the personal importance and social significance of the purchase

**reference groups** - collections of other people who strongly affect what we buy and how we go about buying it

**culture** - the totality of artifacts and behaviors handed down from one generation to the next

**learning** – changes in behavior based on experience

**perception** – the manner in which we experience our environment

**attitude** – the magnitude of either positive or negative feelings about something

**risk** – the potential negative consequence of a certain action including buying or using a certain product or service

**buying center** – the group of individuals who play a role in the process of acquisition of goods and services for the organization

Customer relationship management – the overall process of establishing and sustaining positive interactions with the organization’s various stakeholders
Chapter Five – How companies manage marketing research

The meaning of marketing research

Today, marketing research is pervasive. It is very likely that anyone reading this book has been a respondent in some kind of marketing research study. As the internet continues to develop there will be a trend towards more investment in marketing research. This will be caused by the increasing isolation of the individual in our society and the corresponding need to access more information through impersonal versus personal methods. It is unlikely that many readers of this text will ultimately have marketing research as their primary employment so we have presented marketing research in a non-technical manner.

As we have discussed a length, a marketing orientation requires that the organization study and understand what will bring its customers satisfaction. This may sound simple, but it is not. Often very creative techniques are needed to truly understand what the customer is seeking and how to deliver that solution on a profitable basis. Customers seek benefits, and it is often difficult for the customer to express what those benefits are. The marketing research department is responsible for providing this understanding. However, marketing research should never be seen as a separate entity isolated from the rest of the marketing function or from the other functional areas of the firm. If this happens, marketing research departments often lose what creativity they had and begin to focus on a known set of techniques with which marketing research personnel are comfortable. This results in a lack of fresh thinking and innovative approaches. The marketing research function also, ironically, becomes separated from the R&D function and those in the organization responsible for new product conceptualization.

We will define marketing research as “all techniques used to provide information that assists the firm in all of its decision-making processes relevant to customers or clients.” While this definition is very broad, it is aimed at giving the marketing research function the breadth and depth of latitude that it needs to operate effectively. Note that the outcome of marketing research is enhanced decision-making about needs and wants in the marketplace and how to meet those needs and wants. Also note that marketing research is responsible for not only data gathering about customers, but data analysis and presentation to management about customers and other issues.

Types of marketing research

Marketing research approaches are varied. One marketing research project may entail questioning thousands of people by use of a survey instrument while another project may only involve meeting with a few present customers for breakfast. There are many different types of marketing research projects that require various types of knowledge and academic background. Approaches to conducting marketing research range from quantitative to qualitative in nature. Quantitative marketing research is composed of sophisticated techniques that require substantial competence in descriptive statistics while
qualitative marketing research may require a broad knowledge of psychology (the study of individual behavior), sociology (the study of group behavior), and social psychology (the study of individual behavior in a group). Unfortunately, there is presently no required accreditation for a person to perform marketing research, thus, there are many unqualified individuals and organizations that sell marketing research services, particularly qualitative marketing research, who are not well trained or educated in the discipline and do not have sufficient experience.

**Quantitative Marketing Research**

Types of quantitative marketing research include surveys, audience measurement for different types of media, and store audits, to name only a few. Although marketing texts usually devote considerable attention to these approaches, the quantitative approach has given way to qualitative marketing research in many cases. Thus, qualitative research, at present, is growing much faster in popularity. The reasons for this are that qualitative research is usually less expensive and faster to perform than quantitative marketing research.

**Qualitative Marketing Research**

Qualitative research is less involved with numbers and usually provides a ‘closer touch’ with the subjects in the research project. Types of qualitative research include focus groups and observational studies. Focus groups gather a small number of respondents together to discuss topics yielded by the research questions. A moderator leads the discussion and helps keep discussion lively and focused around the research questions. The moderator creates or is furnished with a ‘discussion guide’ that outlines the areas to be explored in the focus group.

Observational studies involve watching respondents while they are engaged in some activity. A common use of the observational method is watching children play with prototypes of toys to understand which toy will be most popular. Mechanical observation is also used at retail stores to count the number of customers (sometimes with a simple turnstile) and in other public areas, parks for example.) Secret shoppers, also called mystery shoppers, are often used to help obtain a real customer’s assessment of a store’s service quality (Check out the following websites: [http://www.nwscape.com/cgi-bin/nwscape/shoppers/welcome](http://www.nwscape.com/cgi-bin/nwscape/shoppers/welcome); [http://www.bmiltd.com/](http://www.bmiltd.com/); [http://www.customer-1st.com/](http://www.customer-1st.com/).

**The Marketing Research Process**

In order to obtain useful results, that is, results on which we can make reliable decisions, we must follow a consistent process. We recommend a process that includes these steps:

a. Establish a research project
b. Conduct the research project
c. Analyze the findings of the research project
d. Summarize and Present the findings of the research project
e. Assess the findings of the research project

**Establish a research project**

This step will usually involve four steps:

a. meet with client(s)
b. jointly explore problem or opportunity to be researched
c. create research questions
d. based on the research questions, create a research design

**Meet with client(s)**

When beginning a marketing research project, we need to start with identifying the problem or opportunity. Although there are exceptions, this will often require a personal meeting with all of those involved in establishing the project including the client, the researcher(s), and others involved in the project. The initial meeting is often not sufficient to establish the problem or opportunity to be researched. Another meeting is usually required to define the problem or opportunity clearly enough to create research questions.

It is imperative that this initial meeting be approached with an open mind and no preconceived notions about ‘the answer.’ If a client or company manager already has ‘the answer’ (has already essentially decided on what the findings of the project will be), a marketing research project is a waste of resources. We say this because too often the findings of a well-executed study are rejected because it found the ‘wrong answer.’ We have no way of estimating how often this happens, but we can say it happens often.

The reason we break meeting with clients into a separate step is because there will often be several meetings. It is important to realize that **divergent thinking** will play an important role at this point of the research process. That is, this is the stage that the researcher must avoid seeking closure and keep an open mind about how to characterize the problem or opportunity under consideration. Clients will often have lots of ideas about the project, including the problems and a likely solution to the problem. However, clients often bring a ‘symptom’ into consideration as the ‘problem.’ For example, if one says that ‘sales are down in the southeast region.’ This is a symptom, not the problem. The problem is the cause of the drop in sales in the southeast so the researcher must search ‘upstream’ in time and events from the sales decline. This stage is a data gathering stage for the researcher. Often, after meeting with the client, the researcher may decide not to take the research project because the client is ‘not ready’ to pursue the project.

**Create research questions**

After the researcher and client have agreed on problem or opportunity definition, the researcher will be able to formulate **research questions**. A research question is a
statement of what queries the project will seek to answer. In our example, likely causes identified in client meetings included aggressive efforts by a new competitor, demographic shifts in the population, and the possibility that our product is outdated in the eyes of the marketplace. Thus, the research questions may be stated for the southeast region study as:

Research question 1 – what is the impact of our competitors on our sales?
Research question 2 – what demographic changes have taken place recently?
Research question 3 – have there been changes in perception of our product?

Note that the ‘research question’ is rarely synonymous with a ‘survey question’ that is, several survey questions will usually be required to address one research question. Formulating dependable survey questions is a highly technical and demanding process that requires extensive training and experience. Survey questions should be both reliable and valid. Reliability is the ability of a certain question to gain consistent responses over asking the same questions several times. For example, if we ask several people the same question and get very similar results, we can say the question is reliable. However, this does not mean that the question will be useful for our study. Questions also need to be valid. Validity is the ability of a question to measure what it purports to measure.

For example, assume we are attempting to ascertain peoples’ attitudes toward Dillard’s Department Store. We have male and female models interview customers as they enter the store. Male models interview all females entering the store, and female models interview all males entering the store. The results of the survey indicate that “Ninety percent of those surveyed find the Dillard’s shopping experience either “Extremely enjoyable” or “Very enjoyable.” Were the findings of this survey reliable? Were they valid? Remember, to be reliable a question need only produce consistent answers and to be valid, a question must measure what the researcher claims it measures. Answers appear at the end of the chapter.

Create a research design

The research design is the approach we use to answer the research questions. Often the client will have already decided on a research design without considering what the appropriate one would be. For example, in one case, a small candy manufacturer had decided it needed to ‘research the market.’ The company had already created a survey form to be sent out through mail. A meeting was held between the candy company and a marketing research company. After some consideration of research questions, the research design was changed to include a series of focus groups, and a mall intercept survey. The mail survey was deleted from the research plan.

Research designs can be qualitative or quantitative or include both types of research in larger projects. When the budget will allow it, which is rare, both qualitative and quantitative approaches should be used to answer the research questions. Alternatively,
often clients must choose only one or two of the most compelling research questions to address using either a quantitative approach or a qualitative approach.

**Primary and Secondary data**

Collecting data can be done in two ways. First, we can collect the data ourselves to address the research questions. When we do, the data collected are called *primary data*. When we use data for decision-making based on data that has been collected by someone else to address different research questions, this data is called *secondary data*. **Marketing researchers should always explore sources of secondary data before they decide to collect primary data.** The internet contains huge amounts of secondary data and free, published data can be obtained free with the help of professional library personnel. Professionaly librarians are highly trained and are usually happy to be of assistance. In organizational marketing, secondary data research often begins with the examination of the NAIC (formerly SIC) codes relevant to the companies of interest in the study. (see the following website:


Many private reporting organizations provide information about industrial organizations based on the NAIC. Two such firms are Standard and Poors ([http://www.standardpoor.com/](http://www.standardpoor.com/)) and the Dow Jones Company ([http://www.dowjones.com/](http://www.dowjones.com/)). These are only two of many organizations that provide such services.

**Sampling and Selection of the Sample**

Often marketing research studies require that data be collected through the process of sampling. A *census* is taken when we attempt to collect data from all possible respondents in a specified population. For example, the U.S. Census Bureau attempts to count every person in the U.S. every ten years. On the other hand, sampling is collecting data from only a portion of all possible respondents in the population of interest. That is, once we agree that we need to gather data from a limited number of organizations or individuals, we must determine how they are to be chosen for the sampling process. There are two types of sampling: *probability sampling* and *nonprobability sampling*. Results derived from probability samples can be applied to the remainder of the population of organizations or people in the population of interest. Results derived from nonprobability samples cannot be applied to the remainder of the population of interest. For example, if we draw a sample of students at a university to determine their attitudes toward raising tuition in order to build a parking garage on campus, in a probability sample we can generalize our results to the other students on campus (the population of interest). However, if we collect a nonprobability sample, the responses gained only apply to the students we questioned in that sample. Note this has to do with HOW the sample is selected. If we just meet students on campus and do interviews, this would be a nonprobability sample and would not necessarily produce results that would predict how most students and others on campus feel about the parking garage.
Thus, probability samples provide more powerful prediction abilities. However, probability samples are much more complex and expensive to gather.

Types of nonprobability samples are judgment samples (the interviewer as asked to apply his/her own opinion as to what respondents ‘fit’ the profile of people to be interviewed), quota samples (the interviewer is given clear direction regarding how many people of what type to interview, for example, ‘fifty females, and fifty males), and convenience samples (the interviewer selects people to interview based on the easiest ones to interview). One can see that the selection process for nonprobability samples is usually unsophisticated and straightforward.

However, when we decide to draw a probability sample, that is, one for which we can apply basic descriptive statistical techniques as taught in business statistics courses (for example, “z” scores, parametric, i.e., normal distributions, etc.) A simple probability sample is one in which each subject in the population of interest has an equal and known probability of being included in our sample. Can you think of a way to draw a sample of students at your university or organization that would have these two characteristics?

Selection of nonprobability samples only requires that the people interviewed are in the population of interest and, sometimes, as in the case of samples there is not even a guarantee of that!

**Conduct the research project**

The research design should provide good guidance for performing the research. As you already know, research projects can be quantitative or qualitative in nature or even involve both kinds of research approaches. The statement of the research design should be sufficiently complete to allow a qualified, independent researcher to execute the research study by following the statement of research questions and research design.

**Analyze the findings of the research project**

This stage is comprised of organizing the data gathered and carefully ascertaining what the data indicate. Especially for quantitative studies, statistical software is often used to facilitate activities in this stage of the project. SPSS, SAS, (statistical package for the social sciences – websites [http://www.spss.com](http://www.spss.com), [http://www.ats.ucla.edu/at/software/stat/sas/sas.htm](http://www.ats.ucla.edu/at/software/stat/sas/sas.htm)) or a similar statistical package is often used to perform the analysis necessary for this step. In the same spirit as this e-book, Professor Bill Miller, formerly a professor at Iowa State University, offers a free statistical package on the internet at his website: [http://openstat.homestead.com/](http://openstat.homestead.com/).

The researcher must be careful to be organized and remain objective during this stage. The statement of the research design should provide guidance to the researcher about how the data should be organized and classified. There is often some pressure on the
researcher to ‘find the right answer’ as we indicated above, but for the sake of integrity, the researcher must remain objective as s/he records, classifies and analyzes the data.

**Summarize and Present the findings of the research project**

After the data are analyzed, the researcher must draw conclusions from the findings and present the findings in a comprehensible manner. When summarizing and presenting a research project, the best guide is to keep it simple and ‘accessible’ to the reader of the report. The temptation for the researcher is often to rely too heavily on statistics and this can very rapidly lose the attention and interest of the client. Use of such terms as “a two sigma range” only succeeds in confusing the client and very often over-emphasis on jargon can alienate the client. Ironically, this is particularly important when presenting a report to clients who are highly intelligent and educated. They know how the use of jargon is often used to obfuscate the facts and this may indicate a lack of preparation on the part of the presenter.

**The Marketing Research Industry**

There is a broad range of marketing research services available throughout the world. However, we in the U.S. tend to be the most researched population in the world. In other countries, marketing research may be limited or culturally unacceptable. Conducting research projects in countries other than the U.S. often requires different research methods and may entail a total revamping of the research design.

Many companies in the U.S. provide marketing research services and data. For example, A.C. Nielsen [http://acnielsen.com/] is one of the largest, if not the largest organization in the U.S. specializing in marketing research. Many of the major advertising agencies also conduct major consumer and organizational research (see [http://www.jwtworld.com/](http://www.jwtworld.com/) and [http://www.saatchi-saatchi.com/innovation/launch.html](http://www.saatchi-saatchi.com/innovation/launch.html) for example).

**Brief discussion of types of surveys**

While focus groups and other qualitative procedures are gaining popularity, surveys remain popular, as well. There are three primary kinds of surveys: mail surveys, face-to-face surveys (personal interviews), telephone surveys, and a growing category, internet surveys, which presently are quite similar to mail surveys in terms of advantages and disadvantages. We often categorize the different types of surveys on the three dimensions. First, flexibility or to what extent is the interviewer able to adjust his/her questions to the respondent depending on circumstances. Second, we also look at response rate, that is, what proportion of those whom we contact will ultimately participate in our study. And finally, cost, that is, how much will it cost us to acquire each response to our survey.

Mail surveys are usually the least flexible, but may provide the lowest cost per completed survey. However, this depends on the research questions and how straightforward the
survey questions are. Face-to-face surveys are still very popular, particularly the mall-intercept interview format in which interviewers are asked to solicit respondents from the general population of people who visit shopping malls. Firms engaged in organizational marketing can make use of this same concept by implementing ‘trade show intercepts.’ Trade show intercepts are similar to mall intercepts in practice except that these interviews are conducting during a trade show and respondents are first qualified, not on demographic criteria but on criteria related to their employment. These approaches will remain popular into the foreseeable future although such intercepts are a nonprobability method of gathering data, and thus, cannot technically be generalized to the overall population of interest. Telephone surveys are still popular but are becoming more difficult to execute due to growing telemarketing techniques that many consumers attempt to avoid. That is, telemarketers often adopt a ‘foot in the door’ approach by which they first claim to be doing ‘a marketing research study’ in order to gain a segue into a sales presentation over the telephone. As more and more consumers ‘block’ their phone lines from solicitation, telephone surveys will become more challenging to conduct.

As adoption of the internet as a method of communication continues, surveys that utilize the internet as a medium for gathering data will increase. Surveys can be easily adapted and completed on the internet making the data collection process relatively simple. However, at present it is difficult to verify the background of respondents and this reduces the attractiveness of the internet for data collection aimed at gaining attitudes toward products and services. An exception would be when the study involves those who are intimately related to internet operation and use such as Webmasters. A few interesting websites that maintain data on surveys done regarding internet use are: [http://www.isc.org/ds/new-survey.html](http://www.isc.org/ds/new-survey.html), [http://home.wizard.com/wwpr.html](http://home.wizard.com/wwpr.html), and [http://www.hot-topics.com/tellus.htm](http://www.hot-topics.com/tellus.htm).

As time goes on, there will be many, more specialized, websites that keep track of internet usage.

**Using technology to record learning from marketing research projects**

Too often, knowledge gained from a marketing research study is lost as soon as the project is presented and a decision is made based on the study. Marketing research projects, if well designed and executed, should be stored and made readily available for use in the future. Leading companies often catalog research projects on their intranet so that future decision makers will have past marketing results available. However, this does not necessarily mean that other people in that organization will actually read and make use of those study results. Lessons can be learned by reviewing past research that was flawed. This practice enhances organizational learning substantially.

However, as the reader already knows, there is more information in our contemporary environment available than humanly possible to read and understand. Therefore, to be realistic, marketing information managers must accept the fact that most organizational learning that takes place will probably occur through ‘information catching’ rather than
‘information seeking.’ The information manager who enters the current environment with expectations that his fellow workers will avidly adopt and use the company intranet, reviewing all posted materials for the sole reason of learning more about the environment should probably adjust her or his expectations.
Chapter Five Exercises

1. Do a search on the internet using the term “marketing research.” Write a one-page summary of what you found, making note of the more interesting websites you visited in the process.

2. Do a search on the internet using the term “international marketing research.” Write a one-page summary of what you found, making note of the more interesting websites you located.

3. “Although performing marketing research is expensive, it is often much more expensive NOT to perform.” Discuss this statement and explain what the person who made the statement may mean.

4. “If a study does not have the potential to improve decision-making, it should not be performed.” Discuss this sentence and explain what the speaker means.

5. Compare and contrast quantitative marketing research and qualitative marketing research.

6. Focus groups are a growing technique used in qualitative marketing research. Based on a problem/opportunity statement, create a discussion guide and perform a focus group with some of your fellow students. Write up the results of the focus group explaining what you learned from the focus group. What problems did you have in the process? Do you believe this method is useful for gaining useful information for decision-making about customers?

7. Compare and contrast “reliability and validity,” and describe why each is important in performing marketing research.

8. Apply the marketing research process described in the chapter to outline how you would assess the reaction of consumers to a new chocolate bar.

9. Perform a ‘college intercept survey’ (that is, meet students on campus and ask them to participate in your survey) by creating a brief survey form (one-page, five or so questions). The survey can ask about anything from ‘campus life’ to favorite recreational activities of students. Summarize your results and write up a brief overview of your survey experience.

10. Search the internet using the keywords ‘mystery shoppers’ and ‘secret shoppers’

11. Check out the website [http://www.marketscore.com/](http://www.marketscore.com/) Describe how you believe this marketing research company derives revenue for its business? Describe who you believe would be the organization’s customers.

Note on ‘Dillard’s Survey’: The survey conducted at Dillard’s was highly reliable but not valid. Why? Because, given the research design, most all participants will enjoy shopping at Dillard’s and respond accordingly! However, attitudes towards shopping at Dillard’s were not being measured in the study. Unfortunately, we were measuring attitudes towards the interviewers.

Chapter Five Glossary

marketing research – the process of obtaining information with which to improve marketing decision making
marketing research process – the series of steps followed in order to ensure the validity and reliability of information gathering processes

research question - a statement of what general areas of inquiry the project will seek to answer

research design – the plan formulated to answer the research questions

questions reliability – the ability of a question to produce consistent responses of separate trials – that is, if we ask several people the same question, do they tend to respond in a similar manner?

question validity – the extent to which the question measure what is purported to measure – that is, if we say the question measure peoples’ attitudes towards our product, does it measure attitudes towards our product and not attitudes toward the interviewer, or store in which our product is sold?

probability sample – data gathered in a way that makes findings in the data applicable to the remainder of the population of organizations or people in the population of interest

nonprobability sample – data gathered in a way that fails to make findings in the data applicable to the remainder of the population of organizations or people in the population of interest

secondary data – information collected by someone other than the researcher to address different research questions

primary data – information gathered by the researcher to address specific questions of interest to that researcher

focus group – a qualitative data gathering technique in which a small number of people are brought together to discuss a series of questions of interest
Chapter Six – How do companies decide what products and services to market?

In this chapter we begin a series of chapters on the components of the marketing mix: Product, Price, Distribution, and Promotion. Our emphasis in this chapter will be the product or service that the organization markets and how products are envisioned, created and commercialized.

In this chapter, we will review the process of product development and how companies manage that process. While the process is similar for consumer marketers and organizational marketers, there are significant differences in how different companies approach this function.

We will define ‘product’ as all things the buyer receives in an exchange, bad and good, intended and unintended. Products include all things the buyer receives including the physical attributes (a new car) and the intangible attributes (a warranty and a financing contract). It is sometimes helpful to list the main (sometimes called ‘salient’) attributes for purposes of performing both upstream activities (for example, concept development) and downstream activities (for example, advertising and personal sales presentations).

In this chapter we will discuss the following areas related to managing new product development (NPD):

- the ideal climate for NPD
- the NPD process
- pitfalls in the NPD
- the role of product positioning in NPD

The ideal climate for NPD

There are several characteristics that help describe an ideal climate for the new product development process. A list of these characteristics follows;

a. Goal clarity – the objectives of the task are jointly understood
b. Resources – adequate economic and non-economic support for the task
c. Encouragement – sincere emotional support for the task
d. Freedom – the ability to explore whatever directions of inquiry that are needed
e. Integrity – management does what it says it will do

Stages in a typical new product development process (NPD)

The NPD is basically an exercise in idea management. Thus, the process proceeds from stage to stage. However, frequently a new product team may skip around stages when playing with a new product idea.
1. idea generation – conceptualize a list of new product ideas
2. idea assessment – evaluate the ideas based on a previously created list of criteria. In this stage ideas that are judged not to meet the criteria are removed from consideration.
3. concept testing – the idea is assessed through discussion with potential customers or users. Or, representatives of the organization explore the product idea and assess its overall potential (No physical product yet exists).
4. idea choice – one or more ideas are selected for initial investment
5. idea prototype development – an initial working model of the product is created for testing and evaluation
6. final version development – a model of the final version of the product is created
7. commercialization – the product is put into production and the distribution of the new product to customers begins

Each stage should feedback information into the previous stages and this information should be organized and retained for future use.

Idea generation

The idea generation stage is the first stage in the NPD. However, in an organization with a healthy environment for creative thinking, new ideas abound, and only rarely is it necessary to have a formal meeting to generate ideas. New ideas flow from every day activities within the organization.

Ideally, idea generation should be fun and naturally occurring. This is why a ‘formal meeting for idea generation’ should be somewhat of an oxymoron in healthy, creative organizations. There are many creative problem-solving (CPS) techniques that provide extra stimulation for generating ideas for new products and services. The Couger Center for the Study of Creativity and Innovation has applied over thirty CPS techniques in organizations with success. CPS approaches fall along a continuum from intuitive to analytical. For example, a commonly used analytical CPS technique is the “5 W’s and H” technique. Rudyard Kipling even wrote a poem about this technique. The ‘wishful thinking’ technique is a more intuitive CPS approach. The appendix to this chapter describes how to use each of these two techniques.

Idea assessment

Most organizations have extensive guidelines concerning the criteria for new product ideas. Some typical criteria are: potential estimated demand for the product, cost/revenue expectations, fit with the organization’s business and marketing strategy (you may want to go back and review compatibility in the discussion of requirements for effective segmentation in Chapter Three.) Many product ideas may not match with the firm’s current product line and there should be guidance about what to do if this happens. Some organizations broker or sell
new product ideas that don’t entail serving current or planned future customer segments.

Creative ideas are judged on two criteria: Novelty and Value (or utility). We have found that business firms primarily put more importance on the expected economic returns (value) of a new idea than whether the idea is particularly novel or new. However, in a context of the arts, this emphasis is usually reversed. That is, in the arts, judges often look to novelty first and value later. This point brings about an underlying problem in judging new ideas. Novelty can usually be judged fairly early on, whereas, value is sometimes difficult to assess for some time.

In order to have a steady flow of new ideas, organizations must establish a clear understanding with personnel responsible for new product development how these two dimensions will be assessed.

Concept testing

In this stage, employees play with the idea and have fun considering its potential. The rationale underlying concept testing is that organizations are much wiser to explore the idea thoroughly before actually building a physical prototype. Often the ‘Five W’s and H’ technique, described in Chapter Eleven, can be helpful in fleshing out the new product idea. If customers are involved in this stage, ‘projective techniques’ can often be used to illicit the opinions of customers about new product ideas without asking the customers directly.

We have mentioned two types of thinking: convergent and divergent. Convergent thinking is the type of thinking with which most people in the U.S. culture are most familiar. In this approach to thinking the mind or minds of those involved follows a linear process of reasoning ultimately arriving at a point of conclusion. Divergent thinking is quite different in that it requires the participant or participants to ‘play’ with ideas going off in unexpected directions. DeBono is well known for coining the term “lateral thinking” which is a type of divergent thinking (see: [http://www.edwdebono.com/](http://www.edwdebono.com/) and review DeBono’s “Six Hats Method”).

Note that when involved in the ideal approach to creative thinking, people feel they have time to ‘play’ with ideas and forget about ‘hard work’ or “the expected conclusion.” This fact might trouble some managers, but the endeavor is usually well worth the time expended. Particularly, in the U.S. we constantly and incorrectly equate ‘hard work’ with ‘no fun’ and something to be feared or dreaded.

The NPD process should begin with divergent thinking and then apply convergent thinking with a careful recording of all new ideas as the process proceeds.

Unfortunately, in the U.S. culture, people who are expert ‘idea destroyers’ are often rewarded informally and formally in many organizations. That is, in our
culture there is often more reward for observing what is wrong with an idea, rather than stating what right about it. Many great ideas with considerable positive potential are rejected every day in organizations, not because the idea isn’t any good, but because people in the organization are more oriented to idea destruction than idea construction

Idea Choice

During this stage, the organization decides where its resources are best invested. A multiattribute model similar to the one we discussed in chapter three is often used to make such decisions. The major criteria for choice are listed and an importance weight is assigned to each attribute. Then competing ideas are assessed on this basis. Obviously, this process requires a healthy climate for creativity and innovation within which employees can ‘let go’ of personal ownership of ideas and judge the ideas on an objective basis.

Idea prototype development

During this stage working models of the new product are created to assess the feasibility of mass production of the product. We should note that the same activity could be engaged with services. In fact, it is easier with services, usually, than with tangible products. For example, if a restaurant is in the process of developing new menu items, it can prepare different variations of the items and let the restaurant staff sample the items. In some cases a restaurant may maintain a panel of expert tasters comprised of current customers to assist in determining which new dishes to put on the menu.

Final version development

Because learning takes place in each stage of NPD, a final version of the product is created to assess whether or not to take the product into the full commercialization stage. For example, in our restaurant example above, one can see that a trial run of preparing dishes from supply to delivery and sampling should take place to identify possible bottlenecks and problems in the process before an item is adopted for inclusion in the menu.

In the case of physical products, this stage is usually worthwhile to identify possible problems but also to assess whether the organization should make a commitment to full commercialization.

As the reader is no doubt aware, companies often adopt a test marketing approach, which in many ways is the same of ‘final version development’ except that test marketing entails a trial run of the total marketing mix (note the following website that performs new product tests for clients via the internet: http://www.product-testing.com/).
Commercialization

After the organization has refined its production and distribution systems, it only remains to enter the commercialization stage. This stage usually is implemented in small increments in order to further refine all systems involved in marketing the new product or service. A notable exception is when a firm seeks full-scale commercialization as soon as possible with its product or service. Examples of this strategy include new products for the cinema and products that are low in uniqueness and thus will be copied quickly by competitors if initially successful.

Common pitfalls in the NPD Process

Various pitfalls can occur during the process of new product development. An easy way to identify these barriers to new product development is to apply a CPS technique called the ‘problem reversal technique’ and ‘reverse’ the characteristics of an ideal climate described earlier considering the outcome of any of these characteristics being absent in the organization. The following list may help explain how an absence of these characteristics can discourage new product development.

a. Lack of Goal clarity – the objectives of the task are not jointly understood, so people in the process are confused and disagree about what they are expected to accomplish
b. Lack of Resources – there is inadequate economic and non-economic support for the task so that the NPD process is doomed from its beginning
c. Lack of Encouragement – management does not provide sincere emotional support for the task thus employees on the NPD team feel ‘unconnected’ and ‘neglected’ by management feeling that no one values their activity
d. Lack of Freedom – absence of the ability to explore whatever directions of inquiry are needed. Members of the NPD team constantly feel restricted in considering novel approaches to problem solving because they may be seen by others as not relevant and ‘too playful’
e. Lack of Integrity – management repeatedly fails to follow through on promises made, thus leaving members of the NPD team frustrated and neglected – this is often the cause of total ‘shutdown’ of creativity of the NPD team

Several roles are commonly adopted on new product development teams. Unfortunately some of these roles are counterproductive and should be purposely deleted from the process. Although there are many different possible roles in the idea generation stage of the NPD, we will identify and discuss a few of the most common roles:

Positive roles: enhance new idea generation and product development
Willie, the wild idea man – lots of ideas, likes to have fun, gets bored easily with details
Inga, the analytical – constantly asks questions such as “exactly what do you mean by that?”, “How would that work?”
Edith, the encourager – may often say “Yeah, that is a great idea!”
Pam, the peacemaker – unconsciously reduces conflict by focusing on ideas, not people
Otto, the observer – says very little but is engaged in the process and has many ideas which must be actively drawn out by others

Negative Roles: discourage new idea generation and product development

Doubtful David – fearful, always hesitant to approve of a new idea
Serious Sandra – has trouble with Willie’s glee and Inga’s constant questions, constantly says, “Okay, let’s get to work and stop playing around”
Patty the parent – similar to Sandra but feels compelled to ‘take the group in hand and manage it’ – believes she is ‘responsible’
Nasty Nick - never approves of anyone’s ideas but his own. Always has a snide comment about other peoples’ ideas, often offered as humor
War Story Wally – always has a story about ‘how we did it back then’

Of course, all of the positive roles are nice to have on a NPD team. However, Doubtful David, Patty the Parent, and Knowing Nick have no legitimate place on an idea generation or even NPD team. The roles of David and Wally can be tolerated if other team members can cope with them.

These roles or roles similar to them tend to be present on most new product teams and can either facilitate the process or retard it.

Organizing for New Product Development

Just as everyone in the organization is responsible for customer satisfaction, everyone in the organization should be responsible for new product ideas. The task of conceptualizing ideas about new products should not be reserved for the few people who are members of the NPD teams.

Primary success in managing the NPD Process has been realized through the use of Cross-functional Teams. These groups are comprised of people with different educational backgrounds and different organizational areas, which make them more productive, and more challenging to conduct at the same time. For example, at Daimler-Chrysler/US, NPD teams have members from most organizational functions including design, engineering, marketing, manufacturing, and finance. While this approach introduces the potential for more chaotic group meetings, it also introduces the potential for a rich cauldron for the creation of ideas.
The role of product positioning in NPD

Product positioning can be defined as the image of a product in the mind of the target customer in relation to competing products and other products of the same company. For example, if someone says “Mercedes-Benz” you might think “luxurious and expensive.” Then, if someone says “luxurious and expensive,” you might respond by saying BMW, Lexus, or Cadillac, as well as, Mercedes-Benz. Thus product positioning is a critical part of understanding how to focus the new idea generation process. We often think in terms of new benefits we can provide customers or new ways of providing those benefits. For example, a traditional benefit sought with new cars is personal safety. One new product design team in the car industry sought out and hired as a consultant, a retired U.S. Air Force officer who had spent his career in aircraft escape systems to stimulate the team’s ideas about new features in car safety.

Examining the relative positions of products in the marketplace can be of great assistance in new product idea generation. Whether you realize it or not, you already have a rich understanding of product positioning through your everyday activities as a consumer. For example, think about breakfast cereals. Breakfast cereals are available in many different types: sugar-added/no sugar added (is this segmentation based on ‘benefits sought?’); vitamin enriched versus ‘all natural’ (is this segmentation based on ‘lifestyle?’); and finally, some cereals may encourage ‘overall regularity’ like bran cereals; still another segment. Thus, you, as a marketing student should be aware of segmentation approaches, and should be able to use positioning concepts as a way to understand where your product should ‘fit in’ in the marketplace. Do a keyword search internet using “product positioning” and “perceptual mapping.” (Be sure to put your keyword in quotation marks to avoid references to other, non-related areas.

Lack of ideas versus lack of climate for creativity: Is lack of ideas a sign of lack of ability of employees or a lack of willingness on the part of employees?

Organizations with a paucity of new product ideas should not assume that their employees are ‘just not creative.’ We have conducted studies on many different organizations and employees indicate that the larger problem for them personally is not new ideas, but the fact that they don’t believe their new ideas will be adopted or even seriously considered by management.
Chapter Six Exercises

1. Do an internet search on the term “new product development” and prepare a one-page summary of your findings.
2. Do an internet search on the term “idea generation” and prepare a one-page summary of your findings.
3. Have you ever been in a situation at work or in a university organization in which you were attempting to identify new ideas that were creative? Use the dimensions of an ideal creative environment to identify which dimension existed in your situation and which ones did not.
4. You, as a consumer, see new products everyday. Choose a new product and describe what new additional benefits it purports to provide to consumers that its competitors do not. Be sure to try to focus your description on ‘new benefits’ not ‘new features.’
5. Conceptualize a new product or new service for which you think there is a need. Describe the segment to which this new product or service will appeal and what additional benefits will accrue to these potential customers. Use the “Five W’s and H” technique to flesh out your answer.
6. The keyword “idea generation” and describe your findings in a one-page report.
7. Go to your favorite drugstore and outline the product positions that are used either for toothpaste or shampoo. Describe the different benefits customers are seeking in each different position.
8. Explain how a market segment relates to a product position
9. Create a skit to perform in your class that demonstrates the idea generation process and the ten roles in the process described in the chapter.
Chapter Six Glossary

new product development process – the stages people in the organization go through in order to create and market new products or services

product – all things a buyer receives in an exchange, good and bad, intended and unintended

cross-functional teams – product development teams that include representatives from all or most the functional areas in the organization including R&D, Manufacturing, Finance, Marketing, and others

product positioning - the image of a product in the mind of the target customer in relation to competing products and other products of the same company
Chapter Seven – Specific Challenges of Marketing High Technology

The meaning of ‘High Tech’

Although marketing high technology operates on the same basic principles, given its impact on contemporary lives, it is worthwhile to explore high technology as a separate area. We will use the term high technology to mean ‘sophisticated knowledge associated with some general field of endeavor.’ Thus, high technology can apply to most industries, but usually in specific areas. For example, one might think of the bituminous coal industry as being ‘very low-tech.’ However, that industry applies very sophisticated know-how in many areas, including exploration, extraction and analysis. On the other hand, many would say that the computer industry is ‘very hi-tech’ while, in reality, computers, as an industry can today be considered a commodity, although in some fields, such as integrated circuit creation and manufacture, it is technology-intensive. All of this to say, usually the more one knows about any industry, the easier it is to identify the areas of that industry that are technology-intensive, or ‘high-tech.’

a. Market-Driven Decision Making
b. Maintaining Balance Between R&D and Marketing
c. Managing in a Fast-Paced Environment

Market-Driven Decision Making

Many areas of high technology have a past based on the premise of “build it and they will come.” Meaning that the orientation was initially to engineering, and ultimately, a product was created for which there was demand based on its technical features. The only reason technical features ever are needed is that they are able to provide additional benefits sought by a group of customers.

In order to understand the forces at work, let us review what we have said about new products. First, a new product must provide additional user benefits, or the same benefits in a more effective way, based on the customer’s perception. Therefore, while many new product ideas in the realm of technology-intensive products and services have seen success, their success was based on the additional benefits people received, not on the ‘new way of doing things,’ itself. For example, if someone offered you a solar-powered razor, you might say ‘no thank you,’ based on your perception that there are no additional benefits to be realized by using the product, whereas, if someone offered you a solar-powered palm-top device, you might consider based on the added benefit that you would never have to change batteries in the device. Thus, always look for additional benefits, not features, and you are more likely to really understand customers’ needs. Sometimes the benefits of a feature become so well-recognized that we talk in terms of the feature, itself. For example, most people know that a turbocharger on a car indicates added acceleration, therefore, we recognize the benefits of the feature instantly with out reference to the benefits the feature will provide. However, this is the exception rather than the rule, and when in doubt, it is preferable to think in terms of benefits.
A firm that thinks in terms of features and organizes accordingly, can be called “technology driven” because the focus is on the various technologies that comprise the firm’s Core Competencies (or basic abilities in production and operations). These core competencies then often drive the firm’s efforts, not the needs of customers in the marketplace.

Firms that are ‘market-driven,’ strive to understand various technologies. However, they gain this knowledge based on the prospective ability of these technologies to provide benefits to their chosen customers.

**Maintaining Balance Between R&D and Marketing**

Competent and focused Research and Development is the life’s blood of any high technology organization. The Research and Development (R&D) function is comprised of individuals who are highly educated and skilled in areas relevant to the technologies applied to develop the organization’s core competencies. For example, a firm manufacturing sophisticated test and measurement products may have personnel trained in electrical engineering and computer science in their R&D department, whereas, a pharmaceutical firm might have organic chemists and microbiologists in its R&D department. Thus, a characteristic of the R&D function is that employees in that function often are very bright people who strive to add to what is known in their area of expertise. The difficulty often encountered is that a search for knowledge solely for the sake of knowledge (basic research) is rarely sufficient in a for-profit business venture. Therefore, a link between the focus of activities of R&D departments and certain benefits sought by customers must ultimately be recognized. These benefits may be specific as in ‘a faster way to do analysis’ or general as in ‘easier to use.’ However, this link must exist in order to guide the allocation of resources among competing organizational needs.

Marketing can provide the link between the R&D department’s knowledge of technology and how that knowledge can be translated into delivering additional benefits to customers. The “next bench syndrome” is a well-known approach to creating test and measurement products that argues a test engineer in R&D also has the exact needs of his/her customers, so that when the engineer has a need in the area of testing and measurement, s/he is a perfect model for what a customer will need. While this concept is certainly applicable in some cases, it can lead to investment in products and services that are not commercially viable. The next-bench syndrome will only be a dependable guide to product development in high technology when the target customer is literally a clone of the employee in the R&D department. Another shortcoming of the next-bench syndrome is that engineers and scientists often think in terms of features, not benefits, thus including certain features may not provide the benefits the customer is seeking.

Marketing personnel are trained to uncover what benefits (as translated into features) that customers are seeking. There is a concept called “quality function deployment” (see the following website for a relevant article: [http://akao.larc.nasa.gov/dfc/qfd.html](http://akao.larc.nasa.gov/dfc/qfd.html)) that helps in this process of translating benefits into features.)
Managing in the Fast-Paced Environment of High Technology

While marketing can add value in high technology environments, it is imperative that there is a clear understanding of the role of marketing. Also, the interface between the marketing and R&D departments needs to be clearly defined. This rarely happens because most firms in high technology industries are not market-driven, they tend to be either sales-driven or technology-driven. Some indicators that a high-tech firm is sales-driven are:

- The top executive for marketing has the title: Vice-President of Sales and Marketing
- The marketing department has no marketing research personnel assigned to it
- Sales personnel have little or no input into what products are developed
- Sales personnel are paid primarily on a commission structure with little incentive to develop long-term customer relationships

Some indicators that a high-tech firm is technology-driven are:

- Marketing has little or no input regarding what products are developed
- There are no formal programs for marketing research other than visits to present customers by R&D personnel
- No sophisticated technologies are used to uncover present and potential customers needs
- Marketing’s primary role is seen as either ‘sell what we make’ or ‘find prospects to buy what we make’

While there are many exceptions, we believe that most organizations operating in high technology areas are characterized by either a sales orientation or a technology orientation. For a student of principles of marketing, this simply means that you must have a sound understanding of what marketing is in the ideal world, because some day, you may be responsible for introducing marketing principles into an organization yourself.

Product positioning for High Technology

In no area is it more important to position products than in technology-intensive environments. The temptation is often to position the product in terms of features. However, it is usually more feasible to position along the lines of benefits sought because that language translates instantly to how the customer is thinking. There are exceptions as discussed above, but, most frequently customers are seeking how their job can be accomplished more efficiently and more effectively. This is particularly important if the user is not an influencer as described in Chapter Three. Often the reason it is difficult to
position a high technology product offering is that the product really doesn’t provide any additional benefits to its target customers. While the saying “build a better mousetrap and the world will beat a path to your door” holds some truth, it is the proper answer for success).
Chapter Seven Exercises

1. Does ‘high technology’ mean the same thing to you as it did before you read this chapter? Write your answer in a one-page essay.
2. What is the role of the Research and Development Department?
3. Do a search on the internet on the term Research and Development and summarize your findings in a one-page report.
4. Describe the responsibilities of the marketing department in a technology driven organization versus a market-driven organization.
5. Describe the responsibilities of the marketing department in a sales-driven organization in a high technology industry sector.
6. Agree or disagree with the following statement giving the reasoning behind your answer: “Technology sells.”
7. Interview a manager in a high technology sector and discuss the meaning of marketing with him or her.
8. Read the article on Quality Function Deployment cited earlier in this chapter and write a two-page report on how the material covered in this article would apply to marketing.
Chapter Seven Glossary

**High technology** - sophisticated knowledge associated with some general field of endeavor

**Market-Driven Decision Making** – an approach to choice that is based on identified desires for benefits among specified customer groups

**Quality Function Deployment** – a concept that attempts to translate customer benefits sought into product features

**Next Bench Syndrome** – the assumption that a designer or engineer will have identical needs of his/her customers thus, the engineer is in the best position to know what products to design and build
Chapter Eight – How is the pricing decision made?

The price variable in the marketing mix is a critical element. Price can, by itself, communicate much about a product or service. For example, what would you think of buying an engagement ring at Bob’s Really Good, But Cheap, Jewelry Store, or for that matter, at a yard sale. Most consumers link price with quality and there are many organizations that carefully reinforce the quality of their product, using price as a surrogate cue (or substitute indicator) for quality. For example, check out the websites of marketers of prestige items and observe how the price variable is used to indicate quality). Check out BMW’s website and watch on of the movies there. (http://www.bmw.com/bmwe/index.shtml).

When the pricing decision is made, the organization must consider several factors. These factors are as follows:

a. Supply (or cost)
b. Demand (or revenue)
c. Perceptions in the marketplace
d. Competition and Competitors’ pricing strategies
e. Government Regulation
f. Company’s desired pricing position

Supply (or cost)

If there is an abundant supply of a product or service, it may not be a candidate for being approached as a product or service for sale. For example, we don’t consider air to breathe as being a commodity we must buy. Of course, that is only because there is a plentiful supply. Of course, in Colorado, many people find that the air supplied by the great outdoors is not sufficient in oxygen, thus, they must buy air that is rich in oxygen by renting oxygen tanks to enhance their respiratory systems. Native Americans had to locate close to a water supply, but didn’t worry about having to purify the water. Hence, time can change most everything, particularly how we perceive certain goods and services as candidates for commercial products. Just a few years ago, people consumed very little bottled water throughout most of the United States. Today, demand for bottled water is growing rapidly. So, think about the things you consume that you presently don’t pay for, and consider that commodity is a candidate for a product in the future (fresh air and open space, for example).

Demand (or revenue)

To justify commanding a positive price in the marketplace, there must be some demand for a product or service. We have seen above where many products traditionally considered as free, have given way to other identical or similar products for which there is now a strong consumer demand, and a price to pay. Thus, the nature of demand changes constantly for goods and services. Consider the amount of demand today for
‘ice boxes’ (products for keeping perishable food cool). These products were heavily demanded before the advent of the electric refrigerator. Thus, we often see that demand for a product can decrease or even disappear if substitute products are introduced that are perceived as being superior in their ability to provide the benefits being sought. For example, eight track audiotapes were popular for a few years in the late 1960’s and early 1970’s until a newer technology in the form of cassette tapes was introduced and vinyl records of recorded music have largely given way to the Compact Disk (CD) as the preferred medium. Will the internet and MP3 technology eclipse CD technology eventually?

**Perceptions in the marketplace**

Perceptions in the marketplace can set both a **positive price** and a **normative price** in the marketplace. A positive price simply describes how much something costs whereas a normative price describes what something ‘should cost’ based on an individual’s or a group’s opinion. For example, the positive price was so high for selected drugs used to treat AIDS that some groups protested that the normative price was simply too high gaining societal support and eventual price decreases from the manufacturers of these pharmaceuticals.

Also, consider the recent higher prices for gasoline and the various protests put forth by individuals and groups that the gasoline prices were “too high” and “not right.” These protest essentially were observing that gasoline had reach a price that was above the normative price for most people.

In the U.S., a branch of government often sets normative prices, particularly in the case where there is only one supplier (a monopoly). For example, most states have a public utilities commission or board that is responsible for overseeing the pricing practices of firms that provide the populace with utility service for natural gas, water, and electricity. However, there are notable exceptions to this rule. Normative prices do not have to be specific. Usually there are consumer expectations that help guide the normative price. For example, how many times have you heard that, ‘my water bill is too high!’

This interaction between positive price and normative price is an ongoing phenomenon and of particular interest to marketers who attempt to create and sustain customer satisfaction.

While the marketer does not usually have control over the normative price, s/he can usually control the positive price. Setting price can be a time-consuming process and we will discuss setting price later in this chapter. However, this discussion should have already made the reader aware of the importance of understanding whether by custom of the marketplace, there is already a normative price for a product or service above which a price may be considering ‘unfair’ or ‘price-gouging.’

**Competition and Competitors’ pricing strategies**

In the U.S., competition can have several impacts on the pricing decision.
First, if the firm is the only seller of a product considered essential to public welfare, the firm may have to function in a heavily regulated environment. This type of environment is called a monopoly (one seller).

Second, a firm may function in an industry in which there is an established price leader that perennially sets a price that other firms follow, although this may not always be the case. This type of competitive structure is called an oligopoly (few sellers).

Third, if the firm functions in a market where there are many competitors offering similar products, the firm may not have a choice about what level price to seek. (pure competition).

Fourth, the firm may compete in an industry or market in which although products are physically similar, sellers are able to draw differences in perception of such things as quality and prestige among products. This competitive model is called ‘monopolistic competition’ and is applicable for most everyday consumer purchases as well as business-to-business purchases in the U.S.

**Government Regulation**

Most firms in the U.S. function in an environment that is highly regulated. For example, before starting a business, one must obtain various licenses directed at everything from local government taxation and zoning laws, to state government consumer protection laws, and finally, the grand-daddy of them all in regulation, the Federal Government which regulates all interstate commerce based on constitutional power and has major regulatory responsibility for the health and welfare of employees. However, the capitalistic system is unable in its present form to halt abuses to the environment by organizations and thus, most of this regulation, while onerous, is needed. This body of law still allows various environmental abuses such as the Summitville Mind disaster in the state of Colorado. In fact, if we explore the primary legislation that impacts pricing, we find that most of that regulation was brought about by pressure on congress exerted by businesses that were competing with other businesses. Only a small portion of these laws were passed to address the protection of consumers. So, the next time you hear businesses cry ‘Get the government off our backs’ realize the businesses are really saying ‘get the government off my back’ but ‘make sure the government protects me from unfair practices by my competition.’

**Company’s desired pricing position**

Based on a company’s business and marketing strategy, it should determine its pricing position. As we reviewed earlier in this chapter, some companies have a high price/exclusive/prestige position (check out the website for Rolls-Royce automobiles [http://www.rollsroyce.co.uk/rolls-royce/index.html](http://www.rollsroyce.co.uk/rolls-royce/index.html) or Rolex Wristwatches, while others have a low price position (Wal-Mart, for example).
A company should choose its own price position, whether high/prestige or low/value and attempt to guide its constituencies (customers, supplies, employees, general public, and others) to the conclusion the company desires. For example, a local store that sells ‘everything for a dollar’ (for example, see [http://www.dollargeneral.com/](http://www.dollargeneral.com/)) will want to position itself quite differently than a marketer of exclusive products similar to Rolex watches (see [http://www.rolex.com/](http://www.rolex.com/)).

**The Pricing Decision**

As pointed out above, the pricing decision is impacted by many different factors. Thus, the initial pricing decision can be time-consuming although there are exceptions. In pricing livestock, for example, the pricing decision can be quite simple. A cattle rancher may take his or her cattle to the local auction house once a year to ‘thin his/her herd of older cows and young calves.” In this case, the rancher will be forced to accept whatever price his/her cattle bring at the auction. In this case, the pricing decision is reduced to answering the question: “Can I accept the price being offered at the local auction?” If the answer to this question is ‘no,’ the rancher then has to decide whether to seek another auction or liquidate his/her herd. However, usually the pricing decision is much more complicated and should involve a careful consideration of all five factors listed above.

**Cost and Demand Oriented Pricing Models**

We may use cost or demand as a basis for setting pricing. Traditionally, this orientation is applied in microeconomic theory by creating demand curves based a summation of individual utility functions for buyers in the marketplace. Thus, we first assess buyers’ perception of how much they would expect to pay for a product or service based on the utility (or usefulness) they would expect to derive from product or service and combine these individual utility functions to create a demand curve for the product in question. While, this approach is straightforward theoretically, it often defies practical application. However, the general lesson we learn from the approach is an important one. That is, the price based on a demand-oriented model, can be based on the expected utility (benefits) that customers in the marketplace expect to receive from acquiring our product as compared to other available products.

**Pricing models based on cost**

Probably the oldest model used, this approach uses cost to the seller to determine a selling price. For example, for years a ‘keystone’ or ‘key-stoning’ pricing policy has been used by many retailers to set price. This approach simply doubles the cost and arrives at the selling price. Many other models used cost as a pricing basis, for example, internal rate of return pricing usually begins with cost determination and then computes different projected levels of return on investment for future time periods. This pricing method was adopted by General Motors early in the company’s history and was applied for decades with their products. Why not just use cost-pricing always? While the
approach is simple and has the advantage of ‘guaranteeing’ some profit margin, the approach ignores the most important factor in pricing; demand. Thus, by using solely a cost-based approach the seller may miss opportunities for additional profit or set a price too high to realize adequate sales to even cover cost.

Pricing models based on demand

Witness salaries paid to professional athletes. How are these ‘prices’ for athletic talent determined? Usually, based on demand and what others will similar skills can expect to receive in a free market. Prices can also be set using demand for the product or service as a guide. For example, if an analysis of demand indicates that buyers, based on the benefits they would derive from it, would expect to pay $30,000 dollars for a new kind of testing device, this at least gives the seller some guidance in setting price. This approach is known as ‘the expected price approach’ and, theoretically, is the basis for setting price based on demand in Microeconomics. Of course, this approach requires a time-consuming analysis and is not as simple as just setting the price based on cost. However, if a seller focuses only on cost to set a price, s/he might be either setting price so high there will be no demand, or foregoing considerable profits.

For example, if demand is very high there are times when we can virtually ignore cost structures. For example, if a professional athlete has a remarkable season of performance, s/he can sometimes demand an incredibly high salary based on his/her performance the previous season.

In some cases, there may be ‘an expected price.’ The expected price is a price that consumers would anticipate being reasonable for the benefits derived from using the product. There may also be a ‘customary price’ for a product or service. The customary price is a price level that consumers are used to paying based on history or normal expectations. For example, if consumer testers try out a new, revolutionary vacuum cleaner, when asked they indicate that they would pay normally anticipate paying $500 or less for the product, although the seller cost structure would mean losing money at a price of less than $500.

Prestige pricing is often applied by organizations that attempt to create a sense of exclusivity for their product or service. This pricing approach assumes that the product or service faces a market structure characterized by ‘monopolistic competition.’ Thus, prospective buyers perceive a difference in products based on the distinction or reputation of particular brands. Many product categories use this factor to set price. For example, wristwatches, liquor, and automobiles all have a ‘prestige’ segment created through the perception of exclusivity an distinction. Of course, in order to create and sustain such a market position, the organization must commit to a long-term strategy.

Understanding Price Elasticity of Demand

Price elasticity of demand is a method used in microeconomics to understand how quantity demanded moves in conjunction with price changes. That is, if prices are raised,
what happens to quantity demanded? We would usually argue that quantity demanded goes down. However, can you think of a situation in which raising prices will result in more of the product or service being demanded?

It is imperative that the marketer have a clear understanding of how quantity will respond to price changes. Thus, a basic understanding of price elasticity of demand is called for. Price elasticity of demand can be computed by applying a simple formula for “e” the elasticity of demand as shown below:

Price elasticity formula in words:

Price elasticity of demand is equal to the percentage change in quantity demanded divided by the percentage change in price.

Price elasticity formula in symbols:

\[ e = \frac{\% \Delta q}{\% \Delta p} \]

Where:
- \( e \) = elasticity of demand
- \( q \) = quantity demanded
- \( p \) = price

The elasticity coefficient of elasticity, ‘e,’ has a domain from greater than a positive one, to less than a negative one. When ‘e’ is greater than one, elasticity is termed ‘elastic demand.’ When ‘e’ is less than one, we characterize demand as ‘inelastic demand.’ When we have an elasticity coefficient equal to one, demand is said to be unitary demand.

We will present examples at the conclusion of this chapter.

### Setting Price

The firm must arrive at a price that will provide it with sufficient profitability while being palatable to the marketplace. Of course, the ultimate price is related to all five factors that we discussed above. A very simple way to look at setting price is to consider the ‘markup.’ Markup can be computed on cost or selling price.

We would use the same simple formula for each approach to computing selling price:

**Selling price equals Cost plus Markup or** \[ SP = C + M, \] **where,** \( SP \) = selling price, \( C \) = cost, and \( MU \) = percentage markup.

**Using Markup on cost to determine selling price**

In this approach to setting price, we first determine the markup and then add it to the cost to find the selling price. That is, we simply multiply the cost by the percentage of markup.
For example, let us assume that the owner of a small gift shop desires to gain an average forty percent markup based on a percentage of cost on a of the products she sells in her shop. She will use the formula, \( SP = C + .4 \) (or forty percent of cost) to determine the selling price of items in her gift shop (for example, if a children’s book costs the owner $14, her selling price will be \( SP = 14 + .4(14) \) or \$14 + $5.60 = $19.60.

Using Markup on selling price to determine selling price

Some students ask “How can I determine markup based on selling price if I don’t know the selling price!” Good question! We simply define the markup on the selling price in algebraic terms, initially. This approach is not as intuitive and applies simple algebra to first define and then determine the selling price. Please note, that this approach may not make as much sense to you initially if you are not comfortable with basic algebra. But please don’t despair; once you understand this approach you will be able to remember it. Selling price can also be determined as a markup based on a percentage of selling price as described in our discussion of ‘key stoning’ above. In this case, we apply the same simple formula. However, now we must draw on simple algebra and define the selling price as the unknown and the markup as a function of the selling price. That is, while our formula is identical to the computation using cost as a basis for markup \( SP = C + MU \), now markup itself becomes an unknown, as well. That is, if we use the same gift shop and price structure as our example above, the cost is $14, and the markup is .4 of the selling price rather than the price, or .4SP. Therefore, the solution to our problem would be \( SP = C + MU \), or \( SP = C + .4SP \). That is, now the markup is determined as a percentage of selling price rather than a percentage of cost. Solving for the selling price under this approach, we would find the following.

Substituting in the formula: \( SP = C + MU \), we find that, \( SP = 14 + .4SP \) or the selling price is equal to $14 plus .4 times the selling price. Now, grouping the terms with ‘SP’ together to solve the equation, we subtract .4 from both sides. On the right side of the equation, $14 + .4SP minus .4SP equals $14. On the least side of the equation, \( SP - .4SP \) equals .6SP (Remembering that “SP is understood to be ‘1SP.’”, that is, 1SP minus .4SP =.6SP. Now our equation reads ‘.6SP = $14.’

Recalling that we can simplify the equation ‘.6SP = $14’ further, remove the ‘.6’ by dividing both sides by ‘.6’. On the left side of the equation, .6SP divided by .6SP is equal to simply SP). So the equation now reads ‘SP = 14 divided by .6.’ Thus selling price is equal to $14 divided by .6 or $23.33. Now, substitute the selling price of $23.33 into our formula to check your answer.

This simple approach to using selling price as a basis for markup is used by many retailers and if one ever wants to market a product to retailers (or wholesalers, for that matter) one should understand this approach to arriving at selling price.

Chapter Eight Exercises
1. Check out BMW’s website described in above in Chapter Eight (and watch one of the movies there ‘ambush or ‘the hire’). Why would BMW go to such expense to produce these movies? What is the price the viewer of the movie pays? Remember, price does not have to be economic in nature. Explain your answer in a one-paragraph summary.

2. Explore the website of Cartier, Inc. (Cartie – ā) [http://www.cartier.com], and describe how this company attempts to create a high price, high quality (prestige) position in the marketplace.

3. Explore the website of Timex, Inc. [http://www.timex.com] and write a paragraph observing differences between the Cartier and the Timex sites. Be sure to describe the positioning of each company’s products after viewing their respective websites.

4. Explore the website of the Shane Company and describe this company’s orientation to pricing and prestige [http://www.shanecompany.com/weddings/wedding_planner.asp].

5. Explore the website for Walmart and comment on Wal-Mart’s approach to price [http://www.walmart.com].

6. Why do different companies have different approaches to pricing? Use the websites above to support your answer.

7. Create a product positioning map (four cell matrix) for wristwatches. Use the dimensions of price and prestige. Summarize your product positioning map and what you learned by doing this positioning map in a two-page report.

8. Go to a local supermarket and a local department store and write a half-page report that observes differences in how prices are displayed at each store.

9. “College tuition is a price just like any other.” Agree or disagree with this statement and explain your answer.
Chapter Eight Glossary

**Positive price** – the present cost or marked price of a product

**Normative price** – a price that is considered ‘fair’ by an individual or group

**Company’s desired pricing position** – an organization should reach its own conclusion based environmental factors, where it should set price and communicate that position to its constituencies.

**Cost-oriented pricing** – procedures used to arrive at a product’s or a service’s price using the organization’s cost of producing the product or service.

**Demand-oriented pricing** - procedures used to arrive at a product’s or a service’s price using the demand structure in the marketplace.

**Price elasticity of demand** – the relative change in demand that occurs in response to a relative change in price

**Prestige pricing** – the process of setting a price based on the perceived exclusivity or reputation of the company name or brand name of the product or service
Chapter Nine – How do producers get their products and services to their target customers?

This area of the marketing mix is usually called ‘distribution’ simply because its main concern is to distribute goods and services to the target customers. Organizations typically use a large number of strategies to get their goods and services to target customers rather than only one. Critical to understanding and managing distribution are the concepts of time and place utility. Time utility can be defined as having the product available when the customer would prefer to acquire it and place utility is having the product available where the customer would prefer to acquire it.

While the internet can provide the ultimate in time utility for some products or services (for example, e-mail), for many products, it does not provide sufficient time utility. Buying a book over the internet still requires that the book be delivered to the buyer before ‘consumption of the product’. Therefore, it is generally faster to buy a book from a local retailer than to obtain the same book through the internet. However, the development of the market for e-books may change this situation. For example, this e-book is delivered to the user instantly anytime the user desires to access it. The action on the part of the reader is to gain ability to log on to the internet and go to our website [http://www.principlesofmarketing.com]

A marketer may adopt a broadcast strategy in which products are sent out to customers in as wide a manner as possible. This strategy is usually not efficient or effective for most firms, particularly small firms due to the cost. The strategy is typically adopted by many organizations that have not done sufficient research to understand the specific characteristics their target customer and how the customer would generally prefer to obtain the product or service in question. For example, organizations that are production-oriented concentrate primarily on manufacturing their products efficiently (with the underlying assumption that there will be a demand for the product). Sales-oriented organizations focus on promotion and personal selling and are not typically concerned with the ideal product solution that the customer is seeking. Technology oriented firms assume that customers are seeking the most advanced technology, thus these firms focus on the most advanced way of doing things whether the customer is seeking this solution or not. All of the organizations above often adopt these respective orientations because they have insufficient knowledge of customers or concern for customers to engage in a focused distribution strategy.

We use the terms goods to refer to tangible products (those that can be seen and touched, for example a new pair shoes) and the term services to refer to intangible products (for example a visit to the dentist), those that cannot be seen or touched during the process of providing the service. Although traditionally services have been delivered through a ‘direct’ marketing channel or directly from the seller to the buyer, as technology develops, many services are now be delivered directly to the customer. Previously, these services required personal contact between seller and buyer. For example, investment decisions (in stocks, bonds, or other investment options) historically required a face-to-face meeting between the investor and his investment advisor. Today, many people manage their investments through the internet and never work face-to-face with another
human being. Financial services offered by banks are similar in that, since the introduction of the Automatic Teller Machine (ATM), it is not necessary for customers of banks to meet face-to-face with bank representatives. As the practice of “direct deposit” and other electronic forms of banking grow, there will less and less need for personal interactions between financial institutions and their customers. This is not to the say that there will no longer be a need for ‘bricks and mortar’ banks, because some segments of customers will still feel it necessary to visit personally with the bank’s representatives.

**Focused Distribution Strategy – “Five Rights don’t make a Wrong”**

A focused distribution strategy is driven by customers’ needs, and thus is created in relation to when and how customers would prefer to buy a product or service. Thus, the organization seeks to deliver the **right** product with the **right** service, to the **right** customer, at the **right** time and **right** place. For example, if we market a product that customers would prefer to buy any time of day or night and any day of the week, we would strive to make the product available to customers on an around-the-clock basis. For example, emergency medical care for people and their pets might constitute such a product (service). Note that many Wal-Mart stores adopted this approach to ensure that Wal-Mart products are available whenever customers might seek them and that Walgreen drugstores have adopted the same strategy. Over the last few decades people in the U.S. have grown to expect that some types of stores will ‘always be open’ and thus many leading market-oriented organizations have responded to that expectation and many others have not. Of course, not all customers for most products have the same wants and needs, thus, the demand for all products and services does not occur on this basis. For many marketers, the idea of being open to serve customers virtually all of the time is not a viable strategy. Again, ‘five rights don’t make a wrong’ thus the only viable way to know what the target market wants is to understand them well enough to answer the ‘five rights.’

This distribution strategy requires that the firm commit to learning about and caring about its customers. This has to be a strategic or long-lived commitment with adequate resources devoted to accomplish the task. Many firms advertise that they have this commitment, but in reality, few do.

**Options for focused distribution**

In the U.S., there are usually many options available to create and effectively manage distribution. We say, “usually,” because the distribution function (‘Place’) tends to be the least flexible component of the four P’s in the marketing mix. Thus, while distribution options usually exist, frequently some creativity is required to identify and weave these options together into an effective system that provides high satisfaction levels to customers.

**Options for focused distribution in the consumer market**
Earlier, we defined a consumer as someone who buys for ‘their own, personal non-business use.” This definition clearly identifies most shoppers at K-Mart as consumers, for example. However, if we consider “Sam’s Club” and other similar organizations, a portion of their sales come from those who are buying for businesses or institutions. Why does this matter? As indicated in an earlier chapter, the buying behavior of consumers and those representing organizations differ considerably. Organizational purchases are often more planned and driven by predefined specifications, whereas consumer purchases include a larger portion of unplanned purchases.

Although there are literally dozens of different alternatives for distributing products and services to consumers, the alternatives fall into two basic options: (1) direct distribution and (2) the use a one or more marketing intermediaries.

Direct distribution is an approach in which the producer also manages distributing the product to the consumer. Examples of direct distribution include Mary Kay cosmetics (website: [http://www.marykay.com/](http://www.marykay.com/)) and Motel Six (website: [http://www.motel6.com/](http://www.motel6.com/)). Mary Kay operates on a direct distribution system that depends on the performance of a large network Mary Kay Consultants who are independent contractors to Mary Kay. This workforce is close to a million women who operate as independent business organizations. This website will be of interest to most women in business if only in its educational attributes regarding organizational mission and culture.

Motel 6 delivers its services directly to customers via an individual or company that has agreed to certain guidelines articulated in a franchising agreement. The service component plays the major role in each of these businesses which is not surprising, because most services are distributed directly from the producer of the service to the consumer of the service. A notable exception is the delivery of travel services in which at least some component of the service (finding an appropriate flight and booking it) is sometimes delivered via a marketing intermediary (travel agent). However, as more and more people locate and book travel arrangements through internet providers (for example, Travelocity [http://www.travelocity.com](http://www.travelocity.com) and Cheaptickets [http://www.cheaptickets.com/]), there is becoming less demand for personal contact with travel agencies except in case of more complicated travel plans and travel plans for inexperienced travelers.

For tangible goods (products), Goodyear Tire Stores [http://www.goodyeartires.com/about/employ/open/retail-06.html](http://www.goodyeartires.com/about/employ/open/retail-06.html) operates a network of over 750 company-owned retail outlets in the U.S., thus company has chosen to own and operate its own retail stores and thus engage in direct distribution.

Given the above examples, one might believe that most large companies choose to deliver goods to their customers through direct distribution. However, this is not the case and most products in the U.S. are distributed through marketing intermediaries such as wholesalers and manufacturers representatives. Why are producers who use direct distribution in the minority? Because there are many marketing intermediaries (called ‘middlemen’ in the past) that provide better service and are much better equipped to
provide distribution services than the producer. For example, if you operated a fishing fleet in Alaska, your primary concern and abilities would be related to operating a fleet of boats, and locating and catching fish. Clearly, a wise person would spend his/her time focusing on this aspect of the business. Whereas, there would, no doubt, be an organization that has as its primary concern and abilities, the processing of the fish brought into port every day. Although, as a fishing operation one organization could do both fishing, and processing, it might not have the resources to perform both activities. Thus, in most industries, there are different firms engaged in the different endeavors it requires to produce and deliver the product to the consumer’s door.

In the grocery industry, companies like Sysco (http://www.sysco.com/) and the Fleming companies (http://www.fleming.com) provide everything from training classes in merchandising to recipes for new dishes to their customers, as well as distributed products from producers to retail grocers.

The above example would represent a distribution channel in which both wholesalers and retailers are needed as marketing intermediaries. Note that a ‘retailer’ is technically a marketing intermediary, so that when a retailer advertises s/he ‘cuts out the middleman,’ it is unlikely that claim is true because, technically the retailer IS a middleman!

In summary, the above discussion should help you conclude that while marketing intermediaries are not always use, that provide essential services which usually add value to products that we, as consumers desire to purchase. The key to the value of a marketing intermediary is that the marketing intermediary provides services with which we as consumers cannot do without. The only time when a marketing intermediary is not needed is when we as consumers are willing to perform some of the services that the marketing intermediary performs. For example, if we are willing to drive to Rocky Ford, Colorado, to buy our cantaloupes, we have performed a service usually reserved for a marketing intermediary. In fact, in this case, there probably will be at least two intermediaries involved, the transportation company that moves the melons from Rocky Ford to your home town, and the retailer who grades the melons and places them for display in his/her grocery store. So, the next time you go to the grocery, realize that the reason you are able to buy exotic products from all around the world depends largely on the services of marketing intermediaries. They don’t necessarily make distribution more expensive but they do often make it much better, providing consumers with more place and time utility.

As the reader can see, there are many different options to distribution, but the main option other than the direct channel, is the option that includes the use of marketing intermediaries, of which there are many different kinds.

**Options for focused distribution in the organizational market**

Although there are instances in which the distribution channel to provide satisfaction to an organizational market is identical to the distribution that will provide maximum satisfaction to a consumer market such as Sam’s Club in the U.S., these two types of
markets usually make use of different kinds of marketing intermediaries, at least in title. For example, manufacturers’ representatives are used widely in organizational markets than they are in consumer markets. A manufacturers’ representative is an independent organization that represents a group of different producers. The manufacturers’ representative will usually have as clients several different producers that manufacture products used in the same industry or application. For example, a manufacturers’ representative in the building materials industry might work for several different producers of structural materials for building homes. Examine the following URL address to find the websites of different categories of manufacturers’ representatives. [http://search.yahoo.com/search?p=manufacturers%27+representatives&n=25].

**Industrial distributors** are marketing intermediaries that service organizations by providing them with products and services in a convenient manner. There are literally tens of thousands of these firms in the U.S. alone. However, the firms are often ‘hidden’ from consumers since most are located in industrial districts within cities. See the following website for an example of an industrial distributor: [http://www.wwid.com/].

**Different types of products in consumer markets**

It is helpful to study the type of behavior in which consumers engage to better understand their wants and needs when it comes to product or service delivery. For consumer products, researchers have identified several different types of products based on consumer behavior. We will describe four of these types of consumer products: Unsought goods, convenience goods, shopping goods, and specialty goods. It is helpful to consider three characteristics when attempting to place a product or service in one of these categories. First, we must realize that we classify goods and services on what behavior we would expect from most consumers, thus, pizza would be classified as a convenience good because most consumers buy it in that manner. That is, when most people buy pizza, the purchase decision is not a high involvement purchase surrounded by considerable perceived risk. While you might say: “I only eat the pizza baked by my favorite local pizza place: Rubino’s Pizza,” you should realize that the pertinent question is not how you personally buy pizza, but how most consumers buy pizza. We would observe the effort put into the purchase including how much time is spent on the purchase and how often the product is purchased. We also consider the price and the personal significance of the purchase, because these directly impact how much time you are willing to spend on the making the purchase. Situational effects are also important to consider, including time pressure and occasion of the purchase because each of these factors affect the personal significance of the purchase.

Therefore, we define a **convenience good** as a product or service that is purchased with:

1. minimal amount of time expended under
2. normal consumption conditions (for example, not a special occasion or of particular personal significance) and that is
3. purchased frequently.
One can see that with convenience goods, time and place utility are extremely important because the most available supplier of the product may be the one that is chosen solely on location of the supplier (for example, gasoline for your lawnmower).

**Shopping goods** are those products that are purchased less frequently for which the average consumer is willing to spend some extra time in the shopping process. For example, when buying a new CD player for her car, a consumer may want to compare several different brands and stores before she decides on which CD player to buy. Thus with shopping goods the consumer will usually compare different brands and suppliers before s/he makes a purchase decision. The added time the consumer is willing to spend will vary directly with the cost of the new product and the personal significance (perceived risk or situational impacts) of the purchase.

**Specialty goods** are products that we purchase for which we have a definite preference for the supplier. This preference may be based on prestige of the supplier (for example, Rolex wristwatches [http://www.rolex.com/](http://www.rolex.com/)) or a long-standing involvement with the product (for example, Krispy Kreme Donuts: [http://www.krispykreme.com/kkcollect.html](http://www.krispykreme.com/kkcollect.html) also [http://www.bluebell.com/](http://www.bluebell.com/)).

**Unsought goods** are those products that consumers will not normally buy during regular shopping activities. For example, the family doesn’t usually decide to spend a nice spring day shopping for burial plots and funeral services. While we all have need for these products and services, they are not necessarily pleasurable to consider buying, thus we in one way or another avoid buying certain products and services during our normal shopping activities. For example, if you own an automobile, think back to the last time you bought a battery for your car. Most of us only buy a battery when we believe our present battery must be replaced, thus, the good is unsought in normal shopping activities. Intangible goods, such as life insurance also fit into this category. (for example, look at [http://www.northwesternmutual.com/](http://www.northwesternmutual.com/), [http://www.prudential.com](http://www.prudential.com) and [http://www.sci-corp.com/](http://www.sci-corp.com/)).

Marketers of unsought goods choose intriguing appeals, usually based on perceived risk, either of personal risk (for example, assuaging grief of family members) or financial risk (dramatizing the consequences of financial loss).

**Different types of products in organizational markets**

In organizational marketing, researchers have classified products, not on behavior observed among organizational buyers and decision makers, but on the intended use of the product or service. Thus the types of organizational products we identify are based on what purpose the organization has for the product or service being acquired. For example, a local gift shop may need to buy a new neon sign for its window to draw the attention of passers-by. The gift shop is buying the neon sign, not to resell, but to use in the conduct of its business, thus the intended use is to promote the gift shop and increase its sales.
The following are brief descriptions of the different types of good and services in organizational markets:

i. Raw materials - products that are in their natural form like salmon from the sea or coal from the earth.

ii. Process materials – products that have undergone some change in form utility, for example, trees that have been cut into boards in a lumber mill.

iii. Component parts – products do not undergo any change in form utility and appear in the final product in identical form, for example, spark plugs or windshield wipers in a new automobile.

iv. Major equipment – products for which the basic processes of the organization depend, for example, jet planes for a commercial airline carrier or ovens for a bakery.

v. Accessory equipment – products that are used to facilitate and maintain basic production and operations of the firm. For example, a hand drill used by a tent manufacturer.

vi. Supplies – these products are similar to convenience goods in the consumer products typology in that they are of minor cost and are consumed frequently. Examples would include oil and grease for maintaining major equipment.

vii. Business services – intangible portions of the company’s basic processes that enhance and protect its operations for example security services and cleaning services.
Chapter Nine Exercises

1. Read the history of Krispy Kreme donuts on the Krispy Kreme website ([http://www.krispykreme.com/kkcollect.html](http://www.krispykreme.com/kkcollect.html)), and write a one-page report on what you find there.

2. Give two examples of other similar company success stories you find on the web and describe them in a one-page essay.

3. Why are Rolex watches only distributed through selected jewelry stores and not K-Mart? In a one-page report describe how does this example identifies one of the common reasons for distributing a product through only a few outlets.

4. List three different products that belong in each category of consumer products and explain why you think most consumers would classify them this way.

5. Why do are there different approaches for classifying consumer products and organizational products? Can you think of products that can fit into either area? Explain.

6. Explain how drive-through windows for fast-food restaurants relate to place and time utility. Many futurists expect present trends toward more time and place utility to continue. Do you agree? Why or why not?

7. Visit the Mary Kay website and write a one-page essay summarizing what you found there ([http://www.marykay.com/](http://www.marykay.com/)).

8. Visit the Sysco Website and write a one-page essay on what you found there ([http://www.sysco.com/](http://www.sysco.com/)).

9. What are marketing intermediaries and why do most business people believe it is imperative in our economy to have marketing intermediaries?

10. Are retailers (organizations that sell primarily to people who buy for their own, personal non-business use), marketing intermediaries? Explain.

11. Give examples in which a personal computer would be major equipment for one organization and accessory equipment for another.

12. Search the internet with the keyword “industrial distributors” and write a one-page summary on what you found. Why are consumers not more familiar with this type of organization?

13. Is a premium sound system in a new car a ‘component part’ or ‘accessory equipment’ to an organizational marketer? Explain why most consumers would answer accessory equipment, although that is incorrect.
Chapter Nine Glossary

**Broadcast strategy** – a distribution strategy based on delivering the product or service to customers on as a wide a basis as possible. Often as a result of inadequate knowledge about customer needs and wants and characteristics.

**Focused strategy** – a distribution strategy based on delivering the product or service based on performance of upstream marketing activities to determine the ‘five rights’ of the organization’s product or service.

**Direct distribution** – an approach used by some organizations in which the organization itself is responsible for delivering its products and services to the customer.

**Marketing intermediary** – an independent organization that assists producers in delivering their products and services to their customers.

**Manufacturers’ representative** – a type of marketing intermediary that serves several non-competing producers of complementary products by accessing and maintaining relationships with a wide variety of customers in business-to-business markets.

**Industrial distributor** – a type of marketing intermediary in business-to-business that services organizations by providing them with products and services usually in a specific product category such as electrical or plumbing supplies.
We have already discussed the importance of performing upstream marketing activities prior to performing downstream marketing activities. Promotion takes place in the intermediate and later stages of marketing planning because promotion requires:

1. first a definition of the target audience
2. second, a description of the benefits to be delivered to that target audience
3. third, clear objectives about what the program aims to accomplish, and
4. fourth, a strategy to be employed to communicate with that target audience and accomplish the objectives.

This process may seem backwards to some who would expect to make the media decision first. That is, if an organization is sales-driven, it would first attempt to perform number four above. However, a market-driven firm realizes that is must perform the first three steps prior to media choice.

**Definition of the target audience**

Traditionally, the role of promotion has been identified as to ‘inform, persuade, and remind.’ While these stages are always necessary, often one or the other has taken place prior to the creation of a promotion program. For example, most consumers in the U.S. culture are aware of and understand the benefits of Coca-Cola and where to find the product, so informational advertising may not be necessary (http://www.cocacola.com/). However, Coca-Cola must continually work hard to keep its name in front of consumers and remind them that the product is available and that it will provide the consumer with certain benefits. “Reminder advertising” is often placed by market leaders to support other promotional campaigns that are in progress. Thus, Coca-Cola is committed to constant advertising, although most consumers are aware of the product in over two hundred countries (see http://www.cocacola.com/). When you think of target markets, realize that they are always changing. People age and change over time, therefore, target markets do the same thing. So, new Coca-Cola ads while persuading and reminding a portion of the target market, also continually inform a certain part of the target market who due to age or culture are not aware of the product yet.

History shows that market leaders can quickly lose their competitive position if they don’t constantly keep their name in front of their target market. This is particularly true with today’s media saturation and intense competition. As we discussed in Chapter Three, the target audience for consumer products is usually defined in terms of demographic, psychographic, geographic, and behavioristic attributes. Once we have clearly defined the target market, we create marketing programs to communication with members of the target market.

**Description of benefits to be delivered to the target market**
It is imperative to understand what benefits (not product features) the target market will receive by buying our product or service and this description should be crafted in words that communicate these benefits to members of the target market. Thus, the notion of “empathy” with the target market becomes critical. If we don’t really understand our customers well, it will show in our attempts to communicate with them. For example, if our target market first seeks the minimization of financial risk in their purchase, we might choose to provide a thirty-day money back guarantee. Whereas, if our target market is more interested in minimizing technological risk in their purchase, we might choose to decrease this perceived risk by providing a twelve-month ‘technology trade-up program’ or adopting promotion comprised of user testimonials dealing with the product.

**Clear objectives about what the program aims to accomplish**

Setting objectives for promotion programs is a critical part of achieving success. However, in practice, setting objectives sometimes destroys creativity associated with the promotion program. Thus, while we strongly recommend formulating objectives that will guide the promotion program, we caution promotion managers to avoid an approach that is too rigid and quells the creative process.

Objectives for promotion programs can be either sales-oriented objectives or communication-oriented objectives. That is, we can either identify specific targets we wish to meet in terms of increased sales or specific targets we want to attain in terms of communicating with the target audience for the program.

**Strategy to be employed to communicate with the target audience**

Just as in planning, the word ‘strategy’ is used in several different ways in promotion management. First, strategy can refer to an overall game plan or orientation to the promotion program. For example, a company might discover through research that their target customers seek reliability above all other attributes thus the organization might adopt a strategy of ‘emphasis on reliability.’

On the other hand, an organization might adopt a ‘direct mail strategy’ if it finds that direct mail would be the best way to reach its customers. Hence, use of the word ‘strategy’ has no guidelines and can confuse the issue. We recommend that when the reader uses the word strategy, the reader provide an explanation regarding how the strategy would be implemented. This leaves no doubt regarding the word’s meaning. Communication objectives can be driven by measures such as product awareness, knowledge (of certain attributes or benefits) or preference. Each of these measures can be used to assess how effective promotional efforts have been in attaining their objectives.

**The Promotion Mix**

Traditionally, we employ a promotion mix to effectively budget and distribute funds for promotion. The promotion mix includes the following components:
a) Advertising – paying for space in a medium such as a newspaper or trade journal
b) Personal Selling – a face to face contact with a customer
c) Sales Promotion – any program that provides additional incentive for the customer to make a purchase
d) Publicity – obtaining space in a medium such as a newspaper in which we do not have to pay for the space based on the newsworthiness, or other characteristic of the article printed.

When creating a promotion program we attempt to meld the four elements together in a cogent way so that each element supports the other and provides the target audience with a consistent message over time. This practice is call ‘integrated promotion management’ or ‘integrated marketing communications.’

For organizations marketing convenience goods in consumer markets, advertising usually accounts for the largest proportion of the promotion mix, whereas, personal selling traditionally comprises the largest expenditure for organizational markets.

**Creating Successful Promotion Programs**

As discussed above, there are four steps to creating successful promotion programs:

1) a definition of the target audience  
2) a description of the benefits to be delivered to that target audience  
3) clear objectives about what the program aims to accomplish,  
4) a strategy to be employed to communicate with that target audience

For example, Marie’s Gift Shop is a small store in downtown Manitou Springs, Colorado. Marie’s parents opened the shop and named it for their newborn daughter in 1968 and the shop has operated continuously since then. Marie, after earning a college degree with a major in marketing, was asked by her parents to manage the gift shop so that her parents could retire. Marie accepted this challenge although she had two small children and was a single mother. Marie realized any funds spent for promotion must yield results in the form of increased sales. The first step for Marie was to determine who the target audience for any promotion would be. Having worked in the shop part-time for many years, Marie believed that most her customers were from the local Manitou Springs area although a significant proportion of customers in the summer were tourists. She commissioned a small marketing research study with her former university to explore her customer base. Two of the research questions for this study were “(1) Who are our present customers and (2) why do they buy from us?” The marketing research study found the answers to these questions were that over seventy percent of the current customers were from the Manitou Springs area and had been customers of Marie’s Gift Shop for over two years. The study also indicated that most of the customers purchased gifts for immediate family and friends for traditional gift-giving occasions including birthdays, weddings, and Christmas. Thus, after the marketing research study, Marie defined her target audience as ‘Present customers with a ZIP code in the Manitou Springs
city limits and ZIP codes contiguous to the Manitou Springs ZIP codes. Marie also realized that she should begin to keep a Customer Information System that would enable her to communicate regularly with her present customer.

Another of the questions in Marie’s study was ‘Why do you make purchases from Marie’s Gift Shop?’ One of the responses to this question on the survey was “I am familiar with the Ruohonen family.” Over sixty percent responded affirmatively to this question indicating that one of their main buying motives was to ‘support local businesses’ and that the customer ‘enjoyed visiting with members of the Ruohonen family.’ Thus, most customers were already familiar with Marie’s Gift Shop before buying from the shop.

Therefore, the three primary benefits customers were seeking were determined to be:

a. experience personalized service from a familiar source
b. support local merchants like the Ruohonen family
c. obtain a unique gift

After a meeting with a local marketing communications firm, these benefits were used as a guide for creating a promotion strategy for Marie’s Gift Shop. Marie’s decided to adopt this approach as a long-term strategy and committed to this strategy for a three year period, thus, adoption of a promotion strategy should not usually be seen as short-term.

We will discuss this promotion program in more detail in a later chapter.

**Overview of Advertising**

As indicated above, advertising can be defined as communicating with target audiences through paid, non-personal messages, usually placed in a mass medium. Advertising is the easiest but absolutely, more expensive alternative for marketing communications. That is, the initial outlay for an advertising campaign may be the most expensive option for promotion. However, advertising may possibly provide the lowest ‘cost per contact.’ For example, usually audiences are measured by using a figure known at CPM or cost per thousand (the ‘M’ denotes use of the Roman numeral designation for one thousand.) See the appendix to this chapter: An easy guide to audience measurement.

If you do an internet search on the word, ‘advertising’, you will find many different references and categories presented there. Some researchers estimate that by the age of eighteen the average person in the U.S. was viewed well over one million advertisements and that figure is probably very low if we consider all commercial messages to which we are exposed in the U.S. What are the implications of this staggering statistic? First, most of us consider ourselves ‘experts’ in advertising because we have seen so many ads. However, to be truly expert, one must understand and develop the attribute of ‘empathy.’ Empathy is simply being able to understand another person’s feelings are reactions to events in his or her environment. It is easy to feel sympathy for someone who is only twenty-one years old but dying of cancer. However, it is much more challenging to
understand how that person must feel. This example demonstrates how fundamentally unimportant most advertising is to the average person. However, advertising is sometimes very important to us as individuals. Why? First, we often use advertising as a way to identify right and wrong behaviors: both fundamental and minor behaviors in society. For example, some ads give us cues about ‘what is cool’ and what is ‘not cool’ in everyday behaviors. You might want to access [http://www.nickatnight.com/](http://www.nickatnight.com/) and click on the index and go to the ‘retromercials’ section found in ‘Tvland’ ([http://www.tvland.com/TVL.jhtml](http://www.tvland.com/TVL.jhtml)) to see commercials that for the most part are over thirty years old. Can you identify how ‘cool behavior’ and ‘uncool behavior’ have changed in the last few decades?

Also, you might want to access Advertising Age Magazine online at [http://www.adage.com/](http://www.adage.com/) and also check out a history of advertising at [http://www.adage.com/news_and_features/special_reports/](http://www.adage.com/news_and_features/special_reports/) to get some perspective on how TV advertising has changed and developed over the last several decades.

The tobacco industry continues to advertise heavily through alternative means that avoid regulations of the Federal Trade Commission (FTC), thus easily avoiding the law, while continuing to advertise a product proven hazardous the health of its users. For example, note how the motion picture industry continues to accept money to feature its products in films. Review the following article found at: [http://www.ftc.gov/os/comments/tobaccocomments2/siegelmichaelmdmph.htm](http://www.ftc.gov/os/comments/tobaccocomments2/siegelmichaelmdmph.htm)

Also, the reader might want to review the website of a company that has as its core business the ‘placement’ of products in various media vehicles. (review: [http://www.productivity.net/Company Profile.htm](http://www.productivity.net/Company Profile.htm))

### Overview of Personal Selling

Personal selling is the worst nightmare most of my marketing students have about a career in marketing. Why? I think they see personal selling as a low status, low paid career full of disappointments and lack of personal freedom. In one way the students are correct, almost any career in personal selling is going have many disappointments if one defines a customer not saying ‘yes’ instantly as a disappointment. However, a career in personal selling can yield a most rewarding professional life if a person can develop a strong self-esteem and truly believes in what s/he is selling. As Peter Drucker, a leading writer in marketing and management, has said: “(true)…. marketing involves almost no selling.” Mr. Drucker refers to the fact that if a marketer does his or her job and understands and delivers a product or service solution that the customer is truly seeking, it only remains for the marketer to explain how this solution will provide the benefits sought, and the customer is then willing and eager to buy. Why does this sound so unrealistic to many of us? Because, as consumers, we rarely experience a solution that is so well researched or a seller who values the customer this much. As mentioned earlier in the text, most companies in the U.S. are sales driven and not market driven, so that their primary concern is not customer satisfaction but selling the customer what the company has available to sell. Therefore, it is no surprise that many consumers are
dissatisfied with the product and services they buy. However, as competition forces organizations to be more customer-oriented, the remaining firms that are solely sales-driven will eventually disappear from the economic landscape.

Traditionally in personal selling, organizations follow a process from the time preceding customer contact to the time following the sale, including some follow-up activity. In many organizational markets, this follow-up stage is called ‘post-sales support’ and is one of the most effective methods for keeping customers. Investing in retaining current customers is much more cost-efficient than ignoring current customers in search of new customers. This approach, used historically with many consumer products is called ‘churning’ and is adopted by sales driven firms. New and used car sales are examples of product categories that used the churning method for decades, although, due in some cases to the efforts of new car manufacturers, this practice is becoming less popular. New car manufacturers are recognizing that their long-term success depends on building and nurturing a diverse customer base. This requires on-going customer research and an honest commitment to customers in all production and services systems that are responsible for delivering customer satisfaction. Today this commitment is still rare, but in the future it will be essential. Check out the website for Saturn automobiles [http://www.satumbp.com/index.jhtml](http://www.satumbp.com/index.jhtml) to observe the efforts put forth by this company to be truly customer-oriented. For example, check out the “My Saturn” section on the Saturn website.

Many firms view the personal selling process as a ‘sales funnel,’ that is, the process begins with many different possible customers, and narrows over time to more specific customers who are first identified as ‘qualified prospects.’ A qualified prospect can be defined as an individual, family, or organization that is likely to be seeking the benefits we seek to provide and has the ability to obtain those benefits by entering into a relationship with our organization. Thus, locating and identifying qualified prospects becomes a primary function of the marketing or sales effort. However, we must remember that if an organization is truly marketing oriented, this process is made much easier because the customer profile created early on in product or service development has already given clear definition to our target customers.

After identifying qualified prospects, it remains to contact these prospects and consult with them about our chosen solution to their product needs in terms of the benefits they are seeking which we aspire to provide. Thus, while the ‘sales funnel’ begins with a profile of our target customer and the benefits that s/he wants, the number of prospects decreases as we proceed through the sales process. As we gather more information about what customers we can better satisfy, we continually use this information as feedback to more precisely align our solution with the benefits sought by our target market. The ‘delivery system’ of the organization must strive to maintain flexibility throughout the personal selling process and be capable of adjusting the product solution to meet needs of customers as the organization gains better resolution about what those needs are exactly.

Most traditional models of the selling process have the process culminate in a ‘presentation’ and then proceed to a ‘feedback’ stage that occurs after a presentation and
purchase. While this approach to modeling the process if helpful, it denies the required
dynamic nature of customer relationships and often is too inflexible to be of maximum
use. That is, as we learn more about exactly what benefits our customers are seeking, we
must continually adjust our product or service offering to better provide those benefits.
For example, a response to feedback from customers in a restaurant that ‘this place it too
smoky,’ must be forthcoming very quickly if the restaurant is to be successful. While
this response is not as easy with tangible products, especially high technology products,
organizations marketing such goods must always aspire to solicit this kind of feedback
and respond to it as quickly as possible.

For more information on personal selling and sales management consult the two topics at
the following website:

**Overview of Sales Promotion**

Because we define sales promotion as “any added incentive designed to inform, persuade
or remind a certain portion of the target market,” sales promotion ends up being a large,
catch-all category including coupons, special offers, customer sweepstakes, and many
other promotional activities. These activities are used both in consumer markets and
organizational markets although the methods often differ. For example, if one reviews
the local Sunday paper, one will find almost countless coupons included by advertisers to
encourage customers to buy. However, only a very small percentage of these coupons
are ever even seen let alone exchanged by consumers. In organizational markets,
companies often spend large amounts of money on trade shows which are regional,
national, and international expositions that usually share a common theme such as an
industry (for example, see [http://www.key3media.com/comdex/](http://www.key3media.com/comdex/)) or some other theme
(for example, see [http://search.yahoo.com/search?p=international+trade+shows&n=25](http://search.yahoo.com/search?p=international+trade+shows&n=25)).

You might also want to check out this website that operates in the United Kingdom
([http://www.isp.org.uk/welcome.html](http://www.isp.org.uk/welcome.html)), it is an industry sponsored web presence.

**Overview of Publicity**

Publicity differs from advertising in that the advertiser does not pay for the space in the
medium or publication with publicity. That is, a new feature is placed because it
ostensibly will be of interest to the readers of the publication. Check out this website for
an example of a firm that does publicity exclusively:

There are also public service announcements that often attain similar objectives. The
challenge with publicity is preparing an article that is newsworthy and of interest to the
readers of a publication. Obtain a copy of a local newspaper, and see if you can find an
article included in the newspaper that you believe was published without a charge to the
advertiser based on its interest to readers.
For example, the Gazette in Colorado Springs, Colorado (http://www.gazette.com/) publishes an article on a new car every week. This article is usually published without a charge to the manufacturer of the car because the editors of the Gazette believe that readers will find the article newsworthy and of special interest. The same may be true of articles containing restaurant and movie reviews.

The main requirement of obtaining publicity in most media is that the article placed should be newsworthy and credible and of special interest to viewers or readers.

**Formulating an Integrated Marketing Communications Plan**

The primary challenge in promotion management is the integration of all activities directed at communicating with one’s various audiences so that the organization presents a consistent understandable image to those groups. We say ‘audiences’ because at any given time, the organization may be communicating with its customers, suppliers, employees, competitors, and the general public in several different contexts. It is imperative that the organization create and reinforce a clear image in the marketplace. Thus, all communications should be centrally produced and managed. This is not to say that there will not be creativity in individual marketing communications efforts, only that these efforts will have agreed upon guidelines so that all of the different groups with which the organization communicates are given a consistent image of the organization.

After different parts of the organization agree upon what image the organization seeks to attain, an integrated marketing communications (MARCOM) program can be established and implemented. All components of the promotion mix then have some underlying concept to reinforce. For example, in the example of Marie’s Gift Shop described above, Marie wanted to make sure that all communications with customers, employees, and suppliers used the same logo and letterhead. Marie also realized that an emphasis on personal service, the availability of unique products, and the consistency of local ownership would be critical to maintain her chosen organizational image. We will describe Marie’s chosen MARCOM program at length later on.

**A Note on Positioning**

As we have indicated, it is essential to know who the target customer is and what benefits s/he is seeking. For example, there is usually a temptation to ignore this requirement and attempt to ‘be all things to all people.’ For example, recently a group of MBA students at a university decided to enter into a business venture together. Several students in the group had managed to save some funds through various means. Two students had recently left military service and two others had received a ‘departure bonus’ from a high technology firm. The students agreed that they wanted to open a restaurant together. When asked who their target market would be the students responded “Well, everyone who eats.” Obviously, this definition of a target market is too broad and provides insufficient guidance about the “five W’s and H” (who, what, when, where, why, and how) of the whole concept of the business. The students needed to more clearly define the concept of the restaurant and precisely who they were expecting to serve in the
business. For example, the needs of those who are searching for ‘a fast lunch’ will differ significantly from those who aspire to ‘relax and talk’ over their lunch. It would be difficult to position a restaurant to simultaneously meet all of these needs well.
Chapter Nine Exercises

1. Visit a Saturn dealership and another new car dealership and write a one-page summary of your experiences paying particular attention to sales-driven versus customer-driven behavior on the part of the salesperson or salespersons you met.

2. Obtain a magazine advertisement for which you think the target market is clearly defined and comment on what you believe are the characteristics of that target market.

3. Obtain three magazine ads, one that primarily is designed to ‘inform,’ one that tries to ‘persuade,’ and one that ‘reminds.’

4. Visit the Nick at Night website described in your chapter and view two ‘retromercials’ on that site. Write a one-page essay on how you believe advertising has changed since your chosen retromercial aired.

5. Go to a grocery store and interview the manager there. Ask the manager about his/her promotion mix and what components are in it and how they are managed. Write a one-page essay describing the results of your interview.

6. Go to the following website and obtain an estimate on how much was spent on classified ads in newspapers between 1995 and 2000. Describe what your reaction was when you learned of the amount.

7. The Federal Trade Commission’s 1999 report on advertising for tobacco products is available on the web. Read this report and write a one-page essay on your personal reactions.

8. Use the keyword ‘Professional selling’ to search the internet. Write a one-page essay on your findings. Also, note the following website in your essay.

9. Agree or disagree with the following statement and explain your answer using materials found in Chapter Ten. “If everyone is your customer, then no one is your customer.”
Situation description: – A consumer packaged goods company runs a campaign on television for a new soap product – “Germ Buster Hand Soap®.” The market for this product is estimated to be around 20 million people who are particularly concerned about the presence of germs on their hands during food preparation. The campaign will be targeted to this market throughout the holiday season of 2000. The product is to be introduced through a television ad campaign beginning October 2000 and running through December 2000.

1. **Reach** – “the percentage of target prospects exposed to one or more ads for a brand during some stated period.” During the company’s initial advertising campaign, half of the people (10 million people) in this target market will be exposed to the ad during the three-month life of the campaign. Thus the Reach is 50 (that is 50% of the target market will see the ad. That is, fifty percent of the people in the target market will be exposed to the ad at least one or more times.) Concerning reach, some people subscribe to the ‘three-hit theory.” That is, it takes three effective exposures to move the prospect through the hierarchy of effects. (Attention, Interest, Desire, and Action). Three effective exposures usually requires much greater than three total exposures. Why?

2. **Frequency** –“the average number of exposures to advertisements received by all prospects who were reached during the given time period.” In the preceding example, your campaign reached 10 million prospects or half the target market. Suppose that media research indicates that the 5 million people in the target market will be exposed to this ad six times while 5 million people will be exposed four times during the campaign. Thus, the frequency or average number of exposures for the target market will be five.

**GRP’s or gross rating points**-the GRP level is a rule of thumb used by media personnel to assess the relative strength of the campaign. In our example, the GRP’s would be 250. GRP’s yield a comparison of different options for reach and frequency through examining the relative exposure schedule of different campaign options (their relative ‘bang for the buck.’) While this measure has obvious shortcomings (that is, is an exposure more powerful if it occurs previous to the food preparation period versus after the food preparation period) it has been applied traditionally in TV and radio advertising. There is the growing question of effectiveness. For example, we can run ten second spots or sixty second spots and end up with the same “GRP’s” (an exposure is an exposure) but do they have the same ‘selling power.” I think not. That is, while your GRP’s have increased with ten second spots, does that mean have you necessarily increased the communication and learning that has taken place with the target market? However, the measure is helpful for comparing competing media schedules.
In our example above, need to decide which is more important for our situation, reach or frequency. That is, is it more important for a larger proportion of the target market to be exposed at least once, or is it more important for prospects to be exposed to our message several times. This debate finds little agreement, except to say the ‘more is better.’ Of course, ad agencies and media representatives are glad to have you spend more money always. However, you need to analyze and think about what is needed to convey your message. That is, are the benefits the product delivers relatively easy to understand? If so, which would you prefer to emphasize in a campaign: reach or frequency? On the other hand, if product benefits are difficult to convey would your answer be different?

Think about different schedules and how they impact your communication potential. Remember that you are spreading the amount of dollars over different communication objectives. Can’t do it all! For example, if you emphasize reach over frequency that means that “more people will receive fewer exposures.” Compare this to emphasizing frequency over reach so that “fewer people will receive more exposures.”

Funds are always limited and you will asked to make decisions of this sort that trade off resources and people in your organization expect to be able to trust your answers. After all, you are the marketer with the MASTER OF BUSINESS ADMINISTRATION DEGREE!
Measures of television audiences and their relationships to each other

Coverage
(number of TV households in signal range of TV station or network)

× ×
× ×
× ×
× ×
♦ ♦

HUT (homes using TV)
Percentage of coverage with sets turned on

Rating
Percentage of coverage tuned to a particular program, station, or network

Audience Share
(percentage of HUT tuned to a particular program, station or network)

HUT X Audience share = Rating

Brief example
A recent infomercial for Suzanne Somers’ Depression Cure aired on the local cable TV station in Out There, Kansas, had the following viewership:
Coverage – this local cable channel can provide a coverage of 2 million households
HUT – for the 12 midnight to 1 a.m. time slot, the percentage of coverage with TV sets turned on is one out of twenty or five percent or .05
Audience Share – during that time slot the percentage of homes using TV that is tuned to this cable channel is sixty percent
Rating – the rating for this infomercial would be .05 X .60 = .03
Thus the percentage of total coverage tuned to this particular program was .03 or said another way, the program reached 60,000 households or three percent of the total coverage.


There are many other resources for assessing markets and audience measurement that are easily accessed on the internet and you might want to see what you can find in your own search.
Newspaper and magazine audience measurement

The Basic CPM formula is used to compare different media options. That is, we compare the cost of reaching one thousand viewers across different stations. For example, if we used the basic CPM formula (cost of one unit of time)/number of households reached, we
Chapter Eleven – Creativity and Marketing

If one explored the research in Marketing, s/he would find many references to creativity. Most of these mentions of creativity would be found in one of three areas: advertising, personal selling, or new product development. In advertising, for example, people use the term ‘creative’ as a noun to describe the portion of an advertisement that comprises the artwork that translates the appeal or basic selling proposition of the ad and how the appeal will be conveyed to the target market. For example, “Susan and Bryan will be responsible for doing the creative.” In personal selling, creativity is usually applied in a context of ‘creative selling’ with no particular specific reference to the literature of creativity or what ‘creativity’ really means. In new product development, creativity is used to describe how individuals or teams can identify and implement new product ideas. The examples above all miss the primary role of creativity in marketing. We will define creativity as “identifying and describing new ideas that are novel and useful.” Thus, individual and group creativity plays a critical role in all phases of marketing practice.

Definitions of Creativity

An examination of the literature of other disciplines reveals dozens of definitions of creativity. From these various definitions, three themes emerge that seem to be beneficial to the study of marketing and creativity.

The first group of definitions suggests that, to be truly creative, an innovation must demonstrate “radical newness.” Included are those situations in which the problem or opportunity as initially posed was vague and not well defined. Thus, part of the task is to formulate the problem itself. This has implications for marketing and a firm’s ability to be more market-oriented.

A second group of definitions supposes “creativity is the imaginatively gifted recombination of known elements into something new”. This group of researchers concludes that a creative solution does not necessarily require new components but can simply integrate existing knowledge in a more valuable way. This definition has implications for upstream marketing activities including target customer needs assessment and competitive benchmarking studies. For example, we may already know
that tracking customers requires a continuous data collection effort, but creativity
techniques may help identify new sources or new ways to consult those sources once they
are identified. We will later discuss conditions for creative environments that can enable
such “imaginatively gifted recombination.”

A third group of definitions believes that, to be creative, a solution must have
value. This is especially applicable in an era where the marketing information
management function is participating fundamentally in pursuing a distinctive competitive
advantage for the organization. The objectives of newness and imaginatively gifted
recombination are meaningless if they do not provide value-added results.

Conditions of Creativity

Individuals and teams that are otherwise regarded as equally competent
do not perform equally. A primary reason is that certain preconditions must be
met and certain organizational components marshaled to help individuals and
teams become creative. The Couger Center for the Study of Creativity has
applied the 4-Ps model of creativity in many different contexts and found it to be
a good guide for understanding creativity. The 4-Ps model of creativity provides
the basis for the remainder of this chapter and addresses the application of
structure and techniques for facilitating creativity in marketing.

The Application of Creativity: The 4-P’s Model

The 4-Ps model provides a good structure for understanding creativity and
its application in marketing. The model represents creativity as a dynamic
phenomenon comprised of four highly interactive components: person, process,
product, and press (work climate). The model’s simplicity allows for the
individual measurement and assessment of each component as well as
evaluation of the interaction of the components. Another strength of the model is
that it can be applied to a specific functional organization, such as a marketing
department or marketing research department, as well as the organization as a
whole. In the remainder of this chapter, each of the four “Ps” is described and
discussed in relation to marketing management and marketing research practice.

The First P: The Creative Person

Numerous fallacies exist regarding creativity in people. Few of us perceive ourselves to be creative, possibly because many highly publicized research efforts have been focused on the study of creativity in geniuses and highly accomplished professionals. Most people are inclined to believe that creativity is inherited and that we either possess it or we don’t.

Research demonstrates that creativity is present in everyone and is normally distributed. Nevertheless, most people utilize less and less of their native creative ability as they mature. Nationwide studies of American school children reveal progressively lower scores on creativity tests as they move through the school system, with a precipitous “4th grade slump”.

Marketing management can stimulate creativity in employees by reinforcing the fact that all individuals are innately creative. Through encouraging the use of proven creativity techniques, marketing managers can help employees restore the natural curiosity and originality that they exhibited as preschoolers. Management can also provide motivation for employees to become more creative. It is important to consider both intrinsic and extrinsic motivation. Intrinsic motivation comes from the anticipated satisfaction of generating a creative idea and putting it into effect. Marketing management can provide extrinsic motivation by rewards, such as recognition and financial incentives, and can also facilitate a creative climate (discussed later) in which employees more easily obtain the intrinsic satisfaction of creatively accomplishing a task or project.

The Second P: The Creative Process

Considerable research has focused almost exclusively on the creative process through which people can enhance their creative abilities and creative results. Five major studies of creativity overwhelmingly show significant positive results when creative abilities are deliberately nurtured.
There are many creative problem-solving techniques that have been shown to be helpful in marketing. While the space devoted to creativity in this e-book is limited, we provide description and directions for using two of these CPS techniques. The ‘Five W’s and H’ technique and the “Wishful Thinking” technique are described in an appendix to this chapter.

The Third P: The Created Product

An analysis of creativity can also start with the end product, by identifying the characteristics necessary for objects to be classified as creative. Others believe that if people are informed about their native creativity capabilities, are provided processes to facilitate creativity, and are supported through a positive climate for creativity, it is logical to assume that creative products and services will result. Nevertheless, it is helpful for employees to have ways to measure their creativity results. However, a framework should be developed for measurement of creativity in marketing activities. Marketing management could then translate in specific terms how creativity would be recognized, judged and rewarded. We discuss measuring the creative content of ideas in the marketing context below.

The Fourth P: Press (the Environment for Creative Work)

Press is a term from the field of education that refers to the relationship between human beings and their environment. The importance of the work environment for encouraging/discouraging creativity is well supported in creativity research. Optimum results do not occur unless an organization has a positive climate for creativity.

There has been considerable research on the ways that work environments influence creativity. The climate for creativity comprises those factors that stimulate or retard creative behavior. Studies indicate that organization’s can create a set of norms that encourage creative thinking. These norms would include universal tolerance for new ideas, and universal organizational intolerance of cynicism and sarcasm. People should be rewarded for identifying what is good about a new idea before they are allowed to be critical of the new idea. Organizations that systematically positively recognize those who
find faults in new ideas will find their pool of new ideas drying up quickly since there is only negative reward for offering one’s new ideas to the organization.

Burnside, in researched published in 1988, found five characteristics of a work environment that encourages creative thinking. Those five dimensions are as follows:

Goal clarity - a clearly understood objective for the creative work

Resources - the necessary financial and non-financial support

Freedom - the latitude to explore whatever directions of inquiry seem appropriate

Encouragement - genuine and expressed support from management and co-workers

**Congruity - the match between what management says and what management does

**Suspended judgment – maintaining an open marketplace for ideas in which the potential strengths of new ideas are always identified before their potential weaknesses

(we have added these two last dimensions to the list based on our own research experience)

In marketing, attention to these six dimensions will help ensure a healthy environment for creativity that will continue the production of many fresh ideas.
Chapter Eleven Exercises

1. Has your definition of ‘creativity’ changed as a result of reading this chapter? Explain.
2. Form a small group and address a question assigned to you using one of the CPS techniques described below. Appoint a member of the group to keep notes of the events when your group starts “problem solving.”
3. Describe a moment in your life in which you believe you were most creative, including a description of the “4 P’s of creativity” in your life at the time.
4. Why are those who constantly ‘kill’ creative ideas by inappropriate joking or other behaviors so dangerous to the creative effort in an organization? Explain.
5. Use the six dimensions of a healthy creative climate to describe how you would establish an ideal climate for creativity at your workplace. How much change would have to take place? Explain.
6. Review the material below on “Personal Creativity Zones (PCZ’s)” and describe your own PCZ.
Appendix I: Description of Two CPS techniques:

Steps in using the “Five W’s and H” Technique
a. identify the who, what, when, where, why, and how of the situation under consideration
b. draw up a list of responses to each dimension
c. use this list as a way to identify creative responses to the problem or opportunity

Note: this technique is more analytical in nature because it provides a good checklist to make sure most areas are covered. While the technique is valuable to outline an area that needs to be explored, another more intuitive technique is often helpful to use to generate new ideas after this technique is applied initially

Steps in using the “Wishful Thinking” Technique
a. suspend reality (a challenge in itself!)
b. identify the ‘perfect solution’ that is, what would be the best solution to a situation if anything were possible.
c. now, work back from the ‘perfect solution’ introducing reality a little at a time, being careful to challenge each part of an idea considered impossible

Note: this technique is more intuitive in nature because it provides a good tool to challenge traditional knowledge that may be no longer applicable or relevant, the technique is valuable because it starts with solutions rather than problems. Plus, this technique is FUN! ☺
Appendix II: How to identify your Personal Creativity Zone (PCZ)

Finding your Personal Creativity Zone

Frequently Asked Questions (or FAQ’S)

FAQ 1. What is a personal creativity zone (PCZ)?
FAQ 2. How can I identify my PCZ?
FAQ 3. Does one PCZ work for all of the problems and opportunities I want to analyze and find solutions/answers to?
FAQ 4. Will my PCZ be identical to the PCZ’s of my friends and coworkers?
FAQ 5. Will my PCZ include others?

Answers to FAQ’S about Personal Creativity Zones

1. Your personal creativity zone includes all conditions, environmental and personal, that help you reach your maximum creative potential.

2. While sometimes there are similarities, you must find your own PCZ through analysis and reflection. For example, identify the most creative time of your life, or a situation where you were most creative, and write down the conditions that surrounded that time of optimal personal creativity.

3. It is unlikely that you will have the same PCZ for all decisions you face. For example, deciding whether to marry a certain person may call for a different PCZ than identifying what courses will be most likely to lead you to the right college degree and career.

4. Probably not. At any rate, you must do the work to identify a personal creativity zone of your own. It is likely that some of the characteristics of your PCZ will match the PCZ of others.

5. Research in creativity has shown that very often the optimal number of members on a creative team is the dyad (two). So constantly search for the person who stimulates your creativity.

6. Remember, creativity may be work but it is also supposed to be fun, so look forward to enjoying your approach to being creative.
Chapter Twelve – What is the international market and why is it important?

As a consumer you regularly buy products manufactured in other countries. The U.S. usually has a negative balance of trade, meaning that as a country we import more products than we export (for example, see the following website and review our annual trade deficits for the last ten years):


What is the impact of this trade deficit? Experts disagree as to whether this deficit creates real problems for the U.S. economy or not. Critics argue that buying so many imported goods hurts the market for U.S. jobs, while others believe that this open competition forces U.S. businesses to learn how to compete effectively in global markets. A full discussion of this issue is beyond the material in this course. However, you should have a clear understanding and appreciation for the arguments expressed surrounding this issue. If you do your own search on the keywords “U.S. balance of trade” and “trade deficits” you will find many different viewpoints on this topic.

Our point is that, as a consumer you buy products manufactured in other countries almost daily. You are, no doubt, familiar with the fact that Nestles is a foreign company and that they recently merged with a U.S. company, Purina. (see [http://www.nestle.com/all_about/index.html](http://www.nestle.com/all_about/index.html) for an article outlining the merger) and that many products you buy are manufactured in China (see [http://www.census.gov/foreign-trade/balance/c5700.html](http://www.census.gov/foreign-trade/balance/c5700.html) for recent government data on the U.S. trade balance with China).

However, you may not be familiar with Fiskars, based in Finland ([http://www.fiskars.com/](http://www.fiskars.com/)) or that your Doc Marten’s were probably under a brand name owned by a company based in U.K. ([http://www.drmartens.com/flash/](http://www.drmartens.com/flash/)).

International marketing is the rule today, rather than the exception. Since NAFTA (North American Free Trade Agreement) was instituted, the U.S., Mexico, and Canada are moving towards an open market without trade barriers (search with keyword “NAFTA” to find further information), and the European Union ([http://userpage.chemie.fu-berlin.de/adressen/eu.html](http://userpage.chemie.fu-berlin.de/adressen/eu.html)) has tried to reach this goal for several years.

Thus any student of marketing should have some understanding of global trade agreements, particularly, NAFTA, the European Union, and the General Agreement on Taxes and Tariffs, also known as “GATT” ([http://gatt.org/](http://gatt.org/)). As global competition for the production and marketing of goods and services intensifies, these trade agreements will become more controversial.

**Choosing a strategy for international marketing**

If an organization determines that it has the interest and capability to market its products internationally, the organization must then choose among several options. Traditionally, the following four options have been identified:
1. Export/import marketing intermediary – hiring an agent to represent your organization
2. Trading company – enrolling for the services of a specialized company that will represent your organization in international markets
3. Joint venture – partnering with a foreign company that has its ‘home’ office in the country of interest
4. Wholly owned subsidiary – going to the expense and risk of opening your own offices in the foreign country of interest

However, today with the worldwide web’s communication capabilities, many of these categories have become obsolete because different kinds of organizations are filling the vacuum that previously existed in knowledge and information about foreign markets. The internet has changed the landscape of world trade, particularly where small businesses are concerned.

**Export/import Marketing intermediary**

The export/import marketing intermediary is usually an independent business that has a special knowledge of the export and import business. Such organizations often have knowledge relevant to doing business in a certain part of the world. For example, see [http://www.ita.doc.gov](http://www.ita.doc.gov) for free information on international trade.

**Trading Companies**

Check out the internet site [http://www.alibaba.com](http://www.alibaba.com) to find more information on trading companies and how they do business.

**Joint Venture**

Because of the historical abuses of imperialism (or situations wherein industrialized countries exploited smaller, less developed countries), many countries require that a foreign organization have at least fifty-percent of its ownership held by citizens of its own country. For an example of how one multinational company manages its international marketing efforts see the website of Xerox Corporation at [http://biz.yahoo.com/p/x/xrx.html](http://biz.yahoo.com/p/x/xrx.html). You will note the Xerox, like many large organizations uses several different approaches to market its products in different regions of the world. Also, check out the Coca-Cola website to see how that company manages its international activities ([http://www.cocacola.com](http://www.cocacola.com)).

Explore different the websites of different companies to observe how those companies are managing their efforts at international marketing. For example, review [http://www.jpoststore.com/product417.html](http://www.jpoststore.com/product417.html) note that “Jarden” means Jordan as in the Jordan River in the middle east*, [http://www.spa-saariselka.com/EngIndex.html](http://www.spa-saariselka.com/EngIndex.html) and [http://www.arabia.com](http://www.arabia.com) remember to click on ‘English’ on these websites.
How would you approach marketing to these different areas of the world? The first step in any kind of marketing endeavor is to understand what satisfies the customer, and the first step in understanding is listening, an attribute that we in the U.S. do not often exhibit. In some cultures in the world, there is nothing wrong or uncomfortable with silence. However, being silent is not an attribute of most subcultures in the U.S. thus business people from the U.S. often talk rather than listen to people from other countries. This seems simple, but as an exercise, try to be in a group of people and not say a word for at least thirty seconds. Sound easy? Try it.

Understanding other cultures requires an effort at empathy. That is, one must try to understand what it is like to ‘stand in another’s shoes.’ While this is intellectually easy to understand, it is challenging to actually do. For example, how does an Amazonian Indian see his or her world?
Chapter Twelve Exercises

1. Examine the Nokia website ([http://www.nokia.com/main.html](http://www.nokia.com/main.html)) and make observations on differences you find in this site and the Motorola website ([http://www.motorola.com/home/](http://www.motorola.com/home/)). Do you believe the differences you identified are due to the different countries within which the two organizations function? Explain thoroughly.


3. Discuss the following statement: “As the worldwide web develops, it will minimize differences in the way different countries do business and will homogenize the environment of business.”

4. Review the word “international marketing” on the internet and summarize your findings in a one-page report.

5. Based on the opening vignette that discussed the Nestle Company’s recent acquisition of Purina Feeds, make three predictions on other natural consolidations between other U.S. firms and foreign firms that you believe may take place in the future.

6. Examine the website for Diamler/Chrysler Corporation ([http://www.daimlerchrysler.com/](http://www.daimlerchrysler.com/)). Find an article on the internet that discusses whether this merger will be successful, including your own thoughts on the merger in a one-page essay. What challenges, if any, do you believe exist for this merger based on cultural differences?

7. Find an interesting website of a foreign company that you believe does a good job of describing the company’s products and makes them of interest to a reader from the U.S.

8. Write a one-page essay on an article you find discussing the disagreement between Ford Motor Company and Firestone Tires.

9. Agree or disagree with the following statement and give reasoning for your position: “the problems between Firestone Corporation ([http://www.firestone.com/](http://www.firestone.com/)) and Ford Motor Company ([http://www.ford.com/servlet/ecmcs/ford/index.jsp](http://www.ford.com/servlet/ecmcs/ford/index.jsp)) were primarily because the companies are owned and operated by people in different countries with different cultures.”

10. Describe the meaning of the term “balance of payments” and explain why it is important for a student of marketing to understand this concept.

11. Check the website below and describe how this website is related to marketing. That is, who is the customer and who is the marketer and what is being marketed? [http://www.thehungersite.com/](http://www.thehungersite.com/)