

# **MANAGING THE MARKETING PROCESS**



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## PREFACE

*Managing the Marketing Process* is intended to present the basic content of marketing in a concise and informative manner. In addition to presenting basic marketing information, the course attempts to develop in the reader an understanding of "the marketing management concept."

In addition, the course can make a valuable contribution to:

- Undergraduate and graduate study;
- Sales training programs;
- Management and supervisory training programs;
- The marketing of services;
- Executive development seminars;
- Association marketing programs;
- On-the-job personnel development;
- Updating marketing management information;
- Government and business positions in purchasing; and
- A host of other situations where an intelligent marketing attitude is required

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**GLOSSARY**

# Chapter 1 – Introduction to Marketing

## LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Discuss the economic impact of marketing.
2. Compute and clarify basic economic functions.
3. Define the marketing management concept.
4. Identify the target market.
5. Describe the marketing mix.
6. Detail and give examples of the universal functions of marketing.
7. Describe the marketing program.
8. Explain customer relationship management (CRM).
9. List today's marketing musts.

There have been some exciting changes in the way marketing is viewed by practicing marketing managers and students of marketing. No longer is marketing thought of as being limited to personal selling and advertising designed to get rid of the output of the production process. On the contrary, today the concept of marketing held by most successful firms is that (1) marketing must be consumer oriented, and (2) it must have a part in the decision making in all phases of management. Modern marketing begins with the customer, not with the production department. But it plays a vital role in design and production; and it follows the product through its entire cycle into the hands of the final users. Thus management is seen as a total marketing management *system*, highly complex, and often expensive.

## Marketing Defined

Marketing is an organizational function and set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders. Marketers with a stronger consumer orientation and a broader management approach place emphasis, in defining marketing, on its role in *directing* the flow of goods and services to the consumer. In other words, marketing is not viewed as the actual performance of such functions as production and design but as the influencing and guiding of these activities through the role marketing plays in decision making. Marketing may also be defined as the activities involved in recognizing consumer needs, developing products and services to satisfy these needs, and creating and then expanding a demand for these products and services.

While marketing, especially in its use of marketing research and in its borrowing from the behavioral sciences, does to some extent employ the scientific method, it can never control all the variables or exactly repeat experiments with the same results. Therefore, marketing is more of an art than a science. Like practitioners of other arts, the

marketing person relies on skill, judgment, and intuition in making decisions more often than on scientifically established certainties.

### **The Economic Impact of Marketing**

Marketing's role as a catalytic agent is dramatically illustrated by the growth of the U.S. Gross Domestic Product (GDP). GDP, the value of all goods and services produced in a year, rose from a little over \$1 trillion in 1970 to over \$12.3 trillion by the first quarter of 2005. Marketing provides the synergistic network required for an economy of abundance. Marketing activities are the source of increasing employment. Sales employees in manufacturing, service, and other industries, retail employees, and workers in transportation, communications, and other related groups represent between one fourth and one third of the civilian labor force. About 50 cents of every retail dollar goes to cover marketing costs.

### **Basic Economic Functions**

Marketing is a regulating force, allocating scarce resources and influencing the distribution and size of income for both individuals and firms. Basically, marketing is closely related to the broader field of economics. Marketing is viewed by economists as creating time, place and possession utilities - that is having goods when and where they are wanted, and then completing the transfer to provide possession utility. As a branch of economics, marketing draws on such concepts as value theory, demand-supply analysis, scale of economy, marginal revenue, the law of diminishing marginal utility, various theories of competition, and concepts of nonprice competition.

While most closely related to the field of economics, marketing also makes use of techniques and findings borrowed from the other behavioral sciences, especially psychology, sociology, and anthropology. These disciplines help the marketer better understand consumers - their motivations and needs, their social behavior and structure, and human nature in general. Marketing also looks to mathematics for techniques - sampling, probability and quality control, and quantitative methods with varying applications.

### **The Marketing Management Concept**

Today, most successful business firms have emerged, or are emerging, from dominance by production and engineering considerations to a marketing management viewpoint, which encompasses all of the activities of the firm. Fundamental to this new philosophy is the recognition and acceptance of a customer-oriented approach. Although the overall dimensions of the business system are determined by individual decisions, such decisions now include a much broader range of interrelated internal and external factors.

Internally, executive decision makers now realize that profitable decisions emerge from not only production or sales estimates, but also from the ripple effect of information concerning areas such as personnel, finance, management, or accounting. Each area of the firm has aspects of marketing just as marketing contains functions of all the other areas. To make intelligent decisions a marketing manager must know the nature of these

other functions and must understand *how alternative marketing strategies* will be affected.

Externally, information for the development of alternative strategies is generated by a consumer-oriented view of marketing activity by the firm. Early approaches to marketing emphasized commodities, institutions, and functions. These elements were studied in an attempt to determine the nature of the marketing activity. Little emphasis was placed on interaction between the various functional areas of the firm or on the decision-making process.

Functional conflicts arise when the accountant wants a high rate of capital turnover and return on investment, the production manager or engineer wants costly capital-intensive equipment to produce large homogeneous quantities, the cost control person wants small inventories and limited varieties, the personnel manager wants stable production with few cyclical demands for labor, and the marketer wants increased varieties and large inventories in an attempt to please clients and maximize sales. It is easy to see that any marketing strategy will involve many compromises before an optimum decision is reached.

Marketing management implies that all functional areas, including marketing, must be first devoted to determining consumers' wants followed by an integrated effort toward satisfying those wants *at a profit*. Profit replaces sales as a primary goal. A basic change in management attitudes resulting in organizational and procedural changes may be necessary for effective adoption of the marketing management concept.

Today's marketing person - more and more, the marketers of the future - rely on systems theories and analysis to guide their decisions. Marketing is seen as a total system, embedded in the overall social and economic system, and not as a collection of unrelated activities and institutions. You will learn more of the systems approach later in this course.

Present-day marketers and students of marketing emphasize the importance of marketing strategy. Development of strategies entails two steps: (1) selection of a target market, and (2) development of a marketing mix.

### **The Target Market**

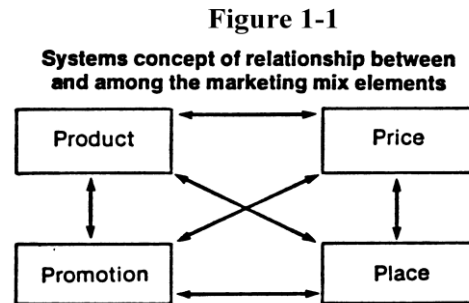
The idea of a target market is based on the concept of market segmentation - the thought that any market with divergent demands (heterogeneous) will consist of a number of smaller markets. The marketer can identify these segments and set up targets by taking into consideration the characteristics of potential customers in these segments, the marketing mixes that might meet their needs, the goals of the company's marketing program, and various other factors. The market grid is a matrix type of chart used to analyze markets, set up target markets, and develop appropriate marketing mixes for each individual segment.

### **The Marketing Mix**



In developing a marketing mix, the marketing manager selects the elements to combine in a effort to meet the needs of a target market.

The marketing mix, commonly called four *Ps*, reduces the number of variables in the marketing function to four broad classifications: product, price, promotion, and place. These are often called,



for the sake of simplicity (due to the forgetfulness of marketing professors), the “four P’s” (see Figure 1-1).

*Product* is the nature of the item itself as it is designed to satisfy a predetermined group of customers or a *segment*. *Pricing* will depend on the image we want to portray, competitor’s prices, and market demand. *Promotion* may be by newspaper, radio or TV advertising, Internet, or point-of-sale promotions. *Place* implies not only the geographic area of the country chosen, but all the channels and marketing intermediaries (sometimes called middlemen) through which the product moves, plus whatever means of transportation employed en route to the final user.

By now, you should be able to think your way through an example of how, if you alter any one of the four P’s, you in turn change the behavior of one or all of the remaining ones. In essence, by altering one variable, you create an entirely *new mix* or combination.

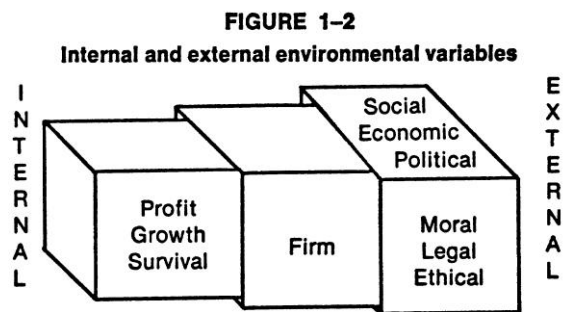
***Preparing the perfect marketing mix.*** To simplify the process let us suppose we have a large vat and a stirring stick. We then take our ingredients and add them slowly. First, we drop in the desired product with all its design and image implications. Then we add the price we have chosen and on top of this some newspaper, radio, TV, and point-of-sale promotion. All in the proper amounts, naturally. Our focus is the southeastern United States, so we toss that in along with the most profitable and economical channels of distribution and transportation. Now we mix it all together and ... our finished result is the best *technically* prepared marketing mix possible. But we must now ask ourselves, “Have we included *all* the variables affecting the firm’s decision-making process?”

How does the nature of the firm affect the nature of the marketing mix? Answer - Dramatically! Normally a firm would use market research, operations research, and a

computer to prepare the perfect mix. However, unless consideration was given to the internal and external environmental variables, the mix would *not* reflect the true “nature of the firm”.

Every firm, like each individual, has a set of internal and external environmental constraints. Figure 1-2 illustrates how, even if the functional objectives of the marketing mix are fulfilled, the final product or mix must be *tempered* by the firm’s decisions on degrees of profit, growth, or survival, and by the external social, economic, political, moral, legal, and ethical variables.

Hopefully, original marketing mixes will reflect these factors in the makeup of the four P’s. Marketing policies and decisions must be made within the context of the firm as a whole, and among the most important factors a marketing manager must consider are the basic overall objectives of the firm. Marketing decisions are not made in a purposeless vacuum. For practical purposes, there is no *best* marketing mix. Markets and firms are in a continual state of *flux*, requiring marketing mixes to meet changing internal and external conditions. Thus, the marketing mix requires an ongoing current consumer orientation *if* profitable sales volumes are to be realized.



### Universal Functions of Marketing

As previously mentioned, one early approach to the study of marketing was the listing of functions. These functional classifications have become basic, in that they tend to serve as a foundation for our four P’s and the managerial approach.

**Functions involving physical supply.** Transportation and storage involve handling and movement of goods and often change of title. The cost of transportation is more than offset by the creation of place utility, and the storage function gives us time utility. Transportation and storage are major activities of numerous marketing institutions, such as wholesalers, warehouses, freight forwarders, pipelines, and some retailers and manufacturers.

**Facilitating functions.** Standardization and grading, risk taking, market information, and financing are functions that assist buying, selling, transportation, and

storage. These auxiliary services are an important and necessary part of the marketing task and are part of the fabric of the marketing management concept.

***Essential nature of marketing functions.*** Regardless of how, when, where, or by whom, the marketing functions must somehow be performed. It may be possible to reduce marketing costs by the replacement of certain marketing intermediaries who are operating inefficiently. However, a valuable “truism” is this: you can eliminate the intermediary *but you cannot eliminate the functions it performs*. They still must be done by someone. In some cases, efficiencies may be obtained through the introduction of an additional marketing intermediary specializing in a new area.

### **The Marketing Program: How Customer Relationships Are Built**

A marketing program connects the organization to its customers.

#### *A. Global Competition, Customer Value, and Customer Relationships*

- Intense competition in domestic and global markets has caused massive restructuring of many U.S. industries and businesses.
- Many firms focus on providing **customer value**, which is the unique combination of benefits received by targeted buyers that includes quality, price, convenience, on-time delivery, and both before-sale and after-sale service.
- Firms cannot succeed by being all things to all people. Instead, they must build long-term customer relationships that they alone can deliver to its targeted markets.
- Firms calculate the dollar value of a loyal, satisfied customer.

#### *B. Relationship Marketing*

Customer relationships are achieved when an organization identifies creative ways to connect with its customers through specific marketing mix actions implemented in its marketing program.

1. Relationship Marketing: Easy to Understand.  
*Relationship marketing* links the organization to its individual customers, employees, suppliers, and other partners for their mutual long-term benefits.
2. Relationship Marketing: Difficult to Implement.
  - Information technology and cutting-edge manufacturing and marketing processes allow firms to tailor goods and services to the tastes of individual customers.
  - However, with Internet purchases, much of the personal relationships between seller and buyer may be lost.

#### *C. The Marketing Program*

- Product concepts must be converted into a tangible *marketing program*—a plan that integrates the marketing mix to provide a good, service, or idea to prospective buyers.

- An organization's marketing department is concerned with:
  1. Identifying potential consumers and their needs.
  2. Translating the needs into product concepts and a tangible marketing program by specifying the marketing mix.
  3. Offering goods, services, or ideas to its target markets.
- The process is continuous: Consumer needs trigger product concepts that are translated into actual products that stimulate further discovery of consumer needs.

### *How Marketing Became So Important*

Marketing has become a driving force in the modern global economy. Although they overlap, four distinct stages can be identified in the life of many market-oriented manufacturing organizations:

#### 1. *Production Era*, through the 1920s.

- Goods were scarce, and buyers would accept virtually any goods that were produced.
- The central notion was that products would sell themselves. Businesses focused on production, not marketing.

#### 2. *Sales Era*, from the 1920s into the 1950s and 1960s.

- Firms could produce more goods than their regular buyers could consume and competition grew.
- Focus was on hiring salespeople to find new buyers for the firm's existing products.

#### 3. *The Marketing Concept Era*, from the 1960s.

- Marketing became the motivating force: "We are in the business of satisfying needs and wants of consumers."
- This statement evolved into the *marketing concept*, the idea that an organization should (1) strive to satisfy the needs of consumers (2) while also trying to achieve the organization's goals.
- The marketing concept emphasizes that the ideas fed into the production cycle *before* an item is designed, not *after* it is produced.

#### 4. *The Customer Era*, the era today.

- An organization that has a *market orientation* focuses its efforts on (1) continuously collecting information about customers' needs, (2) sharing this information across departments, and (3) using it to create customer value.
- An important outgrowth of this market orientation is *customer relationship management (CRM)*, the process of identifying prospective buyers, understanding them intimately, and developing favorable long-term perceptions of the

organization and its offerings so that the buyers will choose them in the marketplace.

### **Customer Relationship Management Systems (CRM)**

CRM is a set of applications designed to gather and analyze information about customers. CRM systems automate customer service and support. They also provide for customer data analysis and support e-commerce storefronts. While CRM is constantly evolving, it's already led to some remarkable changes in the way companies interact with customers. The ultimate development of CRM remains to be seen but undoubtedly mobile communication will play a significant role. Many companies are already experimenting with systems to send messages to cell phone users offering them special discounts and buying "opportunities." For example, Federal Express allows customers to track their packages on the Web. Amazon.com uses CRM technology to make suggestions to customers based on their personal purchase histories.

### **Five Marketing Musts**

1. **Create a MAP (marketing action plan).** Describe your target market, their problem, and the benefits your service offers. Identify five to 10 ways in which you can get visibility and list the action steps you need to take daily, weekly and monthly.
2. **Craft your magnetic marketing message.** Potential clients want to know that you understand their problem and have an effective solution to it. Communicate those two things clearly to effectively obtain new clients.
3. **Develop attraction tools.** Forget about the self-focused brochures. You need promotional materials that intrigue interest and generate response. Today's technology allows easy and inexpensive assembly and distribution of information products - such as special reports or CDs - that illustrate your capabilities and promote your services.
4. **Follow-up, follow-up, follow-up.** Creating and automating a systematic follow-up process is a must to maximizing your marketing return on investment. Develop a series of 12 to 24 meaningful communications, each addressing something of relevance to your prospects, and find a way to periodically distribute them to prospects and clients.
5. **Learn to sell.** The thought of selling causes most professionals to cringe. The fact is, effective selling is not about memorizing hundreds of closing tactics or becoming an attack dog. Instead, study a consultative-approach model and become a master of asking powerful questions that compel others to action

# Chapter 2 - Marketing Research

## LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Characterize and discuss the nature of marketing research.
2. Conduct motivation or qualitative research.
3. List the limitations of marketing research.
4. Use the computer to validate marketing information systems.
5. Implement a planning market research program.
6. Interpret research findings.
7. Predict and formulate future trends.

Marketing managers are constantly faced with the necessity of defining problem areas. They must make decisions concerning target markets and about the marketing mixes best adapted to these markets. They have to make assumptions concerning competitors' actions and about the uncontrollable and ever-changing environmental factors. It is the task of marketing research to help the marketing manager make better decisions and to choose wisely among alternative marketing strategies. It should aid the manager not only in planning, but also, through the feedback it provides, in controlling.

### Nature of Marketing Research

Marketing research is the systematic, objective, and exhaustive gathering, recording, and analyzing of the facts relevant to any problem in the field of marketing. It can be thought of as the application of the scientific method to the solution of marketing problems - followed by the making of recommendations based on the results.

Marketing research includes various subsidiary types of research, the most important being: (1) *product* research, involving market tests for new products, seeking out new uses of present products, and making studies of packaging effectiveness, among other activities; (2) *market* analysis, primarily the study of the size, location, and other characteristics of market; (3) *sales* research, activities such as evaluating sales policies, making pricing studies, assessing the effectiveness of salespeople, and setting sales quotas; (4) *consumer* research, of which motivation research is a type, concerned chiefly with the discovery and analysis of consumer attitudes, reactions, and preferences; and (5) *advertising* research, designed to help in evaluating the advertising program and in making decisions concerning it.

### Motivation or Qualitative Research

Motivation research is a *qualitative* tool, unlike other methods of market research designed to provide quantitative results. It makes use of the findings and methods of the behavioral sciences - particularly psychology, sociology, and anthropology. It aims at

discovering not only the conscious opinions, attitudes, preferences, and wants of consumers but also their unconscious drives and motivations. The so-called “depth interview” is used in this type of research.

### **Limitations of Marketing Research**

Marketing research is not the cure-all for every company problem related to marketing. Many executives still look with skepticism on marketing research and need to be “sold” on its usefulness. This is reflected in marketing research budgets that average about 0.2 percent of sales as compared to new-product research with budgets running from 5 to 10 percent. This situation often leads to the development of products with negligible market potential.

### **The Computer and Marketing Information Systems**

Some market research functions are being expanded to a marketing information system (MIS). More market-related data are available than most firms can translate into useful information. A system is needed to provide an orderly flow of *pertinent* data from both internal and external sources that is relevant for decision making. A MIS can be the basis for monitoring, developing, and selecting various plans and functions. Recent developments in the use of computers, and a subsequent decline in the cost of using them has encouraged more marketers toward a MIS. New applications for gathering information include:

- 1. Computer-prepared market research reports.**

Dun & Bradstreet provides data on 390,000 business firms and from a model can compile individual market profiles.

- 2. Measuring movement of goods.**

Selling Areas-Marketing, Inc., a subsidiary of Time, Inc., provides its chain store and wholesaler clients with data on 66 main product categories and 361 sub-groupings.

- 3. Input-output analysis.**

Evaluation of changes in usage patterns of industries or firms.

### **Planning Market Research**

Some basic steps in planning marketing research include:

- 1. Developing hypotheses.**

Most hypotheses tested emerge from insight or knowledge gained from individual experience, previous research studies or general information on a subject or activity. The hypothesis must be stated in form that can be measured by acceptance or rejection. For example: “Trading stamps develop stronger shopper loyalty to grocery store choice, than other factors.”

If no conclusion can be assumed, then a *null* hypothesis or a “no difference statement” can be used. For example: “There is no difference in shopper loyalty between grocery stores using trading stamps and those which do not.” Validity of a hypothesis is easier to confirm if acceptance or rejection can be measured.

When forming a hypothesis, the researcher must be sure that the variable being tested is the only variable. In the above example, for instance, the stores must be comparably priced, convenient, have a similar selection of goods, etc.

## 2. Sources of market information: Collective data.

Market research provides information and reduces risk by helping executives make rational choices under conditions of less-than-perfect knowledge. Marketing research includes fact-finding and management counseling.

Management counseling entails the assessment of various talents and thoughts of persons in marketing *and* the other functional areas of the firm such as accounting, production, or finance as they relate to marketing decisions. This again is the systems approach in action (MISs).

Fact-finding is the actual collection of data and information. This activity includes the generation of primary and secondary data, which may then be processed further by the application of operations research techniques.

**Primary data.** Primary data is information gathered from original sources for a specific purpose or objective. Some techniques for gathering primary data include:

1. **Surveys.** Answers to questions are sought through telephone or personal, face-to-face interviews, or through the mail. Generally, a specific list of questions or a questionnaire is prepared and mailed. Validity and reliability of these surveys are vital considerations. Pretesting for clarity and question sequence, instruction adequacy, and ease with which results can be edited, coded, and tabulated is essential. Then the reliability of the final results must be determined by careful statistical analysis. One common mistake in questionnaire construction is to ask questions that interest the researcher but do not provide information that can be used to make a marketing decision.
2. **Observation.** Here the consumer is observed in the act of purchasing. Sometimes films are taken and then analyzed. Candid camera is actually an observation technique.
3. **Field experiments.** May involve the survey method, the observation method, or both. The main characteristics are more rigorous research design, often using sample control groups and sophisticated statistical techniques.

**Secondary data.** Many people desiring market research information make the mistake of rushing out to get primary data before exhausting existing secondary sources.



Secondary data may be readily available and at little or no cost. Secondary sources include: internal company records; U.S. government publications; trade, professional, and business associations; university research bureaus; libraries; and consulting, advertising, and other firms.

Especially helpful government publications are the *Census of Business* and other publications of the U.S. Bureau of the Census; the *Statistical Abstract of the United States*, the *Survey of Current Business*, and the *Monthly Labor Review*. Trade publications may be located by referring to the *Ayer Directory of Newspapers and Periodicals* and associations through the U.S.D.A. publication, *National Associations of the United States*. University bureaus of business research such as those at Michigan, Harvard, Ohio State, Minnesota, Washington, Illinois, California, and Texas provide services for both private and public organizations.

### **Interpreting Research Findings**

At the outset of a market research study some guidelines should be established for a continual evaluation of the data throughout the collection period. It is crucial that the marketing researchers and the research users cooperate at every stage in the research design. Often research studies go unused due to the inability of the user to understand lengthy discussions of research limitations or the use of unfamiliar technology. In addition to a written report, an oral presentation should be required to expand or clarify the results.

### **Future Trends**

Noticeable improvements in market research relate to the use of advanced statistical techniques. This should lead to the further reduction of risk and uncertainty in business decisions. However, research is *not* a one-shot process. Research is important both preceding and following major change decisions and to ensure that research data remain current.

# Chapter 3 - The Consumer and the Market

## LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Define a *market*.
2. Describe the purchasing power potential of consumers.
3. Determine the expenditure variations.
4. List and describe some characteristics of market segmentation.
5. Evaluate and summarize the total product-line strategy.

A firm's entire marketing program is determined by certain basic assumptions made about its markets. About each of its market targets or segments, it must determine (1) its size, (2) its location, and (3) its nature and characteristics. The aggregate market for consumer goods in the United States is its total population. These overall population figures are broken down according to geographical location; income is studied in terms of income classes and levels.

In studying the characteristics of the market segments, the marketer pays attention to such factors as age, sex, marital status, religious beliefs, racial and ethnic composition, educational and occupational levels, and patterns of income and expenditure. Special attention is paid to changes, such as those represented by the population explosion, the development of "interurbia" and "megalopolis," and the increasing importance of both the geriatric and the teen-age markets. Important as all this is to marketing management, one must remember that information of this kind only becomes significant when supplemented with an understanding of consumer behavior and motivation (see Chapters 5 and 6).

## A Market Defined

There is a stock market, fish market (no relationship intended), a market place, a market basket, and a firm "markets" its products. Markets may be defined many ways, but primarily "a market" implies a demand for a product or service and the existence of three factors:

1. People with needs - required needs, such as food, clothing, and shelter, or anything a consumer finds *desired* or *useful*.
2. Purchasing power is an essential element of demand. Regardless of the consumer wants, needs, and desires, for marketing purposes they are useless unless the consumer has the purchasing power to express them.
3. Buying behavior reflects the manner in which consumers express their wants, needs, and desires. Efforts to understand and influence buying patterns constitute the study of consumer behavior.

### Purchasing Power Potential

Unless a person has money or the ability to acquire it, one cannot be considered a potential customer. Income data is reflected in a broad manner by GDP. Also, the distribution of income changed from a large number of lower dollar income families (a pyramid shaped distribution), to an inverted pyramid where nearly 70 percent of all families have incomes in excess of \$15,000. Projections for the future indicate that more families will find themselves closer to the top of the income distribution.

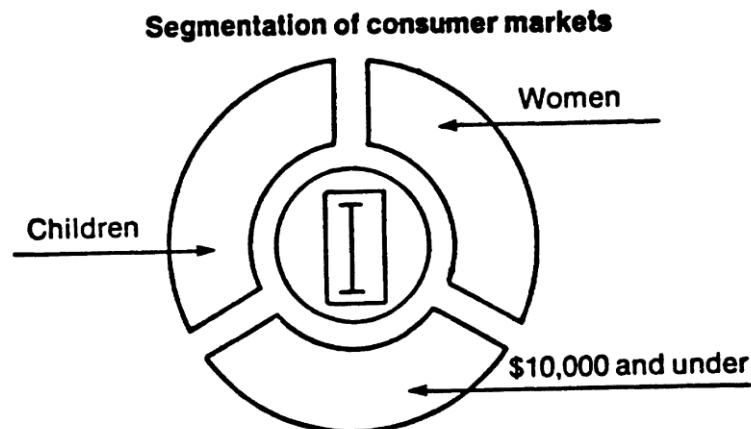
### Expenditure Variations

Location of households has a distinct bearing on expenditure patterns. Generally dollar incomes in the south are lower than in other regions, although real income has continued to rise along with per capita dollar income. Total household expenditures are much lower outside metropolitan areas, with more spent on transportation and less on housing.

**Buying behavior.** Consumer behavior refers to all the physiological, psychological, and socio-psychological reasons individual consumers respond to marketing appeals. A market is more than just an amorphous mass of individuals responding randomly to marketing efforts. Every *general* market consists of a series of smaller, ever increasingly homogeneous submarkets called *segments*.

Figure 3-1 illustrates the market segmentation concept. The total market, in this example, divided or segmented into women, children and other consumers with an annual income of \$10,000 or under. At the center of the circle is a representation of the extreme of market segmentation, which would be one *individual*. Marketing managers are not concerned with single consumers because it is not economical to manufacture for one person.

**Figure 3-1**



In seeking profitable product-market integration, two alternative strategies emerge: (1) a limited-line strategy; and (2) a broad-line strategy.

**Limited-line strategy.** Under the concept of a limited-line strategy, a marketer attempts to cover a broad market with a single product or a very limited line of products. The marketing manager sees a single, *total* demand curve for the product. The main competitive weapon is *product differentiation*.

Product differentiation is accomplished through heavy advertising expenditures. These expenditures are intended to stimulate a broad but very thin penetration of the total market. The main objective of a firm using this strategy is to remove its product from price competition so it can compete on a nonprice, “my-product-is-better-than-yours” basis. In many cases, product differences may only be psychological with physical differences insignificant or nonexistent.

**Broad-line strategy.** A broad-line strategy relies on identifying a *series* of demand curves for different segments in the market, each having peculiar and distinct characteristics of its own. The marketer attempts a tailored “fit”, for a deeper penetration into *each* segment to achieve a sizable total market.

This strategy depends less on mass advertising and promotion and more on selective distribution and consumer identification. A broad-line strategy has *market segmentation* as its main competitive weapon and attempts to price-partition a total market into sectors that are individually and collectively profitable. Price partitioning or price discrimination is a key factor in market segmentation as it allows the seller to charge different amounts to different consumers for similar products or services.

Successful market segmentation by one firm usually leads to market adjustments by one or more competitors. Ford’s Mustang captured a market segment but was soon copied by competition and forced into a strategy of product differentiation.

### **Some Characteristics of Market Segmentation**

Market segmentation relies less on heavy advertising and promotion and more on product planning and customer fit. Looking at both limited- and broad-line strategies, we can conclude that the most effective product-market integration requires a precise measurement of differences in the market and identification of segments derived from these differences.

This approach reemphasizes the importance of careful market investigation and analysis and the application of market and operations research techniques. Some important implications for market segmentation are based on these factors:

**Product form.** In this type of segmentation, physical characteristics of a product are varied to fit identifiable market segments. For example, Volkswagen began with a small automobile for a specific segment. However, competition soon forced the company

into a product differentiation form of competition. VW then responded with new products having unique physical characteristics (fastback, sports car image, bus, etc.) that appealed to new segments.

***Quality and price differentials.*** In men's shirts, for example, a high-quality shirt may have the finest-quality cotton in the entire shirt. However, the next level down in quality would use the best cotton in the collar and cuffs only. They are equal in usefulness, as a shirt is usually discarded because one or both of these parts wear out.

Another type of quality-price differential is the production of products with actual lower-quality physical and performance characteristics. In nearly all product classes, ranging from swimming pools to pool tables, it is possible to find varying degrees of quality and price from the shoddiest to the most elegant.

***Psychological and motivational forces.*** This is a most difficult area due to the fact that sometimes these forces are below the conscious awareness of purchasers. Many consumers are motivated superficially to buy products that reflect a preferred station in life or a desired self-image. The "over 40 and gray" group drive open sports cars and the overweight matron in stretch pants are two examples.

Manufacturers of baby foods know that elderly people are a market segment for their product. Yet the image of a robust, active, vital person is treasured, and most oldsters, in purchasing baby food, laugh, and say, "It's for the grandchildren."

### **Total Product-Line Strategy**

Beer sales are a prime example of how a combination of factors is necessary for a total market strategy. Most premium beers are differentiated by taste preferences developed by mass advertising techniques. "Pale dry," "hale and hearty," and "full-bodied" are not discernible in blindfold taste tests.

From this illustrated product differentiation, breweries then attempt to segment the beer-consuming market by varying taste, image, and price. This is usually done by developing a nonpremium, lower-price beer with a new physical appearance and promotional image. Further market depth is accomplished by buying regional breweries to offer a popular-priced local beer as part of the product line.

# Chapter 4 - Marketing Costs Versus Marketing Strategies

## LEARNING OBJECTIVES:

After studying this chapter you will be able to;

1. Calculate the cost as a marketing variable.
2. Describe the classical production function.
3. Select and explain a single process function.
4. Explain and demonstrate a step or “ratchet” cost model.
5. Identify and discuss economies of scale.
6. Employ strategies to increase capacity.
7. Determine the length of the production run.
8. Adopt a process to achieve a stability of output.
9. Classify product lines both too broad and too narrow.
10. Explain the trap of the full-line competitor.
11. Elaborate and demonstrate trading up and trading down.
12. Elaborate on the overextension of product images.
13. List and define profit standards.
14. Implement a procedure to evaluate cost-profit decisions.
15. Formulate a marketing view.
16. Interpret and explain a consumer view.

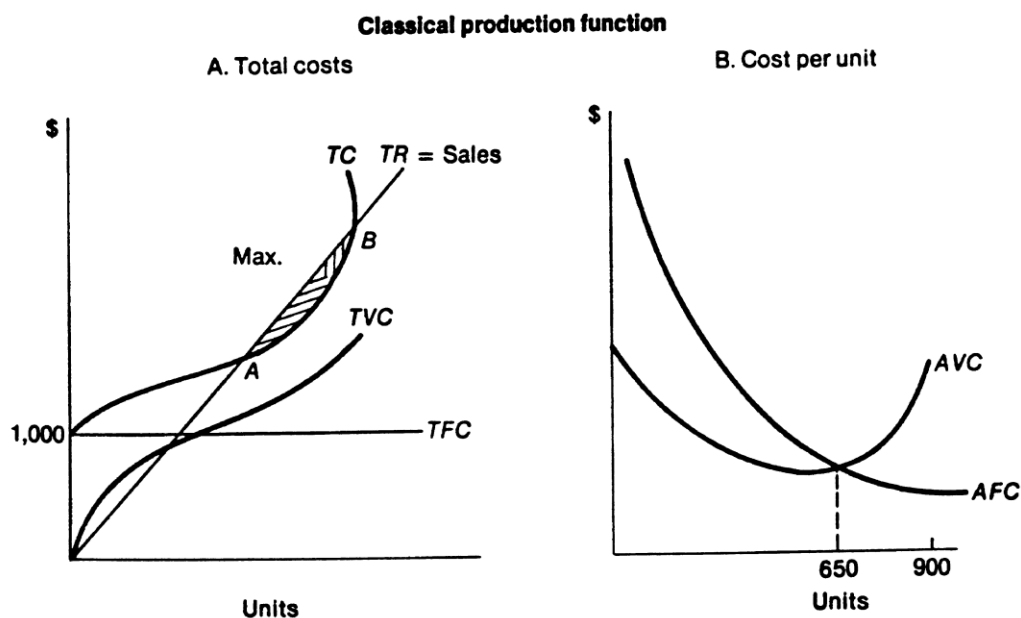
## Cost as a Marketing Variable

The study of market segmentation identifies various environmental or individual characteristics of each segment. Often, in the process of identifying target markets, a great number of variables will surface which must then be dealt with both individually and in combination. One independent variable of prime importance is the element of cost. In this chapter we discuss some ways in which cost considerations affect marketing decisions.

## The Classical Production Function

**Rate of Output.** Classical economic functions, as illustrated in Figure 4-1, assume a single block of total fixed costs (TFC) or indivisible capital, plant and equipment, to which one adds variable costs (TVC), labor and materials to bring about changes in output (see Figure 4-1A). Total fixed costs represent the cost of the plant or facility, which represent 100 percent capacity. If this single block of capital is \$1,000 then one unit would have \$1,000 of fixed cost, two units \$500 each and so forth. Thus, fixed cost per unit (see Figure 4-1B, AFC) would continue to decline as additional units are produced. However, to produce more units, one must add variable costs in the form of labor and materials.

**Figure 4-1**

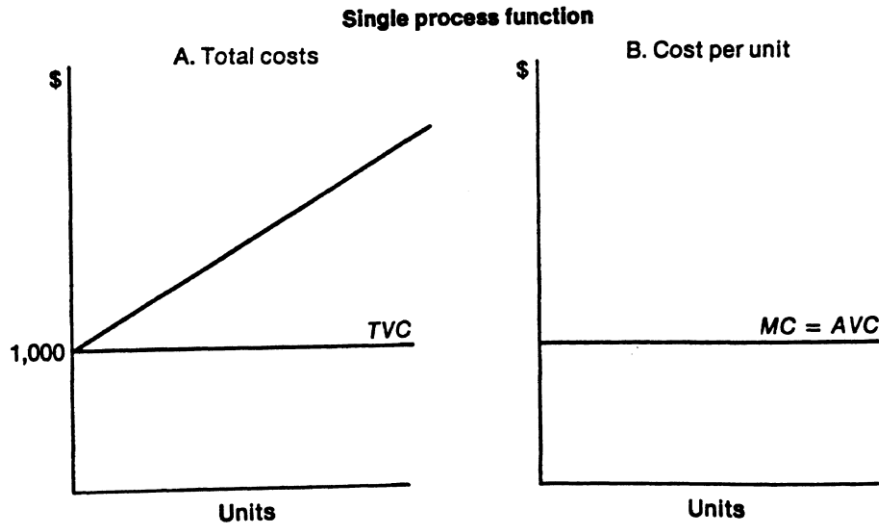


**Increased output.** The desire to increase production will require more inputs in the form of labor and materials or variable cost units. See Figure 4-1A and B. This type of increase will eventually cause bottlenecks, shortages, breakdowns and other frictions resulting in general inefficiencies as capacity is approached. See *AVC* in Figure 4-1B and *TVC* in Figure 4-1A. However, if you want to produce at a higher rate of output, then a decision must be made whether to increase output of the present plant or to build a new facility with greater capacity.

### A Single Process Function

In the model in Figure 4-2, units of capital (fixed costs) are combined with units of variable cost (labor and materials) in a fixed ratio. To increase production under these conditions one must add a machine or physical (fixed cost) unit, and an operator or variable cost unit. This results in a constant cost per unit, since each producing unit is identical. Examples would be a clothing manufacturer, where a production unit is a sewing machine with an operator, or a bank, where each teller has identical work units. Units can be added with no change in unit cost until you reach the physical capacity of the facility.

Figure 4-2



### A Step or “Ratchet” Cost Model

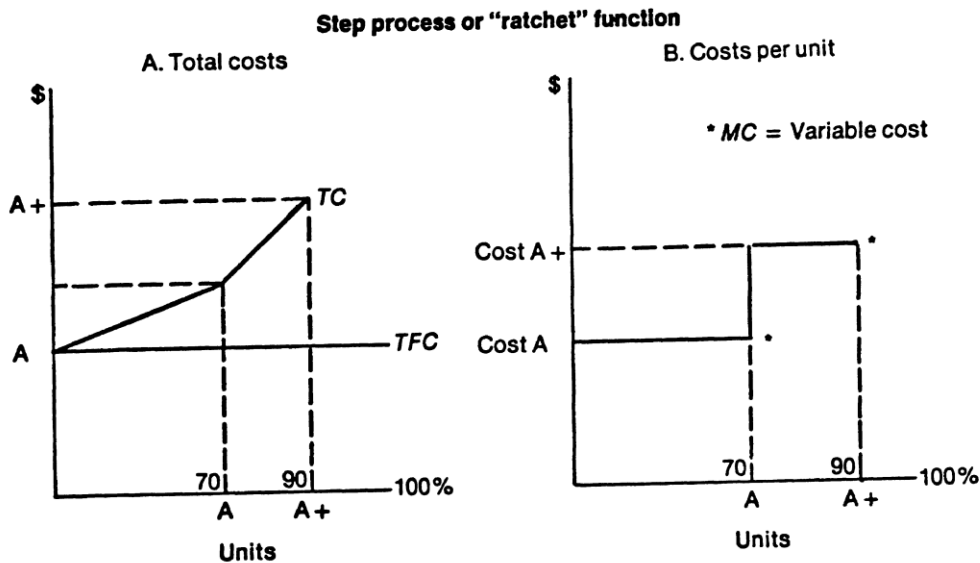
If the firm’s facilities are operating at about 70 percent capacity (see Figure 4-3A) at point A, the firm knows total costs and cost per unit at that capacity.

If we assume the marketing sales force decides to increase sales from units A to units A+, what would happen to the cost of the new units? The old units would still have the same cost-profit relationship. However, in order to produce the new units, the firm must be at 90 percent of capacity (See Figure 4-3B). The cost factors at that level of output may change the cost-profit relationship because of higher costs resulting from:

1. Use of overtime,
2. Subcontracting arrangements,
3. Bonuses for shift differentials, and
4. Buying raw materials in the spot market rather than by long-term contracts.



Figure 4-3



The ratchet model suggests that variable costs will be constant up to a point A, or until a higher cost relationship occurs (the units from point A to point A+). The result of the increase in volume from A to A+ could be an increase in per-unit cost, thus lowering the average per-unit profit. If the firm is operating on a very narrow profit margin, it is conceivable the increase in costs could result in a net loss.

### Economies of Scale

**The myth of volume.** Marketers tend to have a built-in bias toward increasing sales volume *at all costs*. This last cliché may be more literal than figurative. The reason for showing three different cost models is to demonstrate how the nature of costs varies depending on the conditions of production. "The more you sell - the more you make" is only true under conditions of constant cost (Figure 4-2,  $MC=AVC$ ). Under any other production situation, profit will be maximized at less sales volume.

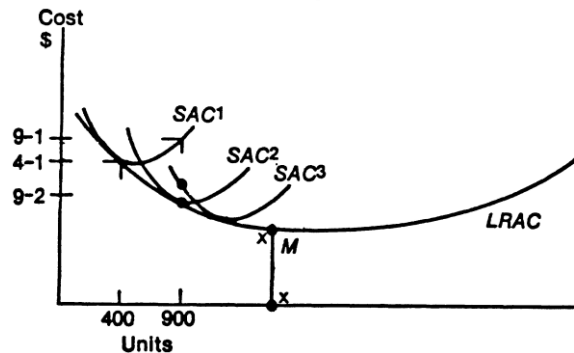
### Increasing Capacity

As the rate of output changes, so does cost - both total cost (Figure 4-1A) and cost per unit (Figure 4-1B). Eventually, a firm must make a build/expand decision. Should the decision be made to build a new facility, then long-run average cost would be of prime concern.

**The long-run average cost (LRAC) curve.** In order to take advantage of economies of scale and increase present capacity, a decision must be made as to what size facility to build for the future.

The LRAC curve is determined by connecting the bottom points of all possible size facilities that are represented by a continuing series of short-run average costs (SAC) curves (see Figure 4-4).

**Figure 4-4**  
**Long-run average cost curve**



SAC1 is the present facility, which has experienced an increase in production from 400 to 900 units. At current production of 900 units, SAC2 would be a more efficient size than the existing facility because the costs per unit is lower. However, the long-run sales forecast is bright, it may be better to build a facility with greater capacity, or SAC3.

In the short-run, SAC3 would operate below point X, the optimum cost-production point. Costs per unit will decrease as the number of units produced moves toward X. Point M (mecca) or the lowest-cost point in the long-run is seldom reached or maintained due to time lags in the completion of new facilities and fluctuating market conditions.

### **Length of the Production Run**

Marketers would like to have an unlimited number of options to offer to potential consumers to fill every consumer want. If marketing personnel commit the firm to producing a large number of units of several varieties, thus requiring production line changeovers, how might this affect costs?

**Setup and Breakdown costs.** These costs are similar to fixed costs in Figure 4-1. They remain constant regardless of the number of units produced. The more units run, the lower the cost per unit. An auto plant may appear to be a showplace of mass production efficiency; however, it is estimated that Chevrolet could produce at full capacity for over a year and never produce the exact same car twice. A policy of product proliferation and variation may increase sales, but, it may also increase costs in a disproportionate manner.

**Loss of certain economies.** Short production runs may also be costly due to the loss of economies related to ordering, packaging, and shipping in large quantities. Discounts given for large orders, and handling costs and transportation savings are often forfeited when product runs are of short duration.

### **Stability of Output**

The logic behind stable output lies in the knowledge that a fluctuating output is more expensive. If in the fall of the year one-fourth of the facility is in operation, in the spring three-fourths, and at the peak summer season production is 10 percent higher than the optimum production level, then inefficiencies and high cost levels are abundant.

With fluctuating output: (1) morale and routine break down; (2) personnel turnover is high; and (3) shortages and bottlenecks arise. Retail and wholesale firms experience similar problems during seasonal changeovers, general promotions, and holiday rushes.

There is a point where versatility and product proliferation cannot be increased without significant increases in costs. In attempts to achieve product-market integration, proliferation provides an obstacle to desired levels of *profitability*. What are some pitfalls of broad- and limited-line strategies?

### **Product Lines Both Too Broad and Too Narrow**

This appears to be a contradiction. However, a marketer with a broad assortment attempts to serve a large number of *distinct* markets. The sales force now spreads its effort over so many markets, that effectiveness is diluted until *no* market is cultivated in depth. At the same time the product-line may be too thin, in one or several of the segments, to effectively fulfill minimum dealer or customer demands for a selection. This situation is becoming more frequent with the trend toward diversification of product lines.

### **The Trap of the Full-Line Competitor**

Evidence shows that the full-line marketer is generally more successful than a specialized rival. Some advantages are:

1. Overall market strength - stronger products support weaker ones during fluctuations.
2. Customer recognition - product identity, if positive, spills over to the entire line.
3. Dealer priority - dealers are willing to handle and promote a broader line with more sales and profit potential.
4. Promotional impact - costs of promotion spread over more products.
5. Customer franchise - ability to obtain exclusive distribution facilities.

These advantages also provide the trap of the system. Every new product consideration is defended on the basis of, "We must be a full-line house." Some questions that must be asked are:

1. What is the precise definition of a full-line policy?
2. Is it measured in absolute or relative terms?
3. What meaning does the term have to the trade?
4. Is it possible to go beyond full-line assortments?

Many firms who strongly advocate a full-line policy are unable to define any standard for its achievement. Often, the number of models becomes so great that it is unlikely the segments reached can be analyzed and quantified for meaningful cost-volume -profit relationships.

### **Trading Up and Trading Down**

Introduction of more expensive products than the original line is “trading up”. Introduction of cheaper products than the original line is “trading down.” Both may give an imbalance between the new and old lines but for different reasons.

**Trading up.** When trading up, the biggest hurdle to overcome is the gaining of acceptance for a higher-priced product identified with a low-price-line image. Watchmakers like Timex, and certain camera manufacturers have tried unsuccessfully to penetrate the higher-priced end of their markets. Sometimes higher-priced products are introduced mainly to pull up the prestige of the lower-priced goods.

**Trading down.** When trading down, sales of the new product often are not great enough to offset reduced sales of the original higher-priced line. Mustang cut heavily into Fairlane sales but fortunately obtained enough volume to overcome the loss, plus contributing more total profits. Few new products manage to accomplish this.

### **Overextension of Product Images**

Suppose a firm’s product appeals to a market profile represented by conservative older, middle- and lower-income groups. This firm may lose their segment advantage if the company attempts to appeal also to a young, modern change-oriented segment.

Attempts to *freshen* product images that improve market segmentation, often lead to successful inroads by competitors that are not offset by gains from the freshened image. In this situation, product expansion would be warranted rather than image freshening.

### **Profit Standards**

Regardless of a firm’s marketing strategy, profit remains the ultimate goal. But, what is profit? What costs are pertinent in determining profit levels?

**An accounting view.** The accountant, like the ordinary businessperson, views profit as what is left over from total revenues after all expenses have been deducted. Profits are, for example, corporation earnings - whether paid out in dividends or undistributed. The accountant computes profit from a set of historical data. The emphasis is on accuracy and objectivity in the recording of past activities of the firm - even though it is recognized that such data may not actually offer a relevant basis for

current business decisions. Different profit standards should be used depending on the planning objective. Some examples are as follows:

**Return on investment (ROI).** A firm might set as a policy that no new enterprise will be undertaken unless prior planning suggests a minimum of an 18 percent return on investment. Return on investment is income divided by investment in assets.

**Earnings per share.** If a firm has a historical commitment to an annual dividend policy, any profit standard decision must include a return sufficient to pay normal dividends.

**Ratio of profit to sales.** In this approach, the profit standard is dependent on volume. A percentage, say 12 percent of sales volume, is set as a profit target.

**Dollar amount.** This is the setting of absolute profit standards, usually based on past amounts.

**Profit segmentation.** Individual profitability targets may be designated for product lines, regional sales districts, wholesale versus retail sales, company divisions, or government versus commercial sales. Ideally, the performance of each segment will complement the overall profit standard objective.

### **Cost-Profit Decisions**

**Sunk costs.** A sunk cost is past investment of money in an enterprise. The primary example of a sunk cost is depreciation expense, which is merely an allocation of the original cost of an asset (less estimated salvage value) over its useful life. Since depreciation expense (even for future periods) does not represent a future cash outlay, it is regarded as a sunk cost.

The revenues that will be relevant to marketing decisions are similar to the relevant costs - they represent future cash inflows that will differ according to alternative decisions made.

When the Ford Motor Company was deciding whether to drop Edsel and begin producing Mustang, the investment in Edsel assets was irrelevant to the decision. This was a sunk cost. It had to consider what the future would bring under the two alternatives. The Edsel assets could be sold (a relevant figure since it represented a future cash inflow), and the Mustang assets could be acquired (a future cash outflow). The result illustrates a principle: If assets used in ongoing marketing programs can contribute more if disposed of at current value and applied with greater profit in another way, then it is time to change.

**Opportunity cost.** The Edsel/Mustang example is closely related to the concept of *opportunity cost*. This concept implies that the real cost of committing your resources

to any one course of action is not only their actual value but all other possible alternatives forgone.

### **A Marketing View**

A change that is slowly evolving in accounting for profit is the recognition of the marketing *function* as a profit center. Management has traditionally been preoccupied with sales volume rather than profitability standards. It would be unusual to find pressure, in a period of declining revenues, for a course of action that centered around lowering prices and increasing the advertising budget. In the profit-centered approach, marketing would “buy” from production and function as an “entrepreneurial unit” within the policy framework of the firm as a whole. Organizational modifications and procedural changes may be required to move to a profit-centered system. However, greater freedom of action by marketing personnel is accompanied by higher levels of accountability from performance -- a good trade-off.

### **A Consumer View**

When consumers believe the price of production service is too high, a normal reaction is for them to blame marketing for the high costs or excessive profits. Vance Packard villanized superfluous product differentiation, planned obsolescence, and consumer manipulation through marketing practices. Recent trends in legislation and consumer advocacy are indications that serious reconsideration of traditional cost-profit formulas may be required.

# Chapter 5 - The Consumer as a Variable

## LEARNING OBJECTIVES:

After studying this chapter you will be able to;

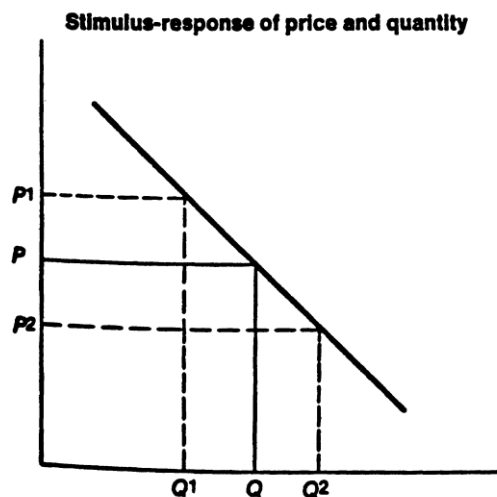
1. Determine and evaluate consumer responses.
2. Illustrate clusters of habits, attitudes, and motives.
3. Identify group behavior patterns.
4. Characterize and discuss opinion leadership.

The area of consumer behavior is probably one of the least understood of any in marketing. Consumer choice involves a study of buying motives and investigates why certain products and brands are chosen and what motivates consumers to behave as they do in the marketplace. Marketers must determine some rationale of consumer response in order to integrate the factors of the marketing mix.

### Consumer Response

When examining basic economic theory one finds that the economist implies that there is nearly a one-to-one stimulus-response (S-R) relationship between stimuli - in the form of price changes - and quantities purchased (see Figure 5-1). However, we must be aware that any demand curve assumes that three things are held constant: tastes, income, and prices of all other goods. If price is increased from  $P$  to  $P_1$ , then at this higher price, consumer response is that a smaller quantity is sold ( $Q$  to  $Q_1$ ). If a price is decreased from  $P$  to  $P_2$ , then the consumer will buy more at the lower price.

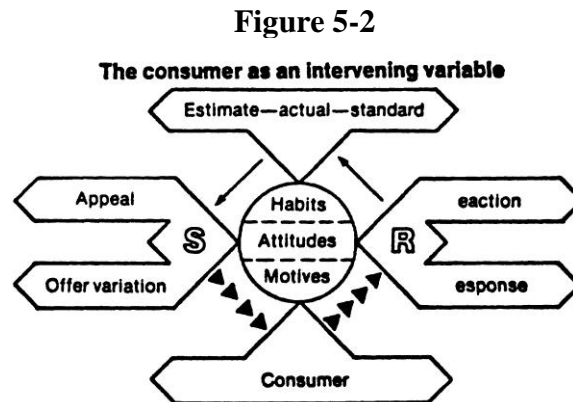
Figure 5-1



This sounds reasonable. If price is lowered once, the consumer may be induced to buy. But, what about the second time, the third time, and so on. Tastes, or one of the other constants, may have changed by then. A reduced price may also evoke a reduced *quality* image rather than appear to be a bargain. In either case, it is unlikely the consumer will respond identically on successive occasions. It is even possible that product differentiation may make price considerations secondary.

Basically, the conclusion is this: Stimuli, be it price changes or other factors, merely *elicit* responses or present an *occasion* for responses. It does not *determine* responses.

In Figure 5-2, the consumer is viewed as being in the position of an intervening variable between any given stimuli, and any particular responses. Most habits, attitudes, and motives are learned, with varying degrees of alterability ranging from permanency to complete flexibility.



Based on these habits, attitudes, and motives, a consumer will, on the basis of marketing appeals or offer variations (stimuli), exhibit a given reaction or response. The firm (at the top) will then evaluate its estimate of what response was desired or planned by the stimuli, and compare that response (actual) to the standard it set. If the stimulus-response pattern is close enough to what was desired, then the firm will repeat the commercial (or whatever technique used) until the “S-R” pattern is no longer effective.

### **Recognizing Clusters of Habits, Attitudes, and Motives**

If we had to work with each separate individual, the market research task would be overwhelming. Besides being uneconomical to serve a market segment of one person, we would be acting as psychologists, not marketing managers. However, one area of psychology, *social* psychology, studies the central importance of the social group on individual behavior. By studying group influence on individual behavior we begin to recognize segments or groups of individuals held together by common needs, or sharing *central tendencies*, causing them to behave similarly.



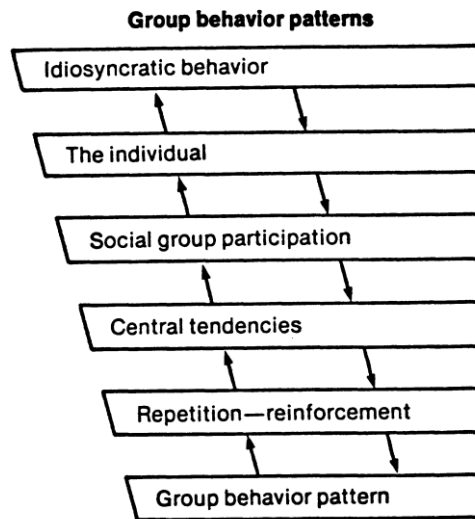
## Group Behavior Patterns

Most of us are familiar with the “grapevine” which is a well known example of informal social groups within formal organizations. Just as administrators recognize the grapevine, marketing managers want to *identify*, *assess*, and *project* behavior patterns of groups within the total market. Individuals whose tastes do not fall within any group represent a minuscule portion of the total market - not enough sales volume for the marketer to try to cater to their needs.

Individuals then, in their search for identification, seek out similar individuals, or groups, with whom they can identify and form a social group. Though individual behavioral patterns span a wide range of interests, many individuals behave similarly. It is possible to locate and identify persons with similar clusters of habits, attitudes, and motives.

**Motive clusters.** Motive clusters, when they involve social groupings of similar individuals, tend to cause a merging and focusing of motives that lead toward central tendencies. Further development of these central tendencies depends on the amount of repetition and reinforcement, a consensus is developed and a group behavior pattern emerges, as shown in Figure 5-3.

Figure 5-3



## Identifying Group Behavior Patterns

Our previous discussion has suggested that an individual’s buying motives are influenced by other people, both singly and in groups. “Keeping up with the Joneses” and other such recognition of group identification and central tendency aid marketing

managers in recognizing group behavior patterns. Grouping may fall into several broad classifications:

**1. Formal groups.** Formal groups are any unit with a specified organizational structure, rules and constraints, and other processes established to unify the members toward a common objective or goal. These units could include families, business units, a football team, or a church group.

**2. Informal groups.** These groupings usually cross over the lines of all formal groupings. Nearly all individuals in the culture take part in some informal grouping or another. Using our formal groups as a basis, we could then recognize many informal units.

<i>Formal</i>	<i>Informal</i>
Families	Fathers, mothers, teen-agers
Business units	Executives, secretaries
Football teams	Athletes, fullbacks, coaches
Church units	Pastors, churchgoers

**3. Social classes.** W. Lloyd Warner, a social anthropologist, developed a class system based on income, occupation, house type, and residence. These findings became of interest to marketers when the *Chicago Tribune* made some studies of buying patterns based on Warner's social classes. Warner's classifications are constituted as follows:

- Upper. This includes the old families ( upper-upper) and the newly rich (lower-upper).
- Upper-middle. Successful businesspeople and professionals.
- Lower-middle. White-collar workers, small businesspeople, office workers.
- Upper-lower. Factory workers, union labor, skilled workers.
- Lower-lower. Unskilled labor, immigrants, and people in nonrespectable occupations.

### **Opinion Leadership**

Regardless of whether groups are classified formal or informal, each has an opinion leader or leaders who set the example and whose actions are followed or admired. Opinion leadership falls into two main categories:

**1. Vertical opinion leadership.** This form of opinion leadership is based on *snob appeal*. It includes personal achievement or upper-class image. On the right-hand side of Figure 5-4 are six social stratifications or classes as established by Warner. These are also listed at the side of the opinion leadership grid.

Certain *products* like fur coats, luxury cars, or waterfront homes usually portray upper-middle or upper-class images. Certain *people* such as movie stars and athletic heroes lend an aura of importance to products by their identifying with them. Both the product and the people approaches attempt to utilize brand-image association by

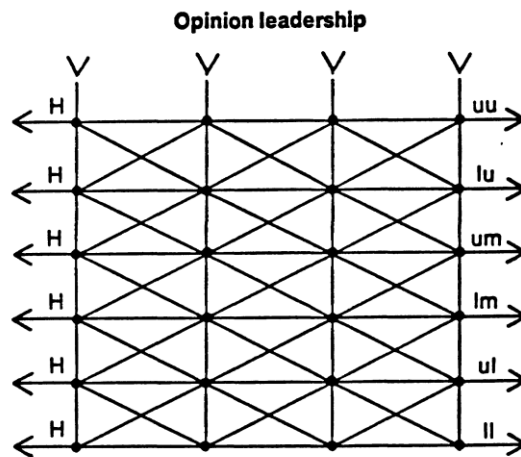
implying that personal traits of the portrayed users can be yours if you will just purchase product X.

**2. Horizontal opinion leadership.** This form of opinion leadership relies on an opinion leader at *each* level. It is usually accomplished by a face-to-face encounter with a peer-group member, probably the most influential type of communication. There are no advertising appeals as convincing as fellow-employees whom you respect telling you how great a new product is that they recently used.

As is shown in Figure 5-4, both vertical and horizontal opinion leadership may take other than direct downward or sideward paths. This reflects the wide variety of appeals and offer variations used to influence the buying behavior of consumers. Looking again at Warner's social classes, it is easier to understand why certain commercials are appalling to you. They probably are not aimed at your social group or economic level.

It is only reasonable to think that if market segmentation is an objective, then advertising will be aimed *toward* that segment and be based on narrower or more specialized appeals.

Figure 5-4



uu—upper-upper

lu—lower-upper

um—upper-middle

lm—lower-middle

ul—upper-lower

ll—lower-lower

# Chapter 6 - Consumer Motivation

## LEARNING OBJECTIVES:

After studying this chapter you will be able to;

1. Determine the needs and wants of consumers.
2. Differentiate between primary versus selective motives.
3. Distinguish between emotional versus economic or rational buying motives.
4. Explain patronage motives.
5. Identify some classifications of consumers by buying behavior.
6. Conduct motivation research.
7. Provide for the protection of the consumer.

Product-buying motives are the underlying impulses and desires of consumers that impel them to purchase certain types and quantities of goods and services. Although individuals do not act the same way in all situations, they do tend to act in identifiable patterns.

## Needs and Wants

Every human being has needs and wants. It is difficult to distinguish one from the other, but what people need is usually considered more important than what they want - something that may be largely conditioned by the culture and society in which they live. But needs and wants both lead to drives for satisfaction - buying motives of interest to the marketer.

Needs, wants, and drives may be physiological, psychological, or social and cultural. They may be learned or innate. Some writers, particularly Abraham Maslow and Douglas McGregor, have analyzed these motives and have arranged them in a hierarchy based on their priorities and strengths. One such arrangement, in order of importance, is:

1. Physiological needs.
2. Need for safety.
3. Need for belongingness or love.
4. Need for esteem and status.
5. Need for self-actualization.

To understand the hierarchical nature of these needs, you have only to ask yourself what you would do if you were starving and had only enough money to choose between a

hamburger or a movie. Only after the high-priority needs were taken care of would get around to numbers 4 and 5.

### **Primary Versus Selective Motives**

Marketing people find it helpful to further classify motives as to whether they are primary or selective. Primary motives stem from some basic need that can be satisfied by a large number of products. Selective motives arise from wants or needs that can only be satisfied by some particular item - a specific product or even brand - that the individual has learned to prefer. For example, the primary need for clothing might be satisfied by garments ranging from blue jeans to haute couture. But a particular individual may have a selective need at a certain time that only an original by Pierre Cardin will satisfy.

### **Emotional Versus Economic or Rational Buying Motives**

Marketers tend to classify motives rather arbitrarily - and with full knowledge that they are multiple and complex and that any classification oversimplifies consumer behavior. However, such classifications like emotional, economic, or rational are used since these aid in developing marketing grids and mixes. In combination, these grids and mixes then provide a basis for analyzing “the confusion in the marketplace.”

Emotional product motives are those, which lead the consumer to buy a certain product without carefully considering the reasons for and against the action. Satisfaction of the senses - touch, taste, sight, smell, and hearing – is important emotional motivators, as sensory appeals stimulate enjoyment or satisfy desires. Among the hundreds of possible other emotional motives are fear, rest and recreation, pride, sociability, striving, and curiosity.

Economics or rational buying motives include considerations evolving about economy of purchase, handiness in use, durability, utility, dependability, convenience, efficiency in operation or uses, and quality of service offered. Volkswagen’s statement, “It won’t drive you to the poor house,” is a classic example.

Buying motives are often classified as emotional or “rational” by the amount of time and thought given to the purchase. This may not be true. An emotional purchase may take a long time as the consumer frets over the impracticality, while another person may buy the item on an impulse basis. The same is true for purchases based on economic motives. In fact, a purchase may involve both rational or economical and emotional motives.

### **Patronage Motives**

Patronage motives are those that help explain why consumers choose particular firms. Like product motives, patronage motives may be economic or emotional. Similarly, they are multiple in nature and are often conflicting.

A listing of economic or rational patronage motives might include, to mention only a few, convenience of location, variety of assortment, quality of goods, range of services offered, attractive furnishings and displays, price in relation to values offered,

and courtesy and helpfulness of sales personnel. Customers will go where they can get the products and services they want most conveniently and at the lowest cost available for the quality that they are seeking.

But there are also emotional patronage motives. The most important of these might be listed as sociability, individuality, pride, and emulation. People may choose a store because they think buying there may enhance their prestige, or because they are following the lead of some admired person they wish to emulate.

Choice of a store may be influenced by how customers see their position in the social structure or their social class. Some shoppers “would not be caught dead” in a discount store and others feel uncomfortable in plush surroundings. Ego considerations are again emphasized in a consumer’s choice of stores.

### **Some Classifications of Consumers by Buying Behavior**

We have implied that consumers’ varying habits and motives cause them to behave differently from one another when making decisions in the market place. The following are several examples of consumers grouped together on the basis of their buying behavior.

1. A habit-determined group of brand-loyal consumers who tend to be satisfied with the product or brand last purchased.
2. A price-conscious group of consumers who decide principally upon the basis of price or economy comparison.
3. An impulse group of consumers who buy on the basis of physical appeal and are relatively insensitive to brand name.
4. A group of emotional buyers who respond to product symbols and are heavily swayed by imagery.
5. A group of new consumers who have not yet stabilized the psychological dimensions of their behavior.

While all consumer behavior is motivated, the actual choices are influenced by the personality of the buyer and the characteristics of the product. Though motivation is important, a person may eat because of hunger or simply because it is dinner time. One may also eat a certain type of food for dinner because of habit, because it is available, because it is the normal thing to do, or because of some nutritional reason. The actual response may represent a complex combination of motives, some of which may be below the conscious level of the consumers’ awareness.

Although people are often referred to as “creatures of habit”, buying habits are constantly changing. Such changes have brought about developments like the emergence of the discount store, concentration of grocery purchases in supermarkets (where over 70 percent of all food is now purchased), the tendency of people to shop in a large number of competing stores (as opposed to patronage loyalty), the move from urban to suburban shopping areas, the rise of the shopping center, and the shift to Sunday and evening

shopping hours. Changes in buying behavior lead to attempts by marketing people to determine and explain such behavior through the application of behavioral techniques.

### **Motivation Research**

This technique applies the methods of the psychologist and the sociologist, derived from clinical studies, to *why*-type problems in marketing. Interest in motivation research was stimulated by the long-recognized discrepancies between what people *say* they do, think or like and what they *actually* do, think, or like.

**Motivation research techniques.** Two major techniques from the field of psychiatry and psychology are used by motivation researchers. One of these is the long narrative interview, which is often referred to as the “depth interview.” A second tool consists of a number of projective techniques.

**1. The depth interview.** This involves a long unstructured interview during which the interviewer encourages a respondent to talk freely about the subject without inhibitions or fear of disapproval. A few probing questions may be necessary to bring out important comments, or to keep the interview from rambling too far afield. This technique requires highly-skilled interviewers and analysts.

**2. Projective techniques.** One such technique is the *word-association* test. In this test the researcher mentions a word and the respondent tells the first word, or words, that come to mind. A variation of this is the *incomplete-sentence* test where a respondent would be asked to complete a sentence such as, “The average person would prefer brand X because....”

**3. Thematic Apperception Test (TAT).** Another widely used projective technique is TAT. Respondents are shown vague or ambiguous pictures and are asked to tell a story about them or what is going on in the picture. The intent is to have the respondents reveal their own feelings by projecting themselves and their values into the situation.

Most of the techniques concerning consumer behavior attempt to “psych” why consumers behave as they do. It would appear that the consumer, as the focal point for Madison Avenue influences, is placed at a tremendous disadvantage. However, the consumer’s position as a buyer is continuously being improved by many developments sponsored by private organizations, business interests, and the government, all of whom provide assistance to the consumer as a buyer.

### **Protection of the Consumer**

**Private organizations.** Many private organizations, not directly controlled by profit-making manufacturing companies, are of aid to consumers. Private groups, such as the League of Women Voters ([www.lwv.org](http://www.lwv.org)), and business and professional women’s associations have encouraged (1) the development and use of standards, (2) informative labeling, (3) truth in advertising, and (4) informative salesmanship. The professional associations of physicians (AMA) and dentists (ADA) have occasionally demonstrated

leadership in protecting consumers in preference to their own memberships, but not consistently.

**Magazines.** *Reader's Digest* and other journals frequently publish articles aimed at educating the consumer as a buyer. Others, such as *McCalls*, *Good Housekeeping*, and *Parents'* magazine, give extended aid by financing tests of products they advertise. However, they do not publish lists of nonapproved items or tell the basis for their ratings. In addition, the seal of *Parents'* magazine has been awarded, in some instances, on the basis of reports submitted by the manufacturer.

**Product-testing groups.** Two well-known organizations whose main function is to aid the consumer are Consumers' Research Council of America ([www.consumersresearchcncl.org](http://www.consumersresearchcncl.org)), and the Consumers Union ([www.consumersunion.org](http://www.consumersunion.org)). Consumers Union claims that more than 7 million people buy its *Consumer Reports*. Conflicting reports of the reliability of these groups are available. Some weaknesses include a tendency to emphasize physical characteristics and to omit fashion or status considerations, limited testing due to costs, and the fact that constantly changing products make many tests obsolete soon after completion.

**Business interests.** The most important protection for the consumer is the honest effort of individual businesses to provide suitable merchandise that will lead to satisfied customers. It is in the competitive struggle for the consumer's favor that buyers find their greatest protection. Many corporations have their own testing laboratories or use independent commercial laboratories where products are tested *before* they go on sale.

**Trade associations.** Although organized to serve their industries, trade association activities may also aid the public. Both automobile dealers and major cigarette makers have imposed advertising codes on members that are enforceable by fines. Other associations set definite product standards and use labels to indicate the products meeting these standards. To encourage the development and adoption of standards for products in many fields, the American National Standards Institute has been established on a nonprofit basis and supported by private business.

**Better Business Bureaus (BBB).** Since the founding of the first BBB in 1912, the BBB system has proven that the majority of marketplace problems can be solved fairly through the use of voluntary self-regulation and consumer education. The BBB's Core Services include: business reliability reports; dispute resolution; truth-in-advertising; consumer and business education; and charity review.

**Governmental consumer protection.** Consumer aid activities are almost nonexistent at the city government level but increase rapidly as one moves to state and federal levels. [www.consumeraction.gov](http://www.consumeraction.gov) and [www.consumer.gov](http://www.consumer.gov) provide a broad range of federal information resources available online.



**Federal aids.** It is difficult to find a business department or agency of the federal government, which does not help the consumer in some manner. Agencies such as the Federal Trade Commission, the Food and Drug Administration, and the Department of Agriculture and the Special Assistant to the President on Consumer Affairs reflect the importance of consumer protection.

**Consumer-business cooperation.** The problem of consumer aid can be best solved on a voluntary basis of cooperation between business and the consumer. Business needs to recognize that consumers have a right to information on price, cost of credit, quality, and quantity, which will be helpful in buying decisions. Consumer groups should make businesses aware of what consumers want to know and how this information can best be provided.

Consumerism is expected to grow stronger in the coming years due to the several reasons, including: (1) growing concern over environmental problems, including resource depletion; (2) satisfaction of basic needs leading to increased leisure time, and increased awareness; (3) nearly half of the population is young and activist oriented; and (4) perhaps most important - it is *politically* popular to support the consumer movement. Most states and recently some cities have established consumer affairs offices and legal provisions now exist for "class actions" wherein a group of consumers can file suit jointly. If the consumerism movement has a motto, it may be, "let the seller beware!"

# Chapter 7 - Product as a Variable

## LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Define the product.
2. Construct a guideline for product classifications.
3. Explain the classification of consumer goods.
4. Discuss and demonstrate product and ego-involvement.

Products and product lines must be developed to satisfy the ever-changing desires of consumers. As a component of the four P's, this involves having the right *product* at the right *place*, with the right *promotion* and price.

### Product Defined

Product implies more than physical parts or ingredients. While technical details are important to sellers, they may have little bearing on the consumers' conceptions of the product. What consumers want is a product with a capacity to give *satisfaction*. This may include the actual product, plus accessories, installation, instructions, service warranties, brand identification, and attractiveness which fulfills psychological needs. If the product meets the use for which it was intended, then the technical details have little meaning. Busy executives want a car that always starts. They don't care what makes it start.

### Product Classifications

Consumer behavior, and patterns of consumer demand, show us the human side of organized behavioral systems (OBSs). The "hocus-pocus" of behavioral study is really, in crass commercial language, an effort by manufacturers to find new ways of selling more goods and services to more people! On the one hand, you have the response of the OBSs reaction, and on the other hand that to which it is reacting - the product or stimuli. Two major classifications of products include consumer goods and industrial goods.

**Consumer goods versus industrial goods.** Consumer goods are the goods or services destined for the ultimate consumer. They can be used without further processing. Industrial goods are those goods and services which are destined to be sold primarily for use in producing other goods or rendering services. The ultimate distinction between the two is the use of the good by the consumer. A computer, which is used by the family for correspondence, would be a consumer good. The same typewriter used by a salesperson for reports would become an industrial good.

## **Classification of Consumer Goods**

The category of consumer goods is too broad for a marketing manager to use as a basis for a marketing mix. A more useful (though arbitrary) product classification system is based on the way consumers buy products. One such classification system based on consumer behavior has three major categories: (1) convenience goods, (2) shopping goods, and (3) specialty goods. A fourth category is unsought goods.

**Convenience goods.** These are goods from which the probable gain from making price and quality comparisons is thought to be small relative to the value of the customer's time and effort. Grocery items such as potatoes, milk, bread, or peaches are examples; others are cigarettes, toothpaste, and gasoline. These types of items are usually not worth shopping for on the basis of price or quality and the consumer is willing to substitute one brand for another rather than go to a second store. Convenience goods are often broken down into three subcategories of (1) impulse items, or those bought on sight, (2) staples or goods offered in many convenient locations, and (3) emergency goods such as umbrellas.

**Shopping goods.** Shopping goods are those products that are important enough to consumers to make it worthwhile to make comparisons on the basis of quality, price, style, and suitability. A consumer will weigh the quality versus the price, consider the stylishness of the item and, given that particular individual's behavioral system, evaluate the overall suitability as it relates to ego-maintenance needs. Items in the shopping-good group would include furniture, fashion dresses, jewelry, and real estate.

This type of product is usually higher in price than convenience goods, and the consumer may lack the knowledge of pertinent features before looking.

**Specialty goods.** Specialty goods have real, or believed, characteristics or brand identification. Consumers will make *special efforts* to obtain a given item and be unwilling to accept substitutes. Manufacturers would like, through promotion and the use of economic and emotional buying appeals, to convince the public to make their product a specialty good. Product differentiation and market segmentation aim at creating specialty status. Examples of specialty goods would be a product with a designer label, certain gourmet foods, or a foreign sports car.

**Unsought goods.** Unsought goods are those that consumers do not yet want, or do not realize they want. Consequently, consumers are not actively seeking such goods. This includes totally new products of which the potential customer is not aware and also existing products and services, such as encyclopedias, cemetery lots, and life insurance. Selling unsought goods requires special emphasis on promotion.

**Overlapping classifications.** The same product might be viewed as different goods by different target markets at the same time. What is a specialty good for some consumers (an automobile), might be a shopping good for others. Furthermore, a product's stay in a specialty goods category may be very short due to a proliferation of new products in the marketplace.

Also, a further word of caution is in order. The classification of goods into the convenience, shopping, and specialty categories should not be taken too literally. They are arbitrary designations and some critics say that what they classify is not products but buying patterns. Critics further point out that no such rigid borderlines between products exist. However, the classification is workable and convenient and is justifiable on the basis of its helpfulness in providing a framework for analysis.

Convenience, shopping, and specialty goods have both similar and different characteristics and marketing considerations.

Moving from the way organized behavioral systems buy products, as convenience, shopping, or specialty goods, we perceive that products also have certain characteristics related to consumer psychology that influence buying behavior. Products can be categorized according to psychological factors in a number of ways.

**Prestige products.** These types of products are symbols of wealth and are associated with the upper class. A Rolls Royce, art objects, mansions, and some foods and magazines are typical examples. Commercials often use a prestige-good background to imply prestigious attributes to a common product's users.

**Status products.** A cut below prestige goods are status goods. These are goods that attempt to imply belonging or association with a particular socioeconomic class. Particular status brands may suggest success, strength, intelligence, social standing, or some desired leadership or identification.

**Maturity products.** Reaching legal drinking age, being allowed a choice of tea or coffee over milk, a young girl's first brassiere, a cane and rocking chair - all reflect the notion of how consumers buy products from a maturity viewpoint. Initial and/or continued use of certain products labels them maturity products.

**Hedonic products.** Sensuality is the key to hedonic product classification. Appeals to taste, smell, touch (texture of goods, smoothness, etc.), or style features such as design or color cause a sensual reaction in consumer's behavior. Often consumer responses are evoked, or immediate, and result in an impulse purchase.

**Anxiety products.** Many of our most heavily advertised products fall into this group. Mouthwashes, deodorants, and soaps are prime examples. Where prestige, status, and maturity products *enhance ego*, anxiety products provide ego-defense. When not only a best friend, but just anyone might tell you about your bad breath, then it is time to defend the ego at all costs.

In referring back to Warner's social classes, we can visualize how the same product could play many roles, depending on which social level was viewing the product. A watch might be a prestige symbol for a lower-lower individual while it would

progressively lose social identification value for each subsequent level in the upward ranking of social classes.

### **Product and Ego-Involvement**

When ego-involvement is strong in product choice, brand or product image will be associated with certain consumer attributes. However, competitors can easily recognize successful ego-identification patterns, and will rapidly imitate a successful style. Consumers may be extremely fickle when it comes to brand ego-satisfactions. If mouthwash A reduces anxiety fairly well, then a new mouthwash B may be able to double A's claims, thus reducing anxieties further and causing a shift in brand loyalties.

If ego-involvement is low, then brand loyalties will probably be strong and difficult to change.

# Chapter 8 - Product Planning

## LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Construct a guide for product planning and development.
2. List and define the product life cycles.
3. Demonstrate an organization for new-product development.
4. Develop new products processes.
5. Discuss and demonstrate planned obsolescence.
6. Differentiate among product line relationships.
7. List and explain product features.
8. Elaborate on the statement: "Will the Real Product Come Forward".

The failure rate for new products is high -- perhaps four out of five fail to make the grade. The rate is lower, of course, in well-managed companies. Since wants and requirements are always shifting, and because products, like individuals, go through a life cycle, new products must constantly be developed to replace those on the decline. Adjustment of products to the needs of the market is the task of product planning and development.

### Product Planning and Development

It has been said that nothing happens until somebody sells something, but first there must be something to sell. In earlier production-oriented businesses, emphasis was placed on production costs and methods, and producing to satisfy *specific* customers' demands was considered unnecessary or neglected. Today, our systems marketing management concept starts with the consumer and calls for product planning well in advance of production and distribution. Consumer-oriented decisions on products require a basis of careful marketing research.

**Reasons for product failure.** High failure rates among new products primarily center around (1) failure to test the product and the market, (2) the use of unreliable tests, (3) ineffective marketing support, (4) unexpected high costs, (5) poor timing, and most importantly, (6) the speed with which new ideas can be copied and made obsolete.

**Product proliferation.** The desire for new products and product lines is so strong that often companies neglect to drop older products that have lower or marginal profit contributions. This is an important merchandising responsibility, and it is necessary that existing products and product lines be reviewed at predetermined intervals

### Product Life Cycles

The life cycle of most products can be divided into four major stages: introduction of the product, a growth stage, a maturity stage, and a saturation and market decline stage.

**Introduction into market.** Existence of a product being introduced for the first time must be made known to potential consumers through heavy promotion. Consumer education may also be necessary if the product has new users or will alter significantly the consumers' habit patterns. The introductory stage is therefore usually characterized by losses due to large promotional outlays and development expenditures.

**Market growth.** Enter competitors who usually try to copy successful products. However, the innovator's profits begin to be substantial if the product is well accepted. Depending on the nature of the product, or ability to duplicate it, this stage may last for weeks or years.

**Market maturity.** By this stage there are either many competitors, or entry into the market is restricted due to size of existing firms, as in the auto or steel industry. Competition is intense and profits are declining, with cost cutting a prime objective. Most automobiles, household appliances, and television sets are in the market maturity stage.

**Market decline.** In the saturation and market-decline stage, innovators are introducing new products, and only loyal consumers who resist change will stay on to the bitter end. Those firms whose products are sharply differentiated may continue to make profits, while other firms begin to incur reduced profits or losses.

**Shrinking life cycles.** Growing competition and technological capabilities of research units have greatly reduced innovative advantages. This suggests that rather than sit back and watch your product pass through the life cycle, it may be more profitable to either alter it early in the cycle and rephase it, or continually introduce a mix of new or related items. This concept emphasizes the importance of new-product planning and development, and most growth industries tend to be new-product oriented. However, studies show that over one half of American manufacturing firms do not have any formal organization for these activities.

New product development must have the support of top management and pervade the entire organization. As a new product is developed, and it progresses from the idea stage to production and marketing, old routines will be disrupted and department managers with a vested interest in older products, may offer open or covert resistance to change.

### **Organization for New-Product Development**

Many companies have tried to answer problems of new-product organization by turning to new-product committees or new-product managers. If a committee is used, a member of top management should serve as chairman to represent views of senior

executives and to coordinate activities. Committees are probably the most popular format for new-product planning.

Regardless of the form of organization, lines of responsibility and authority must be established between new-product and operating personnel. The need for a customer-oriented approach is a strong argument for having new-product development closely tied to the marketing function. Although the viewpoints and attitudes of marketers, researchers, engineers, production, and financial people are important, it is essential that no one point of view be dominant. Though all functional interests are to be represented, the end result should be one of *teamwork*.

The new product must be related to the existing products and be consistent with overall company objectives. Policies to implement these objectives must be formulated on such matters as:

1. Expected sales volume of each product or product line.
2. Patent protection.
3. Competitive expectations.
4. Availability of raw materials.
5. Production loads or plant capacity.

The effect of each variable will be felt throughout the entire marketing mix. This is the nature of the systems approach and marketing management.

### **Developing New Products**

New-product decisions follow a roughly chronological order, although in many cases several decision areas may be under consideration simultaneously.

**New product ideas.** Sources of new ideas include: company personnel, distributor personnel, customers, competitors' activities, consultants, advertising agencies, trade associations, research laboratories, foreign advisors, and inventors, to mention a few. The source of ideas may not be as important as is the firm's system for stimulating and acknowledging them promptly.

New product ideas require screening. Evaluation serves two purposes: (1) to evaluate each product possibility in terms of its intrinsic merit, and (2) to evaluate it in comparison with other possibilities. A new product will pass through numerous screenings as it moves toward acceptance.

**Business analysis.** Evaluation is often less rigorous than the investigations that occur after the new product passes the test of initial acceptance. In expending a new idea into a business proposal management (1) identifies product features, (2) estimates market demand and profitability, (3) evaluates how a product complements the rest of the product line and company objectives, and (4) develops a product development program schedule.



**Physical development.** The next step is the development of product specifications. Decisions involve size, weight, performance, quality, safety, durability, and appearance. Pilot models or small quantities are produced and market testing begins. In-use tests and other commercial experiments may point out adjustments necessary in design and production. It is at this stage that many originally attractive ideas must be discarded.

**Introduction to the market.** A major policy question involves the timing of the product's introduction. Up to now, the firm has been in control of the product's destiny. However, once it is "introduced" and enters its life cycle, the *external* environment is in control. Many products are seasonal or have fashion or fad characteristics that set time limits to their sales potential. New products must arrive in the market at the right time if maximum sales results are to be achieved.

### **Planned Obsolescence**

As a product moves through its stages of development, each stage becomes progressively more expensive. Most products do not fail because of marketing or production know-how but because either the idea or the timing was wrong.

One product development technique is the deliberate alteration of minor product characteristics to outdate last year's model. This technique is common in the automobile, appliance, and clothing industries where style changes occur every year. Though critics claim waste of resources results from "planned obsolescence," continued novelty seems to satisfy consumer's wants. Also, a new look each year tends to keep many products from reaching the less profitable stages of market maturity and decline as quickly. Planned obsolescence tends to rephase products from the growth to introduction stages of the product life cycle.

Most firms are not single-product firms, and the breadth and depth of the product line is often varied to achieve corporate purposes. Various combinations of products marketed as a line frequently have a greater marketing impact than would these same products separately.

### **Product Line Relationships**

Products within a line are related to each other in a demand sense, just as they are related to the products of other firms. Sometimes the products in a line may be *substitutes*, as many new compact automobiles are for other products already in the auto dealers' inventory.

In addition to competing with each other, member products of the same line can also *complement* each other, as a film-developing service complements the sale of cameras.

Products may also be related to each other over a period of time, as equipment is related to future sales of computers or software. In addition to important demand relationships among products in a product line, there are also a number of production,

promotion, and distribution economies that can be realized by conscious adjustment in the product mix.

### **Product Features**

A product feature is a physical and functional characteristic of the basic product that may be used to distinguish it from competing products of similar quality.

There appear to be at least two important characteristics that influence the profitable number of features a company can use. One is the amount of operational effort that is required to use the product in terms of skill, work, and frequency. The range goes from a product like water heaters (with a small number of features), to cameras and refrigerators (with numerous features).

Another pertinent determinant of the number of features used is the degree of interest consumers have in the “output” of the various products. Few people get excited over hot water from a water heater, but “shutter-bugs” take a keen interest in the quality of their pictures. Some products become almost an extension of the consumer’s personality.

**Effect of newness of the product.** New products generally encounter, at first, numerous consumer dissatisfactions, and this creates an initial opportunity for rapid improvements. Young products often have an advantage in that consumers have not developed rigid conceptions of what they want. It would appear that the maturity of a product has an important influence on the number of new features brought into play by the manufacturer.

**How many features?** One school of thought has held it best to concentrate attention on one or two product features to make a definite and lasting impression. An opposing school suggest scattering its offer, reasoning that if enough features are added, anyone will find at least one to their liking. Apparently, the nature of the product itself is a large determinant in selecting the best number of features to use. Automobile manufacturers have enough variable features to allow production of a different car every minute for several years.

**Use of product features.** It is difficult to find any meaningful relationship between the number of features used in a new product and a company’s characteristics. Established firms in an industry vary just as widely in the number of features used as do relatively new firms. It is possible that the nature or significance of particular features available each year plays an important part in determining, for example, and advertising strategy. However, either companies do not know how effective feature options are, or the determinants that guide an advertising strategy are so complex as to defy correlation.

**Product features and market segmentation.** Once an attractive market segment has been selected, management may proceed to formulate a product with characteristics that will meet the needs of the segment. However, all too frequently management may: (1) select a group of functional features which are rated highly by consumers when tested

individually; (2) combine these with a style which is not too expensive to produce and is thought to be preferred by the largest number of consumers; and (3) sell the product under a brand that has an image which has been built up over a period of years.

Yet, when these three elements, each strong individually, are combined in a strategy, the result is often a product with a low overall consumer preference. Apparently, the group of consumers that liked the features may be different from the group that liked the style, and the group that liked the image may have been different from either of the first two groups.

**New-feature advantages.** Besides directly bolstering consumer preference, new features often bring the innovator undreamed-of free publicity, step up the enthusiasm of sellers, and do more toward building an outstanding brand image than words alone can do. Conversely, a poorly-engineered feature rushed into production can quickly destroy a reputation for product quality.

**Role of product features.** Product features are a potent, flexible element offering greater maneuverability than the more general dimensions of style and image. The flexible nature of functional features continually presents new opportunities. As management seeks to serve specialized segments more efficiently, the characteristics of functional features make them a powerful ingredient in the marketing mix.

### **Will the Real Product Come Forward**

Anything that satisfies a want or need may be viewed as a product. A product, under this definition, could include a person, an idea, a good or service - even a federal program, the blood bank, or any item that generates a sense of value in the consumer's mind. Consumers are buying more than a set of physical or chemical attributes. Clever marketers know that "benefits" are a key to sales. Most cars are not sold for what they represent - transportation. They are sold as extensions of personalities: Trans-Am, 280ZX, Charger, and other names identify characteristics associated with the basic product. Very few motorists buy transportation. The bottom line on products is this: "The purpose of a product is not what the designer explicitly says it is, but what the consumer implicitly demands that it shall be."

# Chapter 9 - Product Identification and Consumer Response

## LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Detail the importance of brands.
2. Explain some branding problems.
3. Explain brand familiarity.
4. Distinguish between brands and brand policy.
5. Demonstrate identification through packaging.
6. Explain the importance of packaging.
7. Identify recent trends.
8. Describe the characteristics of labeling.
9. Discuss other identifying characteristics.

According to the Definitions Committee of the American Marketing Association, *branding* is the use of a name, a term, a symbol, or a design (or a combination of these) to identify goods or services of one seller or a group of sellers and to distinguish them from those of competitors. Often extensive marketing research precedes the selection of a brand name. But some obviously desirable characteristics of brand names are those which:

1. Communicate well and with strong impact (short, simple, easy to spell, read, recognize, and remember).
2. Help sell the product and are usable in any advertising medium.
3. Avoid giving offense (names that are disagreeable sounding, harsh and unpronounceable, or have obscene or negative connotations are not used).

Brands are so numerous and so thoroughly accepted that consumers tend to take them for granted. In the grocery products field alone there are approximately 38,000 brands, though most supermarkets carry about 6,500.

### Importance of Brands

**To the consumer.** Think of the dilemma of a consumer who had to compare every product's advantages and disadvantages for each 6,500 items in grocery store. Though consumers try new products they enjoy relying on a product that has "proven itself satisfactory" and is readily identifiable. Some customers derive psychic satisfaction from the use of well-known branded products over and above the advantages they derive from the reliable quality and physical factors of the brand.

**To the seller.** Brands also aid the seller in their advertising and display programs. The brand is often of greater help in demand stimulation than is the company name or features of the product. A firm whose product is sold on a self-service basis must rely heavily on brand appeal.

The discount store could not have evolved had it not been for mass communications by television. Individual salespeople were replaced by TV and that “pre-sells” consumers before they go to buy. This situation illustrates a basic truth about marketing: “You can eliminate an individual who performs a marketing function itself.”

Brands encourage repeat sales by making it easier for the consumer to repurchase a specific product. Brands also provide protection against substitution and give the brand a chance to carve out a market segment of loyal consumers. This protection from competition allows greater control in planning the marketing mix.

Successful branding can also (1) facilitate the introduction of new products; (2) aid in enforcing resale price maintenance agreements; (3) afford greater overall price stability; and (4) develop intermediary (middleman) preference for a product over its competitors.

### **Some Branding Problems**

When producers identify their goods by a brand, they assume certain responsibilities. First, sales promotional activities involve added costs and dangers and do not always result in brand-loyal customers. Second, the manufacturer assumes a liability for the maintenance of whatever features make the brand acceptable. Third, some retailers dislike well-known brands because they have narrower profit margins, and competitors often use them as price loss-leaders. Finally, a heavily promoted brand or trademark always faces the possibility that it will become a common or “generic” term and legal rights become worthless.

**Generic terms.** Among the many well-known brand names that have become generic terms are aspirin, coke, formica, linoleum, cellophane, thermos, and escalator, to mention but a few. A brand name may become generic in several ways. A patent may expire and no other name may be available to the public. This happened with nylon and cellophane. Sometimes a firm just does too good an advertising job, as in the cases of Band-Aid, Frigidaire, and Kleenex, where the customer tends to forget that these are brand names and starts to think of them as generic products.

**Protecting brand names.** An owner of a trademark must record it on the Principal Register of the U.S. Patent Office. The Lanham Act of 1946 specifies what types of marks (including brand names) can be protected. A principal reason for registering under the Lanham Act is to protect a trademark to be used in foreign commerce. Many countries require that a trademark be registered in the country of origin before it can be protected elsewhere.

### **Brand Familiarity**

Three degrees of brand familiarity are of significance:

1. Brand recognition - customers remember having seen or heard of the brand.
2. Brand preference - target customers will choose a brand out of habit, or past experience but will accept a substitute if the brand preferred is not readily available.
3. Brand insistence - customers insist upon product and many even search for it as a specialty item. This stage is the goal of most product differentiation and market segmentation activities.

Market research may be required to determine exactly what degree of brand familiarity has been achieved and in what target markets.

### **Brands and Brand Policy**

Marketing today involves a “battle of the brands,” with each brand fighting for acceptance and with every indication that the battle will become more intense. The concept of a battle between brands is particularly relevant when applied to the battle between manufacturers’ and intermediaries’ or dealer’s brands. Competition is extremely vicious between these two groups. Thin profit margins on manufacturers’ brands have encouraged dealers to establish and promote their own identities. Also, consumers know that most intermediaries’ brands are produced by nationally known manufacturers.

In choosing a brand name, a firm may coin a name (Crisco), adapt and adopt words or slogans (Kwik-Craft), or use a name under a license or franchise.

**Desirable brand characteristics.** A good brand should suggest something about its use or benefits. Coldspot, Beautyrest, Minute Rice, and Gleem all suggest desirable results and they are distinctive. When possible a brand should be applicable to other products in a line. Frigidaire is great for refrigerators and air conditioners, but leaves a little to be desired when it comes to stoves and water heaters. Often, a brand name is not selected from a list of possibilities until after several names are tested on a consumer group.

**Meaning and types of brands.** Basically, there are two types of brands: manufacturers’ or producer’s brands (often call national brands); and intermediaries’ or dealer’s brands (usually called private brands).

Manufacturers, as markets expand regionally, nationally, and even internationally, need a way to identify their products. Thus, manufacturers’ brands become synonymous with national or nationally advertised brands.

Marketing intermediaries or dealers soon discovered the advantages of products whose brands they could control, and “private brands” were introduced. In this way, the dealer could establish prices and change them at will without the obligations or restrictions often imposed by agency contracts with national brand distributors. The amount and time of promotion of private brands are fully in the control of the owner.

Chain stores, department stores, mail-order house, farmers' co-ops, and consumer co-ops all undertake private brand development.

Individual and family brands also provide recognition. An individual brand like "Jimmy Dean's Hotdog," applies to a specific product, and brings attention to focus on a single item. A family brand tends to have a less clear focus (Food Fair products) as many unrelated items, from eggs to soft drinks are covered. Family brands have some advantage, as goodwill from one product can be shared with others. However, one "bad apple" can spoil the entire brew!

There is much more packaging, with which branding and labeling are closely associated, than just making a cardboard box and printing the company's name on it. Packaging is an element of merchandising policy related primarily to product identification, display, consumer choice, and use but also concerned with protection of the product.

### **Identification through Packaging**

Packaging, besides identifying a product, may serve the following major purposes:

**Utilitarian purposes.** A package *protects* a product during transportation, inventory processing, shelf life, and in the customer's home. Packaging also serves a *convenience* function by easier handling, opening, and storage of products. Multiple-unit packages, twist-off caps, and throwaway containers all add to convenience in use by consumers.

**Promotional purposes.** A package may be the only significant way a firm has of differentiating its product. Frequently, packages contain a visual tie-in to an advertising campaign through color choice, pictures, or message. Animals on breakfast food boxes stare hopefully from grocer's shelves saying, "Take me home." The increased use of television as a visual advertising medium places additional importance on the role of packaging.

Packaging can be used to effectively introduce a new product or to help increase or maintain the market for existing products. Marketing research has uncovered the fact that a large number of customers, presold by advertising, actually *switch* brands when confronted with a more attractive package.

**Packaging family brands.** Family packaging implies using some common feature or identical packaging for all products. Promotional values are obviously then extended to related or new items. However, this is probably best used as a strategy when the products are related in use and quality. Market segmentation is best served when a specific package is developed for each specific product. The desired path the product is to follow from manufacturer to consumer should dictate the packaging decisions.

**Functional purposes.** A package may be so attractive that customers will pay more just to get the special package. No-drip spouts, self applicators, aerosols, and reusable jars also provide functional appeals to consumers.

### **Importance of Packaging**

Packaging has become an important industry. Rising costs, due in part to a shift from emphasis on protection to a combination of protection - promotion, find the amount spent solely on packaging materials approximating the total amount spent on advertising. The growing importance and costs suggest that top management should be assuming more responsibility for this activity.

Consumer complaints led to the passage of the Federal Fair Packaging and Labeling Act of 1966, requiring more and clearer information and a reduction in the number of sizes. Some supermarkets and chain stores have voluntarily gone to a unit-price system to provide cost comparisons by weight-volume.

### **Recent Trends**

Multiunit packaging, or the banding of from two to 12 units of a product and selling them as a single product, has increased total sales as well as unit sales of products. Though consumers may not like the taste of a new product after one 12-ounce experience, they may change their minds before the six-pack is gone. More and more products are appearing in 8-packs, 12-packs, and so forth. Products not previously sold in multiunits are also innovative; Gatorade, fruit juices, apple sauce, jars of shrimp cocktail, boxes of raisins, and chewing gum are but a few examples.

Packaging is not a cure-all solution to marketing problems. In one survey, over 80 percent of the consumers surveyed claimed injuries from opening packages. Some consumers complain about partially-filled packages, varied sizes that make choices difficult, and package designs that are misleading as to the product's features. Despite the attention now given to packaging, there is still much room for improvement.

### **Labeling**

The label is that part of the product, which carries information about the product. Obviously there is a close relationship between labeling, packaging, and branding. Much of the consumer's criticism of marketing has centered around charges of false, misleading, or deceptive labeling. This criticism encouraged passage of the Fair Packaging and Labeling ("Truth-in-Packaging") Act of 1966.

**Label classification.** Labels are classed as brand, grade, descriptive, and informative. *Brand labels* simply identify the brand, while *grade labels* usually use a letter, number, or word or "good," "better," and "best" to indicate the level of quality of the product. *Descriptive information labels* give information about use, care, performance, or other product features.



**Labeling requirements.** The Federal Trade Commission Act of 1914 and the Wheeler-Lea amendment of 1938 state that unfair competition is illegal. A label or package that is misleading or deceptive can qualify the product as being “unfair competition.”

Enforcement of deceptive practices laws usually falls within the domain of the Federal Trade Commission, the Food and Drug Administration, and the Department of Agriculture. Federal concern is with unfair competition through deceptive labels on packages. Though these agencies have enforcement powers, the interpretation of law versus practice is often hazy and ineffective. Long delays between filing complaints and a cease-and-desist order also weaken the effectiveness of these laws.

The Television Code Review Board of the National Association of Broadcasters (NAB) implemented in September of 1973 a set of rules regulating advertising of nonprescription medicines. The National Association of Broadcasters is a trade association that advocates on behalf of more than 8,300 free, local radio and television stations and also broadcast networks before Congress, the Federal Communications Commission and the Courts. All of NAB members are bound by the rules, as are the major networks.

### **Other Identifying Characteristics**

It is not unusual to find the name of a known designer on an attractive product or package, or mentioned in a commercial, as firms begin to realize the value of attractive design in the consumer’s choice. Color also is important and often is the determining factor in a customer’s acceptance or rejection of a product. The marketing advantage in the use of color comes in knowing the right color to use, how many colors to use, and when to change colors. Even in industrial goods, color plays an important role.

Other factors identified on labels include assortments of sizes, the correct level of quality, and the nature of any guarantees or services to accompany the product

### **Multibranding**

Many successful industrial businesses operate a "multi-brand" strategy: they have some brands that work across a range of product lines and others that cover a specific product niche. The aim is to convince customers that their needs will be met by products within the brand, while creating an over-arching "family" that applies to a broad set of products. Companies that do this well involve not only their advertising and marketing departments in the brand strategy, but also their production and research and development.

Brands for industrial companies in the west and Japan are becoming more important due to increased competition from low-cost countries. Having a good brand means you can compete in ways other than by having a lower price.

How do you measure the worth of a brand? *Corporate Branding* ([www.corebrand.com](http://www.corebrand.com)), a US consultancy, does it by tracking people’s perceptions of a

company name — which for many businesses is its main brand — and rating this as a percentage of its market capitalization.

According to their survey, 3M, the large Minnesota-based manufacturer, owns the most valuable brand of any broad-based industrial company in the U.S. 3M has several thousand products, ranging from sticky tape for the home to specialist optical film for industry, sold by the company's 45 business divisions. 3M's brand value is attached to the 3M name as \$9.3 billion.

Companies, which put a lot of effort into building up their brands, can spread the value of specific brands across a number of product divisions. They can also use a system of "multiple" brands to create a variety of messages for consumers and industrial buyers. Leveraging the value of brands across a company is where the magic in brand management happens.

# Chapter 10 - Pricing and Price Theory

## LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Discuss the methods of pricing.
2. Differentiate among price, value, and utility.
3. Explain the price-volume-profit relation.
4. Compute the marginal utility and price elasticity.
5. Distinguish between marginal analysis and price theory.
6. Apply marginal analysis.

Price, like product, promotion, and place, affects the firm's sales volume and ultimately its profit picture. Price, as part of the marketing mix, is always on trial, and no price should ever be considered permanent. Price has many dimensions and affords the marketing manager yet another opportunity to tailor an offer to a desired target market.

### What is a Price?

One might, in all sincerity, ask the question, "Just what is a price?" In all sincerity, the answer might be, "Well, that depends." The following paragraphs and frames attempt to define on just what a definition of price may depend. It could be said to be:

**What a product "ought to sell for."** From a consumer's standpoint, a price may take the form of a relative or comparative standard with the prices of similar or related products. A consumer may compare types of products and features between manufacturers or within a line of products. In this case, the consumer can *feel* a relative price range or variance.

From a manufacturer's standpoint, price should aid in forecasting cost-volume-profit relationships and provide for a fair return on investment.

**"What we can get."** This viewpoint of price is often called "charging what the market will bear." Often this happens at various places in the country due to real shortages caused by mismatched demand and supply or due to transportation or storage problems. In the citrus industry in Florida, any frost *warning* may be enough to cause the cost of frozen orange juice to rise noticeable. Pricing of energy resources may well fall into this category.

Much of “What the traffic will bear” is predicated on the immediate intensity of demand. Prices of new fad items, movie premieres, or any product or service carrying the prestige of being *first* will command higher prices.

Prices of goods in tourist or vacation spots, shops in airports, or any area with a large volume of traffic and few repeat sales will be noticeable higher.

**“An offer or a suggestion.”** Basically, price is only an offer or suggestion of a product’s exchange value. In a sense, a price is a bartering point from which the seller and potential buyer begin a discussion. Automobile and appliance dealers use this technique more often than most retailers. However, consumers have the ultimate price determination: They don’t have to buy!

### **Price, Value, and Utility**

In economic theory, price, value, and utility are related concepts. *Utility*, refers to the attributes of an item that make it possible to satisfy wants. Most expensive autos provide a good deal of social want satisfaction in addition to satisfying basic transportation requirements.

*Value* expresses the power of exchange of an item for other goods and services. However, since barter-type economies are virtually nonexistent, we find the concepts of utility and value wrapped up in one common expression: price.

**Price as an influential variable.** Price influences many of the factors in our economic system. Inflation implies *rising prices*. If prices rise, then workers’ dollars buy less, so they ask for *higher wages*. As worker’s incomes rise, demand for goods and services expand. This stimulates manufacturers to invest in expansion of plant and equipment, and additional workers are needed so the *employment rate* increases. However, competition for dollars to invest causes *interest rates* to go up, so the cost of capital increases. Now, because wages and interest rates are higher, the manufacturer *increases prices* and we begin the inflationary cycle again.

This cycle is called the wage-price spiral or inflationary spiral. Attempts to slow it down or reverse it often lead to recessionary cycles or downturns in the economy. The inflationary spiral resembles a dog chasing its tail. In the dog’s case a reprimand, a good swat, or a deworming may ease the problem. Perhaps this is what an overheated economy needs: moral suasion, tighter fiscal and monetary controls, and most of all, a reduction in the availability of consumer credit. The only real indicator that signals a slowdown in the spiral is an increase in the unemployment rate. However, no knowledgeable politician would tell the public, “I promise to reduce inflation by increasing unemployment.” The only possible measure acceptable to both management and labor is to tie wage and price increases to comparable increases in productivity. This should encourage both groups to increase efficiency. The government has tried unsuccessfully under different administration to enforce wage-price guidelines for unions

and management. These attempts were deserted when moral suasion failed to slow down the spiral.

### **Price-Volume-Profit Relation**

Price, among other things, is related to revenue and profit: as

$$\text{Unit price} \times \text{Volume (units sold)} = \text{Total revenue}$$

for example: \$1 x 100 units = \$100 total revenue. If the total cost were \$75, the profit would be \$25.

Normally, we find price acting as it does in Figure 10-1. As price changes, so does volume.

A lower price increases volume sold, and per unit costs go down due to economies of scale, while profits increase. A higher price causes lower volume, higher per unit costs, and reduced profits. There is a price-volume-cost relationship that will determine the best profit picture for each firm, at a given point in that firm's capacity. Economists express this relationship by the use of marginal analysis, and this concept is illustrated in Figure 10-2.

**Price-volume-profit in major industries.** Supposedly, if demand for a product decreases, price then would be lowered in order to maintain a desired volume. This happens only in truly competitive industries.

What happens when demand decreases for autos, steel, aluminum, copper, or major appliances? Theoretically, prices should be lowered. Not so. A few large firms dominate our major industries. These are perfect examples of a model in economics call oligopoly. These firms, due to a lack of competition, *control* prices. The degree of control is directly related to the necessity of the product. A driver can decide to put off buying a new car for a few years, or to take public transportation. These alternatives will reintroduce the supply-demand law to some extent. If the Florida consumer's refrigerator breaks down, however, the only choice is size and features - not replacing the item is not a viable choice so the consumer has little leverage for lowering prices. No one firm will take the initiative to compete on the basis of price. See "umbrella pricing" in the steel industry in Frame 4(15), "Pricing in big business."

Figure 10-1

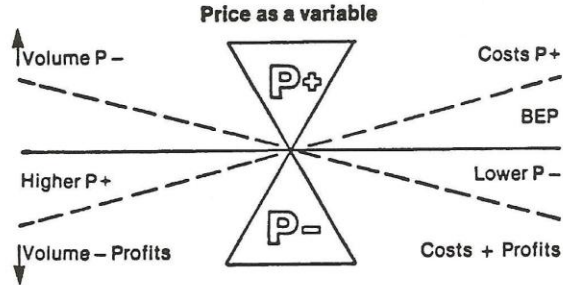


Figure 10-2

**Marginal analysis and price theory**

Price × Units	Total revenue	Total cost	Profit
\$10 (15)	\$ 150	\$ 49.25	\$ 100.75
9 (20)	180	54.00	126.00
8 (25)	200	58.75	141.25
7 (50)	350	82.50	267.50
6 (80)	480	103.00	377.00
5 (200)	1,000	205.00	795.00
4 (500)	2,000	470.00	1,530.00
3 (700)	2,100	570.00	1,530.00
2 (1,200)	2,400	1,205.00	1,195.00
1 (2,000)	2,000	1,590.00	410.00

This type of oligopolistic pricing behavior leads to a situation similar to regulated public monopolies like utility companies. Public utilities are controlled by law as to their rate of return on investment because the number of suppliers of their services is restricted. Major industries in the United States now resemble this example. Because they are few in number and entry is restricted for various reasons, they too have “institutionalized return-on-investment.” This means if demand decreases and profits

and ROI drop, it is necessary to raise price to maintain the predetermined ROI. Since the other firms also do this, the firms behave just like regulated monopolies.

The absolute bottom-line example would be an automaker that would produce a single car - *one*. It would be sold to an oil sheik for a billion dollars, since it is the *only* model that year. The auto maker would have achieved its financial objective: a 25 percent return on investment.

### **Marginal Utility and Price Elasticity**

The student of marketing will find two tools or concepts of the economist helpful in gaining an understanding of pricing problems; that is, the marginal principle and the effects on price of elasticity of demand or supply.

The marginal principle holds that economic choices are usually made between small or “marginal” quantities. Consumers do not make their choices between, say, a thousand white shirts and no white shirt at all. One might think, rather, “At the \$3 sale price, should I buy another white shirt today?” The answer will depend on how many white shirts are currently owned and their condition. Related to the marginal principle is the so-called “law of diminishing marginal utility.” All this means is that as each additional unit of a good or service is acquired, the next one becomes less useful until upon acquisition of the last or marginal unit, the consumer no longer desires another one. One example is a person eating at a restaurant known for its desserts. The first piece of strawberry cheesecake is eaten with great gusto and even perhaps the second; but as our diner continues to eat, a point may be reached where the mere mention of strawberry cheesecake would cause nausea. Diminishing marginal utility has been achieved.

In making up demand schedules and even when intuitively assessing the demand for, and therefore the price of, a product, the marketer keeps in mind, as a fact of life, the law of diminishing marginal utility or returns. Multiunit and large economy-size packaging attempt to overcome low-unit, immediate-need consumption patterns.

**Price elasticity.** The concept of marginal utility is closely related to that of price elasticity of demand. This means that products and services differ in their responses to changes in price-utility relationships. If a slight change in price causes a relatively large change in quantity demanded, then demand is said to be elastic. *Note:* When the coefficient of elasticity (percentage change in demand/change in price) is greater than one, demand is elastic. If quantity demanded changes only slightly in response to changes in price, demand is termed inelastic.

Marketers will generally recognize that the demand for “necessities” is inelastic and for “luxuries” elastic. But this does not always hold true. It is more accurate to say that elasticity depends on the extent to which consumption habits are fixed and also on the availability of substitutes for the product. The more substitutes there are and closer they are to the desired product, the more elastic the demand schedule becomes.

Cigarettes are an example of high price, inelasticity. Consumers are strongly brand loyal and “would rather fight than switch,” as one commercial states. Medicines for the elderly on fixed incomes represent another situation of products with highly inelastic demand. The movement toward legislation requiring the listing of generic and brand names has provided some degree of substitutability and, thus lowering of prices.

Alcoholic beverages have a lower degree of inelasticity. If a consumer drinks scotch or vodka and a favorite brand becomes relatively more expensive than other brands, that person may choose one of the many substitutes.

When government economists suggest higher energy prices to curve usage levels, they are ignoring their own lessons. There are *no* substitutes for gasoline and the private transportation habit is similar to cigarette smoking: motorists would rather fight than switch their transportation habits.

Supply, too, has degrees of elasticity and inelasticity. As with demand, supply is elastic if a slight change in price causes the supply to increase or decrease noticeably. Plywood is an example of a highly supply elastic industry. As prices rise, marginal producers enter the market until oversupply forces prices down. When prices drop lower, the marginal producer is forced out, decreasing the supply.

### **Marginal Analysis and Price Theory**

Figure 10-2 demonstrates how changes in price affect units sold, cost of units sold, and profit. In moving from a price of \$4 to \$3, the increase in revenue (\$100) is equal to the increase in cost (\$100). One is tempted to conclude that there are two profit maximization points. Actually, economics tells us that the profit maximization point is found by comparing the extra revenue and extra cost of producing and selling each additional unit and stopping at that point where the marginal revenue and marginal cost are equal. For instance, in the example given, that point may be at 600 units of production. The extra revenue from selling 600 units instead of 599 units may exactly equal the extra cost of doing so. Seldom does a business have the necessary information regarding demand to make decisions this precisely. Instead, businesses tend to think in terms of data in the form of that given in Figure 10-2.

### **Applying Marginal Analysis**

Price theorists suggest that there is a different relationship between price and quantity demanded. When consumers are offered goods or services at a certain price, they weigh the utility they can obtain by buying at that price against the alternative uses they can find for the same money. The economists approach the analysis of this behavior through the plotting of indifference curves. This is a tedious approach, and for our purposes all we want to understand is (1) if the price of a good is raised, the quantity demanded will go down and (2) if the price is lowered, the quantity demanded will go up. However, the extent to which this basic mechanism will work depends on the degree of competition of the market and on the price elasticity of the demand. Were there several acceptable substitutes to private auto transportation, even the oligopolistic car



maker could not institutionalize its return on investment and force price increases in a declining market?

Business analysts prepare demand schedules for various goods. A demand schedule may be shown on a graph as a demand curve. The curve shows how customers would react to various prices. Similar schedules and curves can be prepared for supply. The economist's traditional supply and demand analysis is a useful tool, but one limited in its practical application by the difficulties experienced in estimating demand.

Any time a pricing decision is necessary, we would like to be able to be as exact as price theory implies. Why, then, isn't marginal analysis more widely used? The answer is, primarily because price-determining market analysts cannot estimate accurately how many units can be sold at various prices.

This is not to say that marginal analysis has no role to play in pricing decisions. Marginal analysis is a valuable *technique* for attempting to forecast cost-volume-profit relationships in regards to plant capacity and other variables of the firm.

**Retailers versus manufacturers.** Retailers have less to gain in the use of marginal analysis, as they can ascertain their costs merely by consulting recorded invoice billings. A manufacturer, however, may often be in the position of taking orders now for products which are to be delivered six months in the future. Any time it is necessary to work with *estimates* of costs, then marginal analysis is a more relevant technique.

# Chapter 11 - Pricing Patterns and Objectives

## LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Define the concept of list price.
2. Compute and explain discount and allowances.
3. Discuss price techniques of retailers.
4. Outline the procedures used for pricing by manufacturers.
5. Explain what consumer choice means.

The tools made available by the economist - marginal analysis and other concepts of economic price theory - are of value to the marketing manager. However, for various reasons, most marketers take a more pragmatic approach. Let us examine some of the actual pricing patterns and techniques used by business people.

### List Price

A price, usually published, which makes no allowance for trade or other discounts, rebates, or commissions is called a *list price*. List prices are basic prices, often used as the point of departure for discounts and allowances, or “the asking price” to the consumer. Phony list prices may be used to make potential buyers think they are saving more off of list price than is actually the case. Bargain hunters who are taken in by this “large discount” technique may actually pay more than the competitive market price. List price may or may not include transportation or other services. A shrewd salesperson may give a buyer “extras” that are really a part of the list price in order to close the sale.

### Discount and Allowances

In viewing pricing patterns it may be best first, before moving on to more conceptual pricing techniques, to examine the structure of the following types of discounts and allowances.

**Quantity discounts.** These discounts are designed to induce customers to purchase in larger quantities. They can be separated into two major categories.

1. *Cumulative* discounts take into consideration total volume purchased over a given time period. These are really a form of patronage discounts as sellers hope to tie buyers to the use of their product exclusively. In the case of perishable products, like produce items, a seller may encourage small daily purchases to ensure freshness, yet give a total discount on accumulated volume.

2. *Noncumulative* discounts are expected to encourage the buyer to order in large quantities, incurring economies for both buyer and seller. Table 11-1 shows a typical

noncumulative quantity discount schedule. Though large orders create certain economies, some related selling costs such as billing, order filling, warehousing, and sales expenses may be relatively unchanged.

**Table 11-1**  
**Quantity discount schedule**

<i>Single order size</i>	<i>Percent Discount</i>
1-4 .....	—%
5-11 .....	2.0
12-30 .....	3.5
Over 30 .....	5.0

**Trade discounts.** The members of marketing channels are allowed trade discounts or reductions in list price for performing certain marketing functions. A typical trade discount structure might be as shown in Table 11-2. The first figure below each link in the channel is the *cost* to that channel function (C). Next is the *sales price* (SP) followed by the profit (P) or trade discount amount. This profit or size of the discount should reflect the degree of service or “value-added” by each channel function as the product moves from producer to consumer.

**Table 11-2**

**Trade discount structure\***

	<i>40% retailer</i>	<i>10% wholesaler</i>	<i>5% manu- facturers' agent</i>
<b>C</b> .....	\$240.00	\$216.00	\$205.20
<b>SP</b> .....	400.00	240.00	216.00
<b>P</b> .....	160.00	24.00	10.80

\* 40 + 10 + 5 would equal 55 percent. If this were taken as a percent of total retail price, \$400, it would equal \$220 and be misleading. Discounts are taken as a percentage of each intermediary's sales price and actually only equal \$10.80 + \$24.00 + \$160.00 or \$194.80.

**Cash discounts.** If buyers pay their bills in cash, within a specified time period set by the seller, they can take advantage of cash discounts. For example, a buyer is offered a 2 percent cash discount if willing to pay the seller cash within 10 days. This type of discount offer is usually expressed on the invoice as 2/10; n/30. If cash is not

paid and the discount taken within 10 days, then the total or net amount is due in 30 days. By taking advantage of 2/10; n/30 discount opportunities over a year's time, a buyer would be effecting a 2 percent interest saving for 18 20-day periods. This savings is the equivalent of a yearly interest rate of 36 percent ( $18 \times 2$ ). The net pay period (30 days) is reduced by the allowable discount time (10 days), to give the number of days payment is to be advanced if the discount is to be taken (20 days). If the invoice is for \$5,000, this means \$5,000 can be paid in 30 days or \$4,900 in 10 days. By advancing payment 20 days, a \$100 discount is earned. At 6 percent a year, it would only cost \$16.33 to borrow \$4,900 for 20 days to earn a \$100 discount. Depending on the current rate of interest, it could pay to borrow funds to take advantage of discount opportunities.

**Seasonal discounts.** By offering wholesalers and retailers a special discount for ordering out of season, a manufacturer can level out the production cycle and maintain a constant level of employment in the work force. Toy manufacturers in particular face this problem. Forward billing is a variety of this type of discount. Though a sporting goods dealer may order summer items in January, the effective invoice date for payment could be May 1, with a cash discount of 2/10; n/30 beginning at that time.

**Promotional allowances.** Buyers often perform promotional services for a distributor of a given product and are rewarded for their efforts. These "rewards" or promotional allowances may take the form of price reductions, kickbacks, or extra units above the number ordered, PM (push-money) given to push a particular brand, and free promotional aids or materials. Some of these promotional allowances are quasi-ethical at best, and in some cases downright illegal.

**Brokerage allowances.** Legally, brokerage allowances can only be paid to independently licensed brokers who are responsible for generating sales volume. Brokerage allowances are really just trade discounts for services rendered. However, because of abuses, where manufacturers paid large-volume buyers like chain stores the brokerage commission, it is now illegal under the Robinson-Patman Act to pay a brokerage fee to a buyer or any firm owned or controlled by a buyer.

In looking further at price as a marketing variable, one might ask, "What are some of the various pricing techniques used by sellers to attract buyers?"

### **Price Techniques of Retailers**

Retailers often set various prices with other than standard markups or margin in mind. Some objectives might be as follows.

**Image development.** One technique affecting pricing decisions may be an attempt to develop a *personality* for a store, or to establish a price level or awareness of consumer identification. Some shoppers, although they are knowledgeable, may be socially conscious to the degree that they would avoid being seen in other than prestigious surroundings. At the other extreme are consumers who would be uncomfortable shopping in an exclusive atmosphere.

**Increasing traffic.** The pricing of certain items in the marketing mix is aimed toward attracting into the store as many potential buyers as possible. Grocery stores use *loss leaders*, or items priced at cost or below, to attract a large number of consumers whom, it anticipated, will then purchase other items while seeking the loss leader. This approach tends to lead into the concept of team pricing.

**The ABC's of team pricing.** A winning football team, where each individual participant carries out his assignment, is the best analogy for the team-pricing concept. Each product, or group of products, has a special role or assignment leading toward a common profit objective.

A represents promotional items designated to attract consumer traffic. Loss leaders, specialty items, or sales spectaculars all fall into this team classification of superstars. "Get-em to the stadium" is the motto of this group.

B represents the group of products that help offset the discounted loss leaders. These items traditionally have large markups and high profit margins. In the case of the supermarket or grocery store, B items would be drugs or beauty aids, specialty foods, delicatessen items, or other non-food profit earners.

C items are constant standard sellers that seldom vary unless selected for a temporary loss-leader role. These products have a "target rate of return" that is consistent and reliable over time.

In grocery and department store operations, where profit margins may vary from one to three cents on each dollar of sales, it is imperative that the team pricing concept produces both *volume* and *profit*.

**Step-up selling.** Herein lies our basic weakness as consumers. A well-known consumer good is priced and advertised at a very low price. For example, a desirable sports car at \$20,000 is promoted by a local auto dealer. However when you arrive at the showroom you find: no radio, whitewalls, carpets, tinted glass, air conditioning, pick-up, or power anything. Now the fun begins! By the time you have all the ego-satisfiers, the price is double what was advertised.

This technique is effective for any product that has related attachments or accessories, from baby buggies to aircraft carriers. However, although team pricing and step-up selling are increasing in popularity, the old, established cost plus a formula markup still prevails in most industries.

### **Pricing by Manufacturers**

Manufacturers have a slightly different mix of factors influencing their pricing decisions. Compared to retailers, they sell relatively few different lines, and the retailers to whom they sell are better informed about price/quality relationships than the average consumer.

Manufacturers must also be concerned about product strategy. In attempting to segment the market, products are often differentiated by both style and line. Product variations are accentuated due to intensive competitive conditions and a rapidly changing rate of technology.

**Meeting competition.** Pricing in industries where there are few sellers and each is very large leads to a situation economists call *oligopoly*. Steel, aluminum, copper, sulfur, autos, and others, fall into this classification. Such industries have a price leader that other firms follow (usually without explicit collusion). The major concern of producers in these industries is how price levels will be viewed by the consumer, the Federal Trade Commission, and the Antitrust Division of the Department of Justice.

Firms in oligopolistic industries need a “legitimate reason” for increasing price. One such reason for raising prices is the negotiation of a new labor contract. Other factors in recent years include antipollution, safety, or any environmental requirements required by public agencies.

**Dissension from within.** Executives even within large corporations may fail to agree on pricing strategies. For example, in one large oil company, the manager of supply and transportation stated, “Our company has a just-price policy.” Implied that in 2005, when gasoline was scarce, stations were few, and demand exceeded supply, the company held the line on price.

The manager of market research said, “In 2005 it was a mistake to hold the line on prices. If prices had increased, more stations would have been opened and the shortage would have been overcome more rapidly.” Now, this same individual feels that competition is so intense that it is ridiculous to follow a “just-price” policy.

One thing both agree on is that it is difficult to price gasoline with any assurance. No consumer is more mobile than a driver in a car with the engine running.

### **Consumer Choice**

The consumer’s ability to pick and choose, tied in with what we have learned about the OBS and consumer behavior, make it apparent that price is important in market segmentation. Since the amount of income a family achieves determines to a large extent its socioeconomic characteristics, price may influence the market in at least two distinct ways.

**Qualitatively and Quantitatively.** At the upper price levels, or perceived higher-quality product groupings, segments are limited in number of consumers or volume. Income restrictions prevent huge quantities of \$15,000 swimming pools being sold. A pool manufacturer, recognizing this fact, can segment the market in depth. Using the pool example, we know it is possible to buy a canvas above-ground pool at Sears for nothing down and a total price of under \$1,000. At the top of the market would be tailor-made, kidney-shaped pool costing upwards of \$15,000.

Nearly all products have now been segmented along these lines to appeal to the various socioeconomic levels. This leads to a problem for the consumer. There are so many *different* quality products of the same nature that price comparison is difficult. Comparisons are further hindered by varying container sizes and quantities, plus private brands and hosts of substitute and synthetic items.

# Chapter 12 - Pricing and Business Decisions

## LEARNING OBJECTIVES;

After studying this chapter you will be able to:

1. Outline cost-oriented price determination process.
2. Explain a demand-oriented price determination.
3. List non-price competition.
4. Clarify the concept of psychological pricing.
5. Characterize the pricing practice in big business.
6. Determine who is responsible for pricing decisions.
7. Identify the behavioral aspects of pricing decisions.

The final step in any pricing procedure is the establishment of a specific selling price. Individual companies vary in their pricing techniques, but basically two major methods emerge: (1) cost-oriented price determination, and (2) demand-oriented price determination. Other price-related factors influencing business decisions are nonprice competition, psychological and behavioral influences, and the effects of various pricing objectives, particularly those of big business.

### Cost-Oriented Price Determination

This approach resembles a “cost-plus-a-fair-return” strategy of pricing. This means that the selling price for a product is equal to total cost plus an amount to cover a desired return or profit. Retailers and wholesalers often use traditional markups over invoice costs to determine their selling prices. However, when a rapid stock turnover or a high volume of sales is desirable, the traditional margins may soon be discarded for more creative methods.

The naive cost-plus formula is misleading because it disregards the facts that there are different types of costs and that all costs do not act alike as output changes. To illustrate this, let us consider the following examples. If a producer’s cost were \$10,000 for labor and materials and \$10,000 for fixed overhead expenses, then the total cost would be \$20,000. If, say, in January 20,000 units were produced, then cost per unit would be \$1. If 20 cents were considered a fair return, then the price would be set at \$1.20 and the profit would be \$4,000. If, in February, only 10,000 units were produced and sold, then revenue would decrease to \$12,000. Since overhead is fixed at \$10,000 and costs for labor and materials about \$5,000, instead of profit we have a \$3,000 loss at the \$1.20 price.

Thus, it becomes clear that any attempt to use costs as a basis for determining prices must take into account the various types of costs involved - whether total fixed costs, total variable costs, or average cost per unit. *All* costs must be assembled and



carefully studied before arriving at a pricing decision based on costs. Failure to consider an important cost factor might turn an expected profit into a loss.

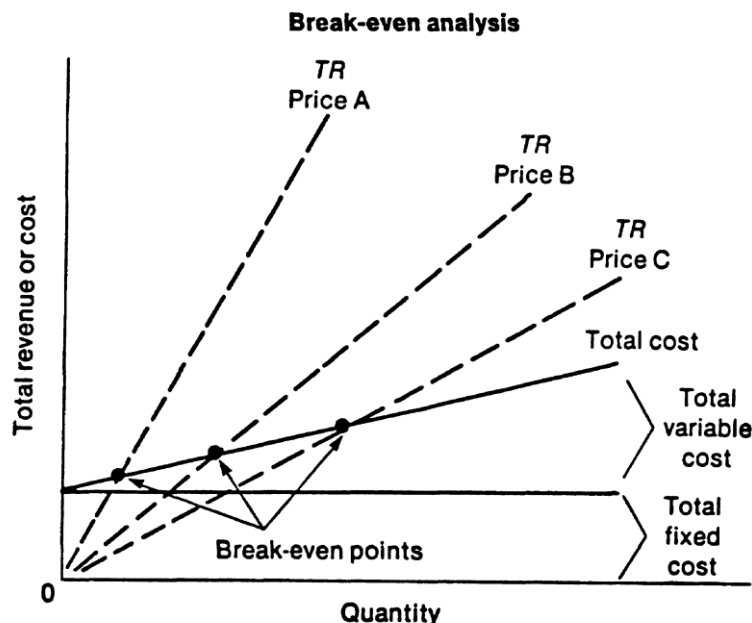
### Demand-Oriented Price Determination

**Break-even analysis.** Break-even analysis considers primarily the relation of revenue and cost at various levels of output and at assumed prices. In Figure 12-1 we show a break-even chart illustrating the total revenue (TR) at various pricing levels, labeled A,B, and C. We can see the total cost for each price level and the break-even points (BEPs). Using a break-even chart, one can see quickly, given knowledge of various costs, how much would be earned or lost at various prices and outputs. The assumption about costs as a straight line is a rough approximation of reality, as costs rise rapidly as capacity is reached. However, fixed costs are the same at any output, and variable costs in many firms remain fairly stable over a considerable range of output.

Since price cannot be adjusted constantly, a marketer responsible for pricing decisions may ask the accountants and engineers for a “standard unit cost.”

This is the estimated cost of one unit of output at some level approaching capacity. The ideal way is to calculate costs and revenue for each individual transaction. In brief, break-even analysis aids the decision maker in comparing pricing alternatives to see if it would be possible to sell enough units at a given price to exceed the break-even point.

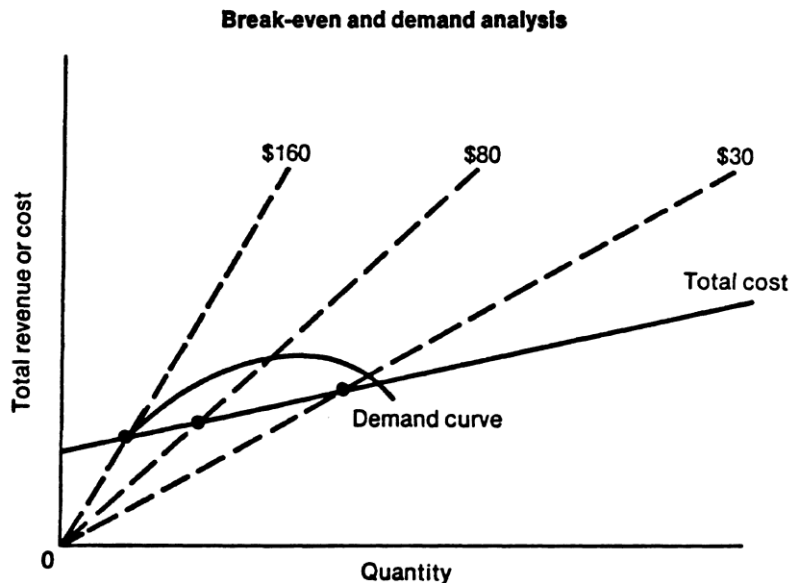
**Figure 12-1**



**Relating the BEP to demand.** By estimating what demand will be for a product at various price levels, it is possible to superimpose a demand curve on our break-even chart. The point we want is where the demand curve is the greatest vertical distance above the total cost line. In our modified chart in Figure 12-2, the price coming closest to satisfying this condition would be \$80. Looking at the location of our BEPs we see that at \$160 we would just break even and at \$30 we would make a small profit. Obviously, our best choice is \$80.

**Evaluation Break-Even Analysis.** Typically demand is ignored in cost-oriented pricing situations. The tendency, if demand is considered at all, is to overestimate the number of units that can be sold at relatively high prices. This causes slow turnover and low profit, or losses, because the seller is more concerned with the traditional margin than increased sales volume. Break-even analysis is most applicable in the *short run*, where firms tend to have reasonably stable cost and demand patterns. Too many firms ignore demand completely, with blind reliance on a cost orientation that excludes the consumer as a variable.

**Figure 12-2**



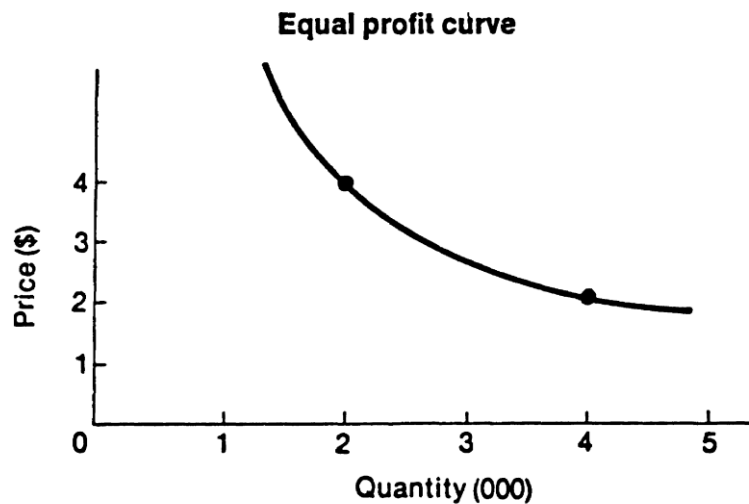
**Estimating demand.** We noted in Chapter 10, "Pricing and price theory," that the main reason the economist's traditional supply and demand charts and schedules are not more widely used by practical marketers is the difficulty of accurately estimating demand. However, demand-estimating methods are constantly being improved, and electronic data

processing is being employed to increase the accuracy of estimates of both demand and cost. More and more of those who must make pricing decisions based on demand are therefore employing the economist's concepts of the demand schedule and curve and elasticity of demand, and are identifying markets in terms of pure and monopolistic competition, as the economist does. Note that whether aware of it or not the marketing manager, in using product differentiation or market segmentation, is trying to avoid pure competition and attain a position of monopolistic competition.

Some more common and less scientific methods used by marketers in estimating demand are the following:

**1. Equal profit curve.** Figure 12-3 illustrates an equal profit curve. This approach is best when market conditions are stable and the marketing person knows the product well. If the firm can sell 4,000 units at \$2, then a pricing decision maker will ask knowledgeable people in the market if more or less could be sold at higher or lower prices. If a majority of *no* answers are received, then the curve is probably a good representation of actual demand. If many *yes* answers encourage a drop in price to sell more units at increased profits, then a change would be in order.

**Figure 12-3**

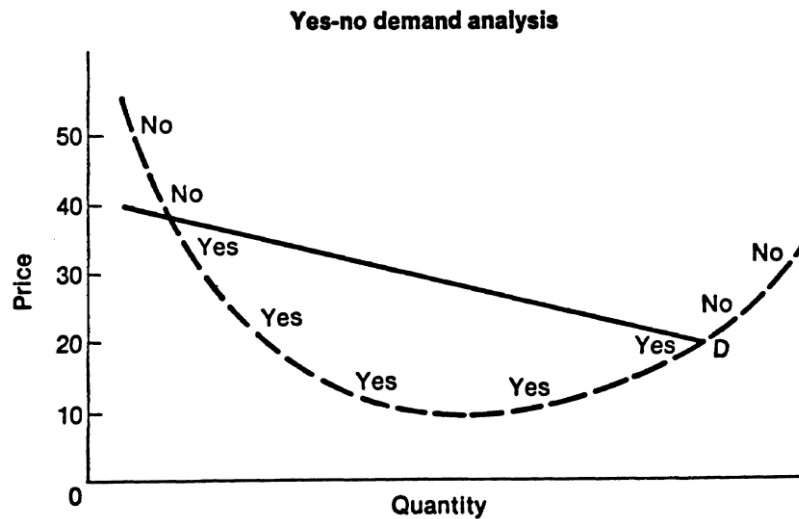


**2. Asking curves.** Here again suppliers, wholesalers, retailers, and the knowledgeable public are asked what they think about the price of an item. The marketing person then draws a demand curve between the lowest price level and the upper price level for various quantities. Figure 12-4 gives a rough approximation of this technique. Market research data can lend needed support in this type of subjective analysis. Almost any attempt at demand analysis is better than none, as prices are usually changed cautiously and with much trepidation.

**Backward demand analysis.** This approach to estimating demand uses a reverse price-cost process and is sometimes referred to as “market-minus” pricing. A retail price or list price for a product or service is set, based on an estimated volume at the predetermined price level. The next step is to subtract the retailer’s markup and other channel/distribution costs to arrive at the producer’s price. From this price or revenue a prediction is made for the producer’s profit margin and other marketing costs. What remains is the dollar amount available to produce the good or service.

Demand-oriented pricing places a great deal of pressure on the production function to operate within the prescribed cost formula. It may necessitate a rethinking of production techniques and a total review of sources of supply. One plus factor of this approach is that it forces the firm to rethink “business-as-usual” and explore new possibilities. Agents of change may be their own reward.

**Figure 12-4**



**Nonprice Competition**

While keeping price constant, sellers may attempt to improve their market positions by highlighting the product, the service, the firm, or some other nonprice characteristic. The tendency of product prices to become uniform, thus eliminating price as a competitive factor, has encouraged the use of nonprice competition.

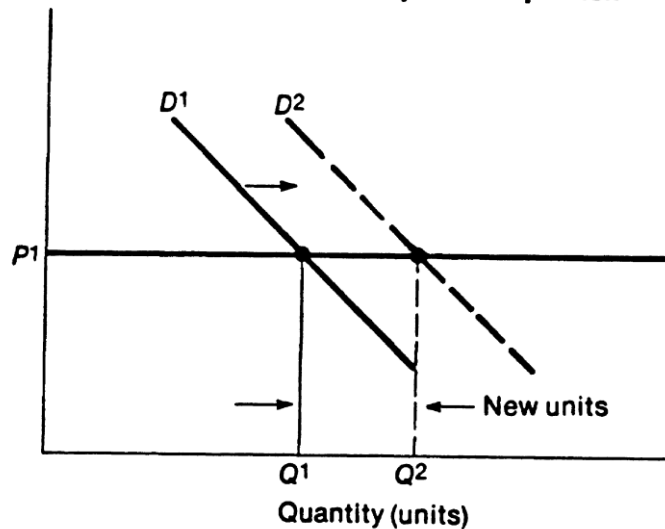
In nonprice competition, manufacturers will attempt to shift their entire demand curve to the right, as shown in Figure 12-5. This is in lieu of accepting demand as a

given factor, or increasing sales by lowering price. It is also thought that buyers attracted on a nonprice basis are more permanent customers, since a lower price may be a “one-shot” appeal.

Brand identification or image is a leading nonprice factor, and through mass advertising and promotion, loyal markets are cultivated. However, imitation of successful competitors is the rule, not the exception, and nonprice competition is expensive and never-ending.

Figure 12-5

**Increasing demand of nonprice competition**



**Product differentiation.** Most firms attempt to emphasize some characteristic of their product to differentiate it from similar items. Whether the difference is psychological or physical is irrelevant. Differentiation may range from warranties, to easy credit terms, to taste or sensual characteristics. Price alone may provide a basis for product differentiation. This is true in the case of prestige products such as art objects.

**Trading stamps.** This promotional nonprice item usually evokes strong feelings, both pro and con, among customers. Actually, trading stamps are a form of *forced savings*. If customers were given cash discounts of two cents on the dollar instead of stamps, they would not save their pennies for a future purchase. Stamps enable the customer to accumulate savings that can be exchanged for merchandise.

Trading stamps can generate consumer repeat business if *all* units of the same kind - grocery stores, service stations - are not participating in their usage. If store A gives stamps and store B does not, A may generate repeat business on that basis.

### **Psychological Pricing**

Emphasis on pricing from the consumer's point of view is the essence of psychological pricing. Some types include the following.

**Prestige pricing.** To some consumers, high prices infer high quality and/or high status. Jewelry stores, certain restaurants, and nightclubs often use high prices as signs of exclusiveness or quality. Labels in clothing, brand names, and store location can all reflect prestige and are related to prestige pricing and a specific consumer psychology.

**Odd-even pricing.** Though prestige prices are still often expressed in even dollars, most retailers feel that odd-integer prices have a definite psychological effect. Twenty-nine cents, it is felt, will move more units than 30 cents. In general, prices ending in 9 are most popular, followed by the numbers ending in 5 or 3. It is not clear exactly why such prices are so widely used. Most research is inconclusive as to the effectiveness of odd-even pricing, and psychological pricing itself has little foundation in psychological research.

Research studies have shown that most large firms have great rationalizations for existing prices, but very few can, or are willing, to explain what mechanisms are invoked to *determine* prices. Apparently, one main criterion is the *social acceptability* of the price, or how the consumer views it in relation to all other prices.

### **Pricing in Big Business**

Though actual individual techniques for determining prices are difficult to uncover, there are some general statements of pricing objectives that find common agreement or acceptance.

**Target return on investment.** ROI, or return on investment, is most popular as a general indicator of price effectiveness when the firm is a leader in the industry (GM or ALCOA, for example), or when the firm sells in a protected market. The latter is most obvious in utilities, where ROI is set by government regulatory bodies.

**Stabilization of price.** Firms attempting to stabilize prices are similar to those in the extractive group, for example, copper, aluminum, and steel. However, a firm having price stability as an objective must be in an industry where there is a recognized *price leader*. In the steel industry, one firm has traditionally been the leader, and this technique is referred to as "umbrella pricing." All other firms stay under the leader's price umbrella, and when they do so, price levels are guaranteed. This reflects a "live and let live" competitive philosophy that is less what Adam Smith envisioned.

**Maintained or improve market share.** This objective is popular because market share is easy to measure. We know, however, that volume alone does not insure profit,

so market share is usually equated with a certain level of ROI. For example, a firm may price in a manner to achieve 8 to 10 percent of the market with an ROI of 10 to 15 percent.

**Meet or prevent competition.** Some firms will purposely price their new product low in order to discourage competitors from entering the market until their product is well established. Firms in the petroleum and rubber industries often follow this strategy, and then concentrate on nonprice competition. This strategy represents a variation of traditional pricing policies based on penetration or skimming techniques.

*Penetration* pricing is normally used when even early demand for a new product is fairly elastic. An extremely low penetration price would help to keep competition at a minimum. This variation may be more relevant if product costs can be reduced rapidly by increasing unit sales, thus gaining economies of scale.

*Skimming* pricing policies attempt to maximize returns on a new product before the entry of competition reduces prices, sales, or both. This technique is more closely related to product differentiation, as it views a wide but shallow market response. Market-skimming pricing is used when a new product is introduced at the highest price possible given the benefits of the product. For market skimming to work, the product must appear to be worth its price, the costs of producing a small volume cannot be so high that they eliminate the advantage of charging more, and competitors cannot either the market and undercut the price.

### **Who is Responsible for Pricing Decisions?**

It is easier to locate responsibility than pinpoint actual performance. First, the top executive is rarely involved. So, responsibility is mainly with middle management. More specifically, the responsibility may lie with the product executive or the marketing manager responsible for a given product or product line.

The executive responsible for the pricing decision may ask for individual recommendations of persons involved with various aspects of a product, or a pricing committee may be formed. Committees would probably be composed of persons from market research, sales, advertising, manufacturing, and finance. Though a committee may make recommendations, the ultimate pricing decision still rests with one responsible individual.

### **Behavioral Aspects of Pricing Decisions**

Executives making final pricing decisions must bear in mind that their own interests may influence their actions. Some possible motives include:

**Desire to be inconspicuous.** One may decide to “go along with the group” and not draw unnecessary personal attention.

**Desire for a safe course.** In this case, the decision maker’s ultimate pricing choice may be one of lower profit, but less risk. This often results in choosing a price

close to one's competitors or within existing market guidelines. In addition to being a safer course, this technique is considerably easier than cost-demand-profit calculations, or break-even analysis.

**Desire to make a showing.** An unorthodox approach to the pricing decision, or an unusual change in policy, may draw immediate attention to the person responsible. However, results are still measured in profits and this person's immediate superiors may have been responsible for the existing guidelines. The new approach had better be correct!

What the behavioral aspect of pricing decisions suggests is that the self-interest of an individual organized behavioral system, particularly the ego-maintenance aspect, may be as important as, or more important than, the overall advancement of the unit as a whole. A state might make a decision to enhance its position at the price of national unity; a firm may take a position favorable to itself but contrary to the industry's aims; or individuals might make decisions that are in their own self-interest but the disadvantage of the firm's growth objectives. One can only hope that, in the majority of cases, this conflict is at a minimum.



# Chapter 13 - Promotional Decisions and Demand Stimulation

## LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Depict promotion as a marketing variable.
2. Demonstrate and explain the promotion and the life cycle.
3. List the stages in the product life cycle.
4. Determine how much to spend on promotion.
5. Illustrate the economists' marginal analysis.
6. Institute practical methods.
7. Elaborate on the promotional decision quandary.
8. Describe promotional expenditures by product group.

In the days when population was small and production was largely by handicraft, a consumer knew who made the best shoes, coats, or boats. But in our present overpopulated mass production society, it is not enough to make the best product. If no one knows about it, it cannot be sold in sufficient quantities to make its price competitive. We do not overstate the importance of promotion when we say, "Nothing happens until somebody sells something."

### Promotion as a Marketing Variable

Promotion, along with product, price, and place is one of the four major variables in marketing. We should have learned by now, however, that it is not the whole of marketing, as many people think. Nor is promotion limited to advertising and selling. We should think in terms of a *promotional mix*.

The promotional mix is composed of varying quantities of four factors: (1) advertising; (2) personal selling; (3) special sales promotion; and (4) publicity and public relations. One of the decisions that marketing people must make involves what proportions of each factor they should choose. Some factors in influencing such decisions are as follows.

**Available dollars.** Companies that are small or weak financially usually rely on personal selling or joint manufacturer-retailer advertising. This approach is inefficient compared to the magazine or newspaper advertising that reaches the customer at a much lower per-contact cost.

**Market characteristics.** A small local market may lend itself to a personal selling effort. However, as the market expands geographically, advertising takes on more

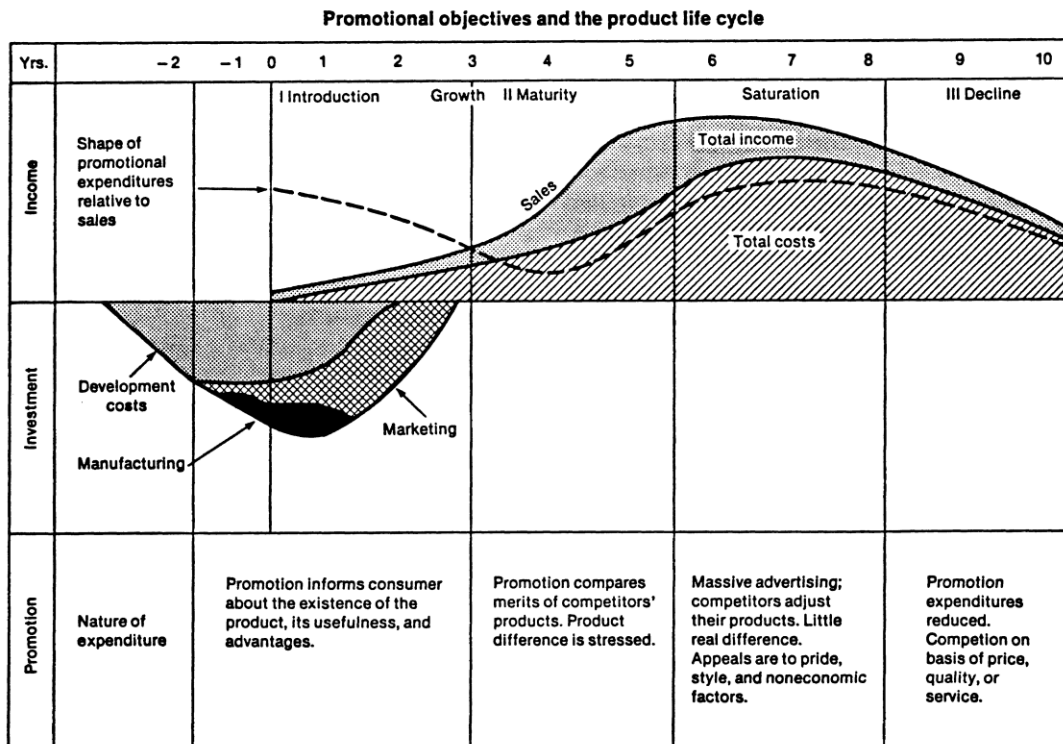
importance in the mix decision. The degree of market segmentation or *depth* of the market is important. Are you selling to a mass market or selected consumers?

**Product characteristics.** The nature of the product influences its promotional requirements. Convenience goods, such as canned peaches, soups, soap, or milk, normally rely heavily on manufacturers' advertising plus sales promotion items (cardboard promos) used in conjunction with dealer displays. Buying decisions for convenience goods are always made at the point of purchase.

Sales of shopping or specialty goods, such as furniture, a car, fashion clothing, or a swimming pool, rely more on a combination of advertising and personal selling. Industrial goods, such as machinery, require great personal selling effort and service. In fact, personal service and special attention can be a prime means of product differentiation. Applicability of personal selling and individual attention appears to increase in relation to the dollar amount of the sale.

**Product life cycle.** Products, just like consumers, pass through stages in a life cycle from birth, or introduction, to maturity and decline. At each stage in the product life cycle, the promotional mix will vary according to the desired objective, as illustrated in Figure 13-1.

Figure 13-1



## **Promotion and the Life Cycle**

Every product, if it lasts long enough, passes through a life cycle including introduction, maturity, and decline. Products that survive the introductory period may gain sufficient volume to pass through a second stage in which a profitable maximum acceptance level is attained, as illustrated in Figure 13-1.

Products that attain profitable sales levels in the second stage are eventually superseded by improving products or by entirely new innovations. Promotional objectives vary markedly at different stages. Our main concern is to consider the relationship between such variations and the corresponding market response.

## **Stages in the Product Life Cycle**

In stage I, introduction, a product requires extensive advertising, demonstration, or consumer education designed to stimulate initial demand. When refrigerators, washers, and dryers were introduced, innovative aspects were stressed, followed up with point-of-purchase displays and demonstrations. Promotion informs the consumer about the existence of the product, its usefulness, and its advantages (see Figure 13-1).

In stage II, or the maturity phase, the goals of promotion are to increase consumer selectivity by comparing the merits of your product with your competitors. Advertising stresses product differentiation. If advertising is overdone in this stage, it may lead to generic associations such as Coke for any soft drink or Frigidaire for a refrigerator.

Stage III, decline, sees the product become just another commodity and begin to fade in popularity. Most appliances and autos reach this stage rapidly. Promotion emphasizes pride, style, and other noneconomic factors, and there is little real difference among competitors' products. In the latter phase of this stage, promotional expenditures are decreased, emphasis may be placed on quality and service, and a discount house approach may be undertaken.

## **How Much to Spend on Promotion?**

Though we can look at the shape of the promotional expenditure curve in Figure 13-1, we still do not know how much we should spend on promotion. Every enterprise wrestles with this problem, and despite the vast amount of money involved in this decision, most executives have to "play it by ear" or "fly by the seat of their pants." Few firms have a valid theoretical or research basis for deciding whether promotional appropriations should be \$100 or \$100,000. Unavoidably, much of the discussion in this area is in the no-man's land between (1) abstract analysis of the economic theorist and (2) the intuitive performance of the practitioner.

## **Economists' Marginal Analysis**

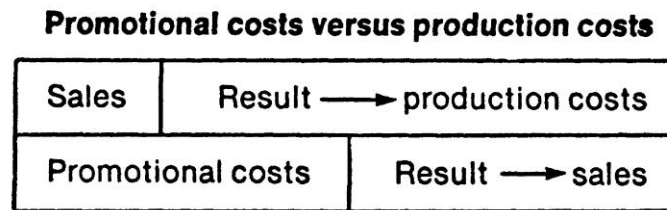
Marginal analysis tells us that we utilize our resources best, and make maximum profits, when the cost of producing the last unit equals the revenue received from its sale. Applying this concept to promotional expenditures for each product should be increased

until the additional cost of promoting another unit equals the profit from that unit. The size of the promotional budget that will do this will then maximize profits. Easy? No!

In order to use this type of marginal promotional analysis we would have to know what would happen *without* making an additional promotional expenditure. This type of valid estimating is rarely possible. For example, promotional costs, unlike production costs, are a *cause* of sales and not a result. Figure 13-2 illustrates the idea that production costs result from making sales - but - promotional costs *cause* sales, not result from them.

Another factor impeding marginal promotion analysis is its short-run nature. Often promotional objectives are broad or long range. They may include perpetuation of the firm, the reduction of competition, or the building or maintaining of an image. These are impractical to achieve in the short run.

Figure 13-2



**Practical Methods**

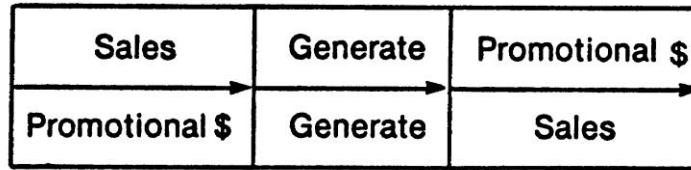
Several alternative approaches to the problem of determining promotional expenditures include the following more pragmatic techniques.

**A fixed percentage of sales.** This is one of the most popular methods because it is simple and easy to determine. However, it is logically unsound. A fixed-percentage technique usually sets promotional expenditures for next year on the basis of last year’s sales. Even when estimated future sales are used, it implies that promotion is a *result* of sales, not a cause. This approach also tends to reduce promotion when sales are declining without analysis of reasons behind the decline.

Figure 13-3 illustrates the lack of logic in a percentage of sales approach. In this example one might conclude that in periods of booming demand and increased sales it pays to advertise more. Conversely, in periods of low consumer demand, one of the first things a seller would do is reduce promotion. The typical logic is, “I can’t afford promotional expenditures; my sales are down.”

Figure 13-3

**Promotional cost determination**



**All you can afford.** This technique reflects a “blind faith” in promotional expenditures, which, although occasionally rewarding, is nevertheless a confession of ignorance. New firms, or new products, often follow this procedure until profits are forthcoming and comparisons are valid.

**Achieving sales objectives.** This approach stumbles before it starts. How does a firm determine if the objective desired is economically worth achieving? A goal of entry into a new region would require personal selling in the form of new salespeople, plus advertising and sales promotion commitments. In this type of situation, estimates of promotional mix expenditures could only be validated after it was known if the sales objective was realistically conceived.

**Matching competitors’ expenditures.** In most industries, rule-of-thumb averages are published by trade associations or in business journals. These are popular due to the ease of acquisition and comparison. However, a competitor may not have any special knowledge or expertise not generally available, and each firm’s needs and promotional mix may differ greatly from its competitors.

**Return on investment.** ROI, while a conceptually sound approach, is a different measure from a data gathering standpoint. To be effective, ROI must be calculated for each product or product line. This way, advertising is an investment and is directly related to the cost of capital.

**The Promotional Decision Quandary**

We find ourselves in a situation where the basic weakness of the practical methods mentioned previously is that they *hide*, rather than highlight, the economic issues of the problem, “how much shall we spend on promotion?” On the other hand, economic theory, as applied to promotional expenditures, focuses direct attention on economic factors, but it is difficult to put economic theory into practical use with real data.

The pragmatic approaches give us a group of somewhat irrelevant factors that are highly measurable, while marginal analysis considers extremely relevant factors that are for the most part immeasurable. Any solution must consider aspects of each category. Marginal analysis provides a technique for viewing pragmatic formulas in the light of sound economic principles.

### Promotional Expenditures by Product Group

Promotion, like product and price, is a device for manipulating the firm's sales volume. Profitability will depend on choosing the most advantageous combination of promotional mix factors. Some examples of promotional expenditures for various types of product groups are shown in Table 13-1. All of the consumer goods companies have a promotional budget of \$10 million or more. The percentages refer to percent of sales allotted to each item in the promotional mix.

Basically, we see that the advertising budgets of sellers of consumer goods are usually larger than those of industrial manufacturers, who place a greater emphasis on personal selling. However, contrary to earlier thinking, industrial manufacturers have found advertising to be an important ingredient in their overall promotional mix. This is particularly true in the area of consumer education.

**Table 13-1**

<b>Promotional expenditure by product type</b>			
<i>Product type</i>	<i>Advertising percentage</i>	<i>Sales promotion percentage</i>	<i>Personal selling percentage</i>
<b>Consumer goods:</b>			
Cosmetics .....	22.0	2.0	10.0
Food and feed .....	8.1	3.2	6.1
Packaged grocery products .....	4.8	0.7	1.2
Appliances .....	5.0	1.0	—
Retail food chain .....	1.0		
<b>Industrial goods:</b>			
Packaged grocery products .....	1.0	0.9	4.8
Soft goods and textiles .....	0.5	—	12.0
Food and feed .....	0.1	0.3	2.5

# Chapter 14 - Advertising

## LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Identify advertising objectives.
2. Explain media selection.
3. Demonstrate media evaluation.
4. Construct a guide for the advertising program.
5. List and identify advertising agencies.
6. Explain when advertising is most effective.
7. Articulate how advertising communicates a message.
8. Give examples of banner advertisements.

One important method of stimulating demand and finding buyers is through advertising. Mass production requires mass distribution facilitated by mass advertising. The role of advertising in making our market economy work is expected to increase in significance yearly. Total advertising expenditures for the first half of 2007 decreased 0.4 percent, compared to the same period in 2006, to \$73.7 billion, according to data released today by TNS Media Intelligence (TNS MI) ([www.tnsmi.com/news/news/09112007.htm](http://www.tnsmi.com/news/news/09112007.htm)), the leading provider of strategic advertising and marketing information.

### Ad Spending by Media

Cable TV continued to be a strong sector, rising 15.3 percent to \$7.9 billion, due to higher unit rates, increases in commercial time and larger audiences. Internet display advertising advanced 9.4 percent to \$3.9 billion, again outpacing the total market. Other strong categories were Outdoor, with a 9.3 percent increase to \$1.6 billion; and Consumer Magazines, with a 9.1 percent increase to \$10.5 billion. By total dollar amount, Local Newspapers and Network TV led all media at \$12.2 billion and \$11.6 billion, respectively, during the first half.

Table 14-1 presents advertising spending by media.

**Table 14-1**  
**Advertising Spending by Media:**  
**First Half 2005 vs. First Half 2004<sup>1</sup>**

<b>MEDIA</b>	<b>Jan-June 2005 (Millions)</b>	<b>Jan-June 2004 (Millions)</b>	<b>% CHANG E</b>
NEWSPAPERS (LOCAL)	\$12,238.30	\$12,029.00	1.70%
NETWORK TV	\$11,692.80	\$11,214.10	4.30%
CONSUMER MAGAZINES	\$10,500.60	\$9,621.80	9.10%
CABLE TV <sup>2</sup>	\$7,935.80	\$6,881.50	15.30%
SPOT TV <sup>3</sup>	\$7,339.30	\$7,819.10	-6.10%
INTERNET <sup>4</sup>	\$3,961.80	\$3,621.90	9.40%
LOCAL RADIO <sup>5</sup>	\$3,589.90	\$3,537.30	1.50%
B-TO-B MAGAZINES	\$2,523.70	\$2,461.50	2.50%
SYNDICATION – NATIONAL	\$1,994.60	\$1,924.90	3.60%
HISPANIC MEDIA <sup>6</sup>	\$1,953.40	\$1,889.60	3.40%
OUTDOOR	\$1,693.90	\$1,550.10	9.30%
NATIONAL NEWSPAPERS	\$1,688.80	\$1,642.10	2.80%
NATIONAL SPOT RADIO	\$1,243.30	\$1,214.30	2.40%
FSI (Federal Sources, Inc.) <sup>7</sup>	\$778.70	\$744.20	4.60%
SUNDAY MAGAZINES	\$752.80	\$698.80	7.70%
NETWORK RADIO	\$486.90	\$503.60	-3.30%
LOCAL MAGAZINES	\$200.00	\$160.80	24.40%
<b>TOTAL<sup>8</sup></b>	<b>\$70,574.60</b>	<b>\$67,514.60</b>	<b>4.50%</b>

**Source: TNS Media Intelligence**

1. Figures are based on the TNS Media Intelligence Strategy multimedia ad expenditure database across all TNS MI measured media, including: Network TV; Spot TV; Cable TV; Syndication; Hispanic Network TV; Consumer Magazines (216 publications); Sunday Magazines (5 publications); Local Magazines (27 publications); Hispanic Magazines (23 publications); Business-to-Business Magazines (556 publications); Newspapers (local and national); Hispanic Newspapers; Network Radio; Spot Radio; Local Radio; Internet;



and Outdoor. Figures do not contain public service announcement (PSA) data.

2. Cable TV figures based on 44 networks.

3. Spot TV figures do not include Hispanic Spot TV data.

4. Internet figures do not include paid search advertising.

5. Local Radio includes expenditures for 34 markets in the U.S provided by Miller Kaplan.

6. Hispanic Media includes expenditures from Hispanic Network and Cable TV (Univision, Telemundo, Telefutura and Galavision); Hispanic Spot TV; Hispanic Magazines; and Hispanic Newspapers.

7. FSI data represents distribution costs only.

8. The sum of the individual media may differ from the total due to rounding.

## **Advertising Objectives**

Although marketing in total takes 50 percent or more of the consumer's dollar, advertising expenditures on the average represent only about 1.5 percent of corporate sales. Expenditures in some industries, as for example in the drug and soap industries are, of course, higher than in others.

**Advertising is not an exact science.** The volume of a firm's sales is the result of the interrelationship among many variables. How much of the sales results of any firm's marketing mix can be attributed to advertising is difficult to determine. Even more difficult is the measuring of the exact effect of any one advertisement.

**Some types of advertising objectives.** Advertising may be employed to aid in the accomplishment of the following major objectives:

1. Introducing new products.
2. Entering a new market area.
3. Obtaining dealer outlets.
4. Building a corporate image.
5. Increasing sales or share of market.
6. Supporting other selling efforts.
7. Reaching customers inaccessible to salespeople.
8. Educating consumers.

*Nature and scope of objectives.* The broad objectives just listed must be translated into *specific* goals if they are to form a basis for any kind of measurable results. Too many firms turn their advertising over to an agency with the comment, "promote the product." Unless it has specific ideas of what degree of market penetration is desired, how many outlets the firm wants to acquire, or exactly what it wants its customers to learn, an ad agency might be working toward an industry award rather than an advertiser's success.

*Objectives influence type of advertising.* Two basic types of advertising are products and institutional. In product advertising, the advertisers are informing or stimulating the market about their particular products. Product advertising may be (1) pioneering - primary-demand advertising to increase selectivity of demand for a particular brand, and (2) reminder advertising - to reinforce earlier promotion. Institutional advertising includes patronage, public relations, and public service

advertising which develops goodwill toward the firm or industry, increasing sales in the long run.

### **Media Selection**

An advertiser must first identify target markets and then attempt to determine what media will reach the target consumer. This is difficult because it is not certain just who will see or hear what. The *Life Study of Consumer Expenditures* and other types of market research develop profiles of consumer markets by sex, age, education, and so on. Various rating services can estimate the relative number of people watching a TV program, but they still cannot tell the advertiser who exactly the 29 percent of the viewing audience tuning in program X were or give any accurate description of their characteristics.

*“Cost per something,” as a guide.* Most media costs are expressed as cost per unit: newspaper by the unit, line, or page; magazines by the page; TV and radio by the minute; and billboards by traffic count. Which type or quantities of media advertising to use will again depend on the firm’s advertising objective, the amount of funds available, and the circulation of the media. In addition to the basic cost of each type of media, there is always the overall consideration of “How much is the cost per consumer reached?” Television advertisers in particular fret over this statistic.

**Media characteristics.** If a color photograph best illustrates an advertiser’s point, radio is less than an intelligent choice of media. Most media have certain characteristics that lend themselves to selective applications. TV inroads into radio audiences has seen radio shift from general to specialized programming. Country and western formats, nationality or religious images, or racial identity have made radio an increasingly specialized medium. Direct-mail advertising is perhaps the most specialized of all, although “occupant” may seem rather a broad introduction. Most consumers are on somebody’s *list* and many firms specialize in developing specific lists for advertisers.

### **Media Evaluation**

Table 14-2, there are definite inherent strengths and weaknesses associated with each medium. Extensive primary research would be required either by the sponsoring firm or their advertising agency in order to assess how a particular message and the target audience would relate to a particular medium. As a result, many advertisers rely heavily on the research findings provided by the medium, by their own experience, and by subjective appraisal.

**Table 14-2**  
**An Evaluation of Media**

<b>Type</b>	<b>Strengths</b>	<b>Weaknesses</b>
TELEVISION	<ol style="list-style-type: none"> <li>1. Strong emotional impact</li> <li>2. Mass coverage/small cost per impression</li> <li>3. Repeat message</li> <li>4. Creative flexibility</li> <li>5. Entertaining/prestigious</li> </ol>	<ol style="list-style-type: none"> <li>1. High costs</li> <li>2. High clutter (too many ads)</li> <li>3. Short-lived impression</li> <li>4. Programming quality</li> <li>5. Schedule inflexibility</li> </ol>
RADIO	<ol style="list-style-type: none"> <li>1. Provides immediacy</li> <li>2. Low cost per impression</li> <li>3. Highly flexible</li> </ol>	<ol style="list-style-type: none"> <li>1. Limited national coverage</li> <li>2. High clutter</li> <li>3. Less easily perceived during drive time</li> <li>4. Fleeting message</li> </ol>
NEWSPAPERS	<ol style="list-style-type: none"> <li>1. Flexibility</li> <li>2. Community prestige</li> <li>3. Market coverage</li> <li>4. Offer merchandising services</li> <li>5. Reader involvement</li> </ol>	<ol style="list-style-type: none"> <li>1. Short life</li> <li>2. Technical quality</li> <li>3. Clutter</li> <li>4. Timing flexibility</li> <li>5. Two-tiered rate structure</li> </ol>
MAGAZINES	<ol style="list-style-type: none"> <li>1. Highly segmented audiences</li> <li>2. High-profile audiences</li> <li>3. Reproduction qualities</li> <li>4. Prestigious</li> <li>5. Long life</li> <li>6. Extra services</li> </ol>	<ol style="list-style-type: none"> <li>1. Inflexible</li> <li>2. Narrow audiences</li> <li>3. Waste circulation</li> <li>4. High cost</li> </ol>
OUTDOOR/ TRANSIT	<ol style="list-style-type: none"> <li>1. Inexpensive</li> <li>2. Flexible</li> <li>3. Reminder</li> <li>4. Repetition</li> <li>5. Immediacy</li> </ol>	<ol style="list-style-type: none"> <li>1. Short/concise messages</li> <li>2. Negative reputation</li> <li>3. Uncontrollable</li> <li>4. Inflexible</li> </ol>
DIRECT MAIL	<ol style="list-style-type: none"> <li>1. Flexibility</li> <li>2. Develop complete/precise message</li> <li>3. Supplement</li> </ol>	<ol style="list-style-type: none"> <li>1. Negative image</li> <li>2. High cost per impression</li> <li>3. High production costs</li> <li>4. Dependent upon mailing list</li> </ol>
SPECIALTY ADVERTISING (Directories, matchbooks, calendars, etc.)	<ol style="list-style-type: none"> <li>1. Positive reinforcement</li> <li>2. Segmented markets</li> <li>3. Flexible</li> </ol>	<ol style="list-style-type: none"> <li>1. Wasteful</li> <li>2. Expensive</li> </ol>
INTERACTIVE	<ol style="list-style-type: none"> <li>1. Flexible</li> <li>2. Repetition</li> <li>3. Involvement</li> </ol>	<ol style="list-style-type: none"> <li>1. Hard to measure</li> <li>2. Limited market coverage</li> <li>3. Uncontrollable</li> </ol>

## **The Advertising Program**

Advertising appeals should be directed toward the buying motives of readers as determined by market research. The old adage that the nature of most consumer advertising should be primarily emotion, while the nature of most industrial advertising should be rational or economic, is extremely misleading. Current practice dictates that emotional and rational appeals are used for both classes of goods. With respect to many products, the effectiveness of the advertising depends more on the way the message is presented than on actual superiority of the product advertised.

**Testing the advertisement.** Some advertisers feel that attempts to identify the sales effectiveness of advertising takes too long, costs too much, and provides little or no information relative to current decisions. A noted retailer once stated: "Half of my investment in advertising is wasted. The trouble is, "I don't know which half." However, well-planned and well-conducted tests for brand recognition, recall, attitude, and reorder and other postchecks of advertisements do indicate effectiveness levels.

**Program atmosphere.** Advertising is most effective when the firm sponsoring the ad is managerially sound and sympathetic to advertising's objectives. The product itself should possess basic utility, in that it has the ability to satisfy consumers' needs, and also provide adequate emotional or economic features around which to build an advertising program.

## **Advertising Agencies**

The *Standard Directory of Advertising Agencies* lists some 4,000 national agencies in the United States. Most companies, even though they use an agency, will still have an advertising manager whose job is to see that the advertising campaign stays within the framework of the overall promotional and marketing objectives and mixes.

Advertising agencies are composed of groups of qualified specialists that bring a wide range of experience to each individual firm. They are usually given considerable freedom of action by the advertiser and provide a view from outside the firm. The services agencies render will depend on their size and nature of their accounts, but some common activities are: (1) planning the total advertising or promotional package; (2) creation and production of actual ad format; (3) placing the advertisements and evaluating effectiveness; and (4) providing market research and other complementary services. Some agencies become so closely allied with their clients that they inadvertently assume the role of the marketing function for the firm.

**Selecting an agency.** In any given year as many as 300 major companies, with half a billion dollars in agency fees, switch agencies. Many firms rely on their ad agencies for both policy and service advice. The trend is toward the ad agency becoming an all around *marketing specialist*. In choosing an agency, the advertiser will be influenced by success, reputation, market knowledge, client list, creative ability, and financial soundness. A close relationship between the agency and the firm must be developed and maintained. This is usually the function of the agency account executive

assigned to the firm. The average life expectancy of an account executive is under 50 years of age.

**Agency users.** Due to the rate structure of the advertising media, the major users of agencies are national distributors or manufacturers. Media usually have two prices - a higher rate for national and a lower rate for local advertisers, mostly retailers. The agencies get a discount only when the space or time is purchased at the national rate. Since national advertisers cannot personally qualify for discounts, they are happy to place their advertising through an agency that can do so.

The usual method of compensating agencies was through the media payments to them of a commission, generally 15 percent. This practice led to much dissatisfaction and many complaints by advertisers because it set up a conflict of interest between agency and advertiser, causing the agency to neglect low-cost media or promotional campaigns and to place limits on such important but uncompensated activities as advertising research. Furthermore, the agencies are compensated under this method without any regard for the quality of the work they do.

In 1956, through the efforts of the Federal Trade Commission, this system was amended, and the 15 percent commission became no longer mandatory. In that year the American Association of Advertising Agencies signed a consent decree jointly with the Justice Department indicating that they would no longer require the maintenance of the 15 percent commission figure. This has opened the way for other (often justified) larger discounts and fees, and alternative methods of compensation. It has tended to eliminate inefficient agencies and those whose representation was based on social contracts rather than professional service. Local advertisers usually pay a flat fee for agency services, since local media charge low rates and give no agency discounts.

Another development aimed at meeting some of the discontent with agencies is the effect the consumerism movement has had in prodding the Federal Trade Commission to look into deceptive practices of the agencies with greater zeal. Recent FTC rulings and action would indicate that the advertising agency might have to share the onus of false or misleading advertising with the advertiser and might be subject to costly penalties.

### **When Advertising is Most Effective**

Advertising works well when sellers wish to inform many people quickly about their products. It is used to convey information on such items as new store hours, credit policies, or a special sale. Some additional criteria to help decide the best conditions under which to employ advertising to increase demand are as follows.

**1. When the product is on the upswing.** When primary demand is increasing, advertising can push demand upward at a faster rate. Advertising cannot *create* demand that doesn't exist, or reverse declining primary demand.

**2. When product differentiation is desired.** Advertising is excellent for emphasizing product differences. The ability to stress unique features or advantages provides advertisers with ammunition for promotions.

**3. When there are hidden qualities.** Advertising is valuable in situations where product qualities are not readily obvious. How much horsepower in an engine, special inner springs in a bed or couch, and factors contributing to operating efficiency and durability are all features about which information may be given through advertising.

**4. When emotional motives dominate.** Advertising is very effective in appealing to emotional motives, especially those involving satisfaction of the senses, fear, pride, striving, or sociability. Image development or consumer identification can be established for store units, corporations, or individuals equally well as for specified products or product lines.

**5. When sufficient funds are available.** Advertising is expensive, and the availability of funds is a key determinant of its usage. Of promotional expenditures, approximately 35 percent goes for newspaper space, 35 percent for television, and 10 percent for radio. Magazines, direct mail, business papers, outdoor, banner advertisements and miscellaneous other forms round out total expenditures.

### **Advertising Communicates a Message**

**Getting the message.** Most advertising must use *general appeals* in communicating a *specific* message to a mass market. If parts of the message miss their target or are not complementary, their effectiveness is diminished. The consumer is constantly altering attitudes, tastes, and desires, and advertising must attempt to communicate with this amorphous mass. If a message is too sophisticated or too stupid, the public ignores it. Successful advertisements or commercials are readily copied by competitors, much as products are, and the challenge to creativity is great. The idea appears to be “If you can’t beat your competition, at least meet or copy them.”

**Preparing the message - AIDA.** In terms of specific objectives, a good advertisement should secure *Attention*; arouse *Interest*; create *Desire*; and invite *Action*. This is often referred to as the AIDA technique, and it provides a simple checklist of characteristics.

*Attention.* If the prospect’s attention is not captured, the advertisement will never have an opportunity to do its work. Devices for catching attention are many. Headlines, pictures of pretty women (often the viewer remembers the woman but not the product), size of the ad, color, and numerous other eye-catching devices may secure attention. However, the device used must lead into the next phase of AIDA.

*Interest.* The advertiser employs various techniques to arouse interest in the advertisement. Borders are used to fence in vision, and color and physical arrangement guide the eye toward the objective. Interest is stimulated by timeliness of the basic

theme. Seasonality, current events, or local color add to interest development. Finally, the quality of the information presented will be adapted to the cultural level of socioeconomic identification of the consumer.

*Desire.* Desire is the intensification and amplification of interest. Confidence and belief are required if the target customer is to move on to action. The customer must be convinced that the product meets individual needs, and the ad should supply some words that the consumer can use for rationalizing the purchase decision. Purchases may be emotionally, morally, or economically justifiable to the consumer.

*Action.* Getting action with advertising is difficult due to its “shotgun” approach. Personal selling is one-to-one rifle approach, and it is easier to close or get action with it than with advertising. Research seems to indicate that consumers often read more advertising after the purchase than before. Have you ever noticed once you buy a visible product like a car or the latest style jeans how many others have the same kind? This would suggest that horizontal and vertical opinion leadership could be heavily influenced by advertising appeals emphasizing factors that can be easily related and passed on by word of mouth.

### **Banner Advertisements**

Before leaving the topic of advertising, both creative and media, it is important to introduce a new form of advertising—*banner advertising*. Banner ads are one popular form of online advertising. Banner ads are graphic images in Web pages that are often animated and can include small pieces of software code to allow further interaction. Most importantly, they are “clickable,” and take a viewer to another Web location when chosen. Banner display ads were made up 21 percent of entire Internet revenues in 2006 according to the Interactive Advertising Bureau ([www.iab.net](http://www.iab.net)).

Banner ads typically run at the top and bottom of the page, but they can be incorporated anywhere. The CASIE organization ([www.casieonline.org](http://www.casieonline.org)) has developed a small number of standard sizes and formats. Like the Web itself, banner ads are a mixture of approaches, with elements of traditional print advertising and more targeted direct advertising. Banner ads include direct marketing capabilities. Each banner carries with it a unique identifier. This allows the Web site to track the effectiveness of the ad in generating traffic. Measurability permits ad banner pricing based on results and behavior. Click-through pricing ignores impressions and charges the advertiser based on the number of viewers that select the ad and follow it to the linking Web site.

Admittedly, the performance of banner ads to date has been less than stellar. One company, San Francisco-based Organic, has approached the problem of ineffective online advertising with a product called “expand-o.” This new ad vehicle allows an advertiser to include some of its Web site’s content in an expandable banner ad. At the click of a mouse, the advertisement expands to as much as five or six times its original size. For instance, an expand-o for Fort Washington, PA-based CDNow provides consumers with a sample of dynamically updated content housed on the music retailer’s

site. When the consumer clicks an arrow on the ad, it expands to show the top 10 songs in CDNow's top 100 Billboard Chart.

### **Playing the Search-Engine Game**

More and more companies doing business online find that the best way to reach prospective customers is through their Web searches. After all, most customers looking to make a purchase online start with a keyword search. Results like that are fueling rapid growth in the industry. Spending on paid listings, paid inclusion, and search engine optimization—the three forms of search-related marketing—more than quadrupled in the U.S. from \$419 million in 2001 to \$2 billion in year 2005. Globally, such spending is expected to grow sixfold to over \$8 billion a year by 2007 from 1.4 billion in 2003.

*Paid listings*—The hottest category in search marketing is paid listings—short text advertisements, with links to the advertiser's site, that appear on the pages that display the results of an Internet search. Marketers refer to these ads as pay for placement, pay for performance, pay per click or cost per click—terms that reflect how the system works for advertisers.

*Paid inclusion*—Paid listings can be pricey, particularly for companies whose product lines are so complex and fluid that they would have to buy listings for a multitude of keywords and continually buy new ones to cover their inventory. For these companies especially, an alternative, paid inclusion, can be an effective way to increase visibility on the Web. In paid inclusion, a company pays a search engine for the right to submit the entire content of its Web site, or selected pages, directly to the search engine's database.

*Search-engine optimization*—This term is defined as the act of altering a company's Web site so that it may rank well for particular terms' used in Web searches. The idea is to get the company's site to the top of the results of a Web search, or at least on the first page of the results. One relatively easy change to make is to use simple terms or words that everyone would understand to describe your products—and therefore be more likely to use in a search—instead of industry jargon.

### **ONLINE AD REVENUES IN U.S. SET RECORD**

Internet advertising revenues in the United States grew 37 percent in the first half of 2006, reaching a new high of \$7.9 billion. Keyword ads displayed alongside search results remain the most lucrative format, accounting for 40 percent of revenues from January to June. Banner display ads made up 21 percent and classified ads 20 percent. Revenues are on target for a fourth consecutive year of growth - and the third of setting records. Despite the growth, Internet advertising accounts for only about 5 percent of all U.S. advertising revenues.



# Chapter 15 - Personal Selling and Sales Promotion

## LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Explain the selling function.
2. Develop a plan for compensation.
3. Demonstrate the use of personal selling effectively.
4. Assess a salesperson's performance.
5. Evaluate the overall personal selling effort
6. Characterize the nature of special sales promotion.
7. Illustrate the bridge between personal selling and advertising.
8. Identify sales promotions that are most effective.

Personal selling and sales promotion are important elements of the marketing mix which must be blended with each other and with mass selling to accomplish the firm's marketing objectives.

Personal selling is the most effective means of communicating with the consumer because it involves a direct, face-to-face relationship. Our economy relies heavily on the salesperson to make it function, with more than 10 percent of the labor force engaged in personal selling. Personal selling offers a wide range of job opportunities, and often a student's first job after college will be as a member of some firm's sales force.

Sales promotion consists of the many special-purpose activities, some nonrecurring, which supplement the direct selling efforts.

### The Selling Function

Personal selling is the oldest and most flexible method of selling. It usually involves a direct, personal contact with the buyer. It includes (1) across-the-counter selling, (2) house-to-house selling, (3) selling by manufacturers' and wholesalers' salespeople who call upon retailers, and (4) the selling done by technically trained specialists who call upon industrial buyers and help them fit the products to their requirements. There are also many other specialty types, such as missionary salespeople, whose role is to introduce new products, set up attractive displays, and stimulate retailers to emphasize the firm's particular brand or line.

**Satisfying needs.** The day of the salesperson that conforms to the common stereotype - the back-slapping, high-pressure con artist - is pretty well a thing of the past.

Today's salesperson is seen as a trained, semiprofessional specialist who helps buyers make meaningful decisions that will serve their needs. Intelligent, successful salespeople are interested in more than the immediate, one-time sale. They realize that many sales accounts are lost after the initial contact due to failure to develop further satisfactions beyond those that generated the original decision to buy. As a vital link in the business communication system, the salesperson not only presents the advertising message to the prospective buyer, but in turn communicates the buyer's response back to the firm.

**Principles of effective selling.** Long experience has shown that there are seven steps most frequently found to be involved in effective selling: (1) adequate presale preparation, (2) locating or prospecting for buyers, (3) approaching prospects, (4) presenting and proving selling points, (5) answering questions and objections, (6) closing the sale, and (7) follow-up or postsale activities. Of these we will discuss the four most basic steps.

1. *Adequate preparation*, not only in knowing the salesperson's own product, but also knowing the buyer's needs and industry requirements.
2. *Locating prospects* requires knowledge of the territory or region usually assigned by the salesperson's firm. List of manufacturer's, Chamber of Commerce membership, local advertising media, and various trade journals provide leads that then must be cultivated and developed into sales.
3. *Closing the sale* includes understanding and overcoming a buyer's objections. Recognizing excuses versus objections, spotting buying signals, and being able to deftly get the customer's viewpoint, then probing for the difficulty, counterattacking, and making the sale are the heart of personal selling.
4. *Follow-up* is the building of goodwill after the initial sale or contact. Often even a phone call when the salesperson is in the area will maintain the sales contact and promote future sales.

**Order getting versus order taking.** Order-getting salespeople are numerically in the minority. This type of selling requires an aggressive effort to find potential buyers through the application of our previously mentioned, "principles of effective selling." These principles must then be woven within the framework of a well-organized sales presentation. The number of actual closings may be few in relation to attempts, and these types of salespeople must have complete confidence in their ability to ultimately succeed.

Order takers are a large group of salespeople, often with a "route" consisting of regular accounts that they tend to service, rather than sell in the creative sense. They are usually much closer to the buyer's operation and often aid in stocking and marketing decisions. Order taking is not intended to be a derogatory classification, as these types of services comprise most of the personal selling activities needed to service customers. Many effective order-taking salespeople use creative techniques to further their firm's marketing efforts.

Actually, sales tasks involve a blend of order taking and order getting complemented by yet a third function called support, added for good measure. Every sales job involves some missionary type of action, so the sales objective will determine what combination is most effective.

### **Compensation**

Three basic methods of sales compensation are : (1) straight salary, (2) straight commission, or (3) a combination of the first two. Most firms use some form of the salary-commission combination as an incentive to increase sales efforts. When a straight commission plan is used, salespeople usually have a drawing account to aid in leveling out fluctuations from month to month. While a straight salary plan permits maximum supervision, it may weaken incentive. Too complicated a salary-commission or incentive plan may lead to accounting costs that offset increases in sales. Additional incentives might also include prizes and sales contests.

In many companies, depending on the size of the sales organization, personal selling may be the largest single operating expense. Many retail firms have abandoned personal selling efforts due to the inability to attract the caliber of people they felt they needed to make personal selling effective.

Personal selling can be a major instrument of marketing strategy. It represents a selective technique culminating in a face-to-face communication as opposed to the mass communication of advertising. However, like most specific techniques, there are situations where personal selling is especially influential and effective and is particularly well suited to serve a firm's promotional needs.

### **Using Personal Selling Effectively**

Personal selling is particularly applicable when a seller has a concentrated or specialized market segment. Textbook and drug salespeople that call on specialized professional groups are two examples. Also, a firm may use personal selling, and a sales commission compensation plan, when it lacks the necessary funds to finance a mass advertising campaign.

The direct personal approach is highly effective in performing certain promotional tasks, where the following situations and needs exist.

**1. Creating confidence.** An effective sales presentation, or handling of inquiries, can provide a high level of consumer confidence difficult to obtain by any other means of promotion. An entire firm or retail store may acquire a "bad name" in a consumer's eyes on the basis of a single negative personal selling experience.

**2. Demonstration.** Personal selling is nearly mandatory when a product requires some form of demonstration. Foldout sleeper couches, new appliances, or products unfamiliar to the consumer; most office equipment; and machinery in general require varying amounts of personal selling.

**3. Infrequent purchase.** Certain products, though they may be familiar to the consuming public, are often infrequently purchased and use personal selling as an “extra touch” of uniqueness. Automobile sales actually require very little demonstration, yet personal selling plays a large role in their sale. Some appliances, TV sets, and home furnishings also fall into this personal selling category.

**4. High unit value.** Personal selling is usually available when the unit price is high enough to warrant special attention (autos, TVs, and furniture again), or in the situation where pilferage is a problem. Jewelry, cameras, and watches not only present security problems, but also fall into high unit value and demonstration categories.

**5. Goods tailored to needs.** Certain machinery, clothing, shoes, and other goods that must be adjusted to consumer specifications will require varying degrees of personal selling. Due to personnel cost, and in some instances availability, the trend is to reduce personal selling to the minimum.

**6. Trade-ins.** Obviously, if trade-ins are accepted, an evaluation by a salesperson is necessary. However, many trade-ins are no more than perfunctory discounts and require little personal appraisal.

### **Assessing a Salesperson’s Performance**

The efforts of the individual salesperson can be analyzed and evaluated in two ways - quantitatively and qualitatively. In a *quantitative* evaluation a salesperson’s input can be measured against output. Calls per day, days worked, direct selling expense, and customer service activities can be compared with individual sales volume by customer and customer group. Some common standards for comparison include sales quotas, gross margins, the number of orders, and generation of new accounts.

*Qualitatively*, salespeople may be judged on how much they know about the competition versus their own company and its products and policies. Other qualitative measures may include efficiency in the allocation of time and effort, rapport with customers, personal appearance and habits, and overall personality and attitude.

### **Evaluating the Overall Personal Selling Effort**

As when it makes most decisions, the firm must decide what share of its resources to allocate to personal selling. Our marginal approach would say continue to spend until the marginal revenue received is equal to the marginal cost of the personal selling effort. However, since in personal selling salespeople report information back to the firm sporadically, and the firm is not in constant contact with the sales force, it is impossible to determine the incremental effect by a marginal approach. This does not imply that two-way communication and sales follow-up procedures are unimportant. They are extremely relevant and generate most of the information required for sales decisions.

The computer has made possible, at increased expense levels, the construction of total marketing-sales information systems. Each salesperson in each region uses the

telephone to access the regional computer for a daily sales report. Each evening the regional computers print out a copy for local use and pass the information on to the central office computer. On any morning the vice president of sales has a complete record of all units of all colors, size, and price sold the previous day. Better information is the foundation of better marketing decisions.

Perhaps a more pragmatic approach is to decide on the number of buyers a firm wants to reach, the objective of the sales calls, and the frequency and the time required for each call. The cost of this total effort is then weighed against probable market response. Response might be influenced by factors such as attitude change or better relations, in addition to immediate sales.

**Cutting the cake.** After the total is determined, a second decision is how to allocate the personal selling expenditure. Geographic distribution by territory, assignment to specific customers and/or products, and the intensity of coverage all must be determined. Most firms find a formula by trial-and-error allocations. Territorial market-potential data provide some criteria for allocation, though each firm's specific marketing objectives should be reflected in the final decision.

**Limitations.** Personal selling is probably superior to advertising in its ability to cause changes in consumer behavior. However, if it has a major limitation, it is high cost.

Developing and operating a sales force is expensive and requires a high level of expertise. Personal selling efforts are also hampered by the inability to get the caliber of salespeople desired.

Special sales promotion consists of those marketing activities, other than advertising, publicity, and personal selling, that stimulate customer purchasing and dealer effectiveness. These activities include displays, shows and exhibitions, demonstrations, contests, free goods, premiums, and various nonrecurrent selling efforts not routinely used.

### **Nature of Special Sales Promotion**

Special sales promotion should complement and reinforce advertising and personal selling. In contrast with personal selling, which is usually aimed at individual consumers, special sales promotion is generally directed toward groups of individuals. Similarly, where advertising aims at masses of consumers, this type of sales promotion focuses on comparatively small and well-defined groups such as salespeople, marketing intermediaries, retailers, or other such recognizable groupings. One example would be the airlines' promotions of special fares for families, youth, over-the-weekend travelers, and the elderly. About 75 percent of the sales promotional activities of manufacturers is directed toward middlemen and ultimate consumers. An exception to this group approach is point-of-sale promotions.

**Consumer promotions.** Increased use of self-service, automatic vending, and other sales methods where salespeople are not used, points up the need for sales

promotion. A consumer-oriented sales promotion effort might include both those activities intended to educate or inform consumers and those intended to stimulate them to buy. Usual consumer techniques include distribution of samples, coupons offering discounts, varying types of contests, and product demonstrations. These are mostly “pre-sell” methods that attempt to offset point-of-purchase promotions used by competitors.

*Point-of-purchase* promos have the advantage of being available just when the consumer is making a buying decision. If the type of product is already on a shopping list, then sales promos may influence the choice of brand.

**Dealer and distributor promotions.** Trade promotions include such services as conducting training programs for middlemen’s salespeople, giving management advice, and the installation of displays. In addition, many thousands of dollars are awarded by manufacturers to their distributors and retailers as prizes for sales contests. Also, display, advertising, and buying allowances are common promotional procedures.

### **A Bridge Between Personal Selling and Advertising**

Almost everything done by the sales promotion people could be performed by the sales or advertising departments. However, sales promotion activities are often varied and irregular, and specialists tend to emerge. Sales promotion personnel design and arrange for distribution of point-of-purchase materials, prepare premium offers, make trade show arrangements, and in various ways complement other promotional efforts. Sales promotion specialists may also do missionary selling and aid in market research survey work. This position of sales promotion activities within the firm is often unclear, and the effort on sales is difficult to evaluate. These indirect services serve to “fill the gap” between advertising and the arrival of personal salespeople or consumers at the point of sale. Actual percentages allocated to sales promotion activities would probably, in most cases, be no more than 10 percent of total promotional expenditures.

### **When is Sales Promotion Most Effective?**

Sales promotion should be stressed when the product has important qualities that can be judged at the point of purchase or when the product is a highly standardized item. Also, sales of a product with a limited market that makes advertising impractical may be stimulated through dealer promotions. Sales promotion is also effective in stimulating the sales of impulse goods that are normally located near checkout counters.

Another time when sales promotion is most important is when the retailer is better known than the manufacturer. In this situation the manufacturer will willingly supply point-of-purchase materials to support the sales effort.

Perhaps the most important point to keep in mind about sales promotion, advertising, or personal selling is that each has features that serve a profitable function in the development of profitable promotional strategy.

# Chapter 16 - Sales Force Management

## LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Manage the sales force.
2. Conduct sales meetings.
3. Improve and conduct better meetings.
4. Compute straight commission.
5. Formulate salary only compensation packages.
6. Develop a salary plus commission package.
7. Describe incentives.
8. Explain compensation for profitability.

## Managing the Sales Force

A bright, hard-working salesperson is promoted to a sales management position. However, the management team still views the new manager as “the best problem solver we have” and continues to call on that person for personal customer services. Thus, the new manager’s energies are divided between selling and managing.

The above situation often occurs because the person has been promoted to management on the basis of excellence in personal selling. The Peter Principle of people “rising to their level of incompetence” can occur in these situations. Most people like to have an “ace in the hole,” and a very successful former salesperson may be reluctant to give up the selling function. Giving up the sales push may be like giving up smoking. Old habits can be difficult to break.

Failure to delegate sales responsibility and the temptation to “go to the rescue of subordinates” are two potential trouble spots for new sales managers. Value conflicts also may arise when a salesperson from one decade (the old school) is promoted to a management position and must supervise the new breed of salespeople whose values and style may differ greatly. At times it may be hard to maintain a “results orientation” approach and not try to pressure salespeople to “do it my way.”

**Avoidance techniques.** Some basic ideas for moving the successful field person into management include:

1. Encourage new managers to discontinue direct communications with former accounts. Delegation of former duties and working through or with the new salesperson is preferable.

2. In training new salespeople, don't interrupt the new persons' presentations unless they are totally inaccurate or misleading. Correct and instruct before and after the sales presentation.
3. Senior marketing managers should avoid pressuring first-line managers to "step-in" when an important account needs more effort. If necessary, working together with the field person to build ability is more productive.
4. Check with the field person *before* "stepping-in" or contacting the account. Bypassing the field person can harm both the individual and the account.
5. The sales manager can also turn out to be the problem and hinder sales by (a) holding necessary sales meetings or rap sessions when people could be in the field, (b) requiring unneeded correspondence or perfection in sales reports, and (c) traveling unproductively with individual salespeople. Efforts placed on continual feedback on performance and reinforcement of positive factors will usually result in increased productivity by the sales force.

### **Sales Meetings**

This decade will likely see the revitalization of downtown hotel locations and sales meeting sites. Examples are the Hyatt Regency in Dallas, Chicago, Atlanta, Houston, and Louisville; Loew's Anatole Dallas; the Chicago Marriott and converted Radisson Chicago (previously Sheraton); renovation of the Los Angeles Biltmore and the New Otani; restoration of Philadelphia's Bellevue Stratford reborn as the Philadelphia Fairmont and the new Canadian Pacific's first U.S. hotel in Franklin Plaza; the Detroit Plaza in Renaissance Center and a rebirth of the old Cadillac Hotel by Radisson; Four Seasons remodeling in San Francisco and the Georgetown section of Washington, D.C., where a new Sheraton Park replaces the old. With the surge in new hotel facilities in nearly all major cities, meeting planners are looking ahead to center city glitter.

### **Conducting Better Meetings**

Training programs for new sales managers probably should include techniques for building better meetings. The sales meeting can be an important development tool and a problem solver. Most sales managers search for long-term motivational programs which are not money oriented. A primary tool is the sales meeting that is informative and educational and includes an awards-recognition feature. A number of companies include techniques for conducting better meetings in their curricula for training newly appointed sales managers. Some guidelines include:

**Setting goals and/or objectives.** The single most important factor in the success of any type of meeting is the degree of preparation by both those in charge and those attending. The absence of a theme or purpose results in a meaningless waste of resources.



**Routinization.** Permanently scheduled meetings, “every Monday morning at 9:15,” usually result in a boring waste of time and negative motivation. Contrary to some beliefs, meetings are *not* necessarily their own reward.

**Meeting human needs.** Structuring the content of meetings to reflect the needs of the participants can range from presenting technical/ professional information to giving individual recognition. Letters of recognition, small awards, or suitably engraved or framed certificates to be hung on the wall are some nonmonetary motivators. Entertainment of sales reps by the sales manager and spouse, at home or on the town, is another positive social reward. Social treatment may generate results not obtainable by any other approach. The days of “do good work and the prize is you keep your job” may be short-lived.

**Communicating.** Dialogue that involves the entire group is often more productive than a single speaker. The moderator approach to leading meetings, sprinkled with relevant visuals or exercises, provides a framework for a maximum learning experience. Presenting too many topics, not fully developed, results in confusion and misunderstanding. The need for prior planning and preparation is again evident.

**Follow-up evaluation.** Review of items presented at previous meetings or formalized written follow-up of major ideas aid in developing program validity. An actual evaluation of each meeting, of speakers and /or content, also supplies input for planning and organizing future meetings.

Sales meetings have the potential to fill a large range of human needs and to operate as long-term motivators. Typically, sales meetings attempt to unite the sales force into a friendly, cooperative team of professionals. Skillful use of meetings by sales managers can minimize cost, reduce sales expense, and increase productivity, all of which should result in increased levels of profit.

What are the advantages of compensating a sales force by straight salary, salary plus commission or bonus, or by commission only?

### **Straight Commission**

If nothing else, this method is easy to understand. A given dollar amount of sales results in a given percentage of those sales as earnings. Regardless of fluctuations in sales volume, management always knows its fixed selling expense. This technique places no restrictions on high achievers.

Variations on this theme include: (1) increased percentages for higher levels of volume (15 percent up to \$25,000, 20 percent on all sales over \$75,000) which encourages continued effort and punishes the lower achiever, and (2) negative commission increases where a salesperson receives 25 percent on the first \$75,000, 15 percent on the next \$25,000 in sales, and 5 percent on sales exceeding \$100,000. This technique limits high achievers’ earnings and may encourage field sales force members to look toward management careers to increase salaries. Firms often lose good salespeople

when they restrict their earnings by this technique and by continually reducing territories. Most commonly, management will do this to prevent salespeople from earning more than the sales manager or other nonselling members of management.

Salespeople working on straight commission often pay all their own expenses and are required to perform very few “non-selling” duties. Under a straight commission plan all selling costs are variable costs. This can benefit firms with limited working capital since the cost of marketing is “after the sale.”

The lack of loyalty to the firm, the use of high-pressure techniques, and a highly independent attitude often cause firms to avoid the straight commission approach.

### **Salary Only**

Security, stability, and ease of administration highlights this technique. When patience, education of the customer, or delivery are prerequisites of volume, then this approach is widely used. Straight salary gives management a high degree of control over the sales force and the ability to generate market data. However, only about 20 percent of firms currently utilize this form of compensation.

The inherent weakness of straight salary plans lay not in the technique, but in how it is administered. Over time, the “good ole boys” whether still producing or not, tend to receive the highest salaries while newer high achievers are paid poorly by comparison and soon depart for better opportunities.

### **Salary plus Commission**

Advocates of this format claim it contains all the advantages of both and none of the individual disadvantages. However, unless the mix between salary and commission is balanced, one could generate the horrors of both systems. Also, this type of compensation is more time consuming and costly to administer. In some firms it may reflect the weakness of the sales manager who wants to avoid judging individual sales performance.

**Expense accounts.** Most firms have a rule-of-thumb as a monitor of sales expenses. For instance, selling expenses could be a certain percentage of sales and be acceptable. Recent data would suggest that normal “on the road” expenses for a salesperson would range from \$350 to \$450 a week. The types of service expected by customers (which may be the best standard) has not changed much over the years, but the price of those expectations has increased. The expense account should never be used as a “bonus item” or form of compensation.

Older persons, previously retired from sales jobs, may be returning to the sales field as more firms seek maturity and experience. One firm has a “Sizzling Sixties Club” with nearly 400 sales force members. The group enjoys special meetings, awards, and other recognition.

### **Incentives**

Many sales managers equate money with motivation. However, this notion may be basically incorrect. Money, fringe benefits, and work conditions - if not adequate or competitive - can result in *movement* to a situation where the salesperson feels these external factors are satisfactory. However, once basic security and safety needs are met, these factors no longer provide motivation, they merely reduce movement.

Motivation occurs by satisfaction of the individual's internal psychological needs of achievement, recognition, responsibility, challenge, and personal growth. Any successful sales motivation program must include mechanisms that establish ongoing opportunities for individuals to gain self-esteem and respect for their efforts. If one cannot achieve these internal psychological needs on the job, then they may seek them through other activities. Union involvement or active participation in social or civic organizations may satisfy needs not met by the work environment. This type of "outside individual commitment" can be counter-productive to the objectives of the employer and eventually results in forced or voluntary employee turnover.

### **Compensating for Profitability**

Typical forms of sales compensation often use a formula or a percentage of dollar volume to arrive at a level of sales commissions. This percentage approach fails to consider the prime ingredient in the selling effort, which is profitability.

A sales analysis system developed by IBM shows that "our largest customer is costing us money" and that "our hot-shot salesperson is really not making a contribution to profit."

Firms using sales analysis techniques have moved from compensation formulas based on dollar volume to payment on the basis of profitability. Sales to large volume customers may not be generating as great a contribution to profit as are smaller unit sales. However, the lower unit sales often require more sales effort than maintenance of large volume users.

This system emphasizes the profit motive in decision making and offers an opportunity for a sales manager to recognize and reward individual achievement. This, in turn, results in higher earning for all concerned.

# Chapter 17 - Retailing

## LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Discuss the nature of retailing.
2. Conduct house-to-house, mail-order, and vending sales programs.
3. Illustrate single-line or limited-line stores.
4. Give examples and discuss multi-line stores.
5. List and compare chain stores.
6. Demonstrate and give examples of shopping centers.
7. Compare discounters and mass merchandisers.
8. Describe special ownership retailers.
9. Predict retailing trends.

*Retailers* are all stores and other business units that engage primarily in direct selling to the consumer. Retailing can be best defined as, “*all activities* incident to selling goods and services to *ultimate* consumers.” The activities performed consist of buying an assortment of goods, making the goods available to segments of the market at the proper time and place, and advertising, promoting, and selling these goods to customers. The term *merchandising* is often used to describe these activities. Retailing is the final link in the chain of distribution of most products.

## Nature of Retailing

The relative strength of retail chain, multiple-unit operations continues to grow. Over 25 percent of all retail sales are accounted for by retail chains with over 100 units. Multiunit chains, as an organizational type, comprise only 15 percent of retail establishments but accounts for approximately half of all retail sales and retail payrolls. The trend toward mass marketing and “scrambled merchandising,” has eliminated many inefficient small retailers, while conversely providing the basis for specialty retailing emphasizing combinations of convenience, service or individual needs.

Though retailers engage primarily in “retail” sales, they often sell part of their goods wholesale. Food stores sell to restaurants, hardware stores to builders, and auto parts dealers to mechanics. Also, we find wholesalers acting as retailers, though not as their primary activity. The following methods of classification are possible, beginning with the oldest.

## House-to-house, Mail-order, and Vending

**House-to-house selling.** Avon is a prime example. The usual technique is for several salespeople to canvas designated areas. “Party plans” in which neighborhood hostesses invite friends in to sample a product are popular, as they bring individuals

together in groups, and sales often exceed what could be sold on an individual basis. In-home selling only accounts for about 1 percent of total retail sales.

**Mail-order selling.** Sears, J.C. Penney, and Montgomery Ward account for about 26 percent of the \$20 billion plus in mail-order sales. Among industries, ready-to-wear clothing is the mail-order leader followed by insurance, magazine subscriptions, and books.

Some advantages of mail-order selling include:

1. Lower labor cost per dollar of sales.
2. Low-cost locations.
3. Minimal inventories.
4. No elaborate store fixtures.
5. Coverage of large geographic areas.
6. Lower prices due to decreased costs.
7. Consumer convenience.
8. Increased volume without increased size.
9. Quantity buying power.

Some disadvantages are:

1. Consumers must plan ahead. Since orders are not immediately filled, a consumer must often decide in summer what will be needed in winter.
2. Lack of flexibility. The catalog house is fairly restricted to standardized items due to the need to prepare catalogs far in advance of use.
3. Fashion merchandise. This type of merchandise is rarely included due to the risk of change between catalog preparation and use.
4. Specialty and shopping goods are the main items sold. Since convenience goods are purchased regularly they do not lend themselves to catalog buying.
5. Inability to examine merchandise before purchase.
6. Lack of communication.
7. Delays in delivery.

Poor roads, lack of transportation, inadequate local stores, and other factors that originally made mail-order selling popular have all but disappeared. Traffic congestion, inadequate parking, urban violence, pollution, and the energy crisis could generate a new emphasis on mail-order shopping.

**Teleshopping and home shopping.** Mail-order is now being electronically determined. Cable television and home shopping is used by many TV owners. Nonstore

selling is available through visual scanning of pictures of items. A consumer will enter a product code number into a home computer console along with quantity desired and the credit/charge card number. Availability of the product, date of delivery, and credit check is completed in seconds and printed out for the consumer's information. Many staple items will be sold on a repeat basis since there is a growing demand by consumers for a more efficient system for the acquisition of staple merchandise. Confidence in product quality, aided by legislation of the Magnuson-Moss variety, is now making personal inspection prior to purchase less necessary.

**Automatic vending.** Like the two previous retailing classifications, vending represents only a small portion of retail sales, about 1.5 percent. Products sold through vending machines have low unit values and low markups, and are usually expensive to sell in retail stores. Service vending machines makes operating costs high, and prices of the products sold are often higher than prices of comparable retail store items. Sixteen percent of all cigarettes, 20 percent of the candy bars, and 25 percent of all bottled soft drinks are sold by automatic vending. Only about 7 percent of vending-machine sales come from nonfood items. The most productive locations for machines are plants and factories, public locations, educational institutions, government and military installations, and health facilities.

### **Single-line or Limited-line Stores**

The limited-line store is one securing the bulk of its sales from one broad line of merchandise such as food or dry goods. Limited-line stores are operating in books, bakery goods, stationery, jewelry, and tobacco. The main advantage of a limited-line store is that it can adjust its marketing mix to better fit its consumers' needs. One of the most important limited-line stores is the supermarket, which accounts for 80 percent of foods sales. The current trend is for limited-line stores to add supplementary product lines.

**Specialty shops.** This type of limited-line store is usually small and has a distinct personality. It has a selective, well-defined target market, with a unique product assortment and personal service. Most new boutiques would fall into the specialty shop classification. Specialty shops have become more stylized, like ski equipment, sportswear and disco apparel, the decor and "theme" often are highly personalized. Many department stores, recognizing the threat implicit in this trend, are moving away from the open-space effect and renovating to create a "specialty shop" atmosphere.

### **Multiline Stores**

This type of store is typified by the handling of a wide variety of merchandise lines, often in unrelated fields. Three major multiline type stores are the following.

**Rural general stores.** The old country general store has diminished in importance for most of the same reasons that mail-order selling has become less important. Today, only about 15,000 such stores still remain throughout the United States.

**Variety stores.** There are some 21,000 variety stores that seemingly specialize in carrying as unrelated a number of product lines as possible. Among the largest stores are Walmart, Target, and K-Mart. This type of store requires high-volume pedestrian or auto traffic, and depends a great deal on impulse buying for its sales volume. Usually merchandise is marked with odd prices, like 13 cents, 23 cents or 47 cents to give the illusion of a bargain. The trend in variety stores is the addition of shopping lines such as kitchen appliances, radios, and luggage, to assume a discount store image.

**Department stores.** Department stores are those handling a wide variety of goods. They are divided into departments, each of which may resemble a limited-line store in its offerings and operation. Originally located in downtown areas, they have spread branches to suburban areas that now account for 80 percent of total department store sales. They are for the most part large stores with average annual sales in excess of \$1 million. Multiple units of increasingly larger stores tend to dominate this retail area. Although department stores represent only a fraction of 1 percent of total retail stores in numbers, in volume they account for over 10 percent of retail sales.

The *Census of Business* states that a department store must be a general merchandise store with 25 or more employees. The product assortment must include some items in dry goods and household linens; family wearing apparel; home furnishings, furniture, radios, TVs, and appliances. If sales are less than \$5 million, no more than 80 percent of sales can be from any single category. When sales exceed \$5 million annually, there are no restrictions on individual categories.

Over half the 4,000 department stores in the United States are located in cities with a population of under 100,000. Nearly half the sales are in women's, men's, and children's apparel, and accessory lines. Another one fourth is in furniture and household items. The department store's base is its customer services, and its greatest advantage over other types of stores is its financial ability to hire expensive professional management.

### **Chain Stores**

Independent stores once represented the largest segment of retail trade both in number of stores and total sales. This pattern is changing and chain stores now account for nearly half of retail sales with only about 16 percent of total retail outlets. Large chain organizations of 100 units or more represent only 5 percent of all stores but do 25 percent of all retail business.

**Characteristics of chains.** Standardized store fronts, layout, and operating policies provide identification and efficiency. Most buying is centralized in a buying division where each buyer is an expert. Customer services are minimized and there is usually joint advertising for all units.

**Types of chains.** In addition to corporate chains, certain independent units have formed cooperative relationships to take advantage of large-scale economies. These types of units are:

1. *Cooperative* chains - groups of independent retailers banded together to establish their own wholesaling organization. This wholesaling unit then acts like a central corporate organization.
2. *Voluntary* chains - these differ from cooperative units in that the wholesaler sponsors the chain relationship through agreements with independent retailers.
3. *Franchise operations* - similar to voluntary chains in that units are set up by a common wholesaler with a specialized marketing strategy. Colonel Sanders' Kentucky Fried Chicken (KFC), and hundreds of others represent this cooperative style.

**Advantages of chain types of organization.** Many retailers in voluntary, cooperative, or franchise structures still view the major advantage of chain affiliation as the ability to buy in large quantities. The corporate chain, however, knows that the real advantage to chain organization is in its superior management personnel and management practices. Independent retailers tend to reject outside advice and often make little use of suggestions concerning accounting, advertising, display, personnel policies, or other available association aids.

### **Shopping Centers**

Shopping centers planned and developed to facilitate one-stop shopping are a contemporary effort to follow the rush of customers to the suburbs which began in the 1950s. They take advantage of customer mobility provided by the automobile. Shopping centers may be of the *neighborhood* type, containing, for example, a supermarket, drugstore, bakery, and beauty shop and barbershop. They serve a community within walking distance or a short drive. The largest store is usually a supermarket and /or a drugstore. The balance of stores, which may be well planned in the beginning often is lost as original retailers move or go out of business.

*Community* shopping centers will include a variety store or small department store and serve a somewhat wider area.

*Regional* shopping centers will serve an entire area overlapping several communities. They will have one or more large department stores, usually branches of city stores or chains and 100 or more smaller stores. Projections are that planned shopping centers will number in excess of 30,000, with 80 percent of all new retail space and nearly half of total retail sales.

Builders of shopping centers appear to be limiting tenants to national chain operations and are seeking sites in smaller communities where land is less expensive.



This suggests a further decline of downtown retail areas and a serious challenge to the independent retailer.

### **Discounters and Mass Merchandisers**

Discount houses originally developed as fast-turnover, low-margin, price-cutting operations that provided a minimum of customer services. As time went on, they began to offer more services and upgrade their locations, and at the same time some conventional retailers began to cut prices, so that the differences between the two types of stores began to lessen.

A recent outgrowth of the discount house is the mass merchandiser who goes beyond the hard goods favored by the discount house into soft goods and foods. The new mass merchandisers even outdo the supermarket. They offer lower prices and rely entirely on self-service.

Not all is well in discounting. Several large discounters who have experienced bankruptcy include W.T. Grant, and K-mart. Retailers, in attempting to move from one image or segment to another, fall into a “crack in the market” where they lose their identity and customers, but fail to develop the new market.

### **Special Ownership Retailers**

**Consumer cooperatives.** Consumers also band together to form buying associations called *consumer cooperatives*. They usually incorporated as nonprofit organizations with shares running from \$5 to \$10. Dividends run about 5 or 6 percent, and each shareholder has only one vote. Typically, these co-ops have not been able to hold the loyalty of the buying group involved and eventually go out of business.

**Government stores.** The federal government operates approximately 100 post exchanges or base exchanges (PXs or Bxs) on U.S. military installations. Also, 15 states authorize liquor sales by state liquor stores. Together they represent a very small amount of total retail sales.

**Company-owned stores.** Tennessee Ernie Ford’s classic lyric of the mid-fifties, “I owe my soul to the company store,” represent this group. Most company stores are found in isolated locations near mining, lumbering, or industrial activities. They are a dying breed.

**Leased departments.** Many department stores lease specialty areas to private operators. Often included are shoe departments, jewelry, sporting goods, cameras, and food service. The private lessee pays a fee for the space provided, either at a fixed amount per square foot, on a percentage of gross sales, or a combination of both.

### **Retailing Trends - a Final Word**

We have discussed recent aspects of retailing - such developments as automatic vending, franchising, regional shopping centers, the new foods and soft goods discount operations, and cooperative and wholesaler sponsored chains. It might be worthwhile to

add a word here on the forces and trends that point the future direction that retailing may be expected to take.

Past experience teaches us that the changes will evolve at varying rates of speed, but never so fast as to be revolutionary. The main trends that point the direction of evolution are economic, social, and technological.

Economically, the profit squeeze is behind much of the current change in retailing. This has led to larger and larger units, to nonprice competition, and to “scrambled” merchandising - everybody sells everything to the point that it is hard to tell one type of store from another.

We might list under social change all those myriad alterations in consumers and their behavior which retailing must keep up with. But perhaps the most significant force for change is population growth - which again demands that mass retailing keep pace with the mass production that such growth requires.

Technological trends point toward more automation - in vending, in materials handling, and in electronic information processing. Perhaps technology points too toward the day when a combination of computerized operations, video telephones, DVD, cable TV, Satellite TV, PDAs, cell phones, and instantaneous and wireless communications will bring major changes in consumer shopping patterns that may make it unnecessary for the customer to go to the store at all. Of course, all these trends operate together, not separately, and their combined effect will most certainly change the face of retailing.

# Chapter 18 - Physical Distribution and Channel Selection: Part I

## LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Evaluate basic channel choices
2. Give examples of merchant wholesalers.
3. Demonstrate other wholesale classifications.
4. Differentiate between merchandise agents and brokers.
5. Illustrate other special-function intermediaries.
6. List and explain no-intermediary wholesaling functions.

Our fourth marketing mix “P” is place. Place refers to activities that provide time, location, and possession utilities. Goods and services must be in the right place, at the right time, if the consumer is to respond positively to the marketing mix. For all its importance, the place function is probably the most ignored of the four Ps.

### Basic Channel Choices

Economic theory usually implies that most firms typically sell to consumers and that they perform most of the functions essential to marketing their products. However, in reality, this is not so. Most products move through a complicated network of interrelated agencies and intermediaries, grouped together in various combinations, that link particular producing units with particular using units. Marketing place functions are usually delegated to independent intermediaries or facilitating agencies.

Like product, price, and promotion, the path or route products follow to the markets selected can be manipulated (at a cost) to influence sales volume. The primary decision in physical distribution and channel selection usually borders around whether or not a firm should perform a given marketing function itself, or have it performed by someone else.

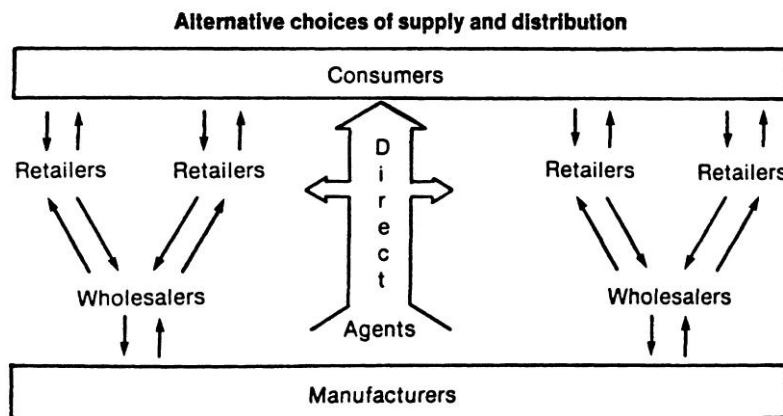
**Distribution alternatives.** Distribution choices are made within the context of a complicated distribution or channel structure which provides manufacturers with a wide range of alternative combinations. This latitude is similar to that available to wholesalers, retailers, and consumers, who also have a wide range of alternative supply choices. In Figure 18-1 we see the selection process in action. Wholesalers choose retailers whom they feel will sell their products most effectively. In turn, retailers, through the use of market segmentation, create an identity that appeals to a certain type or class of consumer. Consumers also choose, by their own selection process, the retailers whom they will patronize. This selection activity functions as a continuous

distribution system as retailers then select wholesalers and wholesalers choose manufacturers. Finally, we see that manufacturers' also have a wide range of distribution alternatives. They can proceed through the many traditional wholesalers, marketing intermediaries (middlemen) or manufacturers agents, or, in the case of industrial goods, they may contact the user directly. Physical distribution and channel selection is a total and integrated process that functions as a system rather than a "hodge-podge" of interrelated activities.

**Manufacturer's choices for consumer goods.** Consumer goods manufacturers have various options in their channel choices:

**The direct channel.** As shown in Figure 18-1, this may include a decision to sell house-to-house. Producers of books, cookware, vacuum cleaners, cosmetics, and many other products use this direct contact channel as a distribution strategy. Mail-order sales are also a direct channel choice. Actually, direct channel sales only account for about 2 percent of all retail sales.

**Figure 18-1**



**Fully owned retail outlets.** Tire and oil companies, shoe manufacturers, and some factory outlet stores are owned by producers. Some large retailers also use backward integration, or purchase their sources of supply. However, most consumer goods producers market their products through various types of wholesale and retail intermediaries.

**The traditional channel.** This channel choice accounts for 43 percent of all wholesale trade in consumer goods. The route of the traditional channel is: Manufacturer -> Wholesaler-> Retailer -> Consumer. This prime distribution route is used primarily by thousands of small manufacturers and retailers, who find this the most economical manner of distributing their many varied and heterogeneous items.

**Selling agents.** A selling agent for a consumer goods manufacturer usually constitutes the manufacturer's entire marketing department. Small textile manufacturers use this type of channel, and the agent normally handles their entire line. The agent may be responsible for influencing fashion and styling decisions, price levels, and in some cases may even provide short-term financing.

**The “we the people” channel.** Finally, we find a channel encompassing all the previous intermediaries. This includes goods moving Manufacturer -> Agent-> Wholesaler-> Retailer -> Consumer. This channel is used most when manufacturers are trying to reach many *small* retailers. Producers of candies, gum, tobaccos, and other sundries distribute their products in this manner to reach as many outlets as possible.

We have mentioned the wholesaler generally, but there are many different specific-function wholesalers, the most prominent of which is the merchant wholesaler.

### **Merchant Wholesalers**

Merchant intermediaries are distinguished from others due to the fact that they *take title* to all the merchandise they handle. This type of intermediary is responsible for about 44 percent of all wholesale trade in consumer goods, and there are numerically more merchant wholesalers than any other type.

### **Other Wholesale Classifications**

A further way to break wholesale activities down is to view wholesalers as being either full-function or limited-function marketing intermediaries.

**Full-function.** This group of wholesalers is also called service wholesalers and the *Census of Business* lists five groups: Wholesale merchants and distributors, terminal grain elevators, importers, exporters, and wagon distributors. There are three basic subtypes within this grouping.

*General merchandise wholesalers.* These handle a variety of nonperishable staple items such as auto parts, electrical supplies, drugs, and cosmetics. In the industrial field this type of service wholesaler might be called a mill supply house, distributor, industrial distributor, or a jobber, depending on the nature of the business. This class of wholesalers is the least important in terms of sales volume and number establishments.

**Single or general-line wholesaler.** These wholesalers sell primarily to limited-line retail stores such as paint, grocery, wearing apparel, or sporting goods stores. This class of wholesalers has the greatest sales volume of the full-function group.

*Specialty wholesalers.* These wholesalers stock only a narrow range of products, within which they carry a very complete assortment. They also furnish product information and technical know-how, including the adjustment of dealers' inventories and improvement of display techniques.

**Limited-function.** Only about 3 percent of wholesalers are limited-function intermediaries, and they represent barely 2 percent of wholesale volume. Except for truck jobbers, limited-function wholesalers are no longer identified separately in the *Census of Business*. Briefly, the major types are as follow:

*Truck jobbers.* These operate mainly in the food field, and they specialize in highly perishable commodities such as dairy products or potato chips. Their expenses are high because they do a lot for what they sell and a truck is an expensive storage facility.

*Cash-and-carry wholesalers.* These wholesalers provide a wholesale store for small businesses not profitably served by full-function wholesalers. Business is strictly cash-and-carry, and poor credit-risk retailers often use this specialty outlet.

*Producers' cooperatives.* These attempts to give their members the same services as full-function wholesalers, except profits go back to the customer-members in the form of dividends.

*Rack jobbers.* Such jobbers traditionally service nonfood items in supermarkets. Since small quantities are involved, most food store managers do not go to a lot of trouble with these items. The rack jobber is usually paid cash for the stock sold or delivered and handles a wide assortment of nonfood items.

*Drop shipper or "desk jobber".* These jobbers are so named because the merchandise they sell comes directly from the manufacturer to the customer. Though they are merchant intermediaries (take title to the goods), they never physically handle the merchandise. Coal, coke, building materials, and other bulky products are their main product lines, and their main function is selling.

### **Merchandise Agents and Brokers**

As opposed to title-taking merchant wholesalers, agents and brokers *do not* take title. Customarily, they provide even fewer functions than limited-function wholesalers. The main types of agent wholesalers are as follows.

**Selling agents.** These agents are used in place of a manufacturer's own marketing department. They usually have complete control of sales, prices, promotion decisions, and are influential in all decision making in the firm. They are found most frequently in the areas of coal, lumber, textiles, apparel, and metal products. Selling agents are similar to manufacturer's agents except that they handle *competing* product lines and perform the entire marketing task instead of just the sales portion.

**Manufacturer's agents.** Manufacturer's agents or representatives may sell part or all of a producer's product in a restricted sales territory. They are most productive when: (a) a small firm with a limited number of products wants experienced sales help, (b) a firm wants to add a new and unrelated product or product line, or (c) a firm wants to enter a new geographic area unfamiliar to the regular sales force. Manufacturer's agents

are usually used in combination with the firm's own sales force and act as specialists who have their own sales contacts and key customers.

**Brokers.** Brokers are agent intermediaries responsible for bringing buyers and sellers together. Their product is information concerning supply and demand. Items sold by auction, securities, seasonal products, and many other commodities are handled by brokers. In the area of food and groceries, more than half the processed foods are sold through brokers. A manufacturer can achieve national distribution by using between 70 and 100 food brokers.

**Commission merchants.** These are most commonly found in markets for grain and livestock, and in large central markets where products are shipped but not represented by the seller. Commission merchants usually sell at the best price above a stimulated minimum and remit the sales price, minus their commission, to the shipper.

#### **Other special-function intermediaries**

A facilitator or wholesaler of *credit* is the "factor." Factors buy firm's accounts receivable at a discount enabling the firm to have cash sooner than otherwise. At times a factor may give management counsel, and in some ways resembles the selling agent. Charges vary from 5 to 20 percent depending on the degree of recourse for bad debts.

**Field warehousemen.** Field warehouses come into a firm and segregate a portion of the firm's inventory. They maintain control of the goods but do not take title. The firm receives a warehouse receipt against which it can borrow needed capital.

**Floor planners.** In the auto industry, dealers may finance their new car inventory through sales finance companies. These companies may own up to 90 percent of the equity in a dealer's car inventory, and finance charges reflect average bank rates due to the high salability of the merchandise. This method of financing auto or appliance inventories is called "floor planning."

#### **Nonintermediary Wholesaling Functions**

Certain enterprises, such as the following, provide relevant services for intermediaries and manufacturers alike but do not fall in traditional wholesaling categories.

**Merchandise marts.** These buildings contain space where manufacturers or wholesalers can exhibit their products on a semipermanent basis. Chicago's Merchandise Mart is an example, and most large metropolitan areas now have at least one such facility.

**Freight forwarders.** These collect small, uneconomical shipments and assemble truck or carload shipments to take advantage of transportation economies.

**Public warehouses.** Warehousing services such as cold storage facilities or grain elevators are independently owned entities that reduce the smaller firm's storage or

warehousing costs. They provide flexibility in locating inventories and serving target customers.

**Exhibitions, fairs, and trade shows.** Like the merchandise marts, these offer an opportunity for the display of goods and services. Competitors see what one another are doing, and what the public is interested in buying.



# Chapter 19 - Physical Distribution and Channel Selection: Part II

## LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Discuss the nature of industrial goods.
2. Describe the typical industrial goods channels.
3. Explain market coverage.
4. Depict the manufacturer-intermediary relationship.
5. Respond to channel questions.
6. Explain the motivation of industrial buyers.
7. Demonstrate buying patterns.
8. Facilitate reaching industrial and consumers markets.

In the previous chapter we viewed how consumer goods move through a representative group of intermediaries and facilitating agents. Industrial goods also have their own pattern of channels, and with industrial as with consumer goods, there exists a complicated set of choices that can be varied at a cost.

### Nature of Industrial Goods

For consumers' goods, the "traditional" channel is Manufacturer -> Wholesaler-> Retailer-> Consumer, but in industrial goods, the "traditional" and most widely used channel is directly from manufacturer to user. This channel accounts for the largest dollar volume of industrial sales. Industrial goods can be defined according to the market in which they are used, by the methods used in marketing them, or by the purpose for which they are used. The Definitions Committee of the American Marketing Association emphasizes purpose in their definition: "The distinguishing characteristic of these goods is the *purpose* for which they are primarily destined to be used, in carrying on business or industrial activities rather than consumption by individual ultimate consumers or for resale to them." Thus, a pencil used by a writer to take an order is an industrial good. Usage is the key to classification!

**Industrial goods classified.** Industrial goods are classified into six distinctive groups: (1) raw materials, (2) fabricating materials and parts, (3) operating supplies, (4) installations, (5) accessory equipment, and (6) services. The nature of this classification indicates that the market for industrial goods is very broad. It includes all types of manufacturing industries, mines and quarries, farms, public utilities, government institutions, the construction, transportation, and service industries, and many others.

### Typical Industrial Goods Channels

**Manufacturer -> Industrial User.** This is the major route-channel for industrial goods. Industrial goods, in the form of machinery or equipment, are also called capital goods. Many firms buy capital goods late in a calendar year to reduce tax liabilities and increase asset levels. Changing tax legislation often attempts to control the level of expenditures on capital goods by adjusting the pace and rate of depreciation.

Industrial goods buyers often require that a piece of equipment be tailored to their specific needs. Also, if technical know-how is required, a manufacturer's representative or salesperson may have to make the sale. Finally, with most large-ticket items, personal selling is almost always required to convince the buyer that the expenditure is justified. This is most obvious in the sale of locomotives, airplanes, heating and air-conditioning plants, and large machinery.

**Manufacturer -> Merchant Wholesaler -> User.** This channel is heavily used by manufacturers of smaller industrial goods such as construction equipment, building materials and industrial supplies. The title, merchant wholesaler, whether used in consumer or industrial goods, merely implies that the wholesaler assumes title to the goods and operates as a full-function wholesaler.

**Manufacturer -> Agent Wholesaler -> User.** Agents in this group are most frequently called *manufacturer's agents*. Their activities are quite different from those of selling agents in consumer goods. First, a manufacturer may have several agents and also a marketing department. Second, the manufacturer's agent may have a part of the product line in a part of the market. Third, where the selling agent in consumer goods has great leverage over the firm's decisions, the manufacturer's representative usually accepts the prices and conditions of the sale as given.

The manufacturer's representative is also used in the introduction of new products to the market. The representative will often have an established clientele or distribution system that can get the new product introduced more efficiently than the firm's own sales force.

**Manufacturer -> Agent -> Merchant Wholesaler -> User.** Usually, in this longer channel combination, the unit sales are too small for a manufacturer to sell directly to users. With smaller unit sales there is also a need to maintain a decentralized inventory or supply. The additional intermediary in this channel performs the storage and warehousing functions where these services are required.

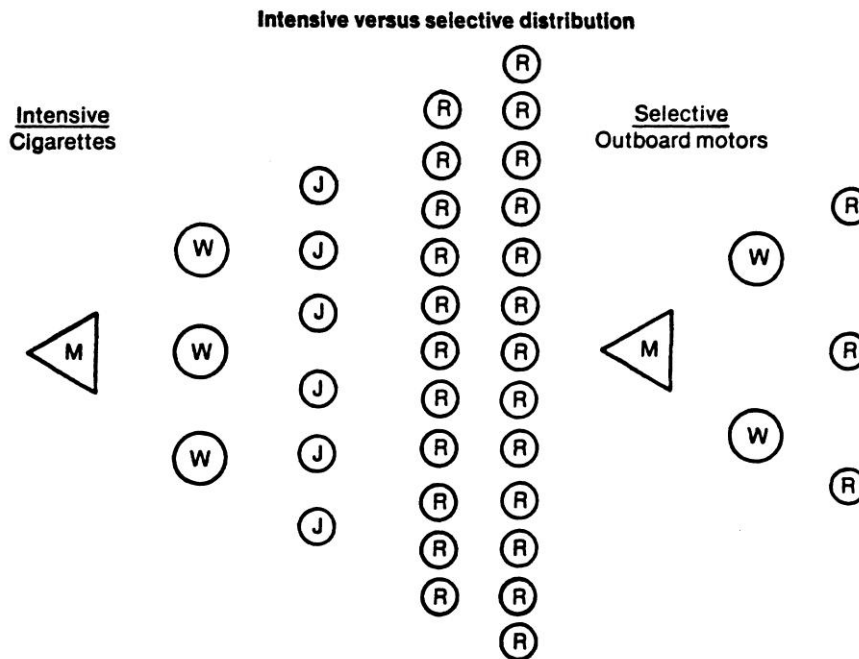
What we have seen so far of consumer goods' and industrial goods' channels, and the various alternative of each, is only the *bare bones* of the channel choice problem. Further reflection on channel choice involves at least the following additional factors.

### **Market Coverage**

There are two main approaches to channel selection: intensive and selective. The degree of market coverage desired will influence the length and breadth of the channel decision.

**The intensive approach.** With products like cigarettes, or other similar low-unit, huge-volume, sundry items, manufacturers are trying to reach thousands of ultimate consumers. This means they will need to use as many intermediaries as possible in the distribution chain between producer and consumer. A cigarette manufacturer would use hundreds of wholesalers, who in turn would distribute too many other specialty intermediaries, including rack jobbers and services of vending machines. Cigarettes then reach many thousands of retail outlets. This type of saturation distribution is called the *intensive* approach to channel selection. The opposite degree would be a technique called the *selective* approach. These two techniques are illustrated in Figure 19-1.

**Figure 19-1**



**The selective approach.** Selective distribution is characterized by high cost per unit sales and high prices. Products are often distributed through franchised dealers. As opposed to the overlapping of distribution channels in the intensive approach, selective distribution attempts to avoid overlap while providing adequate market coverage. Outboard motors are typical selectively distributed product and dealer franchises are widely used. In areas of high sales volume, a manufacturer may use, in addition to franchised dealers, area wholesalers or distributors who carry some inventory and provide a storage function.

**The Manufacturer-Intermediary Relationship**

A major factor in channel choice and effectiveness evolves around the give and take between the intermediary and the manufacturer. It is often assumed that the

manufacturer is unconcerned once the product is moved into the channel. This should *not* be the case!

**The push-pull concept.** If intermediaries take on a manufacturer's product or product line, and inventories of the product begin to build up at retail and wholesale levels, the manufacturer will soon find product orders dwindling to zero. So the manufacturer has an important role in keeping the goods moving in the distribution channel, as does the intermediary.

*Manufacturers* attempt to stimulate demand at the consumer level through promotion and advertising so that the consumer will - in essence- *pull* the product through the channel through increased consumption. Also involved in this demand-pull effort are agent intermediaries, and particularly *missionary* salespeople, who aid the retailer in doing a better marketing job on specific products.

*Intermediaries* also perform tasks, sometimes at their own initiative and then again with the manufacturer's cooperation, that aid in *pushing* products through the channel. Intermediaries sponsor sales training programs for their salespeople, or may develop promotional literature for both distributors and retailers. In addition, intermediaries may also give discounts and allowances to stimulate increased orders.

### **Channel Questions**

Some important overall questions that aid in evaluating channel choices might be as follows:

1. How does the firm design its strategy?
2. What are the important channel factors?
3. What kinds of analysis should be applied?
4. How do we implement decisions?
5. What techniques can we use to follow up on the effectiveness of our channel decisions?

This type of questioning leads to decisions concerning what degree of intensive or selective distribution, how the push-pull effort is to be achieved, and finally, how the distribution or channel choice decision complements the total marketing mix factors.

Plant capacity, and related industrial purchases, increased over 80 percent in the 1990s. Data on expenditures for new industrial goods indicates even faster growth in the decade ahead. What are the factors encouraging this industrial expansion?

### **Motivation of Industrial Buyers**

While ultimate consumers seek a wide range of economic and emotional satisfactions, industrial goods buyers are chiefly interested in the profit motive. *Value analysis* attempts to evaluate quality, and adaptability. A lower cost of production is usually a prime ingredient, except in the cases where a higher degree of standardization or quality might result from purchasing a higher-cost unit. Economic buying motives are

for the most part dominant, with user benefits, case histories, statistics, and increased sales claims among typical appeals.

Emotional motives still play a role in industrial buying, since many industrial plants buy products used to beautify surroundings, enhance prestige, or instill pride of association in either the employees or the consuming public or both. Emotional ties also develop with long-standing suppliers and users that may lead to traditional patterns of industrial behavior that may or may not represent the most functional or profitable alternatives.

### **Buying Patterns**

As mentioned previously, most industrial goods are bought directly from the manufacturer. This is due to the large cost per unit of industrial goods and the need for technical advice. Another factor is the infrequent pattern of purchase. Average life for an industrial installation may run 1- to 20 years, though rapid technological change is tending to shorten this average. In some electronic fields the equipment is obsolete before it can be bolted to the floor. Infrequent purchase makes follow-up sales difficult and maintenance of contacts expensive.

**Who buys?** The hierarchy of influences affecting purchasing decisions in large organizations is often mysterious in its complexity. The mystery can be approached by identifying several of the prominent figures most often involved in the buying decision. These include: the purchasing officer, general superintendents, plant engineers, department heads, the president, the general manager, and the finance committee. This complicates the salesperson's task considerably, as it may be virtually impossible to meet with everyone responsible *even if* one knows the right combination. Since titles and influence vary from firm to firm, a formula approach would be random at best. This is a major reason why advertising is so important in selling industrial goods. It not only pre-sells or informs but may also influence those persons not personally contacted by a sales representative.

**Market characteristics.** One particular feature of the industrial market is its geographical concentration in eight states, where over one half of all business and institutional buyers are located. These eight are New York, New Jersey, Michigan, Illinois, Ohio, Texas, California, and Florida. This concentration, and in many cases consolidation, of industrial users, facilitates supplier-user contacts and reduces marketing costs.

The industrial market is further characterized, in contrast to that for consumer goods, by relatively few buyers. Not only are there *fewer* buyers, but they are usually *better* informed than are buyers of consumer goods. This places a greater emphasis on the quality of the sales force and marketing services. Dependable supply and uniform quality are two prime determinants of repeat purchases.

### **Reaching Industrial and Consumers Markets**

Many products are in demand by both ultimate consumers and industrial users. Paper products illustrate this concept dramatically. Hospitals, schools, gas stations, banks, motels, and hundreds of other commercial users demand many of the same type of paper products as those used by the housewife. However, two *separate* sales channels and sales forces are often required to market effectively in the two segments. The same characteristics that differentiate industrial goods from consumer goods reveal the need for specialized approaches tailored to meet each market's demand structure.

# Chapter 20 - The Channel Functions

## LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Explain a functional view of channel operations.
2. Describe the universality of marketing functions.
3. Discuss the concept of a channel.
4. Implement a process to collect, sort, and disperse.
5. Compare and define the firm-channel relationships.
6. Implement channel leadership.
7. Develop and demonstrate communication in the channel.

Just as the individual firm may be viewed as a total system, so also may the channels used by the firm be seen as total systems which tie together producers and intermediaries in reaching the ultimate consumer. The firm is dependent for its success on how well the total channel system operates.

## A Functional View of Channel Operations

While discussing basic channel choices, we examined the nature of consumer and industrial goods, and the bare bones of their distribution patterns. The push-pull concept, some basic channel questions, and the consideration of all these factors within the context of the firm, as well as the internal and external environmental variables were discussed. We have been taking a *micro* view, a *firm-oriented* approach, thus far. However, Place may be better understood if we add a *macro* dimension and explore what functions or services are rendered in the distribution system as a whole.

**Exchange services or functions.** The exchange services include mainly the functions of buying and selling.

*Buying* implies that wholesalers act as purchasing agents for their retail customers or industrial goods users. As buyers, they enjoy better knowledge of sources of supply and are able to purchase in economically efficient order quantities.

*Selling* is performed by the wholesaler as a marketing arm of the manufacturer. Wholesalers know the sources for potential sales, or who the retailers are that handle certain types of products. As a salesperson, the intermediary is an important link in the distributive chain.

**Physical supply services.** These services include the functions of transportation and storage that are directly related to time and place utilities.

*Transportation* by truckload (TL), train (carload-CL), sea or air, permits buyers or sellers to ship in economic order quantities (EOQ) in order to minimize total costs. Many opportunities to take advantage of transportation savings are lost due to ignorance of available rate structures or special handling procedures. Railroads, even in their current state of decline, move 43 percent of all the ton-miles of freight in the United States. Trucks, however, dominate shipments in the 50- to 50,000-pound categories. Airfreight accounts for less than 2 percent of total goods moved. Other types of services would include the movement of goods on inland waterways, and through pipelines.

*Storage* has as its primary function, the adjustment of supply and demand to create time utility. For example, seasonally produced goods like tomatoes can through storage be consumed annually, while goods produced annually like toys can be consumed seasonally. Storage makes it possible to obtain quantity discounts and achieve economies of scale by ordering in large amounts and maintaining an inventory maintenance, permitting goods to be stored as a hedge against scarcity, while at other times goods are stored in anticipation of better market prices at a later date.

Storage facilities are classified as private or public. Public warehouses include:

1. General merchandise.
2. Bonded.
3. Special commodity.
4. Household goods.
5. Field or custodian.
6. Refrigerated.

Private warehousing trends are toward storage facilities in the form of distribution centers and terminals equipped with the latest handling techniques. Large department store, drug, and food chains have been leaders in this movement.

**Facilitating services.** The last group of macro service functions is the facilitative services of finance and risk taking. Many agencies that perform or assist in marketing functions are typically not classified as intermediaries since they neither take title nor buy and sell goods and services.

*Financing* is supplied in various manners. Suppliers traditionally give cash discounts for rapid payment of accounts, in an attempt to generate high cash flow. In addition, a buyer has the option of a 30-, 60-, 90-day, or longer, period of trade credit. Another source of financing is bonded public warehouses that issue receipts for goods they are holding. These goods can then be used as collateral against which to borrow cash. The selling for collection at a discount (or “factoring”) of a firm’s accounts receivable may also provide immediate cash. The level of inventory and accounts receivable are perhaps the two most critical factors in a firm’s working capital posture. Also, wholesalers often buy items from manufacturers well in advance of a season, pay for them, and perform a storage or time utility function.



*Risk taking* is involved in many of the market functions. Wholesalers usually provide certain guarantees to retailers and manufacturers concerning volume or supply. As a distributive arm of the manufacturer the wholesaler may be responsible for moving a certain volume of merchandise through the channel and into retail outlets for consumption. On the other hand, the wholesaler is responsible to the retailer to see that adequate inventory depth and selection are available to service the local market. These wholesalers may also give credit and take title to merchandise, thus assuming responsibility for goods that may become damaged or obsolete.

### **Universality of Marketing Functions**

None of the basic service functions is exclusive, but each is merely representative of activities performed in each major service category. The main point to recognize is that *these basic service functions are unavoidable*. They must be performed by someone. If manufacturers bypass the intermediaries in the channel, then they must buy and sell, store, ship and finance their own activities and assume all risk. This is a very big task for any single firm.

### **What is a Channel?**

Trade channels are too often viewed as fragmented conglomerations of independently competing organizations. Conflict or competition with one's own supplier, or a manufacturer who views retailers as competitors, weakens the channel structure. As mentioned, channels may be viewed as making up total systems. The real competition should occur *between* channel systems of *different* producers, rather than between the channel units of a single producer.

Two brief descriptions of channel activity may aid in understanding the nature of the channel function. A channel is:

*... a series of relationships among firms and the final users toward which marketing effort is directed.*

*... a combination of flows between agencies and final users.*

The key words in these statements are:

*-series of relationships*

*-combination of flows*

Both of these phrases suggest a movement or flow of goods and services. However, a flow, or series of relationships can be as micro - as one product going to market. For example, cotton moves from the cotton field to a wagon, to a cotton gin, and then to a freight car that delivers it to a warehouse in a textile mill, which eventually turns it into a bolt of fabric, which may move again to a dress or shirt manufacturer. A flow can also be as macro - or broad, as the total flow of consumer goods or industrial goods moving to the marketplace. So, a channel includes not only the path, or route, that goods follow, but all the facilitating agents necessary to make a *continuous flow* possible.

A channel of distribution, or *trade channel*, consists of all intermediaries, and sellers involved in moving goods from producers to ultimate consumers. It normally does not include transportation firms, banks, or other service agents that do not play a buying or selling role in the movement of the goods themselves.

### **Collecting, Sorting, and Dispersing**

The continuous flow idea leads to one final, all-inclusive, way of viewing what goes on in the distribution channel. This explanation is not intended to be firm-oriented for decision-making purposes, but it does aid in understanding the functional flow, or series of relationships, that take place.

This concept of how channels function entails the interrelationship of three activities: collecting, sorting, and dispersing.

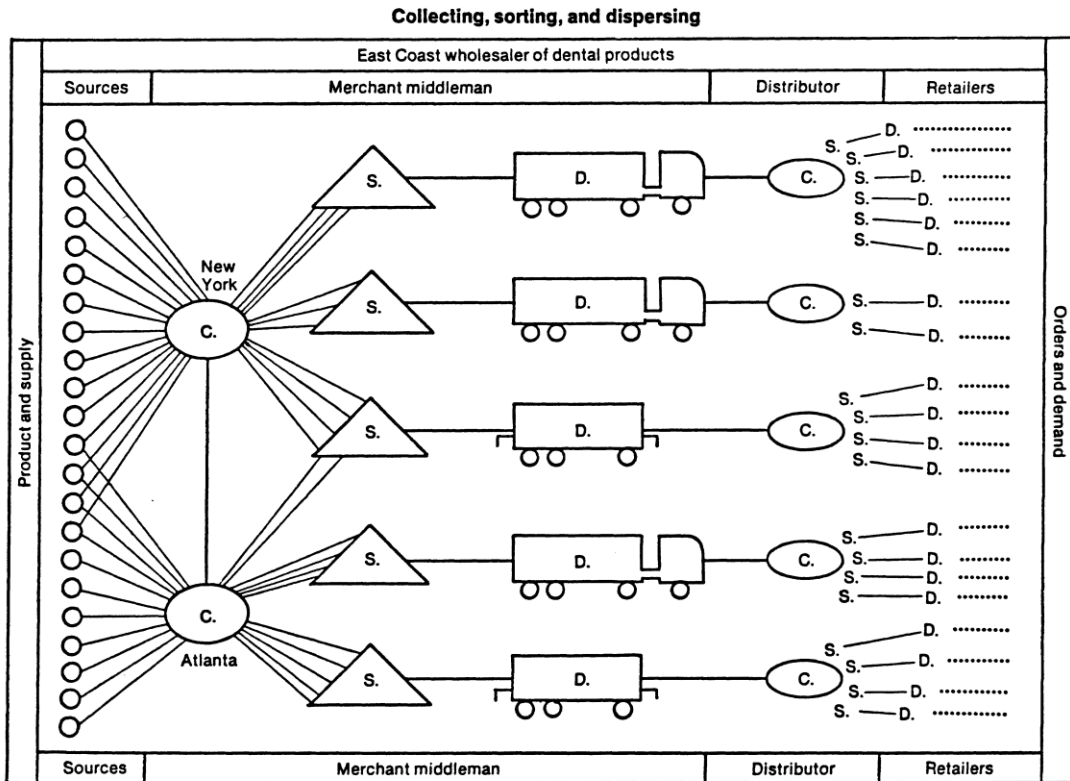
*Collecting* can be defined as bringing goods together until demanded. The intermediary adds the cost of accumulating the goods to the cost of storage and thus knows the total cost of collection.

*Sorting* implies selecting from the goods collected certain varieties, similarities of type, color, size, or other combinations of characteristics to comprise homogeneous or heterogeneous order quantities.

*Dispersing* simply stated, is the movement of the order quantity to the next channel stop.

Figure 20-1 illustrates the collecting, sorting, and dispersing concept of channel functions.

**Figure 20-1**



The nature of the product, and whether intensive or selective distribution is desired, will determine the number of times that the functions of collecting, sorting, and dispersing are performed in the channel of distribution. In Figure 20-1 we see how dental products move from producer to consumer. A wholesaler of dental products has two main warehouses or collection centers: one in New York and one in Atlanta. At these locations a variety of products are received from various manufacturers or suppliers. This supply of heterogeneous products are then sorted into related categories and dispersed to other merchant intermediaries or distributors. These merchant intermediaries or distributors start the cycle again as they collect the first wholesaler's products, sort them into new product mixes, and in turn disperse them to a channel member closer to the consumer. Ultimately, some intermediary fills an order for a retailer and the consumer then has the opportunity to make a highly personalized selection. When a consumer enters a drugstore and asks for a red toothbrush with hard bristles and a curved handle, it is taken for granted that a product of that type will be available and at

a reasonable price. Collecting, sorting, and dispersing helps make possible the matching of heterogeneous demand with heterogeneous supply.

A firm's trade channel policies should be based on an appreciation of the fact that each external part of the channel is merely an extension of the firm's internal marketing activities. Viewed in this manner, we are less apt to lose sight of the interdependence of the firm-channel relationship.

### **Firm-Channel Relationships**

Traditionally, there exists an age-old conflict between the manufacturer and the wholesaler. Too often the manufacturer has attempted to bypass the wholesaler and deal directly with retailers. This is particularly true in consumer goods channels.

Historically, the wholesaler was dominant. Before 1920, both manufacturers and retailers were fairly small and poorly financed, with retailers widely dispersed. In essence, the wholesaler served as the sales force of the manufacturer and as the purchasing agent for the retailer. The wholesaler also performed the storage function due to poor transportation and communications. The wholesaler did very little aggressive selling.

**A changing pattern.** As a result of the large risks taken by wholesalers, they had high operating costs and received wide margins of profit. However, certain changes took place in production and marketing that altered the wholesaler's original position. At first, manufacturers wanted high unit profits on a small volume. Then, as production techniques made economies of scale feasible, the producer realized it was possible to increase total profit by selling larger volumes with smaller profit per unit of sales. This change in philosophy, to mass production and mass distribution, affected previous channel relationships.

*Changes in manufacturers' thinking.* Manufacturers were quick to learn that, in order to achieve greater volume, a change in marketing methods was required. Some of the changes included:

1. Lower prices to achieve volume sales.
2. Brand identification.
3. Large-scale advertising and promotion.

As manufacturers stepped up their own selling efforts and began new programs, they resented giving wholesalers the customary wide margin on sales.

*Changes in retailers' thinking.* Not only was the nature of the manufacturing process changing, but after World War I, the position of the retailer went through a transition. Some of the changes included:

1. Formation of retail chains.
2. Performance of storage and transportation functions.

### 3. Acceptance of the economies-of-scale view-point.

With large-scale buying power and better management, many retailers were able to assume wholesaling-type functions and were inclined to bypass the wholesaler and deal directly with the manufacturer.

*Changes in wholesalers' thinking.* A growing resentment began to emerge as wholesalers saw their prestige and profit margins decreasing. They fought to maintain their previous position of importance and in so doing pushed the manufacturers and retailers even closer together. With wholesalers caught in a squeeze play, they finally began to make some adjustments of their own that included:

1. Forming chain relationships.
2. Developing their own brands.
3. Seeking favorable legislation.
4. Improving management techniques.

Wholesalers entered into contracts with retailers agreeing to furnish them with management services and quantity buying advantages. In turn, the retailers agreed to buy all their goods from the wholesaler. Private brands were developed that made price comparisons with national brands difficult, and wholesalers supported passage of the Robinson-Patman Act in an attempt to neutralize large-scale powers of giant retailers.

One main change the wholesaler had to make for survival was in management techniques. New and more functional facilities and handling systems, computerization of accounting and inventory, and lower operating costs in general, were key factors in improving the wholesaler's image and ability to compete.

With several firms and managers comprising a single distribution channel, we can see the necessity for someone to direct channel activities - the need for a "channel captain."

### **Channel Leadership**

Some channels may not have an acknowledged channel captain. Lack of recognizable leadership, or failure to understand the channel as a system, may lead to this situation. Channel members may only identify with those firms directly above and below them, and may be totally unaware of the channel concept.

In the United States, due primarily to the size of manufacturing firms, the channel captain is typically a manufacturer. Intermediaries make their decisions based on the manufacturer's desires and must decide if a relationship will be profitable or not. However, the desire to dominate is strong at wholesale and retail levels also and there is always a potential three-way vie for channel leadership.

**Approaches to channel leadership.** The desire of each channel member to dominate other channel members takes various forms. We have explored previously how

the wholesaler or intermediary has adjusted, so let's now look more closely at the manufacturer and retailer.

The manufacturer's approach is:

1. To build consumer preference through advertising and promotion. Consumers are motivated to ask for or demand the product from the retailer, thus forcing the retailer to carry the item in stock. (This is an important part of our push-pull concept.)
2. To grant special selling rights. Uncooperative retailers are often sold by granting them franchise contracts for exclusive sales areas. This type of agreement gives the manufacturer a wide range of influence over the channel members or franchises. It is possible to take advantage of this leverage to influence pricing, promotion and distribution policies.
3. To use premarked or advertised pricing techniques. Fair trade items and premarked goods give the supplier more control over the marketing channel.

The retailer's approach is:

1. To use private brands. More and more retailers are integrating backwards into manufacturing and are expanding the number of products sold under their own private brands. Sears Roebuck is a prime example.
2. To limit the number of product lines. Many retailers will only carry the fastest moving brands or product lines, so many other brands are crowded out on a selectivity basis.
3. To promote the store's image. Some stores are successful in developing an identity of their own, not tied to specific brands or associated with nationally promoted product lines. Many food and variety store chains have been successful in developing this individualistic type of identification.

From the above examples we see that each retailer, intermediary, or manufacturer may play the leadership role, depending on the conditions existing in the industry, or the organization of the marketing activity involved. However, adjustments by the members in the channel are only possible through a communications network. Let us now briefly examine this *communication process*.

### **Communication in the Channel**

Communication in marketing channels serves several purposes:

- 1. It establishes and maintains contacts.** Information regarding price in the marketplace, and the terms of exchange, is examined frequently. Two extreme examples of this are the commodity and stock markets. However, most businesses are not this sensitive to changes, due mainly to a lack of communications within the channel structure. Wholesalers and retailers tend to resist changes initiated by manufacturers or

those below them in the channel. Manufacturers in their advertising often encourage consumers to recommend that a new product be stocked by their local retailer.

**2. It conveys persuasive messages to all concerned.** Advertising and personal selling not only stimulate current consumption patterns, but they also influence the direction of *cultural* change and receptivity to change. Firms may often, through market research, accurately sense a change in demand before the consumer is generally aware of the trend.

**3. It supplies feedback of information concerning effectiveness of the marketing mix.** Feedback, in some cases nearly instantaneous, can aid the marketing manager greatly in evaluating the current channel choice. This feedback process is particularly useful in appraising the total interrelationships of the other marketing mix factors, and the relationship of the distribution decision as it affects the other functions of the firm as a whole or system.

# Chapter 21 - Marketing Services

## LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Develop a service marketing process.
2. Classify non-owned service goods.
3. Describe owned serviced goods.
4. Document general services (nongood).
5. Identify specific personal services (nongood).
6. List and demonstrate nonowned service goods.
7. Evaluate owned serviced goods.
8. List and define the overall characteristics of services – the four “T”s.
9. Illustrate the four “T”s of services.
10. Develop service strategies and tactics.
11. Organize marketing professional services.
12. Compare and classify state of the art service innovations.

Following World War II Americans were starved for physical goods not available during the war years and not affordable during the depression of the 1930s. Application of new technological processes to consumer goods manufacturing was able to satisfy this demand, and by 1960 America was seeking foreign markets for its products.

When basic physical product needs are met, consumers turn to the purchase of nonproducts or services. Also, many other countries with lower-cost labor can manufacture physical goods at substantially lower per-unit costs than the United States. This trend toward producing physical goods abroad, even by American firms, coupled with physical good saturation of the U.S. market, has led to categorizing the United States as a *post-industrial society*.

In a post-industrial society, Gross Domestic Product (GDP) is typified by an ever-increasing percentage of service expenditures in relation to physical products. The service sector of the American economy is becoming increasingly important. Service industries now account for nearly 70 percent of the U.S. GDP.

### Service Marketing

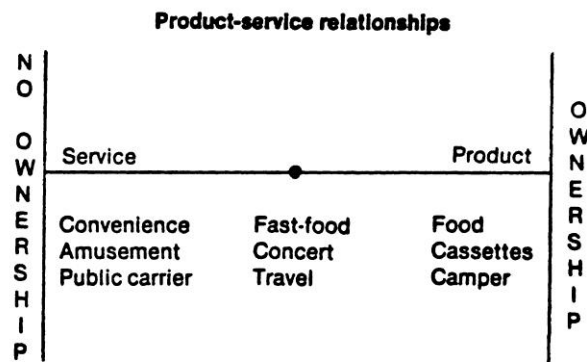
Service marketing is a lot like love! Both are nearly impossible to define. One popular approach is to say, “products or goods are tangible items, services are intangible items.” This is partially true, but not inclusive of the full range of services. Figure 21-1 shows a few marketing examples. The fast-food industry has both product and service facets. Convenience and speed of service is one aspect, including drive-in window service. On the product side, special formulas for chickens, burgers, or breakfasts are heavily marketed.



Attending a concert is a nonproduct service with intangible utility that cannot be stored or inventoried. However, a recording of that concert can be produced and marketed as a product.

Travel by train, bus, plane, or public carrier is a nongood service of a personal nature and may be for reasons of work or pleasure. One might also purchase a camper that would have both practical transportation and travel-pleasure utility, depending on its use. In marketing products one must consider the imagery in addition to the physical characteristics. In the marketing of nongood services, imagery is of primary importance, since each individual views the nongood service in a unique way.

**Figure 21-1**



The continuing search for clarity in defining the field of service marketing leads to the classifying of various types of services. Figure 21-1 identifies four categories dividend into two major classifications.

### **Nonowned Service Goods**

This category includes all tangible goods that are used by consumers but are not owned by them. All rental goods ranging from car and truck rentals to sets of china or crystal for a wedding reception fall into this service area. In some areas, nonprofit organizations have medical equipment like walkers, beds, crutches, or wheelchairs that can be borrowed. Libraries are another major nonprofit provider of nonowned service goods. In addition to books many libraries now loan out works of art for specified periods of time and provide many community programs that would fall under the general services category.

### **Owned Serviced Goods**

Any tangible good owned by a consumer that is worked on by someone else is an owned service good. Ownership is the key. All repair shops and maintenance activities like pool and lawn service are examples. The do-it-yourself movement appears to have had little effect on the growth of this area of services.

### **General Services (Nongood)**

All activities in this category have intangible psychic utility to the consumer. Music, movies, television programs, travel, sporting events, time spent at the fair, and eating out are all examples of general services. Happy hour at your favorite pub also falls into this group. Imagery and personal satisfaction are closely related to consumer choice.

### **Specific Personal Services (Nongood)**

These services are performed, often by professionals, for the direct benefit of a single consumer. This group of services is highly personalized. Hair styling, massages, manicures, and the service of a tailor are examples. All personal medical, dental, or psychiatric treatment come under this category. The key to identifying specific services is the one-to-one relationship of the user and provider. A group dance lesson would be a general service while a private individual dance lesson is a specific service. They can require a different marketing appeal.

Consumer expenditures on services utilize nearly half of after-tax income. Nearly three-quarters of the labor force is involved in service and service-related industries. Expectations are that the service sector will continue to expand and marketers will need to rethink their marketing mixes (product-price-promotion-place) in shifting from a product-oriented to a service-oriented outlook. Let's look at some marketing facets of each service category.

### **Nonowned Service Goods**

These are tangible goods usually rented, leased, or borrowed on a temporary basis and used by the customer. They cannot be stored or resold by the consumer and the user's objective is other than private ownership.

### **Owned Serviced Goods**

These are tangible goods, owned by the consumer to which someone else performs a service function. Owned serviced goods can be stored, inventoried, or resold by the owner. Users of these services are buying time and expertise with maintenance or improvement of the serviced good as a primary objective.

### **General Services**

This category includes intangible services people perform for the user that cannot be stored or resold. The user is buying time and expertise and is not seeking private ownership. *Being seen using general services or having been present at a general service function may be more important than the service itself.* Rock concerts and movie premieres are examples. Marketers seek group or motive clusters that can lead toward identifying segments with similar central tendencies that then become the focus of a firm's marketing strategy.

### **Specific Personal Services**

Like the general service category, specific personal services are intangible services performed by someone else for the client or customer. They also cannot be stored or resold, and time and expertise are main components sought by the user. No

personal ownership is sought and the entire exchange is a direct, one-to-one personal experience. *Who performs the service may be more important than the service itself.*

### **Overall Characteristics of Services – The Four “I”s**

Four basic characteristics distinguish services from goods, often referred to as 4 “I”s of services: intangibility, inseparability of production and consumption, inventory, and inconsistency. These characteristics are important because they pose several unique marketing problems.

#### *Intangibility*

The primary characteristic that distinguishes services from other products is intangibility, the quality of not being able to be assessed by customers’ sense of taste, touch, sight, smell, and hearing. The other three characteristics unique to services all derive from the intangibility. Services such as banking, insurance, and education cannot be physically possessed like a tangible good.

Intangible services are more difficult for consumers to evaluate than are tangible goods. For instance, it is more difficult to evaluate services provided by a physician than to evaluate an automobile. A person can look at the car, take it for a test drive, and form an opinion. A physical examination cannot be assessed in the same manner.

Of course, although it is difficult to walk into a store and evaluate a service, it is not impossible for consumers to make some judgment about services. For instance, before selecting a health club, you could visit the facilities, look at the condition and quality of the equipment, examine the credentials of the instructors, and observe the atmosphere at the facility. Such criteria would provide some tangible means of evaluating different health clubs. This once again illustrates that just as most tangible goods have some intangible element, so most intangible services have some tangible element. The tangible element of services is very important because it may be used by consumers to evaluate and compare alternative services or service providers.

#### *Inseparability*

Another characteristic of services is the inseparability, or indivisible nature, of production and consumption: Services, such as education, are generally produced and consumed at the same time. Because of this characteristic, the service provider plays a very important role in the delivery of services. In many cases, the service provider is the service. For instance, a hair stylist is the actual service, and must be present when the service is produced and consumed.

Because production and consumption occur simultaneously, the customer also has an important role in the delivery of services. In most cases, the service cannot be preformed unless the customer is present or directly involved in the production process. For instance, many service station customers fill their own gasoline tanks; bank customers operate automatic teller machines (ATMs). Because customers often play an active role in the production and delivery of services, the service customer must have the ability, skill, training, and motivation needed to engage in the production process. The

service encounter cannot be completed successfully unless customers have the skills needed to participate in the transaction. By encouraging customers to share the responsibility for delivering services, organizations can reduce the number of consumer complaints.

### *Inventory*

A result of the inseparability of the production and consumption is that services are characterized by perishability –that is, service capacity unused in one time period cannot be inventoried (stored) for use in the future. The key issue is that supply does not always equal demand. A company selling goods would deal with this problem through inventory control. But service marketing cannot handle this problem in the same way. Consider the movie theater’s seating capacity dilemma. At a matinee showing of a movie the theater is more than half empty. However, that evening, so many people want to get into the 8 o’clock feature that many must be turned away because of a lack of seating.

Unfortunately, the extra seats from the matinee cannot be stored for use in the evening. Other types of services, such as air conditioning repair and tax preparation, are time-sensitive in other ways. The bulk of these service activities must be performed at one point in time or close to the time the customer demands the service. Because services cannot be stored, such fluctuations in demand for services cause serious problems for marketing managers.

### *Inconsistency*

Most services are performed by people, and people are not always consistent in their performance. This inconsistency or variation in performance is referred to as the heterogeneity of services. Performance may vary from one individual or service to another within the same organization, or in the service one individual provides from day to day and from customer to customer. For instance, many people take their automobiles to a favorite automobile mechanic at a certain service station because they think this mechanic provides better service than others. But even a favorite automobile mechanic may provide inferior service once in a while. Thus services are much more difficult to standardize than tangible goods.

Although the lack of standardization in services is a problem, it also provides opportunities in the marketing of services. By customizing services to meet the specific needs of consumers, service marketers can be in a better position to satisfy their customers. For example, airlines provide alternative levels of service by offering flights in first, business, and coach class. Likewise, a consulting firm can provide customized services to various clients.

### **The Four “P”s of Services**

Marketers help make product attribute decisions for both goods and services. The marketing mix variables of price, place, and promotion also are as important in marketing services as they are in marketing goods. In some cases, they are used similarly; in others cases they differ.

### *Product*

Like tangible goods, a service is a product whose characteristics must be determined before it can be offered to consumers. A category or brand manager of laundry detergents must decide on such features as size (e.g., giant economy, single wash), packaging (e.g., box, plastic bottle), ingredients (e.g., with or without bleach), and so on. A service marketer makes product attribute decisions about how much service is offered and its characteristics.

Frequently, a product decision involves a tangible good and its associated services. For example, decisions must be made about the level of service to provide PC purchasers. Some businesses offer free 1-800 customer service numbers and unlimited time to solve consumer problems. Other businesses offer 1-900 telephone numbers, where the consumers must pay for the time spent with a company service representative. PC manufacturers say that because of the overwhelming volume of help calls (as many as 70 percent are from computer illiterate beginners) they have been forced to begin charging help-line users. On the other hand, sellers of older rebuilt PCs may not offer any service at all.

Just as with goods, services can also be packaged as new and improved. Retail banks are particularly adept at intervening variations on the service they offer. This occurs mainly because often the only point of differentiation between banks is their service, because the prices they can charge (and interest offered) are regulated and tend not to vary greatly between institutions.

### *Price*

Pricing a service calls for a careful analysis of what is being priced (an equipment- and/or people-based service) and its value to consumers. For a service that relies on equipment, cost-based pricing may be used. For a service provided by people, pricing is often based on competitive prices as well as demand and the image of the service provider. Price sometimes reflects the service provider's training and experience, as is the case with physicians and lawyers. Other times, it reflects uniqueness or artistic accomplishment. Service pricing can be used to skim or penetrate a market.

Service pricing is frequently determined by following a price leader. For example, uncomplicated haircuts in the beauty shop in a particular area may hover around \$15 a cut, which follows the lead of the most influential service provider in the area, typically the market share leader. Alternatively, a service price or price guidelines may be set by a union, professional organization, or the government.

Pricing a service is just as or even more difficult than pricing a good. The added uncertainty comes from the variability of service quality and demand. Peak demand pricing is common. For example, in the Metro in Washington, D.C., fares rise during peak demand hours and fall during slack hours. Because it is not always easy to project what a service will actually cost, it is not easy to determine what price will be needed to cover costs.

### *Place*

Although many services are not thought of as having a channel or distribution, place is important in services. People-based personal services like beauty salons require retail location decisions, including decisions about store aesthetics, convenience, operating hours, and safety. A channel of distribution exists for financial services. When a credit card is activated at a retailer's, the charge information is delivered backward through a channel to a clearinghouse and on to the leading agency that finally bills the consumer. Service channels are most likely to be short and, often, electronically based.

Some short service channels are traditional and involve the physical transfer of goods to undergo repair services. This is the case of computer repairs where the tangible good is conveyed backward through a channel of distribution, often to the manufacturer.

### *Promotion*

Service promotion often involves personal selling and extensive advertising designed to make the product tangible and establish a positive product image. The Mecklenburg Community Church in Charlotte, North Carolina, uses advertising and direct mail to build its image as the place for baby boomers to meet their spiritual needs. Episcopal congregations are running television commercials targeting women between 25 to 45 years old to encourage them to return to the church and bring their families along with them. The Lifetime cable television network promotes its image as the "woman's network." Personal services are even advertised for dogs.

### **Service Strategy and Tactics**

Like the marketing of goods, the marketing of services also requires the formulation of strategy and the development of tactics to achieve the goals set for service products by the business. This means that service marketers must conduct marketing research, plan, segment their markets, target attractive segments, and position their product in the minds of potential consumers. Service marketers conduct marketing research to determine market characteristics, develop consumer insights, and evaluate market offers in much the same way that goods are researched.

### **The Service Advantage**

Marketers strive to create and sustain a competitive advantage for their products. Giving good service can provide that advantage. This is the advantage enjoyed by Phelps County Bank in Rolla, Missouri, and by many other large and small businesses that seek to deliver total customer satisfaction. A service advantage is often the only way that a business or organization can differentiate itself from the competition. This is a result of the availability of many product copies, powerful price competition, and the clutter of promotions that create such a din that many consumers tune most of them out.

Achieving a service advantage requires three things. First, marketers develop consumer insight into what consumers value and want, and then determine how quality service can be delivered. Second, it requires training employees to be good service providers who consistently provide peak service performance. In general, service

functions have minimal training of employees that contributes to a continuous state of flux among service workers. Third, it requires constant monitoring to seek opportunities where services can be offered successfully.

### **Marketing Professional Services**

Most professional services fall in the specific personal services category. The Supreme Court of the United States has ruled that minimum fee schedules violate antitrust laws and that federal law requiring price competition is applicable to the pricing of professional services.

Doctors, dentists, lawyers, architects, and other professionals often resent being viewed as “crass commercial business people.” The reality is that large numbers of professionals have formed partnerships and corporations and these groupings represent small business operations. Granted, these minibusinesses are often poorly managed by medical secretaries or quasi-professional receptionist-bookkeepers, but this does not negate the business image of the unit. Current minimal marketing practices in the area of professional services rather than the service unit choosing its markets. This is less-than-ideal marketing approach.

Professionals, by avoiding marketing efforts, will find that other firms will fill the void. Department stores in New York have low-cost dental services and Eckerd Drug Stores in Florida have optical services. Professionals ignoring marketing may find themselves in the role of employees rather than employers.

### **State of the Art**

Product-manufacturing firms have had to change their outlook from a product-oriented approach. Rapid growth in the service industries also will increase the need for service units to change from a service orientation to a client-consumer approach. Those which do not will fall by the wayside or become employees of service firms that use the service marketing concept.

# Chapter 22 - International Marketing

## LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Explain marketing principles.
2. Characterize the nature of international marketing.
3. Describe the special features of an international marketing mix.
4. Demonstrate activities without foreign management.
5. Describe foreign investment with management involvement.
6. Identify international financial sources.
7. Articulate the concepts associated with international banking.
8. Interpret international market data.
9. Evaluate markets.
10. Predict and evaluate future trends.

Though the United States is most often noted for its productive facilities and technological advancements, its economic future will be determined largely by marketing management's success in the world market. Even today, international firms find that their greatest competitive advantage exists in the advance of marketing techniques rather than in the physical products themselves. The dollar value of world trade has more than doubled in the past decade and will exceed \$11.5 trillion in 2008. Manufactured goods and commodities account for 75 percent of world trade; service industries represent the other 25 percent. Global competition becomes fierce since an increasing number of firms attempt to originate, produce, and market their products and services worldwide.

### Universality of Marketing Principles

Marketing be it national or international, is concerned with the planning, promoting, distributing, pricing, and servicing of the goods or services desired by intermediate and ultimate consumers. The combination of these marketing functions used at any one time comprises the firm's marketing mix. International marketing differs only in that goods and services are marketed across political boundaries. However, there are considerable differences in the strategic and tactical implementation of marketing programs for foreign, as opposed to domestic, markets. The foreign environment often consists of elements very unfamiliar to, or overlooked by, marketing executives.

### Nature of International Marketing

A firm must make at least four basic decisions concerning international activities:

1. Should we enter international markets?
2. What specific markets should be served?



3. How shall we take into account and adapt for the differences between domestic and foreign markets and marketing methods?
4. How and by what techniques should the firm serve its chosen markets?

### **An International Marketing Mix**

**Product policy.** Product policy decisions vary with each firm's marketing arrangement. Often firms already have a product and are willing to make some product adaptations suitable to the tastes and conditions of the prospective market. The product changes may be minor in nature, such as adding a protective coating for equipment needed in the tropics or removing extra features from a tractor so that more foreign farmers can afford it. On the other hand, some firms design products to fit a certain market instead of marketing what is already produced.

**Pricing policy.** When a firm determines its pricing strategy it can choose between a static or flexible policy. A static policy consists of taking the domestic price and adding on charges for freight, packaging, insurance, and other factors. Any charges applicable to the product after it has left the country of origin are added and that total becomes the selling price in the foreign market.

A flexible pricing strategy is necessitated by different costs, demands, and government regulations. This pricing strategy is more sensitive to consumer taste and competition in the foreign market.

Firms involved in foreign trade for the sole purpose of finding an outlet for excess production (bonus exports) tend to use a static strategy; whereas a firm counting on foreign markets to enhance its profits is more inclined towards a flexible strategy. Some firms use a flexible strategy to increase penetration and to build up a clientele.

**Promotion policy.** The promotional mix and its function of providing information should be based on the characteristics of the society in which the product is to be marketed. In some countries the alternatives available for building a strong promotional strategy are restricted by many factors. For example, the international marketer must take into consideration the literacy of the population and the availability of various communications media. A promotional mix designed to reach a consumer in Nigeria will be quite different from the mix used in the United States. This is not surprising because very few Nigerian homes have television. But television is only one tool used for promotion. Other methods can be used to reach the Nigerian consumer. For example, radio and motion picture advertising reach 5 million Nigerians each year. Another point the international marketer should consider is that the service availability connected to the product is sometimes a crucial factor when the purchasing decision is made in the foreign markets. Promotional messages might include information on the availability of service.

Service key issues are faced in designing strategy for personal selling in foreign markets. These include design of sales territories, control systems for field sales people, and type of compensation to be paid.

Displays are popular means of sales promotion. Wording and layout arrangements are selected with local conditions and cultural norms in mind.

Even if restrictions make product promotion difficult at times, there is an effective promotional strategy for every country.

**Distribution policy.** Distribution system mix makes it possible to reach mass markets and creates place and time utility. On the international level the marketer has to deal with greater time lags. The geography and distances involved between international markets can create a communications breakdown among a marketer's awareness of a consumer's need, the setting up of distribution mix with proper channels, and the physical delivery of the product. Setting up of effective distribution channels takes the most time.

One example of what the marketer has to deal with is that in the Near East wholesale and retail outlets for light industrial goods have long been sold in the bazaar, with locations in cities, towns, and villages. Today some activities still take place there. In other places of the world supermarkets are displacing the specialty stores and the market vendor. Therefore, channel-of-distribution systems selected must fit the character of the company and the markets in which it is doing business.

Before a company decides to expand internationally, it must first determine its strategy for entering foreign markets and the degree of marketing involvement desired. The process of internationalization can be viewed as a gradual evolution represented in three stages: (1) the export stage, (2) the foreign production stage, and (3) the multinational enterprise. These stages can be classified by the following degrees of marketing involvement: (1) none to infrequent marketing overseas, (2) regular foreign marketing, and (3) world marketing operations. Two major dimensions of international marketing include business activities without foreign management and those with direct management.

### **Activities without Foreign Management**

These activities may be categorized as follows:

**Importing.** The activity of purchasing goods from overseas.

**Exporting.** The activity of selling good to foreign markets. This is the easiest and most common means of foreign market entry. It is generally employed when companies first enter the international market. They may be attracted by its low financial risk or have temporary product surpluses from their domestic markets. These firms rarely do any product adaptation to foreign tastes, thus projecting a "we sell what we make" attitude. The stage of a product in its product life cycle also affects its export volume. A product that has saturated the domestic market can often be marketed successfully as a new product in a different market.

**Portfolio investment.** The ownership of stocks and/or bonds issued by public or private agencies of a foreign country constitutes a portfolio investment.

**Licensing.** When a domestic firm permits a foreign firm to utilize its trademarks, patents, processes, or other knowledge which may have proprietary value, it does so through a licensing agreement. Its main advantage is the low capital outlay. It also prevents other firms from using the assets freely and generates income when import restrictions forbid sales of its product otherwise.

**Turnkey projects.** A turnkey project exists when a contractor constructs a plant and, when the host country can run it efficiently, turns over the key and exits. The firm receives a fee for setting up the facility.

### **Foreign Investment with Management Involvement**

**Sole direct foreign investment.** This form involves the complete ownership and operation of a business in foreign environment. Types of direct investments include extractive, agricultural, industrial, and service industries.

By definition, direct foreign investment is having 10 percent or more interest in any foreign business organization. More than 40 percent of U.S. direct investment is in Western Europe, followed by Canada and South America. Direct investment is also taking place in China, India, and Russia.

**Joint ventures.** Two firms from different countries form some type of partnership. Either firm may be the dominant partner, depending on local legal restrictions. Two firms from different countries might also join to operate in a third country, in which case the operation would resemble a wholly-owned foreign operation. Many combinations are possible, with mutual trust the critical variable in a venture's success. Joint ventures can facilitate a marketer's international involvement at a faster pace than sole direct investment. Many countries have restricted sole direct investment in recent years.

**Management contracts.** A firm sends management personnel to a foreign-owned firm to aid in certain management functions for a specified period of time. The third world countries, lacking managerial knowledge, generally exert pressure for management contracts. A disadvantage to consider is the risk of developing future competitors.

**Multinational enterprise.** A company is considered multinational when the directorship consists of members from at least two different countries. In this stage the marketer changes from a binational strategy to a multinational strategy. Products are produced and marketed on a world-wide, rather than a regional scale.

### **International Financial Sources**

International marketing results in payment transactions in various currencies. Although many countries desire payment in local currency, the U.S. dollar is still the

most widely used and accepted international currency, and also the world's leading reserve currency. The recent growth in international trade has caused a substantial increase in the demand for Eurodollars to finance the trade. (Eurodollars are dollars banked outside the U.S.) They are mainly used to provide working capital and to finance imports and exports. They are fully convertible and are free from U.S. exchange controls and reserve requirements. Their banking transferability is the most attractive feature to the international marketer.

Two U.S. agencies and several international organizations provide financing for foreign marketing operations.

### **Major Programs**

1. Export-Import Bank - finances U.S. exports of capital goods and other equipment through credits, guarantees, and insurance.

2. Overseas Private Investment Corporation (O.P.I.C.) - created specifically to encourage and support direct investment by U.S. corporations in developing countries below \$1,000 per capita income level. Its financial services for promoting investment include: (a) direct loans, local currency loans, and loan guarantees, (b) foreign investment and marketing surveys, and (c) location of private funds for projects through contact in various capital markets.

3. World Bank Group - provides capital support for some projects, especially joint ventures, in industrial enterprises through loans to developing countries. The International Finance Corporation specifically provides capital in the form of equity and debt for marketing projects with profit potential.

4. Inter-American Development Bank (IDB) - makes loans to western hemisphere developing countries and works through intermediate credit institutions.

5. Other international financing organizations - The Asian Development Bank and the African Development Fund provide loans for projects in their respective regions.

### **International Banking**

International banking plays an important role in facilitating the flow of funds across national boundaries. Bank selection should be planned to meet the marketer's needs. The most common types of banking include correspondent banking, branch banking, and subsidiaries. Since it is often hard to be welcomed and trusted in a foreign country, good banking relations can be a tremendous asset. A local bank can be a marketer's most valuable contact in a strange environment. The local banks are familiar with the business community, know the political and legal restrictions, and can reveal the better investment opportunities. They also act as advisors and, through the banking network, can arrange important contacts.

International banks also perform the function of buying and selling foreign exchange. When handling different currencies, the international marketer must consider

the currency's present exchange rate, convertibility, and possible devaluation. Various operations in the foreign exchange market can be undertaken to avoid these risks. The forward market is used to prevent the possibility of a currency exchange loss. A contract is entered for the future sale or delivery of a currency at an agreed upon date and at a specified exchange rate. Hedging is a transaction performed in the forward market to reduce the risks of devaluation. Swapping involves an agreement between two parties (usually central banks) to the condition that the original amount will be given back after a specified period of time.

### **International Market Data**

Data sources for most areas overseas are neither as complete nor as accurate as data for U.S. markets. Most of the critical foreign information will have to be obtained in the market itself, often at a high cost.

Statistical and economic data can be supplied by external sources, such as marketing research firms, international agencies (UN, IMF, EEC), and governmental agencies (U.S. Department of Commerce). The U.S. Department of Commerce is the most prevalent intermediary for finding international data. Its wide range of assistance is described briefly below:

1. Information - market research data is available on key export items and target markets in addition to information on economic conditions and basic business operating procedures and regulations.
2. Promotional programs - trade centers, trade missions, and trade fairs.
3. Special geographical marketing programs - these programs provide specialized promotional services which arrange contacts with foreign government officials to increase U.S. trade with the communist countries, the Middle East, and Japan. Recent emphasis has been placed on coordinating the U.S. and Japanese trade agencies to make negotiations on specific trade barriers.

Many international corporations with diversified markets prefer to handle certain marketing activities through contracts with other firms. There are many intermediaries offering various export services. The two most widely used Export Management Companies (EMCs) and Foreign Freight Forwarders. The Export Management Company's primary function is to obtain orders for its clients' products through the selection of appropriate markets, distribution channels, and promotional campaigns. The freight forwarder recommends and secures the best routing and means of transportation and prepares all necessary shipping documents. The advantage of using intermediaries is the ease of foreign market entry, but firms must reappraise periodically the question of internal versus external handling of these operations based on cost considerations.

### **Evaluating Markets**

Choices as to which countries will provide maximum business and profit potential revolve about one or more of the following factors:

**Gross Domestic Product per capita.** Most firms want to know how much income potential consumers in a country have available to spend. The higher the Gross Domestic Product (GDP) per capita, the better the chance a firm has to sell consumer products in the \$20-plus price brackets. The United States, Western Europe, Canada, Australia, England, and Japan all offer excellent markets on the basis of per capita GDP.

**Rate of growth of GDP per capita.** Interest in selling in China and India has increased rapidly since these countries have experienced rapid rates of growth in GNP. An 8 to 10 percent per year increase implies that personal income will double in about seven to ten years.

**Total GDP.** Even a country such as India with a GDP per capita of under \$100 can be attractive. Though individual per capita GDP is low, there are approximately 500 million consumers. A very small sale to each would result in a large volume of business. Naturally, the most desirable situation is a country like the United States with a large population and a high GDP.

**Political ideology.** Before a company commits itself to operating within a country, it should exert considerable effort in assessing the dominant political climate and evaluate the risk that may be involved in doing business there. This assessment should cover at least the following: (1) the current form of government, (2) the current political party system, (3) the stability and permanency of government policy, (4) the risks or encouragement to foreign business from political activity. Whether a nation is a communist, socialist, fascist, or capitalist state, or some combination thereof, will determine the rules and controls under which business must operate. Governmental guidelines may not permit enough flexibility or provide sufficient security to offset the risks of doing business in the foreign environment.

**Resource availability.** Oil, mineral ore, rubber, and other such raw materials often form the basis for international business arrangements or decisions to choose an area. Abundant natural gas and adequate hydroelectric resources may also be important for manufacturing or extractive industries.

**Population characteristics.** North America's total population represents less than 6 percent of the world's population. North America and Western Europe, which have about 15 percent of the world's population together, enjoy nearly 75 percent of the world's total GDP. It is not difficult, therefore, to see why U.S. firms are so intensely interested in China and India and why foreign firms wish to enter the U.S. market.

Most data indicate that a large portion of the world's population lives in extreme poverty. Up to 50 percent of the people in many countries derive their livelihood from tilling the land with many of these people below or at subsistence levels. As communications and world agencies bring awareness of better ways of life, many migrate to the fringes of urban population centers to seek economic improvement. Only through the involvement of this new wave of urban population into business and industry can any

country hope to achieve significant economic development. The world market represents a new frontier for business opportunities.

### **The Future**

Rapid changes and shifting conditions will continue to affect the international market. Although uncertainty exists, the following trends are likely to occur:

**Market segmentation.** As the foreign consumers' purchasing power rises, the demand for various goods and services will increase accordingly. Increased product and service competition will result, necessitating further market segmentation to satisfy the diversified needs.

**Communication.** With the growing interdependence of world economies, much effort has been placed on improving the efficiency of transportation and communication systems. The U.S. Department of Commerce is designing a sophisticated computerized "worldwide information and trade system" (WITS). WITS contains current statistical information on relevant market conditions and schedule of upcoming foreign promotional events which will lead to thousands of potential business opportunities. Exporters will be able to use this system through terminals in their own offices.

**Less developed countries (LDC).** The trend toward economic nationalism and increased power among the less developed countries (third world countries), coupled with the widening gap between these countries and the developed nations, may result in major conflicts with multinational corporations. The LDCs will demand more in exchange for their raw materials in forms of technological knowledge, greater labor participation, and increased equity ownership.

**Multinational corporations (MNC).** The multinational corporations (MNCs) will continue to grow in size and complexity while expanding their sphere of influence over international relations. The companies most likely to dominate the international sector are those that have an innovational lead or production and marketing capabilities not widely shared by others. Anthony Sampson's book, *The Sovereign State of ITT*, is testimony to the power and control such corporations can wield on an international scale. Decisions are made on a global basis that transcends national boundaries.

If the MNC is the evolutionary prototype for the future, then we may find a world economy with a half dozen MNCs in each major industry. The need for governments to develop international controls on a worldwide basis is evident. Current limitations posed by national boundaries are ineffective for governing multinational operation. Sampson illustrates the complexity and maturity of the MNCs: "In the largest and most sophisticated MNCs, planning and subsequent monitoring of plan fulfillment have reached a scope and level of detail that, ironically, resemble more than superficially the national planning procedures of communist countries."

To a major extent, the future economic level of people, the prosperity of industry, and the quality of life will depend largely on efficient and dynamic market systems that

are responsive to a changing society. Those who expect marketing to progress automatically will be left behind, while those who are successful in anticipating environmental changes and translating them into strategic options are likely to succeed in the future. International marketing may present the greatest problem, challenge, and opportunity in the next decade.



# Chapter 23 - Marketing Information Systems and Packages

## LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Outline marketing information system and its components.
2. List and explain each of forecasting techniques.
3. Conduct marketing research.
4. Improve product development.
5. Explain and illustrate place planning.
6. Describe promotion planning.
7. Implement pricing strategies.
8. Evaluate and critique sales analysis.
9. Rate and evaluate popular forecasting and statistical software.

The business function of marketing is concerned with the planning, promotion, and sale of existing products in existing markets, and the development of new products and new markets to better serve present and potential customers.

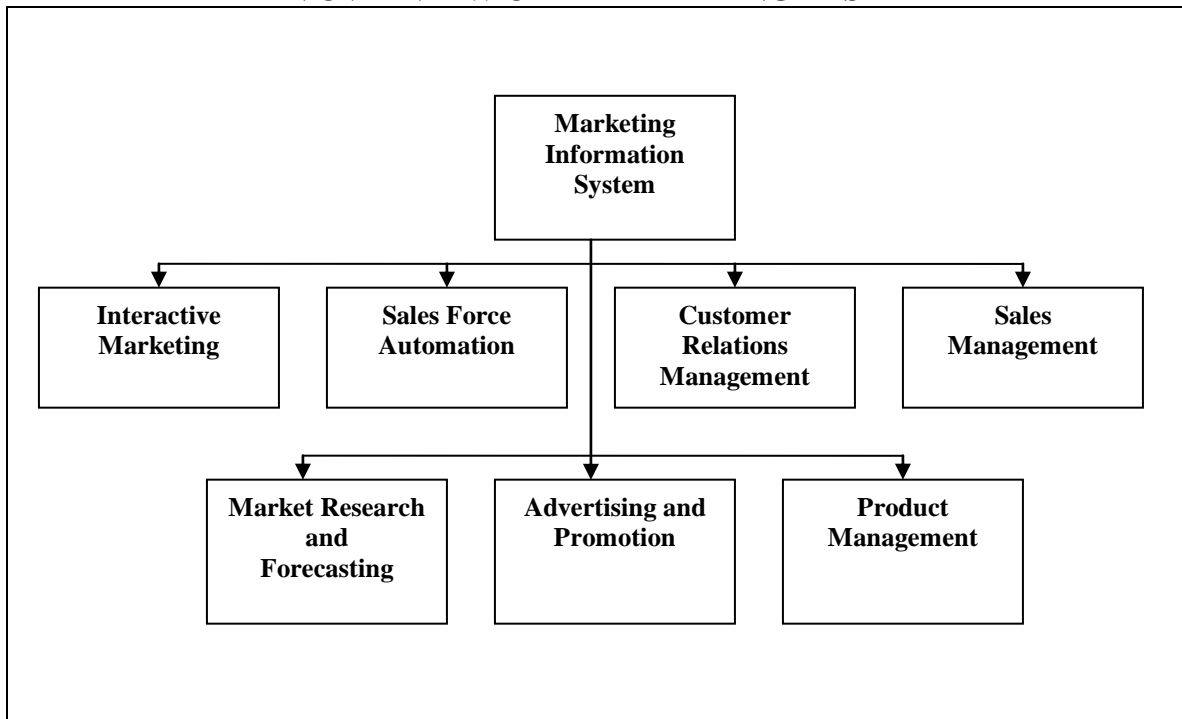
*Marketing information systems* integrate the information flow required by many marketing activities. Marketing information systems provide information for:

- Internet/intranet websites and services make an *interactive marketing* process possible where customers can become partners in creating, marketing, purchasing, and improving products and services.
- *Sales force automation* systems use mobile computing and Internet technologies to automate many information processing activities for sales support and management.
- Other marketing systems assist marketing managers in product planning, pricing, and other product management decisions, advertising and sales promotion strategies, and market research and forecasting.

Figure 23-1 illustrates how marketing MIS provide information technologies that support major components of the marketing function.

**Figure 23-1**

## AN OVERVIEW OF A MARKETING MIS



### *Interactive Marketing*

The explosive growth of Internet technologies has had a major impact on the marketing function. The term *interactive marketing* has been coined to describe a type of marketing that is based on using the Internet, intranets, and extranets to establish two-way interaction between a business and its customers or potential customers. The goal of interactive marketing is to enable a company to profitably use those networks to attract and keep customers who will become partners with the business in creating, purchasing, and improving products and services.

- Customers are not passive participants, but are actively engaged in a network-enabled proactive and interactive process.
- Encourages customers to become involved in product development, delivery, and service issues.
- Enabled by various Internet technologies, including chat and discussion groups, Web forms and questionnaires, and e-mail correspondence.
- Expected outcomes are a rich mixture of vital marketing data, new product ideas, volume sales and strong customer relationships.

### *Targeted Marketing*

Targeted marketing has become an important tool in developing advertising and promotion strategies for a company's electronic commerce websites. Target marketing is an advertising and promotion management concept that includes five targeting components:

- **Community** – companies can customize their web advertising messages and promotion methods to appeal to people in specific communities. These can be communities of interest, such as virtual communities of online sporting enthusiasts or arts and crafts hobbyists, or geographic communities formed by the websites of a city or other local organizations.
- **Content** – advertising such as electronic billboards or banners can be placed on various website pages, in addition to a company’s home page. These messages reach the targeted audience.
- **Context** – advertising appears only in Web pages that are relevant to the content of a product or service. So advertising is targeted only at people who are already looking for information about a subject matter that is related to a company’s products.
- **Demographic/Psychographic** – marketing efforts can be aimed only at specific types or classes of people: unmarried, twenty-something, middle income, male college graduates.
- **Online Behavior** – advertising and promotion efforts can be tailored to each visit to a site by an individual. This strategy is based on “web cookie” files recorded on the visitor’s disk drive from previous visits. Cookie files enable a company to track a person’s online behavior at a website so marketing efforts can be instantly developed and targeted to that individual at each visit to their website.

### ***Sales Force Automation***

Increasingly, computers and networks are providing the basis for ***sales force automation***. In many companies, the sales force is being outfitted with notebook computers that connect them to Web browsers, and sales contact management software that connect them to marketing websites on the Internet, extranets, and their company intranets.

Characteristics of sales force automation include:

- Increases the personal productivity of salespeople.
- Dramatically speeds up the capture and analysis of sales data from the field to marketing managers at company headquarters.
- Allows marketing and sales management to improve the delivery of information and the support they provide to their salespeople.
- Many companies view sales force automation as a way to gain a strategic advantage in sales productivity and marketing responsiveness.

### **INPUTS TO THE MARKETING MIS**

Among the other functional areas, the marketing MIS relies more heavily on external sources of data. These sources include commercial intelligence, competition, customers, trade shows, trade journals and magazines, and other publications. There are

also important internal company information sources. An overview of these inputs is presented below.

1. *The corporate strategic plan or policies.* Marketing depends on the company's strategic plan for sales goals and projections. For instance, a strategic plan might show sales are expected to grow by a stable 5 percent for the next three years. A marketing MIS report for this company might detail current sales performance in terms of this strategic target. In addition to sales projections, the strategic plan can spell out detailed information about anticipated needs for the sales force, pricing, distribution channels, promotion, and new product features. The strategic plan can provide a framework in which to integrate marketing information and make appropriate marketing decisions.

2a. *The transaction processing system (TPS).* The TPS encompasses a huge amount of sales and marketing data on products or services, customers, and the sales force. Technology is revolutionizing the selling process. Most firms collect an abundance of information on a regular basis that can also be used in making marketing decisions. Sales data on products can expose which products are selling at high volumes, which ones are slow sellers, and how much they are contributing to profits. The marketing MIS might synthesize this information in such a way as to be useful in formulating promotional plans. It can also be used to activate product development decisions. Analysis of sales by customers may display which customers are contributing to profits. This data can also be disseminated to determine the products specific customers are buying to help the sales force with their promotional efforts. The performance of the sales force can also be monitored from data captured in the TPS, which can help develop bonus and incentive programs to reward well-performing salespeople.

2b. *Internal Company Information.* Internal company information includes routinely collected accounting records, such as daily sales receipts, weekly expense records and profit statements, production and shipment schedules, inventory records, orders, monthly credit statements, and quarterly and biennial reports. Field salespeople are increasingly likely to have portable personal computers, pagers, and personal digital assistants (PDAs) to log in data for immediate transmission back to the company or customers, and to receive information from the company and customers. Technology is revolutionizing the selling process. Most companies collect an abundance of information on a regular basis that can also be used in making marketing decisions.

3. *External sources: the competition and the market.* In most marketing decisions it is important to determine what is happening in the business's external environment, particularly anything that involves the competition, the economy, the market, and consumers. External information can be obtained from many sources. Some of the most commonly used sources are commercial intelligence, trade shows, trade journals, the government, private publications, commercial data suppliers, and the popular press. Many companies purchase their competition's products and then perform "autopsies" to find out what makes them tick so they can improve on them. Marketing managers attend trade shows and read trade journals to keep an eye on the competition.

Figure 23-2 lists some trade journals and publications. Information can be purchased from information brokers—individuals and companies who help businesses by electronically searching information bases for useful data. Valuable information can be obtained by training salespeople to listen to and observe customers, suppliers, members of the distribution system, and the competition, and then contributing this intelligence to the MIS. The intent should be to obtain usable *marketing intelligence* (information that is available to the public) and not to conduct *industrial espionage* (stealing information not available to the public). The latter is unethical and illegal. Marketers should be savvy enough to realize that as they are collecting information about their competition, the competition is probably collecting information about them.

An additional external source of important information for the marketing MIS is the market for a company's products. A large amount of useful data can be obtained from the TPS for markets already being served by the company, but insights into buyer behaviors and preferences in new markets can only be obtained from sources outside the firm.

The Internet may become the ultimate information source for both the competition and the market. It already provides access to information provided by government (.gov), for-profit business (.com), nonprofits (.org), universities (.edu), and individuals.

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**Figure 23-2**  
**TRADE JOURNALS AND PUBLICATIONS**

Air Conditioning, Heating & Refrigeration News

Airline Executive

American Banker

American Druggist

American Gas Association Monthly

Automotive Industries

Aviation Week & Space Technology

The Banker

Best's Industry Report

Broadcasting

Brewers Digest

Chain Store Age Executive

Chemical Week

Computer Decisions

Computers and People

Credit and Financial Management

Datamation

Drug & Cosmetic Industry

Electronic News

Fleet Owner

Food Management

Food Processing

Forest Industries

Fuel Oil & Oil Heat and Solar Systems

Housing

Industry Week

Iron Age

Leather and Shoes

Paper Trade Journal

Journal of Retailing

Labor Law Journal

Merchandising

Modern Plastics

National Petroleum News

Oil and Gas Journal

Paper Trade Journal

PC World

Personnel

Pipeline & Gas Journal

Polk's National New Car Sales

Printer's Ink

Progressive Grocer

Public Utilities Fortnightly  
Pulp & Paper  
Quick Frozen Foods  
Television Digest  
Textile World  
Transportation Journal  
Ward's Auto World  
World Oil

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## **MARKETING MIS SUBSYSTEMS AND OUTPUTS**

Subsystems for the marketing MIS include forecasting, marketing research, product, place, promotion, and price subsystems. These subsystems and their outputs help marketing managers and executives increase sales, reduce marketing expenses, and develop plans for future products and services to meet the changing needs of customers.

## **FORECASTING**

Forecasts are needed for marketing, production, purchasing, manpower, and financial planning. Further, top management needs forecasts for planning and implementing long-term strategic objectives and planning for capital expenditures. Based on the firm's projected sales, the production function determines the machine, personnel, and material resources needed to produce its products or services. Marketing managers use sales forecasts to determine 1) optimal sales force allocations, 2) set sales goals, and 3) plan promotions and advertising. Other things such as market share, prices, and trends in new product development are required. As soon as the company makes sure that it has enough capacity, the production plan is developed. If the company does not have enough capacity, it will require planning and budgeting decisions for capital spending for capacity expansion. Production planners need forecasts in order to schedule production activities, order materials, establish inventory levels, and plan shipments. Some other areas which need forecasts include material requirements (purchasing and procurement), labor scheduling, equipment purchases, maintenance requirements, and plant capacity planning. The personnel department requires a number of forecasts in planning for human resources in the business. Workers must be hired and trained, and for these personnel there must be benefits that are competitive with those available in the firm's labor market. Also, trends that affect such variables as labor turnover, retirement age, absenteeism, and tardiness need to be forecast as input for planning and decision making in this function. On this basis, the financial manager must estimate the future cash inflow and outflow. He must plan cash and borrowing needs for the company's future operations. Forecasts of cash flows and the rates of expenses and revenues are needed to maintain corporate liquidity and operating efficiency. In planning for capital investments, predictions about future economic activity are required so that returns or cash inflows accruing from the investment may be estimated. There are many forecasting methods in use, one of which is regression analysis. It is illustrated below, using *Excel*.

## **EXAMPLE 1**

A firm wishes to develop a sales forecasting model, by relating sales to price and advertising.

Month	Sales (Y)	Advertising (X1)	Price (X2)
1	25	4	75
2	26	5	82
3	32	6	94
4	30	6	95
5	32	7	98
6	37	7	110
7	38	8	110
8	41	8	99
9	46	9	95
10	48	10	97

#### SUMMARY OUTPUT

##### *Regression Statistics*

Multiple R	0.97366474
R Square	0.94802302
Adjusted R Square	0.93317246
Standard Error	2.0400664
Observations	10

##### ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>
Regression	2	531.3669036	265.6835
Residual	7	29.13309639	4.161871
Total	9	560.5	

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>
Intercept	10.1734656	6.251683507	1.627316
X Variable 1	4.41923505	0.480669674	9.193913
X Variable 2	-0.0587237	0.081383757	-0.72157

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#### USING REGRESSION ON EXCEL

To utilize Excel for regression analysis, the following procedure needs to be followed:

1. Click the *Tools* menu.
  2. Click *Add-Ins*.
  3. Click *Analysis ToolPak*. (If Analysis ToolPak is not listed among your available add-ins, exit *Excel*, double-click the MS Excel Setup icon, click Add/Remove, double-click Add-Ins, and select Analysis ToolPak. Then restart Excel and repeat the above instruction.)
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After ensuring that the Analysis ToolPak is available, you can access the regression tool by completing the following steps:

1. Click the *Tools* menu.
  2. Click *Data Analysis*.
  3. Click *Regression*
- 

## **MARKETING RESEARCH**

Marketing research is essentially a twofold activity. It involves (1) collecting current data describing all phases of the marketing operations, and (2) presenting the findings to marketing managers in a form suitable for decision making. The focus is on the timeliness of the information. The goal of marketing research is to conduct a systematic, objective, bias-free inquiry of the market and customer preferences. A variety of tools such as surveys, questionnaires, pilot studies, and in-depth interviews are used for marketing research. Marketing research can identify the features that customers really want in a product or from a service. Important attributes of products or services --style, color, size, appearance, and general fit-- can be investigated through the use of marketing research.

Marketing research broadly encompasses advertising research and consumer behavior research. *Advertising research* is research on such advertising issues as ad and copy effectiveness, recall, and media choice. *Consumer behavior research* answers questions about consumers and their brand selection behaviors and preferences in the marketplace. Research results are used to make marketing mix decisions and for pricing, distribution channels, guarantees and warranties, and customer service. Inexpensive software and statistical analysis software are used to analyze the data collected from marketing research endeavors. These software packages can determine trends, test hypotheses, compute statistical values, and more. This data is then often input into the marketing MIS so that marketing managers can be better informed and can better make their planning and resource allocation decisions.

## **PRODUCT DEVELOPMENT**

Product development is one of “the four Ps” in the marketing mix --product, place, promotion, and price, each of which was explained earlier. Product development involves the transformation of raw materials into finished goods and services, and primarily focuses on the physical attributes of the product. Many factors, including materials, labor skills, plant capacity, and technical factors are important in product development decisions. In many cases, a computer program for mathematical programming and simulations can be utilized to analyze these various factors and to select the appropriate mix of labor, materials, plant and equipment, and engineering designs. Make-or-outsourcing decisions can also be made with the assistance of computer software. A framework, called the *product life cycle* guides the manager in making product development decisions. It takes into account four stages in the life cycle--introduction, growth, maturity, and decline.

## **PLACE PLANNING**

Place planning involves planning on the means of physically distributing the product to the customer. It includes production, transportation, storage, and distribution on both the wholesale and retail levels. Where to deliver the product to the customer and how to get the product to this location are the principal concerns of place analysis subsystems. Typically, a distribution chain starts at the manufacturing plant and ends at the final consumer. In the middle is a network of wholesale and retail outlets employed to efficiently and effectively bring goods and services to the final consumer. But where are the best places to locate manufacturing facilities, wholesale outlets, and retail distribution points?

Factors such as manufacturing costs, transportation costs, labor costs, and localized demand levels become factors that are critical to answering this issue. Today, marketing MIS subsystems can analyze these factors and determine the least-cost placement of manufacturing facilities, wholesale operations, and retail outlets. The purpose of these locational analysis programs is to minimize total costs while satisfying product demand. Digital maps combined with customer database information in computer mapping software can be used to pinpoint locations for new retail outlets. For example, Yamaha Motor Corporation, USA has made decisions as to where to locate the dealership by blending computer graphics with behavioral demographics. Behavioral demographics links psychological, life-style, and family-expenditure data to geographic locations, often by zip code.

## **PROMOTION PLANNING**

One of the most important functions of any marketing effort is promotion. Promotion is concerned with all the means of marketing the sale of the product, including advertising and personal selling. Product success is a direct function of the types of advertising and sales promotion done. The size of the promotions budget and the allocation of this budget to various promotional mixes are important factors in deciding the type of campaigns that will be launched. Television coverage, newspaper ads and coverage, promotional brochures and literature, and training programs for salespeople are all components of these promotional and advertising mixes. Because of the time and scheduling savings they offer, computer software is widely used to establish the original budget and to monitor expenditures and the overall effectiveness of various promotional campaigns.

Promotional effectiveness can be monitored through the TPS, or it may be monitored through a specialized functional system focusing exclusively on sales activity. For example, a significant proportion of many marketing managers' compensation is determined by the results of their promotional campaigns through specialized sales activity subsystems. Such systems often use data from retail outlet bar-code scanners to compile information on how effective certain promotions were within the promotional period. Without such sales activity, the time delay between wholesale shipments and retail sales would prevent the promotion's effectiveness from being accurately measured.

## **SALES ANALYSIS**

Sales analysis assists managers in identifying those products, sales personnel, and customers that are contributing to profits and those that are not. Several reports can be generated to help marketing managers make good sales decisions. The *sales-by-product* report lists all major products and their sales for a period of time, such as a month. This report shows which products are doing well and which ones need improvement or should be discarded altogether. The *sales-by-salesperson* report lists total sales for each salesperson for each week or month. This report can also be subdivided by product to show which products are being sold by each salesperson. The *sales-by-customer* report is a useful way to identify high-and low-volume customers.

# Chapter 24- Implementing Interactive and Multichannel Marketing

## LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Describe what interactive marketing is and how it creates customer value, customer relationships, and customer experiences.
2. Identify the demographic and lifestyle profile of online consumers.
3. Describe why consumers shop and buy online and how marketers influence online purchasing behavior.
4. Define multichannel marketing and the role of transactional and promotional websites in reaching online consumers.
5. Outline some tips for Internet marketing and e-commerce

Consumers and companies populate two market environments: the traditional *marketplace*, where buyers and sellers engage in face-to-face exchange relationships in a material environment characterized by physical facilities (stores and offices) and mostly tangible objects and the *marketspace*, an Internet-enabled digital environment characterized by face-to-screen exchange relationships and electronic images and offerings.

- Consumers now browse and buy in both market environments, and more are expected to do so in the future.
- Companies with origins in the traditional marketplace continue to refine the role Internet technology plays in attracting, retaining, and building consumer relationships to improve their competitive positions in both the marketplace and marketspace.
- Companies with marketspace origins continually refine, broaden, and deepen their marketspace presence, and consider what role, if any, the traditional marketplace will play in their future.
- A company's success in achieving a meaningful marketspace presence hinges largely on designing and executing a marketing program that capitalizes on the unique customer value-creation capabilities of Internet technology.

## CUSTOMER VALUE CREATION IN MARKETSPACE

Despite widespread interest in marketspace, the economic significance remains small compared with the traditional marketplace. Electronic commerce is expected to be less than 20% of total U.S. consumer and industrial goods and services expenditures in 2007, and less than 9% of global expenditures.

For marketers, the possibilities for customer value creation are greater in marketspace than in the traditional marketplace. Marketers believe that the possibilities

for customer value creation, in the form of time, place, possession, and form utilities, are greater in the marketspace than in the traditional marketplace.

1. In marketspace, the provision of direct, on-demand information is possible from marketers *anywhere* to customers *anywhere at any time*.
2. Operating hours and geographical constraints do not exist in marketspace.
3. Possession utility—getting a product or service to consumers so they can own or use it—is accelerated.
4. The greatest marketspace opportunity lies in its potential for creating form utility. Interactive two-way Internet-enabled communication invites consumers to tell marketers exactly what their requirements are, making possible the customization of a product or service to fit the buyer's exact needs.

### **INTERACTIVITY, INDIVIDUALITY, AND CUSTOMER RELATIONSHIPS IN MARKETSPACE**

Marketers benefit from two unique capabilities of Internet technology that promote and sustain customer relationships:

1. *Interactivity*, by listening and responding to consumer needs.
2. *Individuality*, by empowering them to:
  - Influence the timing and extent of the buyer-seller interactions.
  - Have a say in the kind of products and services they buy, the information they receive, and the prices they pay.

*Interactive marketing* involves two-way buyer–seller electronic communication in a computer-mediated environment in which the buyer controls the kind and amount of information received from the seller. Interactive marketing is characterized by choiceboard and personalization systems that transform information supplied by customers into customized responses to their individual needs.

### **MULTICHANNEL MARKETING TO THE ONLINE CONSUMER**

It is commonplace for companies to maintain a presence in both market environments. This dual presence is called *multichannel marketing*.

#### *Integrating Multiple Channels with Multichannel Marketing*

*Multichannel marketing* is the *blending* of different communication and delivery channels that are *mutually reinforcing* in attracting, retaining, and building relationships with consumers who shop and buy in the traditional marketplace and marketspace. It seeks to integrate a firm's communication and delivery channels, not differentiate them.

*Dual distribution* focuses on reaching different consumers through different marketing channels. Retailers that employ two or more of these channels are labeled *multichannel retailers*.

Multichannel marketing leverages the value-adding capabilities of different channels.

- Retail stores can leverage their physical presence by allowing customers to pick up their online orders at a nearby store or return or exchange nonstore purchases.
- Catalogs can serve as shopping tools for both online and in-store purchasing.
- Websites can help consumers do their homework before visiting a store.

### *Implementing Multichannel Marketing*

Websites play a dual role in multichannel marketing because they can serve as either a communication or delivery channel. Two general applications of websites exist based on their intended purpose: (1) transactional websites and (2) promotional websites.

### *Multichannel Marketing with Transactional Websites*

*Transactional websites* are electronic storefronts that focus on converting an online browser into an online, catalog, or in-store buyer using the six website design elements.

1. Transactional websites are most common among store and catalog retailers and direct selling companies.
2. Retailers and direct selling firms have found that their websites, while cannibalizing sales volume from stores, catalogs, and sales representatives attract new customers and influence sales.
3. Transactional websites are used less frequently by manufacturers of consumer products due to the threat of *channel conflict* and the potential harm to trade relationships with their retailing intermediaries.
4. Still, some manufacturers do use transactional websites, often cooperating with retailers.

### *Multichannel Marketing with Promotional Websites.*

1. *Promotional websites* advertise and promote a company's products and services and provide information on how items can be used and where they can be purchased.
2. Promotional websites often engage the visitor in an interactive experience involving games, contests, and quizzes with electronic coupons and other gifts as prizes.
3. Promotional websites can be effective in generating interest in and trial of a company's products and services.
4. Promotional websites are to support a company's traditional marketing channel and build customer relationships.
5. Multichannel marketers are expected to register about 85 percent of U.S. online retail sales in 2006.

## **TIPS FOR INTERNET MARKETING AND E-COMMERCE**

No one is completely certain how to draw people to your site. It is a combination of many factors, all of which are not under your control. Here are our 10 essential steps to Internet marketing:

1. Learn about your customers through software agents such as Cookies and Active Server Pages
2. Register your web site with as many search engines as possible.
3. Re-Register your web site with as many search engines as possible.
4. Integrate into the Internet community through chat rooms, newsgroups, and banner exchange programs
5. Target a specific market
6. Devise a direct email program
7. Provide superior service by responding to your customers, meeting customer demands, and solving customer problems
8. Raise capital for off line advertising
9. Continually update your site with new information
10. Make it "Free".

*Note:* Advertising on search engines such as Google and Yahoo are increasingly popular and effective. Google search engine possess a data base of web sites indexes according to the information on those web sites and the number of visitors it attracts, while Yahoo search engine looks for matches with category names. Key matches are organized by relevancy. Location on the Internet refers to a web site's Universal Resource Locator (URL). For example, Google's URL is <http://www.google.com>.

## GLOSSARY

*ABCs of pricing* —a tri-level formula for promotional pricing.

A = loss leaders to attract volume.

B = normal mark-up items.

C = high profit items to offset loss leaders.

*Administered pricing*—exists when marketers attempt to establish strong loyalties or unique marketing relationships that result in price maintenance at suggested levels.

*Advertising*—any paid form of nonpersonal communication designed to gain acceptance of the advertiser's message.

*Advertising agency* —an independent business organization composed of creative and business people who develop, prepare, and place advertising in the media for sellers seeking to find buyers for their goods and services.

*Advertising research* —carried on as an aid or support function to the advertising manager.

*Affinity*—the ability of a marketing unit to complement or blend in with the overall tone of the area.

*Affirmative disclosure*—a procedure of the Federal Trade Commission that requires advertisers to stipulate limitations of products or services to allow the consumer to better judge both positive and negative attributes.

*Agent wholesalers*—do not take title to the goods they sell. They are usually paid by commission on the basis of dollar volume.

*Area sampling*—may be used for market research when population lists are not available. Blocks are selected at random and residents are interviewed either in total or randomly. *See also* Market research.

*Attitude*—an individual's personal evaluation of or predisposition to act in a certain manner in response to an object, idea or situation. Attitudinal components may include combination of knowledge, affect and active response.

*Attribute mapping* —a technique for identifying new products by mapping product-line attributes; searching for "attribute space" or possible new attribute combinations for new products.

*Audit, marketing*—a systematic, critical, and unbiased review and appraisal of the basic objectives and policies of the marketing function and of the organization, methods, procedures, and personnel employed to implement policies and achieve objectives.

*Automatic vending machines*—often called "silent or robot" salespeople; they offer 24 hour availability for a wide range of convenience goods.

*Average cost*—total cost divided by the number of units.

*Average fixed cost*—total fixed cost (TFC) divided by the quantity produced.

*Average revenue*—total revenue divided by the number of units sold. The average revenue line represents the firm's demand curve and usually would be equal to average price.

*Average variable cost*—total variable cost (TVC) divided by the number of units produced.

*B2B (business-to-business) e-commerce*—Using B2B trading networks, auction sites, spot exchanges, online product catalogs, barter sites, and other online resources to reach new customers, serve current customers more effectively, and obtain buying



efficiencies and better prices.

*B2C (business-to-consumer) e-commerce*—The online selling of goods and services to final customers.

*Bait-and-switch advertising*—a technique by which a good or service is advertised at a low price with the intention of attracting customers and then switching them over to higher-priced items. The seller may have no intention of selling the “bait item.” The customer is often told the bait item is out-of-stock or inferior.

*Balance of payments*—the relationship between monies received from exports and monies paid out for imports.

*Balance sheet*—an accounting statement of assets and liabilities with the difference being net worth.

*Balance of trade*—a unit of the balance of payments that reflects the value of all goods imported and exported by any nation.

*Barter*—an exchange of goods or services for other goods or services. Examples are found mostly in subsistence economies or where people are outside the money economy.

*Base point pricing*—a system that prices transportation cost from a single point of origin without regard for the actual place of production. Steel, cement, and glucose producers are examples of users. Charges greater than normal to buyers located near shipping points are called “phantom freight charges.”

*Baby boomers*—The 78 million people born during the baby boom, following World War II and lasting until the early 1960s.

*Benefit structure analysis* —*See* Conjoint measurement. Better Business Bureaus (BBB)—are local business supported organizations that maintain records on local business firms and provide information to concerned consumers. Local bureaus are part of a loosely tied national system.

*Birdyback*—container shipments that travel internationally by both air and ground transportation.

*Blue laws*—laws prohibiting the use of certain products due to local custom or belief. Sales of alcoholic beverages or limits of alcoholic content on Sunday is a common example of a “blue law.”

*Boiler room*—a slang term for a room used by sales-persons for making telephone solicitations or “cold calls.”

*Bonded warehouses*—special private storage facilities where products are held and cannot be sold until federal taxes are paid.

*Boutique merchandising*—a small specialty shop with a central theme and catering to individuality. Different but related products complement one another with the idea of “cluster selling.” A diving equipment shop with a wide range of physical equipment and clothing-related soft-goods and insignia is a typical example.

*Brainstorming*—a technique involving a group of people who meet to voice any idea that comes to mind concerning a particular subject in the hopes of generating new ideas.

*Brand*—a name term, sign, symbol, or design, or combination of them intended to distinguish products of one seller from those of competitors.

*Brand loyalty*—the strength of buyer preference for a particular good or service, usually resulting in repeat buying.

*Brand name* —has a narrower meaning than brand. It is a word, letter, or a group of

words or letters that can be spoken.

*Breach of warranty*—a seller fails to honor a warranty claim.

*Break-bulk center* —a centrally-located warehouse that receives carload/truckload lots and sorts and disperses them in smaller lots to the next units in the distribution channel.

*Break-even analysis*—a technique relating primarily revenues and costs at various levels of output and at assumed prices. Literally, the point at which total cost equals total revenue.

*Broker*—an agent wholesaler whose primary objective is bringing buyers and sellers together.

*Business ethics*—standards by which business activities can be judged as morally right or wrong.

*Buyer's market*—an economic condition in which the leverage is on the side of the consumer, usually because supply exceeds demand. An abundance of goods and services may lead to this condition.

*Buying power Index*—a market index of a geographic area's market characteristics that indicate marketing opportunities. It is composed of:

- percent of effective buying income,
- percent of retail sales,
- percent of population.

*Buzz marketing*—Cultivating opinion leaders and getting them to spread information about a product or service to others in their communities.

*C2B (consumer-to-business) e-commerce*—Online exchanges in which consumers search out sellers, learn about their offers, and initiate purchases, sometimes even driving transaction terms.

*C2C (consumer-to-consumer) e-commerce*—Online exchanges of goods and information between final consumers.

*Call reports*—information about prospective customers gathered by a personal sales contact.

*Call system*—a method of rotating salespeople to equalize earning opportunities.

*Canned presentation*—a prestructured package of sales information usually memorized by the salesperson.

*Cartel*—a contractual association of independent businesses formed for the purpose of coordinating the manufacturing, purchasing, or marketing of its members. Firms may be located in one or more countries. Such relationships in the United States could violate antitrust provisions.

*Cash-and-carry wholesaler*—a wholesale merchant who inventories and sells but usually does not offer delivery or credit services.

*Cash discount*—a deduction from list price for paying early.

*Casual studies*—casual studies the researcher assumes that *a* given independent variable (rain) is the cause of the dependent variable (umbrella sales). The study then must prove or disprove, keeping all other variables isolated (if possible); *see also* Market research.

*Caveat emptor*—“let the buyer beware.”

*Caveat venditor*—“let the seller beware.”

*CBR*—an abbreviation for crude birth rate or the number of new births per 1,000

populations. *See also* NNI.

*CDR*—an abbreviation for crude death rate or the number of deaths per 1,000 population. *See also* NNI.

*Cease and desist*—order by the FTC or other regulatory agencies given to firms to halt illegal activities.

*Census tracts*—a relatively homogeneous geographic subdivision, usually about the size of a voting precinct, for which a wide variety of population data are compiled.

*Chain stores*—a group of retail stores of essentially the same type, centrally owned, and with some degree of centralized control of operations.

*Channel captain*—the dominant member of each channel, usually a manufacturer, wholesaler or retailer, who guides, directs, or demands cooperative efforts among the individual channel members.

*Channel Integration*—*see* Vertical integration.

*Channels of distribution*—all the marketing units through which goods flow from origin to final purchase and use. Channel functions provide transfer of title or ownership as goods move from producer to consumer.

*Class action suit*—a lawsuit brought by one or more persons on behalf of a group of consumers for a situation caused by unacceptable business practices.

*Class consciousness*—awareness of differences in individual socioeconomic levels and related behavioral patterns.

*Class rates or commodity rates*—standard tariffs for shipping certain classes or volumes of products.

*Click-and-mortar companies*—Traditional brick-and mortar firms that have added e-marketing to their operations.

*Click-only companies*—The so-called dot-coms, which operates only online without any brick-and-mortar market presence.

*Closed assortment*—the customer can look at a variety of items but cannot touch or sample or try on items (candy, hosiery, and personal hygiene goods are examples).

*Closed sales territory*—a practice of some manufacturers who restrict their intermediaries' channel territories to a specific geographic area.

*Closed systems*—systems not impacted by external factors. A rare situation in today's business world.

*Closing*—the final step of a sales presentation when the customer is asked to “buy” or order.

*Cobranding*—The practice of using the established brand names of two different companies on the same product.

*Cognitive dissonance*—the tendency for consumers to have doubts following a purchase. It may be alleviated by warranties, prompt service of problems, or money-back guarantees.

*Cold canvassing*— (cold calls) making unsolicited contacts on a fairly random basis either by telephone (from a “bull pen” of telephone callers) or knocking on doors.

*Collusive pricing*—when competitive sellers come together to set an agreed-upon price. Collusive pricing is illegal under anti-trust laws.

*Commercialization*—the introduction of a new good or service into the market.

*Commission*—*See* Sales commission.

*Commission merchant (house)*—an agent intermediary that physically handles, owns, and

controls the goods bought and sold.

*Commodity approach*—the study of marketing by exploring commodities, institutions, and functions related to products. This approach was replaced by the marketing management concept.

*Common carrier*—any regulated entity offering transportation services to all shippers.

*Common markets*—a combination of nations desiring to reduce tariffs and other trade barriers among themselves while establishing common import duties for products of external origin. Common economic, monetary, and political policies may also be an objective.

*Common ownership group*—of which multiunit department stores are typical example. It resembles a chain but does not use central merchandising or purchasing.

*Community shopping centers*—have the following characteristics: They (1) serve an area of 20,000 to 100,000 population that live within one to three miles of the center (2) contain between 100,000 to 300,000 square feet of leaseable space (3) contain a variety store and/or a small department store (4) sell both convenience and shopping goods.

*Comparative advantage*—when one nation or region can produce an item at lower cost than another due to natural or technological factors.

*Competitive-oriented pricing*—when a firm uses competitors' prices rather than cost or demand levels as guidelines for pricing.

*Complementary product*—a product, the demand for which increases with demand for a second product. Motorcycles and helmets, peanuts and beer, and skateboards and medical services are a few examples.

*Concentration ratio*—represented by the sales of the largest firms in an industry.

*Concept statement*—a working statement about a product idea outlining strengths and benefits.

*Conjoint measurement*—also referred to as “benefit structure analysis.” it is a statistical method for assessing the relative utility of product attributes.

*Consignment purchase*—the merchant does not pay for inventory until items are sold, and can return unsold items. Title is not taken until the final sale is completed.

*Consumer behavior*—the process consumers use in deciding among and between goods and services they will purchase. For behavioral models, *see also* Engle-Kollat-Blackwell; Freudian, Psychoanalytic model; Hobbesian model; Howard-Sheth model; Marshallian model; Organized behavioral systems (OBS) model; Pavlovian model; Veblenian model.

*Consumer cooperative*—a buying organization, often for foodstuffs, in which the consumers own the inventory, receive stock shares, elect officers, manage, and share in profits.

*Consumer education*—an attempt to increase awareness levels of individual consumers concerning their purchasing behavior.

*Consumer goods*—those goods destined for use by the ultimate consumer, not for resale or further processing. Three types are convenience, shopping, and specialty goods.

*Consumer movement*—efforts by individuals, government, and private and nonprofit organizations to increase the involvement of the consumer in policing the market place.

*Consumer panel*—a group of preselected consumers who report their buying behavior to some marketing or media agency or firm.

*Consumer Product Safety Commission (CPSC)*—a federal regulatory agency with a five-member board that administers the Consumer Product Safety Act of 1972. The Board can require a firm to recall, replace, or repair products considered hazardous to consumers.

*Customer relationship management (CRM)*—The overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction.

*Consumer research*—concerned chiefly with the discovery and analysis of consumer attitudes, reactions, and preferences.

*Consumer sovereignty*—the idea that consumers control economic decisions and are the ultimate rulers of the market place. In this theory, “the consumer is king.”

*Consumerism*—the identification and resolution of problems that individuals encounter in fulfilling their wants and needs in the marketplace. It includes all transactions that affect both firms and individuals.

*Consumers union*—the nonprofit group that publishes *Consumer Reports* magazine, which contains product information to aid consumers in their purchase decisions.

*Containerization*—the combining of units into a single container to facilitate handling and movement by various models of transport. Sea trains (fishyback), rail (piggyback), containerized cargo ships, and airline cargo jets all utilize this technique.

*Contingency pricing*—the customer makes final payment only after the service is satisfactory.

*Contingency table*—also called a “cross-tab” or “cross tabulation,” refers to the comparison of two or more different variables.

*Contract market*—represented by governmental (CSA,) institutional, and commercial buyers. Examples are builders who buy appliance, the trends toward leasing and increased use of professional services instead of personal consumption.

*Contractual vertical marketing systems (VMS)*—formal agreements between channel members result in a coordinated effort. Some types are retail co-ops, wholesaler-sponsored voluntary chains, and franchises.

*Contribution*—the amount of income remaining, after deducting variable costs from selling price, to cover fixed costs and profits.

*Convenience goods*—a type of consumer good, usually an inexpensive item or a staple (potatoes), for which one will readily accept substitutes if the preferred item is not available (rice).

*Convenience stores*—a well-located food store open long hours with a balanced inventory of staple goods. Store size is small, usually in the 1,000-to4,000-square-foot range.

*Cooperative advertising*—cooperation among firms or individuals sponsoring an advertisement. It may include all the channel members vertically or some combination. The objective is to share the cost.

*Corporate vertical marketing systems (VMS)*—a vertical marketing system where each unit in the channel is owned and controlled by a single entity.

*Correlation analysis*—see Statistical demand analysis.

*Cost-benefit analysis*—a technique for comparing various alternative courses of action and assigning them weights without regard for profit. Long-run or social objectives may be of foremost importance. This approach may also be referred to as cost-

effectiveness or cost-utility analysis.

*Cost-plus pricing*—selling price is determined by totaling production, merchandising, or service costs, and adding on a profit margin.

*Counter-advertising*—advertising that refutes or corrects false claims or misrepresentations. It may be voluntary or required by some regulatory agency. Counter-advertising also includes media messages that present information opposing use of commercially advertised products. Nonsmoking or anti-alcohol usage are two examples.

*Cumulative discount*—the discount is based upon the total sum or sales of a quantity of goods used over a designated period of time. A gasoline station could receive a discount for an increase in annual gallons pumped. A food store buying fresh produce in small units but increasing volume may receive a discount. The legality of this practice is questionable.

*Customer relationship management systems (CRM)*—a set of applications designed to gather and analyze information about customers. CRM systems automate customer service and support.

*Dating period*—refers to the monitoring of cash discount periods to obtain savings for paying early.

*Dead areas*—floor space where normal displays will not fit or out-of-the-way areas from the flow of traffic.

*Dealer loader*—a display rack, usually located near check-out area that is maintained by the seller.

*Decentralized buying*—local or regional units of a multiunit organization that make their own purchase decisions.

*Del credere agreement*—an agreement with a party from one country who guarantees payment of goods sold to buyers in the foreign market. The agent earns a commission.

*Demand-oriented pricing*—estimates are made as to how many units could be sold at varying prices. Price, in this manner, can be used as a technique for identifying segments *before* making resource commitments.

*Demand schedule*—*see* Demand and supply curves.

*Demand and supply curves*—lines or graphic representations showing the number of units offered and accepted by traders at any given time and place. Also called a demand schedule.

*Demarketing*—a shift from urging to discouraging consumption. The campaign to get people to use less gasoline during fuel shortages is a prime example.

*Demographics*—reflect the nature of a given population, i.e., ethnic composition, age, sex, housing, marital status, education, earnings, occupation, and any data on which to establish a norm or profile.

*Department store*—a grouping of specialty goods and services within a centrally controlled and owned environment. Characteristics are: (1) employs 25 or more persons, (2) items sold include dry goods and household, family apparel, furniture and appliances, and (3) 80 percent of sales cannot come from *any* single merchandise category if total sales are under \$5 million annually.

*Dependent variable*—a factor (Y) or mathematical variable whose value depends on one or more other factors (X) called independent variables. X values affect Y but not the reverse.

*Depth of assortment*—the number of different products within any single product category, i.e., clock radios.

*Derived demand*—demand for goods and services by other than the final consumer that arises out of, or is related to, final user consumption.

*Descriptive studies*—research efforts directed toward obtaining information about a clearly defined problem or objective. “How many people listened to the President’s speech and what was the composition of the listeners?” *See also* Market research.

*Devaluation*—when a nation reduces the value of its currency in relation to currencies of other nations.

*Differentiated marketing*—similar to market segmentation with each separate segment having *its* own marketing program. Branch banking could benefit from this concept.

*Diffusion process*—the manner in which innovations or new products are adopted by consumers and spread through a segment or social unit. Typical progression would include stages of: (1) innovation, (2) minor acceptance, (3) early majority, (4) late majority, and (5) laggards.

*Direct cost*—a cost that increases or decreases as total volume changes. Raw material and labor would be direct costs.

*Direct investment*—dollars invested in ownership of business activities in foreign environments.

*Direct mail*—the use of the postal system to contact individual consumers. Names and addresses may be obtained by “buying” a mailing list or mailing *may* be by addressing mail to “occupant.”

*Discount house*—a marketer who promotes on the basis of low prices with the emphasis on self-service, convenience and volume.

*Discretionary Income*—that portion (usually small) of one’s income that remains after fixed payments and expenditures on necessities.

*Discriminant analysis*—a statistical technique for evaluating relationships between a given dependent variable and a selected group of independent variables.

*Disguised survey*—participants are not told the real reason for the survey, the objective being to elicit a natural response.

*Disposable personal Income (DPI)*—that income remaining after deducting personal taxes and all other payments to the government.

*Distribution*—the movement of goods and services from producer to consumer.

*Distribution center (warehouse)*—a location for collecting, sorting and dispersing products in order to facilitate rapid handling and matching combinations of product with user needs. User storage cost and inventories are reduced.

*Distribution channels*—*See* Channels of distribution.

*Distributor*—*See* Wholesaler.

*Distributor brand*—a brand identified with an organization whose primary marketing activity is distribution.

*Diversionsary pricing*—a technique intended to deceive the consumer into believing all of a firm’s prices are low when in actuality it is only those advertised.

*Drop-shipper*—a merchant who takes title to merchandise, brings buyers and sellers in contact but does not physically handle the inventory.

*Drummer*—a traveling salesperson.

*Dump-bin display*—a container holding a pile of loose items that are usually on sale.

*Dumping*—selling domestic products at low prices in a foreign market in order to “dump” excess inventory or otherwise unsellable goods.

*Durable goods*—hardgoods or tangible products having long life or extended usage and usually a high unit value, i.e., autos, boats, and major appliances.

*Early adopter*—innovative consumers who look for new goods or services. They may be important horizontal opinion leaders or role models for influencing other consumers.

*Economic order quantify (EOQ)*—the amount to order that minimizes the chance of a stock-out while reducing inventory and the cost of processing orders. The order-placing decisions can be computerized, taking advantage of efficient order sizes of all inventory items.

*Economic shopper*—consumers primarily interested in obtaining the “best buy for the money.” They are extremely sensitive to the price-quality relationship.

*Economies of scale*—are realized when increases in the number of units produced results in lower cost per unit.

*Effective buying Income (EBI)*—see Personal disposable income.

*Elastic demand*—exists when a relatively small change in a product’s price results in a more than proportional change in quantity demanded. *See also* elasticity of demand.

*Electronic banking*—(electronic funds transfer) a cashless transaction technique where the price of a purchase is automatically deducted from the buyer’s account and credited to the sellers.

*Elements of promotion*—see Promotional mix.

*Engle-Kollat-Blackwell model*—a behavioral model that traces the buying process through a sequence of go/no go cycles.

*Entropy*—the tendency for systems or items to run down, become inoperative, or to wear out. *See also* Negative entropy.

*Equilibrium price*—the price at which demand and supply are equal.

*Ethical shopper*—a term describing a consumer who shops at small or neighborhood stores to support small businesses even knowing that prices and assortments are better in larger outlets.

*Ethnocentrism*—one of four terms explaining the evolution of a domestic firm into a multinational corporation. An ethnocentric firm is stage I on a firm operating identically in each market. *See also* Geocentrism; Polycentrism; and Regiocentrism.

*European Economic Community (EEC)*—(called the Common Market) one of the first and most developed combinations of countries with common economic, social, and political objectives.

*Evoked set*—refers to a mental set of behavioral norms that results in consumers buying the same brand without thinking, or making impulse purchases.

*Exchange control*—firms exporting to a foreign country must sell their foreign-earned currency to an agency of that government while firms requiring foreign currency to buy imports also go through the control authority. The rate of exchange may be arbitrary in an attempt to regulate the direction or volume of trade.

*Exchange rate*—the number of domestic currency units in relation to any given foreign currency or gold.

*Exclusive distribution*—a supplier agrees to sell only through a limited or specified number of outlets.

*Exploratory studies*—early efforts aimed toward obtaining adequate information for



refining a research study. *See also* Market research.

*Exporting*—the movement of goods or services for sale outside the country of origin.

*Exposure*—consumer contact with and awareness of a media message.

*Extensive advertising*—a shotgun advertising technique with the goal of reaching a large number of consumers but with a low frequency of repetition; wide but not deep.

*Externality*—refers to secondary factors resulting from a primary transaction between two or more parties. The “side effects” or “ripple effect” may be positive, negative, or both.

*Factor endowment*—resource units, broadly classified, that individually or in combination produce additional wealth. Land, labor and capital, technology, and energy are examples.

*Factory-owned outlet*—a form of direct channel distribution where goods are sold in the producer’s own retail outlets.

*Fair Credit Reporting Act (1970)*—consumers may have access to any credit evaluations made about them and have incorrect information deleted or righted.

*Fair trade*—*see* Vertical price-fixing.

*Family brand*—a company with two or more products all bearing the same brand identity. Kellogg’s corn flakes and rice crispies are examples.

*Family life cycle*—the stages of family identification from single adult, through married, child raising, or empty nester, and sole survivor. Marketing needs change with each sequence.

*Family unit*—an identifiable sociocultural grouping whose members interact on a face-to-face basis. Types of family units provide a basis for market segmentation.

*Fashion*—a style, a good, a service, and expression or *idea* that survives the fad cycle and enjoys continued acceptance over time. Individual items would have different time cycles.

*FCN treaties*—stands for friendship, commerce, and navigation related to the international movement of goods and services.

*Fee basis*—a formula for paying advertising agents based on a set cost rather than a percentage formula.

*Feedback*—a term related to the notion of control whereby formal mechanisms are established for obtaining information about activities. Feedback loops provide information for appraisal, review, monitoring, and adjustment.

*Festinger model*—one of several different models of consumer behavior with its theoretical foundation based on “cognitive dissonance.” *See also* Cognitive dissonance.

*Financial merchandise plan (FMP)*—a schedule that dictates which products to buy, when, and in what quantity.

*Fishyback*—containerized transport of goods by sea transportation.

*Fixed costs*—those expenses that are constant or do not vary in relation to output, i.e., salaries, rent, insurance.

*Flack*—slang term for one who provides publicity.

*Flagship store*—the main, downtown, central, or oldest unit of a multiunit department store group.

*Flexible pricing*—when a marketer is willing to haggle or bargain with the prospective buyer.

*Flow chart*—diagram of a sequence of activities or events; Gantt charts, CPM and PERT

are typical examples.

*F.o.b. (free-on-board)*---signifies that the manufacturer is not responsible for freight charges beyond the f.o.b. point, which may be the factory or any intermediate channel stop so designated.

*Form utility*—implies that an object’s value increases when it is in a usable form; for instance, for mailing, one needs paper formed into an envelope.

*Franchise*—a business agreement whereby one firm allows others to use its brand, logo, name, products or method of doing business. The franchise pays a percentage of sales, a fee, or other consideration for the privilege.

*Free-ride doctrine*—a lesser-known firm uses a brand identification very similar to a well-known product or service.

*Freight forwarders*—firms specializing in intermediary transportation services. They usually assemble less-than-carload or truckload shipments into full-load units that are shipped by common carrier. Their fees are earned from the difference between LTL-LCL rates and TL-CL charges.

*Frequency*—the number of repeat exposures to a media message. *See also* Exposure.

*Frequency distribution*—classifying of statistical data into intervals according to size or magnitude and specifying the number of items in each classification.

*Freudian psychoanalytic model*—a behavioral model describing the consumer as one who is controlled by subconscious drives.

*Fringe trading area*—potential customers not included in the primary or secondary trade zones. *See also* Reffly’s Law of Retail Gravitation.

*Full-line discount store*—a retail unit with a wide assortment of soft and hard goods and with inexpensive physical display fixtures. Units are usually in lower rent locations. High cost, technology, or fashion activities (cameras, shoes, jewelry) may be leased out.

*Full-line forcing*—retailers are required by the supplier to carry a complete selection or line. The legality is questionable.

*Full-service wholesaler*—a channel merchant performing or offering a full-range of marketing functions; i.e., assortments, advice, return privileges, delivery, credit, and promotion.

*Functional approach*—a method of studying marketing. It includes (a) the exchange process, (b) functions involving physical supply, and (c) the facilitating functions of standardization, grading, risk taking, market information, and financing.

*Functional area coordination*—relates to the concept of marketing management which includes inputs from other functions, i.e., production, finance and research, into marketing decisions.

*Functional discount*—*See* Trade discount.

*Functional product grouping*—products are organized by end use characteristics.

*General Agreement on Tariffs and Trade (GATT)*—a trade treaty negotiated in Geneva in 1947. Basic divisions include: (1) any concession given to one country, member of GATF or not, will be granted to all member countries; (2) liberalization of trade by removal of import quotas and licensing requirements; and (3) all tariffs should be open to consultation and negotiation.

*General merchandise store*—a retail unit with a wide assortment of product groups; i.e., department, variety and/or discount stores.

*General store*—a small retail unit, usually in a rural location, with a shallow assortment of general merchandise; a dying breed.

*Generation Y*—the more than 70 million children of the baby boomers, born between 1977 and 1997; also called *echo boomers*.

*Generic brand name*—aspirin and nylon are former brand names now used as general terms for a class of products.

*Generic competition*—see Generic product.

*Generic product*—also called the total product concept. Consumers are viewed as seeking items that satisfy a full range of expectations, not merely value or utility.

*Geocentrisim*—the final stage in corporate internationalism where a firm operates with the entire world system as its relative environment.

*Gestalt concept*—a method of analysis derived from psychological research wherein the unit under scrutiny is perceived as a total entity, rather than a summation of integral parts.

*Graduated lease*—rent increases over predetermined phases in the future.

*Green river ordinances*—are laws enacted by local governments to eliminate or control door-to-door selling or solicitation.

*Grid-iron traffic flow*—also called straight traffic flow; a physical arrangement of display units and aisles in a rectangular layout or grid.

*Gross margin*—the difference between the net cost to the marketer and the selling price paid by the buyer. The margin may be expressed as a percentage of cost, selling price or an absolute amount.

*Gross domestic product (GDP)*—the total value of all goods and services produced within an economy in any given year.

*Head hunters*—is a slang term for personnel or personnel firms that specialize in recruiting executives from other firms, usually for upper-income positions.

*Hedonic goods*—goods purchased because of their emotional, textural, sensual, or pleasure-satisfying utilities.

*Heuristic Ideation technique (HIT)*—a technique that attempts to generate new product ideas by product-word associations. See also Brainstorming.

*Hidden qualities*—a term referring to characteristics of goods or services that are not readily discernible by the consumer but that may be positive factors in influencing purchase decisions.

*Hidden tariffs*—refer to problems encountered Outside the normal processes of international marketing. Misplaced paperwork, improper classifications, theft, delays, and bribes to customs officials are a few examples.

*Hierarchy of effects*—the chain of consumer reactions in response to marketing media. Steps include awareness, knowledge, liking, preference, conviction, and purchase.

*Higgle or haggle*—a term referring to wrangling or bargaining between buyer and seller over conditions of a transaction.

*High-end strategy*—a prestige approach to retailing characterized by a high rental location with luxury fixtures and elegant display layouts. Courteous personal service is available and promotion emphasizes nonprice features.

*Historical data*—refers to any type of data that was collected for other than the immediate purpose.

*Hobbesian model*—model of consumer behavior that depicts the consumer as a political

animal concerned with both individual and individual-group welfare. Industrial buyers are potential Hobbesians.

*Horizontal competition*—competition between marketing units of the same type: wholesaler-to-wholesaler; retailer-to-retailer.

*Horizontal cooperative advertisements*—similar to cooperative advertising but only shared by like-units for the purpose of increasing coverage and sharing cost.

*Horizontal fashion trend*—also referred to as “the trickle-across theory.” Relates to peer influence or horizontal opinion leadership whereby innovative opinion-leader consumers buy new items first and then influence their peers across social classes.

*Horizontal merger*—the joining together of firms operating at the same functional level of the marketing channel or stage of distribution.

*Horizontal opinion leadership*—see Horizontal fashion trend.

*Horizontal price-fixing*—agreements between similar marketing units to set price at a given level. Regardless of the level agreed upon (low to high) this type of “collusion” is in violation of anti-trust laws. *See also* Collusive pricing.

*House accounts*—“privileged character” type accounts usually serviced by senior executives.

*House agency*—control of an advertising agency by a single advertiser.

*House organ*—any newsletter or written publication prepared by a firm for its own employees.

*Household*—one or more persons living in the same dwelling unit.

*Howard-Sheth model*—a schematic diagram of the buying process and the forces that influence it. The model has four major components: (1) hypothetical constructs, (2) stimulus variables, (3) response variables, and (4) exogenous variables.

*Hype*—a specialized type of promotion: a form of hype would be statements that exaggerate the truth in order to stimulate sales.

*Hypermarkē (hyper-market)*—this term refers to the mass-merchandising discount outlet with a full line of goods, perhaps including groceries and drugs. Skaggs-Albertsons is a typical example.

*Hypothesis*—may be a guessing assumption about a situation, problem or any set of circumstances that *may* be proved right or wrong by research. *See also* Market research.

*Iconic model*—a model that is physical replica of the real thing—such as a model car.

*Impact*—the net effect of a media message on the consumer.

*Imperfect competition*—a situation in which each marketer’s product is differentiated enough and produced in large enough quantities to affect the market price. Retailers are usually imperfect competition examples, as buyers cannot compare all price quality offerings at all retail outlets.

*Implied warranty*—a warranty that does not appear “in so many words” but is accepted as existing by both seller and buyer. Custom or statute may support the implied concept.

*Import quota*—an artificial restriction of foreign goods/services that enter a domestic market.

*Importing*—the movement of foreign goods and services into a domestic market.

*Impulse goods*—goods, usually of low unit value and located near check-out registers, that consumers buy on the spur of the moment, without prior planning or intent.

*Income statement (profit and Loss)*—an accounting schedule that itemizes a firm’s

revenues, costs and profits (or losses) for a given period of time and is used as a comparative measure of performance.

*Incremental promotional budgeting*—last year’s promotional budget is increased or decreased, often on a qualitative basis, to determine next year’s expenditures.

*Independent channel ownership*—the opposite of vertical integration. Marketers do not own or control other channel members, who operate independently.

*Independent retailer*—a marketer who operates a single retail unit.

*Independent variables*—factors that are manipulated or changed to see what effect the change might have on a dependent variable. For example, various prices (independent) and sales volume (dependent). *See also* Dependent variables; Market research.

*Index of saturation*—a formula:  $C_i \times RE_i$  where  $C_i$  = the number of customers;  $RE_i$  = the dollar expenditure per customer; and  $RF_i$  = total square feet of unit area allotted to a product or service. The objective is to have the optimum per capita sales per square foot of space.

*Indirect price discrimination*—the giving of “extra features” or services such as display or promotional assistance, to one buyer, and not to others.

*Individual ethics*—a personal code or guidelines of individually determined behavior.

*Industrial distributors*—the equivalent of the full-service consumer goods wholesaler. They provide a wide range of marketing functions, including inventory, and usually handle a medium-priced range of smaller industrial equipment and supplies.

*Industrial goods*—any goods that are used in the further production of other goods and/or services.

*Industry demand*—the total sales in any given product category and is in part determined by the price level.

*Inelastic demand*—demand for certain items tends to remain constant even when price increases. Gasoline, cigarettes, and medicines are examples.

*Inferential statistics*—also referred to as inductive statistics. A technique for generalizing from samples to a larger population.

*Inflation*—a relatively rapid increase in the general price level.

*Informal organization*—the social subsystem of any formal unit that communicates through the grapevine and whose activities may result in cohesion or conflict.

*Information search*—the collecting of a list of alternative solutions to a marketing need and the evaluation of characteristics of each.

*Initial retail markup (mark-on)*—the difference between cost and retail selling price expressed as a percentage of the retail price. The formula for retail mark-up is:

$$\frac{\text{Retail expenses} + \text{Profit} + \text{Retail deductions}}{\text{Net sales} + \text{Retail deductions}}$$

*Innovation diffusion*—see Diffusion process. Also called technological or idea diffusion.

*Inside buying organization*—store personnel with other marketing responsibilities also perform the buying function.

*Institutional advertising*—a form of advertising designed to develop or reinforce an image, concept or idea about a firm, a product or product line or a given philosophy. The American Dairy Association used commercials with the message: “Drink milk and eat cheese” because dairy products are healthy.

*Institutional approach*—refers to the study of marketing by examining the full range of marketing institutions; retailers, wholesalers and service units responsible for moving

goods and services from producer to consumer. Also called the macro or environmental approach.

*Institutional markets*—usually refers to the nonprofit or not-for-profit sector: hospitals, educational institutions, governmental units, and charitable organizations.

*Intangible goods*—any type of service or rented good that is not owned or cannot be stored.

*Integrated marketing*—synonymous with the marketing management concept which implies a coordination of inputs by a firm’s functional areas prior to resource commitment.

*Intensive advertising*—a high repetition to a selected target segment of a promotional message; deep but not wide.

*Intensive distribution*—refers to the saturation of all possible outlets for a given product or product grouping. Convenience goods lend themselves to a market saturation approach.

*Interlocking directorates*—members of boards of directors serve on more than one firm’s board, or one or more firms have a number of overlapping members.

*Intermediaries*—see Marketing intermediaries.

*Intermediate market*—a rapidly growing segment composed of government, institutional and industrial good users who purchase for both resale and their own use.

*Interactive marketing*— involves two-way buyer–seller electronic communication in a computer-mediated environment in which the buyer controls the kind and amount of information received from the seller.

*Intuition*—the act or power of judging or arriving at courses of action on the basis of contemplation or nonformalized processes.

*Inventory management*—maintenance of a balanced assortment at minimum levels and cost without shortages or stockouts. *See also* Economic order quantity.

*Inventory valuation*—for retailers, the choices of valuation are usually inventory at cost or at retail.

*Isolated store*—a single marketing unit in a freestanding building usually located apart from strip or shopping centers. Furniture stores often fall into this category.

*Iteration*—see Successive approximations.

*Job analysis*—is the study of a work/task activity to determine the basic requirements. Once identified, the information is used to find personnel, evaluate performance, and set wages.

*Job lot* —a less-than-complete assortment of goods offered at a reduction in price. Factory outlets and some discount specialty stores (shoes, for example) deal mainly in job lot merchandise.

*Job shop*—a firm that produces “to order” for its customers.

*Jobber*—see Wholesaler.

*Joint venture*—the sharing of risk and responsibility with a firm in a foreign country.

“*Just and reasonable*”—a term often applied to price-quality considerations. In regulated industries it means the supplier is entitled to a fair rate of return for adequate services.

*Just price*—a price that includes an amount to cover the cost of production and a profit that represents the “value added” by individual or company inputs.

*Keep-out price*—a price purposefully set low to discourage new entrants or competitors. Associated with penetration pricing.

*Key items*—those which are at constant or peak demand levels and may require special attention.

*Kuder preference test*—a psychological test designed to identify an individual’s personal interests. Sales managers and brokerage firms often use the Kuder in selecting salespeople.

*Label*—the informative part of the package which may also contain the logo or brand name and other descriptive product information. Current trends are to print on the container as opposed to on a wrapper attached to the container.

*Laggards*—consumers, for a variety of reasons, who are last to adopt or use certain goods and services.

*Laissez-faire*—”hands-off” as regards the control of business or absence of government control or intervention. Free enterprise will result in the best interests of the consumer and the society in this philosophy.

*Law of retail gravitation*—see Reilly’s Law.

*Layaway*—buyers put down a deposit to hold items for final payment and purchase in the future.

*Leader pricing*—see Loss leaders.

*Leased department*—a department in a multiline discount or department store *that* is contracted out to a specialist. Many shoe, camera, fruit, jewelry and beauty functions are run by lessees.

*Less developed countries*—see Third World Countries.

*Licensing*—permission by a firm in one country for a foreign firm to use its patents, trademarks, technology, or equipment for a fee.

*Life cycle*—see Family life cycle; Product life cycle.

*Limited function wholesalers*—marketing intermediaries who take title to their goods but who limit their range of functions and therefore the cost to their customers.

*Limited-line store*—marketing units that restrict merchandise to one type (shoes, bake goods, bicycles) with a depth of assortment and often personalized service not available in multiline or discount stores.

*Linear programming*—a mathematical technique used in solving allocation problems in choosing among alternate combinations of resources with varying outcomes.

*Liner*—a slang word for a salesperson that lines up prospective customers and then turns them over to another salesperson for the close.

*List price*—the market price quoted or presented to the buyer. It is the suggested retail price or that price from which most discounts are deducted.

*Local-content law*—refers to restrictions by a nation on the portion of domestic content required of foreign items sold in that country.

*Logo*—a symbol, design, picture or any figure that represents an individual or firm. Trademarks, unique trade names, or associated sounds are all “logotypes.”

*Long run*—the economic time period in which even fixed costs become variable.

*Loss leaders*—items priced to attract customers who will then purchase other standard- or high-profit margin items. *See* ABCs of pricing.

*Lottery*—a sales promotion gimmick, often a chance drawing, to obtain consumer interest in the firm’s offer. Magazine publishing firms often use this technique.

*Low-end strategy*—a marketing unit choosing a low-rent, self-service and inexpensive-display format. Low prices are the main promotional thrust. *See also* High-end

strategy.

*Macro marketing*—a concept that views marketing as a system for delivering a desired standard of living in a given environment.

*Mail-order retailing*—the ordering of a wide range of methods of goods to be shipped or mailed from warehouse inventories.

*Make-bulk center*—see Freight forwarders.

*Manufacturer's agent*—an agent wholesaler who markets a line of related but noncompeting goods from several manufacturers in a designated geographic area. Manufacturer's agents usually work on a contractual basis and have little control over the terms of sale.

*Manufacturer's branch office*—a full-service unit making sales efforts, servicing customers, and carrying inventory.

*Manufacturer's brand*—brands established and controlled by the producing unit. See also National brand.

*Manufacturer's sales office*—a unit of a firm out of which salespeople operate in the field. Only the sales function is performed.

*Margin*—see Gross margin.

*Marginal analysis*—an economic procedure that attempts to determine at which point in production the revenue from the last unit produced is equal to the cost, i.e., when marginal revenue = marginal cost (MR=MC).

*Marginal cost*—the change in total cost that results from producing one additional unit.

*Marginal revenue*—the change in total revenue derived from selling one additional unit.

*Markdown*—a reduction from the normal selling price.

*Market*—people with purchasing power to express their wants and needs.

*Market analysis*—a study of the size, location, nature, and characteristics of markets.

*Market concentration*—takes into account the number and size of firms in an industry.

*Market-basket pricing*—see ABCs of pricing.

*Market conduct*—the actual behavior pattern of firms in any given industry or the economy at large.

*Market factor*—a condition in a market which may be measured quantitatively.

*Market index*—a market factor expressed by a percentage or some other mathematical term. May include any number of market factors weighted together.

*Market leader*—the dominant firm or seller in a particular market.

*Market order*—a term related to brokerage firms. Market orders are client instructions related to buying or selling securities at current market price.

*Market penetration*—the percentage of a given market held by any one firm. See also Penetration pricing.

*Market potential*—the estimated sales volume at a given price for a selected market segment, or the maximum combined sales opportunities for all sellers in a market, or the industrywide potential.

*Market price*—the price that results from the “natural” forces of supply and demand in the market place.

*Market prospective*—the total volume of goods or services that could be sold in any given market segment. See also Market potential.

*Market research*—the systematic, objective, and exhaustive search for, and study of, the facts relevant to any problem in the field of marketing. For a detailed listing of



components, *see* Marketing research.

*Market-ripe*—produce shipped and timed to ripen by arrival at its destination.

*Market saturation*—*see* Intensive distribution.

*Market segmentation*—individuals are clustered in to recognizable groupings based on common characteristics such as age, sex, income, or geographic location, and products or services are designed to satisfy that segment of the total market.

*Market share*—that percentage of total sales by any single firm in a given market.

*Market skimming*—the pricing of a good or service to maximize revenue. Price is gradually lowered in stages as competition enters and/or market saturation occurs. Firms with new products may choose this approach, which is the opposite of penetration pricing.

*Market stability*—refers to how durable a firm’s products or services are in relation to competitors or obsolescence. *See* Product life cycle.

*Marketing*—basically a bridge between production and consumption that directs the flow of goods and services to the consumer. It also contributes to the recognition of consumer needs and their eventual satisfaction.

*Marketing data bank*—an organized record of all data generated by a marketing information system and market research activities. *See also* Market research.

*Marketing Information System (MIS)*—a systematized procedure for collecting, processing, implementing, and following-up on all activities related to the marketing function.

*Marketing Intermediaries*—those whose business is to expedite the transfer of goods from manufacturer to consumer (sometimes called middlemen).

*Marketing management concept*—an approach where by the marketer first identifies a demand segment and then produces to satisfy the new target market. *See also* Demand-oriented pricing.

*Marketing mix*—the combination of the four Ps (product, price, promotion, and place) that best meets the needs of the consumer and that should result in some desired sales/profit objective.

*Marketing performance*—the evaluation of a single marketing unit with other firms in the industry, similar firms of equal size, or against a wide range of economic criteria.

*Marketing research*—a systematic approach to gathering and accessing quantitative and qualitative market information. Serves as a basis for policy and decision making concerning new programs or the evaluation of existing ones.

*Marketing strategy*—a selected combination and predetermined mix of the four Ps as applied to any marketing function, good, or service.

*Mark-up/mark-on at retail*—*see* Initial retail mark-up; *see also* Price spread.

*Marquee*—a public space used to display a units name, logo, or information.

*Marshallian model*—a behavioral model depicting the consumer as a rational, decision-making unit set on maximizing economic and personal utilities.

*Mass media*—refers to forms of communication that reach a large audience.

*Materials handling*—includes the physical movement of “in-house” inventory or materials in any marketing facility.

*Mazur plan*—an organizational format that divides retail functions into four categories: (1) merchandising, (2) accounting, (3) management, and (4) control.

*Mechanical observation*—the indirect monitoring of behavior by cameras, video tape, sound recording or other remote and unseen devices. *See also* Market research.

*Megalopolis*—a continuous population strip, such as the Boston to Maryland area on the East Coast.

*Memorandum purchase*—all conditions are like consignment purchase *except* the buyer takes title upon receipt of goods. *See also* Consignment purchase.

*Merchandise mart*—a permanent marketing and display facility where producers rent space to exhibit their products for visiting marketing people. Usually not open to the general public.

*Merchandising*—efforts by: (1) manufacturers and wholesalers to encourage sales promotion activities by retailers, (2) marketers to influence consumers at the point of sale by other than personal selling, and (3) marketers to plan the best marketing mix to stimulate consumption.

*Merchant wholesalers*—wholesalers who take title to goods they sell and may be full-function or limited-function merchants.

*Metamarketing*—literally means changed marketing or beyond marketing. It describes the process of developing and maintaining exchange relations involving products, services, organizations, persons, places, or causes.

*Metric system*—a worldwide standard of weights and measures based upon the decimal system of ten and multiples of ten.

*Middlemen*—*see* Marketing intermediaries.

*Milline rate*—a hypothetical cost standard established by dividing the population reached into the cost of one agate line times 1,000,000.  $\frac{\text{Cost 1 agate} \times 1 \text{ million}}{\text{population}}$  is the formula used as a basis for comparing advertising costs among media.

*Missionary salespeople (selling)*—salespeople who are “selling goodwill” by offering technical or service assistance that aids the buyer in selling that firm’s products. Used extensively in the marketing of cosmetics. *See also* Push money or spiff.

*Model stock*—the assessment of the amount of inventory and floor space required for a desired assortment of goods.

*Monopolistic competition*—a market situation with many sellers, each of which differentiates its products or services, physically and/or conceptually, and which has some degree of control over prices.

*Monopoly*—a market condition where one supplier controls either a legally stipulated portion or the total supply.

*Monopsony*—a market with a single buyer. An example is milk producers selling to a grocery chain.

*Mores*—a set of strong cultural values prescribing certain behavioral patterns.

*Morphological research*—an approach to technological innovation that analyzes products in detail seeking new ideas. Similar to brainstorming.

*Motivation research*—application of psychological and other probing techniques to obtain a better understanding of why people respond as they do to products, advertisements and other marketing stimuli. The in-depth interview is one technique.

*Multichannel marketing*—the blending of different communication and delivery channels that are mutually reinforcing in attracting, retaining, and building relationships with

consumers who shop and buy in the traditional marketplace and marketspace.

*Multidimensional scaling*—a statistical technique for evaluating the overall image of a marketing unit.

*Multinational marketing*—the application of a common global strategy or policy within individual international segments.

*Multiple branding*—the opposite of family branding. Each individual item in a product line is given *its* own brand identity.

*Murphy's Law*—“If anything can go wrong, it will.”

NAM—National Association of Manufacturers.

NASA—National Aeronautics and Space Administration.

*National account*—a major customer of a manufacturer or channel agent who is usually given special service or preferential treatment.

*Natural trading area*—an area of shopping related to consumer purchase patterns. *See also* Fringe trading area; Reilly's Law of Retail Gravitation.

*National brand*—a widely distributed brand offered by manufacturers. *See also* Manufacturer's brand.

*National Income*—total net earnings of all factors employed in the production of goods and services in a particular period of time.

*Need-satisfaction sales approach*—a technique of selling that suggests each consumer has a unique need structure requiring a different presentation or mix.

*Needs*—physiological or psychological drives that move one toward a particular course of action. Similar to wants and motives.

*Negative entropy*—the realization that without constant maintenance all systems tend toward decay or destruction.

*Negotiated price (contract)*—when conditions of sale are arranged individually.

*Neighborhood business district*—smaller than a neighborhood shopping center, usually with a supermarket and/or variety store located on a main street and selling primarily convenience goods.

*Neighborhood shopping center*—characteristics include: (1) serves a population of 10,000 or less, (2) largest store is a supermarket and/or drug store, (3) contains 15 to 50 units, (4) consumers live within a five to ten minute driving time, and (5) sells mostly convenience items.

*Net*—a term used to indicate that the full payment amount is due.

*Net lease*—exists when the marketer pays all indirect expenses for maintenance of the unit.

*Net present value (NPV)*—a discounted cash flow technique related to the return of capital invested plus a minimum acceptable return on the expenditure.

*Net profit*—the difference between selling price and total cost. Also called net income.

*New product development*—firms may have a separate department or division to develop new products. The development process includes exploration, screening, analysis, testing, verification, and implementation.

*NNI*—net natural increase in population. *See also* Crude birth rate (CBR); Crude death rate (CDR).

*Noise (advertising)*—the effect of competing advertising on a given firm's advertising efforts. Goodrich's use of Goodyear's blimp in its commercials creates “noise.”

*Nolo contendere*—a plea of no contest to a legal charge, usually resulting in an agreement

between the two parties.

*Nondurable goods (consumables)*—products with a short usage span. Food, gasoline, soft drinks and alcoholic beverages are consumables.

*Nongoods services*—music, education, or nonproduct services.

*Nonprice changes in demand*—result from shifts in technology, or the changing habits, attitudes, and motives of the population.

*Nonprice competition*—competition based on service, location, depth of assortment, or other nonprice factors.

*Nonresponse factors*—analysis of those units in a survey that do not respond to evaluate if the reasons for nonresponse could invalidate the entire sample.

*Nonstore retailing*—all vending, mail-order, door-to-door, telephone, and wagon merchandising that do not use a permanent or conventional store facility.

*Null hypothesis*—a statement to be tested, usually proposing that there *is* no connection or difference between two variables. The researcher generally wants to be able to reject this hypothesis and conclude that the variables are related. *See also* Market research.

*Observation*—a technique of physically viewing individual's behavior patterns while avoiding direct contact. In some cases direct contact for other reasons may be used as an excuse to view behavior. *See also* Market research.

*Odd pricing*—the setting of prices below even dollar values, such as \$3.97 or \$1.86. Odd prices may be perceived as lower by consumers. Clerks are required to make change, thus enhancing case control.

*Off-line*—computer activities taking place without control by the central unit. *See also* On-line.

*Oligopoly*—a situation where sellers are few and offer similar products. The supply offered by any single producer materially affects the market price and all are extremely sensitive to another's actions. Sometimes called partial or competitive monopoly.

*On-line*—when a part of a computer system is under control of central unit. *See also* Off-line.

*One hundred percent location (prime)*—the best possible site for a marketing unit.

*Open assortment*—a customer is encouraged to look at a wide range of types or styles.

*Open bidding*—the selection of a vendor, based on a dollar bid, to supply designated products or services.

*Open-to-buy*—refers to the amount of uncommitted money available to a buyer for purchases.

*Open credit*—usually implies that the customer will pay full amount when billed.

*Open dating*—the marketing of items with a date beyond which contamination or deterioration may affect usage.

*Open systems*—units that are affected or have the potential to be affected by external factors in the environment.

*Operations research*—the application of quantitative or scientific methods of analysis to problems in business. Techniques include linear programming, forecasting, queuing, simulation and probability theory.

*Opinion leader*—a person who influences others. *See also* Horizontal fashion trend; Vertical opinion leadership.

*Opportunity cost*—implies that any decision includes the entire range of alternative courses foregone by the chosen action. Marriage implies giving up all other possible

partners.

*Optical character recognition (OCR-A)*—a system similar to the Universal Product Code but can handle more information and coded items can be read by humans and machines. Another similar system is magnetic ink character recognition.

*Optimal product mix*—the mix or combination of products in a product line or assortment that will best serve the customer and achieve the firm's objectives.

*Optimization*—the balancing of parameters and variables to achieve a desired output or result.

*Order cycle time*—the lapsed time between order placement and delivery to the consumer.

*Order filling (receiving)*—the response, either immediate or by processing, to a customer's demand.

*Order getting*—a dynamic, rather than static, process of generating sales. *See also* Order taking.

*Order taking*—a static process of filling customer needs, as opposed to generating sales. *See also* Order getting.

*Organized behavioral systems (OBS) model*—a behavioral model composed of physiological, psychological and socio-psychological components that attempts to explain how all organized systems, from individuals to nations, react to their environments.

*Original data*—*See* Primary data

*Output device*—any device capable of translating the electrical impulses of the computer into a form recognizable for human perception. Printers, CDs, and visual displays are examples.

*Outshopping*—when customers make purchases outside their local area.

*Outside buying organization*—a marketer uses a professional buying agent.

*Overstored area*—when too many marketing units of the same type are selling to the same market.

*Owned-goods services*—the use of professional servicepeople to work on privately-owned goods or property.

*Ownership utility*—the final act of a consumer taking title at the time of purchase.

*Packaging*—the wrapping or enclosing of goods for the purpose of promotion, safety, or convenience. Consumers may want the container more than the product, as when hosiery is packaged in decorated tin container.

*Parasite*—a marketing unit that has no trading area of its own and is not responsible for generating traffic. Shops in hotel lobbies and small stores in shopping malls, such as key cutting or ear piercing, are examples.

*Patent*—the sole right to produce, sell, or use an invention.

*Pavlovian model*—behavioral model that says a consumer is conditioned by repetitive marketing media stimuli. The consumer responds by expressing these preconditioned wants and needs in the market place.

*Pay-out period*—the initial period of negative cash flow before reaching break-even.

*Payola*—money or favors given to public or influential figures who promote something or someone as an aside to their regular activities.

*Peer group*—those individuals with whom one has common interests or daily association due to work or recreational activities.

*Penetration pricing*—the setting of a new product or service price at a low level to discourage competition and build market loyalty.

*Percentage lease*—where a marketer’s rent is related to that store’s total sales or profit on a percentage basis.

*Perceptual distortion*—the extent to which interviewees’ assessments are distorted by their own biases.

*Perceptual Inventory*—a running account of goods, including returns, transfers, and deliveries.

*Personal income*—total income from all sources before taxes.

*Personal selling*—oral presentation in a conversation with one or more prospective purchasers for the purpose of selling goods or services.

*Personality*—stable and enduring characteristics of an individual’s behavior that can serve as a basis for analysis and prediction.

*Personalized selling*—a situation where the buyer is known and relates to the seller and the sales unit.

*Phantom freight*—*see* Basepoint pricing.

*Physical distribution*—movement of goods from point of origin to their final destination.

*Piggyback*—shipping of goods in containers that move by both truck and train.

*Pilot*—a single television program intended to develop into a series if sponsors are impressed or sold.

*Pipage*—refers either to the actual transmission of contents by pipelines or to the charges for transmission service.

*Place utility*—having a good or service at the best location for enhancing its sales potential. White shoes in Florida during the winter months is one example.

*Planned obsolescence*—may either be functional obsolescence (designed to wear out at a given time) or style obsolescence by manipulating change.

*Point-of-purchase displays (POPs)*—sales promotion displays located at customer purchase points.

*Polycentrism*—each market is unique and must be treated separately.

*POS*—point-of-purchase scanning of data imprinted on products by electronic methods.  
*See also* Optical character recognition.

*Positioning*—a term related to the identifying of specific market segment needs and then designing a specific product or service to fit the niche.

*Possession utility*—that which is received has greater value than that which is given in exchange. Also called ownership utility.

*Postindustrial society*—a stage of socioeconomic development in which consumers are less materialistic and more concerned with individual quality of life. Services represent an increasingly greater share of GDP.

*Potential demand*—estimates of forthcoming changes in demand patterns.

*Pro- and post-transactional*—the time periods immediately prior to and following a consumer purchase.

*Preclusive buying*—the buying of some item to prevent its use by another.

*Predatory pricing*—pricing of items in a way that eliminates competitors. A large grocery chain could enter a small market and price small competitors out-of-business and then raise prices to regain losses.

*Premium-priced products index (PPPI)*—an index estimating the potential for sales of

premium-priced goods in a given market.

*Prerecorded data*—see Historical data.

*Price discrimination*—the act of selling basically similar goods or services at different prices to different consumers.

*Price elasticity*—see Elastic demand.

*Price fixing*—when two or more firms collectively agree to maintain a common selling price.

*Price inflator*—the addition of special features or extras to inflate the published selling price.

*Price leadership*—see Umbrella pricing.

*Price lining*—the setting of a minimum-maximum range for the types of goods or services carried, with price points or steps within the price range.

*Price reducer*—the practice of giving cents-off coupons, kickbacks, or rebates in order to reduce the advertised price.

*Price spread*—the difference between total cost and selling price. The spread amount includes covering all distribution costs from seller to buyer. *See also* Mark-up/mark-on at retail.

*Primary data*—data gathered for a specific purpose and tailored to individual inquiry. Its gathering is expensive and time consuming.

*Primary demand*—the demand for a class of products as opposed to demand for a specific brand.

*Prime location*—see One hundred percent location.

*Private carrier*—a transport carrier who provides services for a single firm as opposed to a common carrier.

*Problem detection study*—consumers may not know what they like but they are good at expressing what they don't like about something. Items are modified to overcome the negative aspects consumers identify.

*Problem inventory analysis*—consumers are shown a list of problems previously identified and are asked to suggest products to overcome the problems.

*Product differentiation*—the adding of extra or different characteristics to separate one firm's goods or services from those of competitors.

*Product liability*—a consumerism term implying that sellers must respond to claims by buyers when products do not meet expected standards.

*Product life cycle*—the stages of product evolution, including research and development, introduction, growth, maturity and decline, and the marketing activities related to each stage.

*Product line*—a group of closely related items (camera equipment and accessories) manufactured or distributed by a single marketer.

*Product manager*—a person responsible for a specific item in its early stages or until the new item is a permanent part of the product-line. Some companies have permanent or continual product manager positions.

*Product mix*—the overall classes of goods handled by any single marketer.

*Product placement test*—this is a research term, sometimes called a home audit, referring to the placement of a good with a consumer for appraisal.

*Product planning*—the activities of manufacturers and intermediaries which are designed to adjust the merchandise produced, or offered for sale, to consumer demand.

*Product proliferation*—a product line with individual units barely differentiated from others. It may be impossible to define a “full line.”

*Productivity*—the amount each worker produces in a given period of time.

*Profit and loss statement*—see Income statement.

*Profit Impact Marketing Strategies (PIMS)*—a model for estimating the impact on profit of a change in the marketing mix.

*Profit margin planning*—goods are priced on a formula of:

Retail expenses & Profit & Reductions

Net sales & Reduction

= Required markup percent.

*Promotional allowance*—a cash subsidy to allow intermediaries to promote a seller’s goods.

*Promotional blend*—the final result of expenditure decisions on how the budget will be allocated among the items on the promotional mix. *See also* Promotional mix.

*Promotional mix*—a strategic combination of advertising, personal selling, sales promotion, publicity, and other promotional tools employed to achieve sales objectives.

*Propaganda*—a term (usually with negative overtones) that implies an attempt to undermine or injure another unit’s identity.

*Prospecting*—the act of searching for new customers.

*Psychodrama*—a simulation playacting technique in which participants act out a marketing situation.

*Psychological pricing*—the use of odd-even or other pricing techniques to manipulate the consumers response.

*Publicity*—free or unpaid-for information about a firm or individual. It can be positive or negative.

*Public relations*—attempts by firms, institutions, or individuals to promote favorable public attitudes about their activities.

*Public warehouse*—an open-to-anyone, rental-storage facility. A booming business in many cities.

*Pulse services*—market research services that identify the number of radio listeners exposed to a given message.

*Purchasing power*—refers to the individual user’s ability to buy.

*Push-money (PM)*—a technique of giving salespeople or buyers extra products, promotional funds or cash for extra selling efforts (also called spiff). *See also* Missionary selling.

*Push-pull strategy*—manufacturers and intermediaries attempt to “push” their goods up the channels to the consumer while also advertising to the final consumer who is encouraged to ask for or “pull” the goods to final point-of-purchase.

*Quadratic programming*—an operations research technique for analyzing problems with nonlinear relationships.

*Qualifying*—an activity wherein a seller determines the fitness of a potential buyer to pay or to represent the qualities the seller desires.

*Qualitative standards*—activities or attitudes that are difficult or impossible to quantify.

*Quantitative standards*—highly measurable activities that result in standard measurements that can be compared to preset norms.



*Quantity discount*—a reduction in selling price for volume purchases.

*Queuing theory*—an operations research technique for establishing the best way of handling a sequence of events (grocery checkouts, gas pumps) to avoid bottlenecks yet minimize cost.

*Quota sampling*—each interviewer is given a few characteristics (sex, age, marital status) and asked to interview a certain number of respondents.

*Rack Jobber*—a wholesaler who sets up and maintains merchandise displays in retail outlets.

*Random error*—an error, in a collection of data, that is induced by chance and may exist in all survey or sample data.

*Random sampling*—in a truly random sample each unit in the population has an equal chance of being included; the random sample accurately reflects characteristics of its population.

*Range*—the difference between the smallest and the largest item in a dispersion.

*Rapid cash recovery*—a pricing technique intended to regain cash, operating capital, or maintain or increase liquidity.

*Raw materials*—materials used in the production of other goods and services for the ultimate consumer. *See also* Industrial goods.

*Reach*—the actual number of persons exposed to any given media message.

*Real Income (real wage)*—the actual amount of goods and services that wages will buy, determined by an index of price levels compared over time.

*Rebate*—an amount returned from a payment: a deduction or discount upon payment.

*Recession*—a minor reduction in economic activity usually resulting in larger inventories and higher unemployment.

*Reciprocity*—an agreement to do for or buy something from a customer in turn for their business. Also called reciprocal trading.

*Recycling*—the reprocessing of used goods to generate a secondary source of raw materials.

*Reference group*—the type of other individuals that a person uses in setting standards for his or her own behavioral norms or values.

*Regiocentrism*—groupings of markets are viewed as having enough common characteristics to be treated as segments.

*Reilly's Law of Retail Gravitation*—a geographic delineation of a point between two shopping areas in an attempt to establish the primary and secondary trading area of each. *See also* Fringe trading area; Natural trading area.

*Reinforcement*—response to an act or behavior that encourages a desired result in the participant.

*Reliability*—the ability of a research instrument to produce consistent results in repeated trials.

*Replacement demand*—demand resulting from obsolescence, depreciation, or wear of capital or durable goods.

*Repositioning*—the adjustment of an existing good's characteristics to differentiate it from competitors or other items in a product line. *See also* Market segmentation.

*Research design*—a planned format for exploring a predetermined inquiry or problem.

*Reseller brand*—a brand identified with a marketing channel member whose function is distribution or marketing.

*Resident buyer*—a purchasing agent who lives in a major market and represents or supplies assistance to other buyers.

*Respondent*—a participant in a research survey or study.

*Restraint of trade*—the act of reducing competition.

*Retail audit*—a thorough identification of all elements in the retailing process with a weighting of relative importance and how each element interacts with other elements.

*Retail cooperative*—cooperation by a group of small retailers (for example, independent grocers) who join together to buy at wholesale prices equal to those of larger competitors.

*Retailer*—a marketer who sells directly to the final consumer.

*Retailing*—the act of selling to the final consumer.

*Return on investment (ROI)*—a finance/accounting yardstick that relates sales or profits to the size of the assets used in their generation.

*Revenue*—equals price times the quantity sold; the result of turning assets into cash; government income from taxes.

*Revolving credit*—a financial charging arrangement allowing consumers to maintain a level of indebtedness over time.

*Role playing*—pretending to be something one is not. *See also* Psychodrama.

*Roll beck*—the act of reducing prices or other standards to an earlier level.

*Rolling stock*—the physical property of a railroad or trucking firm.

*Sales analysis*—the study of internal sales data.

*Sales branch*—a warehouse/inventory-based unit for a sales territory that assists salespeople in competing with independent local marketers.

*Sales commission*—a monetary payment based on a percentage of units sold.

*Sales forecast*—future projections of expected demand levels for selected goods or services. *See also* Serial correlation.

*Sales ledger*—a day-to-day account of actual sales.

*Sales management*—the activity of directing the sales effort. It includes hiring, training, motivating and coordinating the sales force in accordance with a firm's objectives.

*Sales promotion*—selling aids, often at point-of-purchase, which reinforce other types of promotion.

*Sales quota*—an assigned volume or target for a given marketing unit. An important component in sales forecasting.

*Sales territory*—a designated geographical area assigned to selected salespeople.

*Sampling*—the selection of representative groupings from a larger population. *See also* Market research.

*SBA (Small Business Administration)*—an agency of the federal government designed to support small businesses that may not qualify for regular financial aid and to provide research and professional assistance.

*SCA (Standard Consolidated Statistical Area)*—a census combination of one or more SMSAs to form a large supermetro complex.

*Scrambled merchandising*—represents attempts by retailers to carry something to please everyone. Many drug chains' products range from garden to laundry and eyeglasses, in addition to standard items.

*Secondary data*—all data collected for purposes other than that related directly to the immediate problem. *See also* Market research.

*Selective distribution*—only certain outlets are chosen to avoid saturation and promote dealer cooperation.

*Sell-service store*—a sales unit where goods are openly displayed for viewing and collection. The buyer carries chosen items to a checkout corner. Each department may have one serviceperson.

*Selling agents*—an agent intermediary who sells all or a major part of a client's output and usually has more independent options than manufacturer's agents.

*Semantic differential*—a market research technique that attempts to map word meanings; often used in brand name research.

*Serial correlation*—a technique used in sales and market forecasting using past trends as the basis for future projections. Similar to time series forecasting.

*Service*—an intangible good performed by a professional or technical person or an activity related to the maintenance or repair of owned goods or for individuals.

*Shopping goods*—goods for which buyers are willing to seek several sources and spend more time in comparing and decision-making. Higher unit value is a typical characteristic.

*Shopping matrix*—a grid comparing the number of items examined and the number of stores visited.

*Shrinkage*—unexplained loss of inventory, usually due to theft.

*Simulation*—the building of mathematical models to represent real life situations, to reduce risk and uncertainty prior to resource commitment.

*Single-line store*—see Limited line store.

*Skimming*—see Market skimming. *Social marketing*—efforts by firms, groups or individuals to influence attitudes of the public about themselves or other personal interests they are promoting.

*Social responsibility*—a view held by consumers and public officials that profit-oriented units should assume a share of social support activities and environmental impact awareness.

*Socioeconomic status*—a classification usually based on income level and occupation of the head of household or individual.

*Software*—includes all programs, codes, or other instructions for computer operations.

*Specialty good*—a good for which a consumer has a very high preference and may be unwilling to accept substitutes.

*Spiff*—see Push money.

*Stagflation*—an economic condition represented by high inflation and depressed economic activity usually with rising levels of unemployment.

*Standard deviation*—a statistical term referring to the distribution of a group of data around the average. It is a measure of variability.

*Standard Industrial Classification Code (SIC)*—a digital coding system that classifies industry types and firms into groups and subgroups.

*Standard Metropolitan Statistical Areas (SMSAs)*—socioeconomic census areas defined by population and economic-geographic characteristics.

*Starch service*—service by a research or polling agency to assess how many consumers see a given magazine ad.

*Statistical demand analysis*—a dependent variable is assumed to be related to an independent variable; i.e., age and income. Also called correlation analysis.

*Statistical Interpretation*—the processing, massaging, or analysis of data using mathematical techniques. *See also* Market research.

*Stock turnover*—refers to the rate of merchandise movement from inventory to goods sold.

*Stockout*—the absence of a given inventory.

*Storyboard*—the preproduction layout of a TV commercial using drawings or pictures to outline content.

*Straight traffic flow*—*see* Grid-iron traffic flow. *Stratification*—a research term of choosing which universe or population will be used in a sample survey.

*Stratified sampling*—the narrowing of random samples into groupings with common characteristics. *See also* Market research.

*Strategy*—a predetermined course of action for implementing a plan, program, or objective.

*Subliminal perception (advertising)*—stimuli that are perceived but lie below the level of normal consciousness.

*Suboptimization*—the achievement of objectives that are recognized to be less than full potential.

*Substitute product*—demand for one product decreases as demand for another increases; i.e., compact cars versus full size.

*Successive approximations*—statements about a problem that come closer upon refinement to a definitive result. A feature of a research technique called iteration.

*Suggestion selling*—the encouraging of the buyer of one item to also buy related or theme/sale items. Accessories with clothing is a typical example.

*Supermarket*—a retail good outlet operated on a self-service basis in excess of 2,000 square feet and three or more checkout points.

*Superstore*—a retail unit in size between a supermarket and a hypermarket. Usually located in a shopping center and carrying a wide range of goods and household items on a self-service basis.

*Supply*—the availability of goods and services. *See also* Demand and supply curves.

*Symbolic models*—of which mathematical models are an example; used in simulation exercises of anticipated or actual business situations. *See also* Simulation.

*Synergism*—the whole is greater than the sum of the individual inputs when performed collectively.

*Systems approach*—an attempt to understand and relate all parts or components of a system to achieve desired result.

*Tachistoscope*—called T-Scope or variometer. An instrument used to measure viewer cognizance of advertising messages by evaluating response time and eye movement. *See also* Subliminal perception.

*Tactics*—methods or procedures to accomplish immediate or short-term goals, or support the overall strategy or plan.

*Tangible products*—durable or hard goods as opposed to services or intangibles.

*Target marker (population)*—any specific segment chosen by the seller for its unique characteristics.

*Target return*—monetary or profit objectives set prior to a marketing activity.

*Tariff*—or customs duty; a price list or scale of charges such as shipping rates.

*Taxonomy*—any specific, systematic classification scheme.

*Technological diffusion*—see Diffusion process.

*Teleshopping*—consumers order by phone or phone-computer hookup after viewing products on closed circuit or cable television or home video tape displays.

*Tertiary Industries*—a term used to identify the non-product or service industries.

*Test market*—a selected geographic segment used for experimenting on a sample basis.

*Test marketing*—usually related to launching a new product in a test market; designated to limit cost and determine saleability prior to a full-scale marketing effort.

*Thematic merchandising*—a retail selling term referring to the promotion of a central theme or focus.

*Third World countries*—economically underdeveloped nations with gross national products usually below \$500 per capita. Formerly called underdeveloped and then less developed countries.

*Tie-in-products*—products and services related to the purchase of other goods or services.

*Time series forecasting*—the use of past data to build projections for the future. Series of seasonal data are popular data sources.

*Time utility*—having a good or service available when needed or desired by the consumer.

*Total cost*—fixed cost plus variable cost = TC.

*Total product concept*—see Generic product.

*Trade association*—a voluntary grouping of businesses concerned with common commercial or professional interests.

*Trade channel* or *channel of distribution*—the route taken or sequences of marketing institutions through which goods move from producer to consumer.

*Trade discount*—(also called a functional discount); a payment, usually in the form of a discount, to an-other channel member or buyer, by a manufacturer, for performing a marketing-distribution function.

*Trade In*—a product given to the seller for which the buyer receives a credit against the purchase.

*Trademarks*—a logo, motif, or wording legally registered for the purpose of identifying and differentiating one firm's goods from all others; a legal term that includes only those words, symbols, or marks designated by law.

*Trade show (fairs)*—exhibits of goods or demonstrations offered by sellers on a temporary basis to show a new line or technique.

*Trading area*—the primary and/or secondary market from which a firm attracts its customers.

*Trading stamps*—stamp-like coupons that have value and can be redeemed for goods. A form of forced savings or a discounting technique. Began in the 1920s and was popularized in the 1960s.

*Transaction price*—the selling price or the amount for which the item is actually sold.

*Transfer price*—the price at which one unit in the same firm sells to another unit. Related to profit or cost center concept.

*Transloading*—shipments are broken into smaller components for rapid delivery to multiple destinations.

*Transshipment*—goods are handled by more than one class or type of carrier by prior arrangement.

*Truck wholesaler*—a marketing intermediary who delivers and sells.

*Truth-in-Lending Act*—a U.S. statute known as the Consumer Credit Protection Act (1968). Requires sellers to disclose annual interest rates on loans and credit sales.

*Trickle-across theory*—see Horizontal fashion trend.

*Ultra vires acts*—a legal term referring to one who goes beyond the powers allowed by statute, incorporation, contract or granted authority.

*Umbrella pricing*—when the prices in an industry are set by one firm and followed by others. The price set may be more favorable than could be achieved independently.

*Unabsorbed cost*—overhead expenses are assigned to be covered by an estimated volume of sales, but that level is not reached.

*Uncontrollable costs*—costs that are not within the discretion or ability of a decision-unit to influence directly.

*Underdeveloped countries*—see Third World countries.

*Undifferentiated marketing*—a firm produces a single type good designated for a specific single segment.

*Undifferentiated oligopolies*—industries with a small number of large firms selling homogeneous goods, i.e.; steel, copper, nylon, aluminum industries.

*Uniform commercial code*—a set of laws to regulate commercial activities to benefit and protect both buyers and sellers.

*Uniform delivered price*—see Base point pricing.

*Union label*—an identification mark, stamp or statement to the effect that the product was made with union labor. Related to “Buy American” motto.

*Unique selling point (USP)*—the basic feature or characteristic emphasized in the selling of a good or service.

*Unit cost*—the total variable and fixed cost of a single unit.

*Unit pricing*—prices quoted on the basis of some standard measure, i.e., ounces, litre, pound.

*Unitary elasticity*—a neutral stimulus-response situation where a change in price brings about the identical change in demand.

*Unitizing*—the combining of many small units into a large containerized single unit. Reduces theft, damage, and cost.

*Univariant (univariate)*—a situation with a single variable involved.

*Universal Product Code (UPC)*—a coding system for visual scanners used at check-out or point-of-purchase locations to electronically record price and content information.

*Universe*—a marketing usage referring to the total population from which a sample is drawn for a given survey or study.

*Upset price*—also called reserve or floor price, or that price at which the item is withdrawn from the market—such as at an auction.

*Validity*—the ability of a research technique to measure what it was intended to measure and not to be influenced by peripheral factors. *See also* Market research.

*Value added tax*—a tax assessed at each stage of product development and movement. The tax is only on the difference in value from the last stage to the new stage. Often products exported are exempt from value added taxes, which make their prices more competitive internationally.

*Value analysis (engineering)*—a technique for monitoring each stage of a project/product to gain maximum economies.

*Variable cost*—the range of costs (goods, materials, labor) that change with differing

levels of output.

*Variance*—a statistical measure related to the dispersion of points on a frequency distribution.

*Veblen goods*—“as the price increases so does the demand.”

*Veblenian model*—a behavioral model viewing the consumer as a product of environmental conditioning.

*Vendor empor*—“let the seller beware.”

*Venture team*—a group of specialists with varying skills whose task is to innovate and/or to evaluate new products.

*Vertical Integration (channel integration)*—one firm owns all the channel intermediaries between production and consumption.

*Vertical opinion leadership*—often called “snob-appeal” in that one is influenced by someone perceived as “above them” or in some way superior.

*Vertical marketing systems*—see Contractual vertical marketing systems; Corporate vertical marketing systems.

*Vertical price fixing*—the ability of suppliers to set the selling price for their products at any given level in the channel. The Consumer Goods Pricing Act of 1975 banned all interstate fair trade regulations. However, consignment sales achieve much the same result.

*Visual display unit*—an output device used with a computer that prints information from the central processing unit.

*Voluntary chain*—a group of marketers (usually retailers) who engage a wholesaler to buy in large quantities to enable the smaller independent stores to compete with chains.

*Wage-price spiral*—a vicious circle (similar to a dog chasing its tail) where increases in price lead to increased demand for higher wages and so on.

*Wagon wholesaler*—similar to truck jobbers or to those intermediaries who deliver and sell. Often perishable items are supplied regularly over an established route: bananas are one example.

*Warehousing*—the storage of a good with the intention of furthering or enhancing time, place, or possession utilities.

*Warranty*—a guarantee, usually in writing, that the seller will replace or refund monies if the item is defective or the consumer is dissatisfied. A time limit is common in most warranties.

*WATS (Wide Area Telecommunication Service)*—a long-distance telephone network used in research surveys that reduces cost per call. Called WATSline.

*Webb-Pomerene Export Trade Act*—passed in 1918 to allow U.S. firms to fix prices for foreign trade goods without violating the Sherman Antitrust Act.

*Weber’s Law*—the more intense the original stimulus, the greater must be the change in intensity to bring about a noticeable difference in response.

*Weighted average*—an average in which the numbers to be averaged are assigned certain values or weights. Weighted averages are frequently used to construct index numbers.

*Weighted sample*—each unit is given a specific bias prior to study, as opposed to random sampling.

*Wheel of retailing*—a theory of how retail institutions emerge, grow, mature, and are then replaced by a new emergent cycle.

*Wheeler-Lea Act*—amended the FFC Act to ban unfair or deceptive business practices.

*Wholesaler*—a marketing intermediary located in the channel between the original supplier and the buyer-user. Jobber and distributor are other wholesaler titles.

*Wholesaling*—the act of reselling goods as they move forward toward the ultimate consumer, to whom wholesalers normally do not sell directly.

*Windfall profit*—earnings or profit in excess of that planned or expected or “normal.”

*Write-off (down)*—a reduction of the value of an asset or writing-off of bad debts.

*Zone pricing systems*—zone pricing is similar to base point except more points or zones may be used. *See also* Base point pricing.