Introduction to Marketing II 2e (MKTG 2005)

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2nd EDITION

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The open textbook *NSCC Introduction to Marketing II (MKTG 2005)* is an open textbok adapted from Lumen Learning's openly licenced online course *Principles of Marketing*.

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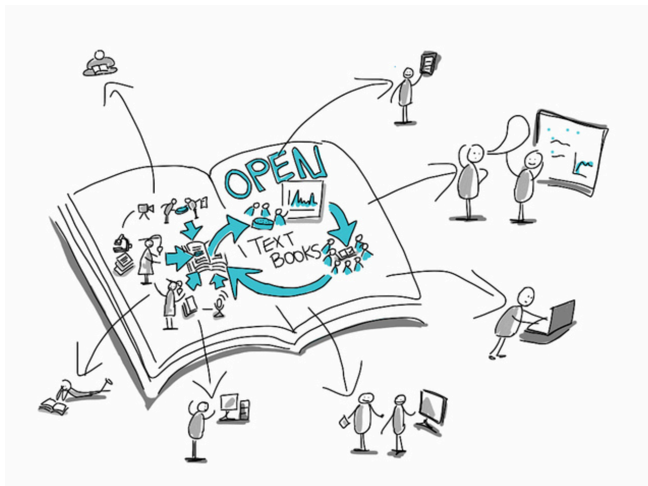
Dedication

Nova Scotia Community College faculty join with all the contributors in dedicating this book to reducing the cost of education in business.

This book is also dedicated to the students who use it to advance their learning and to improve the quality of life in their communities.



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Acknowledgements

Nova Scotia Community College (2021 edition)

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The content was modified to suit the emerging needs of teachers and learners. The text was also integrated into a Learning Management System with customized PowerPoints and Quizzes – a Brightspace shell.

Faculty team members for the 2021 revision project included: Di Best, Deirdre Evans, Jules Fauteux, Helen Graham, Teri Green, Melanie Grant, Tara Laceby, Phyllis LeBlanc, Harold Lowe, Shari Mallory, Bonnie O'Toole, Barbara Powers, Rankin MacMaster, Terry Sulis, and Wendy Tarrel.

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About Lumen Learning and the original edition of this work

Lumen Learning's mission is to make great learning opportunities available to all students, regardless of socioeconomic background.

The Lumen online course *Principles of Marketing* was developed by Lumen Learning. Primary sources for the course include Introducing Marketing by John Burnett, Boundless Marketing, and videos provided by the BBC.

Lumen OER courses apply learning science to engage students and better support the learning process. Lumen materials aim to deliver an active learning experience. They include text, images, videos, assessments, directed feedback, practice questions, simulations, and other interactives that invite students to apply their knowledge, improve their understanding, and perform better. Term over term, Lumen's Waymaker courseware makes it possible to use learning data to identify where content improvements are needed. We work collaboratively with faculty and subject matter experts to develop and test iterative, continuous improvements aimed at increasing efficacy and learning.

We do this by using open educational resources (OER) to create well-designed and low-cost course materials that replace expensive textbooks. Because learning is about more than affordability and access, we also apply learning science insights and efficacy research to develop learning activities that are engineered to improve subject mastery, course completion and retention.

Chapter 9: Branding

Learning Objectives

- Why branding matters
- Describe the elements of brand and how brands add value to an organization's products and services
- Define brand equity and its role in measuring brand strength
- Explain the how marketers use brand positioning to align marketing activities and build successful brands
- Explain the importance of name selection in the success of a brand
- Discuss the role of packaging in the brand-building process
- Explain key strategies for developing brands including brand ownership, brand and line extensions, co-branding and licensing

9.1 Why It Matters: Branding

Why analyze elements of a brand and explain how the brand-building process contributes to the success of products or services?

Pop Quiz!

Instructions: *Grab a piece of paper and jot down answers to the following questions:*

- What is your favourite brand of clothing?
  - Why is it your favourite?
  - List a word or phrase that describes how this brand makes you feel:
- What is your favourite brand of car?
  - Why is it your favourite?
  - List a word or phrase that describes how this brand makes you feel:
- What is your favourite place to stop for coffee, donuts, a bagel, or some other snack?
  - Why is it your favourite?
  - List a word or phrase that describes how this place (which is also a brand) makes you feel:

Coffee art in 3D

Set the paper aside for a moment and keep reading. We'll come back to it.

The Power of Brand

Brands are images that exist in your mind–and in the minds of other consumers–about the things around you: products, services, places, companies, people, entertainment, and so on. In a modern world that offers many choices, brands help simplify the decisions you make about what to buy, where to go, and how to spend your time.

Brands are powerful. When you explain why a brand is your favourite, you probably identify some of the traits or features of its products or services that explain rationally what makes it better than others. But rational explanations are just part of the story. Strong brands are powerful because they also tap into emotions. They make you feel a certain way, and that feeling is hard for any other brand to replicate—let alone replace.

Brands can cause people to spend more money on a product than they would otherwise. Brands can create a sense of loyalty and even lock-in—that haloed point where a tribe of dedicated fans always chooses one company's product or services over another.

So how do they do it? What's happening in marketing departments to create these powerful, emotional assets called brands?

What Creates a Brand Experience?

Go back to your pop quiz responses. Pick one of your favourite brands and list 2–3 things the company behind the brand provides to help make that favourite brand so memorable or special for you. It could be any of the following things–or something else entirely:

- Brand name
- Product design
- The shopping experience
- The post-purchase experience
- People or communities associated with the brand
- Product packaging
- Advertising
- Social media activity
- Customer service
- Comfort, convenience, or ease-of-use
- Attitude or personality of the brand
- Special information, deals, or promotions targeted to you
- Membership or loyalty programs
- Pricing or value for the money
- Events or activities tied to the brand
- Something else?

Marketers use these tools and many others to create the total experience with a product, service, or company that turns it into an actual "brand." In this module, you'll learn how a brand starts and discover what it takes to coordinate all the different parts of the unique brand.

The Paradox of Brand

Although organizations take all kinds of measures to create and build brands, in fact, the brand *isn't* just what the company says it is. In the end, the brand is what customers *believe* it is, as the following quote explains:

So what exactly is a brand?

A brand is a person's gut feeling about a product, service, or organization.

It's a gut feeling because people are emotional, intuitive beings. It's a person's gut feeling because brands are defined by individuals, not companies, markets, or the public.

It's not what YOU say it is.
It's what THEY say it is.

—Marty Neumeier, author and branding consultant, Neutron LLC

Companies can do a lot to create and build brands, but the net impact and value is what happens inside the mind of the consumer. The supreme challenge of brand is to make your vision of your brand the same thing other people experience and believe about your brand.

Don Draper of Mad Men captures (in the antiquated context of the 1950's) the difference of a good brand experience and how it can create a feeling.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=38#oembed-1

Read on to learn more.

Image Credit

Awe, J.C. (2013, February 7). Coffee art in 3D [Photograph]. CC BY 2.0 Flickr. https://www.flickr.com/photos/qqjawe/8452733327/

9.2 Elements of Brand

Learning Objectives

- Define brand
- Explain elements that contribute to a brand and the brand-building process
- Explain how brands contribute value to organizations and consumers
- Describe different types of brands
- Describe the elements of brand and how brands add value to an organization's products and services

If you walk through a parking lot at school, work, or the local mall, chances are good that you could identify all the car brands just by looking at hood emblems. When you spot someone with a "swoosh" on their T-shirt, you probably already know they're wearing Nike-brand apparel without even asking. How is it possible to know so much just by looking at an image or a shape? The answer is branding!

These familiar symbols are the tangible marks of branding in our everyday lives. But brands are much more than just logos and names. Brands also encompass everything else that contributes to your perception of that brand and what it represents.

Learning Activities

- Reading: Elements of Brand
- Video: REI Builds Brand by Closing on Black Friday
- Reading: Types of Brands

Reading: Elements of Brand

What Is a Brand?

As we start our exploration of brand and its role in marketing, take a few minutes to watch the following video about Coca-Cola, which is perhaps one of the most iconic brands of all time.

Here's Don Drapers' 'idea' for the refreshed Coke Brand in the 1971. Does it resonate today?

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=44#oembed-1

Brands are interesting, powerful concoctions of the marketplace that create tremendous value for organizations and for individuals. Because brands serve several functions, we can define the term "brand" in the following ways:

- **A brand is an identifier:** a name, sign, symbol, design, term, or some combination of these things that identifies an offering and helps simplify choice for the consumer.
- **A brand is a promise:** the promise of what a company or offering will provide to the people who interact with it.
- **A brand is an asset:** a reputation in the marketplace that can drive price premiums and customer preference for goods from a particular provider.
- **A brand is a set of perceptions:** the sum total of everything individuals believe, think, see, know, feel, hear, and experience about a product, service, or organization.
- **A brand is "mind share":** the unique position a company or offering holds in the customer's mind, based on their past experiences and what they expect in the future.

A brand consists of all the features that distinguish the goods and services of one seller from another: name, term, design, style, symbols, customer touchpoints, etc. Together, all elements of the brand work as a psychological trigger or stimulus that causes an association to all other thoughts one has had about this brand. Brands are a combination of tangible and intangible elements, such as the following:

- Visual design elements (i.e., logo, colour, typography, images, tagline, packaging, etc.)
- Distinctive product features (i.e. quality, design sensibility, personality, etc.)
- Intangible aspects of customers' experience with a product or company (i.e. reputation, customer experience, etc.)

Branding–the act of creating or building a brand–may take place at multiple levels: company brands, individual product brands, or branded product lines. Any entity that works to build consumer loyalty can also be considered a brand, such as celebrities (Lady Gaga), events (CIBC Run for the Cure), and places (Las Vegas).

History of Branding

The word "brand" is derived from the Old Norse *brand* meaning "to burn," which refers to the practice of producers burning their mark (or brand) onto their products. Italians are considered among the first to use brands in the form of watermarks on paper in the 1200s. However, in mass-marketing, this concept originated in the nineteenth century with the introduction of packaged goods.

During the Industrial Revolution, the production of many household items, such as soap, was moved from local communities to centralized factories to be mass-produced and sold to the wider markets. When shipping their items, factories branded their logo or insignia on the barrels they used. Eventually these "brands" became trademarks—recognized symbols of a company or product that have been established by use. These new brand marks enabled packaged goods manufacturers to communicate that their products were distinctive and should be trusted as much as (or more than) local competitors. Campbell Soup, Coca-Cola, and Juicy Fruit gum were among the first products to be "branded."

The Coca-Cola logo is an example of a widely recognized trademark and global brand.

Brands Create Market Perceptions

A successful brand is much more than just a name or logo. As suggested in one of the definitions above, brand is the sum of perceptions about a company or product in the minds of consumers. Effective brand building can create and sustain a strong, positive, and lasting impression that is difficult to displace. Brands provide external cues to taste, design, performance, quality, value, or other desired attributes if they are developed and managed properly. Brands convey positive or negative messages about a company, product, or service. Brand perceptions are a direct result of past advertising, promotion, product reputation, and customer experience.

A brand can convey multiple levels of meaning, including the following:

As an automobile brand, the Mercedes-Benz logo suggests high prestige.

1. **Attributes:** specific product features. The Mercedes-Benz brand, for example, suggests expensive, well-built, well-engineered, durable vehicles.
2. **Benefits:** attributes translate into functional and emotional benefits. Mercedes automobiles suggest prestige, luxury, wealth, reliability, self-esteem.
3. **Values:** company values and operational principles. The Mercedes brand evokes company values around excellence, high performance, power.
4. **Culture:** cultural elements of the company and brand. Mercedes represents German precision, discipline, efficiency, quality.
5. **Personality:** strong brands often project a distinctive personality. The Mercedes brand personality combines luxury and efficiency, precision and prestige.
6. **User:** brands may suggest the types of consumers who buy and use the product. Mercedes drivers might be perceived and classified differently than, for example, the drivers of Cadillacs, Corvettes, or BMWs.

Brands Create an Experience

Effective branding encompasses everything that shapes the perception of a company or product in the minds of customers. Names, logos, brand marks, trade characters, and trademarks are commonly associated with brand, but these are just part of the picture. Branding also addresses virtually every aspect of a customer's experience with a company or product: visual design, quality, distinctiveness, purchasing experience, customer service, and so forth. Branding requires a deep knowledge of customers and how they experience the company or product. Brand-building requires long-term investment in communicating about and delivering the unique value embodied in a company's "brand," but this effort can bring long-term rewards.

In consumer and business-to-business markets, branding can influence whether consumers will buy the product and how much they are willing to pay. Branding can also help in new product introduction by creating meaning, market perceptions, and differentiation where nothing existed previously. When companies introduce a new product using an existing brand name (a brand extension or a branded product line), they can build on consumers' positive perceptions of the established brand to create greater receptivity for the new offering.

Brands Create Value

Brands create value for consumers and organizations in a variety of ways.

Benefits of Branding for the Consumer

Tim Hortons in Cochrane Ontario. Image credit: Jerry Huddleston, CC BY via Wikimedia Commons.

Brands help simplify consumer choices. Brands help create trust, so that a person knows what to expect from a branded company, product, or service. Effective branding enables the consumer to easily identify a desirable company or product because the features and benefits have been communicated effectively. Positive, well-established brand associations increase the likelihood that consumers will select, purchase, and consume the product. Tim Hortons, for example, has an established logo and imagery familiar to many Canadian consumers. The vivid colours and the always fresh slogan are easily recognized and distinguished from competitors, and many associate this brand with tasty donuts, good coffee, and great prices. It combines small-town living with Hockey and a compelling brand story. The trusted Canadian brand has its own nickname of "Timmies." In recent years, as ownership changed have caused a slip in their brand ranking. In May 2018, the Reputation Institute reported that Tim Hortons had fallen from 13th to 67th in its study of Canada's most reputable companies. Digging in deeper, an Ipsos study showed that 35% of consumers said their opinion of Tim's has gone down over the past five years. [1]

Brands are living and dynamic. Companies can not control their brands. Sometimes the customer can create the brand or its nickname.

Listen to the Under the Influence podcast of Brands and their nicknames. Start at 4:31 minutes.

Benefits of Branding for Product and Service Providers

For companies and other organizations that produce goods, branding helps create loyalty. It decreases the risk of losing market share to the competition by establishing a competitive advantage customers can count on. Strong brands often command premium pricing from consumers who are willing to pay more for a product they know, trust, and perceive as offering good value. Branding can be a great vehicle for effectively reaching target audiences and positioning a company relative to the competition. Working in conjunction with positioning, brand is the ultimate touchstone to guide choices around messaging, visual design, packaging, marketing, communications, and product strategy.

1. Robertson, G. (2020, February 9). *Tim Horton's fixing everything except what is hurting the brand. Beloved Brands*. Beloved Brands. https://beloved-brands.com/2020/02/09/tim-hortons/

The Starbucks brand is associated with premium, high-priced coffee.

For example, Starbucks' loyal fan base values and pays premium prices for its coffee. Starbucks' choices about beverage products, neighborhood shops, the buying experience, and corporate social responsibility all help build the Starbucks brand and communicate its value to a global customer base.

Benefits of Branding for the Retailer

Retailers such as Target, Safeway, and Wal-Mart create brands of their own to create a loyal base of customers. Branding enables these retailers to differentiate themselves from one another and build customer loyalty around the unique experiences they provide. Retailer brand building may focus around the in-store or online shopping environment, product selection, prices, convenience, personal service, customer promotions, product display, etc.

Retailers also benefit from carrying the branded products customers want. Brand-marketing support from retailers or manufacturers can help attract more customers (ideally ones who normally don't frequent an establishment).

Image Credits

Couleur. (2016, February 24). Coca Cola crown corks [Photograph]. CCO Pixabay. https://pixabay.com/photos/coca-cola-crown-corks-red-1218688/

MikesPhotos. (2015, September 29). Mercedes Benz [Photograph]. CCO Pixabay. https://pixabay.com/photos/car-mercedes-transport-auto-motor-1506922/

Huddleston, J. (2010). Tim Hortons in Cochrane Ontario. CC BY via Wikimedia Commons. https://commons.wikimedia.org/wiki/File:Tim_Hortons_in_Cochrane,_Ontario.jpg

JerryUnderscore. (2017, January 11). Starbucks Coffee sign [Photograph]. CCO Pixabay. https://pixabay.com/photos/starbucks-coffee-sign-city-urban-1972319

Video: REI Builds Brand by Closing on Black Friday

Organizations build their brands through all the ways they communicate and interact with consumers. Sometimes a company takes specific actions to demonstrate what a brand stands for, attract attention, and hopefully deepen customer loyalty because of what their brand represents.

That's exactly what outdoor retailer REI did when it announced in October 2015 that their doors would be locked on one of the biggest shopping days of the year. Its CEO, Jerry Stritzke, told employees in an email, "While the rest of the world is fighting it out in the aisles, we hope to see you in the great outdoors." In the following video, Stritzke joins CBS *This Morning* to explain the company's decision and how it reflects on the REI brand.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingparttwo2e/?p=46

You can view the transcript for "REI Closing on Black Friday" here (opens in new window).

This compares to Mountain Equipment Co-op (MEC) who participated in various global protests by closing it stores during the September 2018 global climate strike day or creates MEC ambassadors who speak to various issues including diversity.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingparttwo2e/?p=46

As you watch these videos, think about how these announcements and actions might change your perceptions of the avid outdoors enthusiasts REI or MEC targets? Even if you don't fit this target segment, how would this announcement affect your perceptions of the their brand?

Reading: Types of Brands

There Are Many Types of Brands[1]

Many kinds of things can become brands. Different types of brands include individual products, product ranges, services, organizations, individual persons, groups, events, geographic places, private label brands, media, and e-brands.

Individual Brands

The most common type of brand is a tangible, individual product, such as a car or drink. This can be very specific, such as the Kleenex brand of tissues, or it can encompass a wide range of products. Product brands can also be associated with a range of offerings, such as the Mercedes S-class cars or all varieties of Colgate toothpaste.

Service Brands

A service brand develops as companies move from manufacturing products to delivering complete solutions and intangible services. Service brands are characterized by the need to maintain a consistently high level of service delivery. This category includes the following:

- Classic service brands (such as airlines, hotels, car rentals, and banks)
- Pure service providers (such as member associations)
- Professional service brands (such as advisers of all kinds—accountancy, management consultancy)
- Agents (such as travel agents and estate agents)
- Retail brands (such as supermarkets, fashion stores, and restaurants)

Organization Brands

Organization brands are companies and other entities that deliver products and services. Mercedes and Pantagonia each possess strong organizational brands, and each has associated qualities that make up their brand. Organizations can also be linked closely with the brand of an individual. For example, Founder Steve Jobs, and current CEO, Tim Cook of Apple.

Personal Brands

A person can be considered a brand. It can be comprised of one individual, as in the cases of Oprah Winfrey or Beyonce. Or it may be composed of a few individuals, where the branding is associated with

1. Burnett, J. (2011). *Marketing in global markets.* From Introducing marketing (pp.134-146). CC BY 3.0 https://archive.org/details/ost-business-introducing-marketing

different personalities. With the advent of the Internet and social media, the phenomenon of *personal branding* offers tools and techniques for virtually anyone to create a brand around themselves.

Group Brands

Group branding happens when there is a small group of branded entities that have overlapping, interconnected brand equity. For example, the OWN group brand of the Oprah Winfrey Network and the brand of its known members (Oprah and her team) are strongly connected. Similarly, the DASH brand of the Kardashian's is a lifestyle empire.

OWN: The Oprah Winfrey Network

Event Brands

Events can become brands when they strive to deliver a consistent experience that attracts consumer loyalty. Examples include conferences the TED series; music festivals like Coachella or film festivals like TIFF; sporting events like the Olympics or NASCAR; and touring Broadway musicals like *Hamilton*. The strength of these brands depends on the experience of people attending the event. Savvy brand managers from product, service, and other types of brands realize the power of event brands and seek to have their brands associated with the event brands through sponsorships. Event sponsorship is now a thriving big business.

Geographic Place Brands

Many places or areas of the world seek to brand themselves to build awareness of the essential qualities they offer. Branded places can range from countries and states to cities, streets, and even buildings. Those who govern or represent these geographies work hard to develop the brand. Geographic branding is used frequently to attract commerce and economic investment, tourism, new residents, and so on.

Private-Label Brands

Private-label brands, also called own brands, or store brands, exist among retailers that possess a particularly strong identity. Private labels may denote superior, "select" quality, or lower cost for a quality product.

Media Brands

Media brands include newspapers, magazines, and television channels such as CNN, CTV, CNBC, Disney, and more.

Is Facebook a media brand?

CNN Logo

E-Brands

E-brands exist only in the virtual world. Many e-brands, such as Amazon.com, have a central focus on providing an online front end for delivering physical products or services. Others provide information and intangible services to benefit consumers. Typically a common denominator among e-brands is the focus on delivering a valued service or experience in the virtual environment.

9.3 Brand Equity

Learning Objectives

- Explain the concept of brand equity
- Discuss why and how marketers measure brand equity
- Define brand equity and its role in measuring brand strength

When most people see the Nike swoosh, what makes them think, “Just Do It!”? When kids see Mickey Mouse ears, what makes them think, “Disneyland”? When fans see the international soccer logo, FIFA, what makes them think of corrupt officials and financial misdeeds? When many Americans see the BP logo, what makes them think of environmental disaster in the Gulf of Mexico?

All of these scenarios are examples of *brand equity*, which are the associations people have about a particular brand. Brand equity translates into a value premium (or deficit) associated with a given brand in the minds of customers. Think of it as the “super bonus” a teen boy feels for a pair of Adidas or Nike sneakers compared with Sketchers or no-name shoes. Or think of it as the negativity an airline has to overcome the day after one of its planes goes down in a crash.

Brand equity waxes and wanes with the fortunes of a company, product, and market. As you’ll discover, many things contribute to brand equity, and there are many ways to measure it.

Learning Activities

- Reading: Brand Equity
- Self Check: Brand Equity

Reading: Brand Equity

Brand Equity

In marketing, brand equity refers to the value of a well-known brand that conjures positive (or negative) mental and emotional associations. What does this actually mean? Let's do a experiment with brand equity in action.

An interactive H5P element has been excluded from this version of the text. You can view it online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=55#h5p-1

Brand equity is what exists in your mind (or doesn't yet exist) to help you recognize these branded images and phrases. Brand equity is also the set of positive, negative, or neutral thoughts, beliefs, and emotions you associate with each of the brands. Brand equity can manifest itself in consumer recognition of logos or other visual elements, brand language associations, consumers' perceptions of quality, and consumers' perceptions of value or other brand attributes.

For any given product, service, or company, brand equity is considered a key asset because it gives meaning to the brand in the minds of its consumers. Brand equity can help a strong brand remain relevant and competitive in the marketplace, and it can help brands and companies weather storms that threaten their value and existence. Volkswagen, for example, is hoping that the strong brand equity it built during the decades before the 2015 emissions scandal will help restore customer confidence in its company and product brand.

When consumers trust a brand and find it relevant to themselves and their lives, they may select the offerings associated with that brand over those of competitors even at a premium price. For example, Häagen-Dazs and Ben & Jerry's both command higher prices per pint at the grocery store than many national brands and most store brands of ice cream. Starbucks can sell its coffee at a higher price than solid market competitors because consumers associate the brand with quality, value, and the experience of connecting with other people in a comfortable space. This is why brand equity often correlates directly with a brand's profitability.

Measuring Brand Equity

Brand equity is strategically important but also difficult to measure (or "quantify"). As a result, many experts have developed tools or metrics to analyze brand equity, although there is no universally accepted way to measure it. For example, while it can be measured quantitatively using numerical values such as profit margins and market share, this approach fails to capture qualitative elements such as prestige and mental and emotional associations.

What to Measure

According to David Aaker, a marketing professor and brand consultant, the following are ten attributes of a brand that can be used to assess its strength or equity:[1]

1. **Price premium:** the amount a customer is willing to pay for one brand in comparison to other comparable brands
2. **Customer satisfaction/loyalty:** whether a customer would buy the brand at the next opportunity, or remain loyal to that brand
3. **Perceived quality:** perceptions about whether a brand is of high, average, or inferior quality
4. **Leadership/popularity:** being in market leadership position as a leading brand, a leader in innovation, and/or growing in popularity
5. **Value:** perceptions of whether a brand has good value for the money and whether there are reasons to choose it over competitors
6. **Brand personality:** distinctive, interesting, emotional, and self-expressive benefits associated with a brand
7. **Organizational associations:** the people, values, and programs associated with the brand
8. **Brand awareness:** the degree to which customers are familiar with and have knowledge about a brand
9. **Market share:** share of sales among the competitive set
10. **Market price and distribution coverage:** measures of average selling price relative to competitors and how many people have access to the brand

Marketers can use various research methods to measure each of these attributes. Some organizations invest in complex marketing research projects to measure and track brand equity over time using one or more of these metrics.

Brand Asset Valuator

Young & Rubicam (Y&R), a marketing communications agency, has developed the “brand asset valuator,” a tool used to diagnose the power and value of a brand. The agency uses this tool to survey and measure consumers’ perspectives along the following four dimensions:[2]

1. **Differentiation**: the defining characteristics of the brand and its distinctiveness relative to competitors
2. **Relevance**: the appropriateness and connection of the brand to a given consumer
3. **Esteem**: consumers’ respect for and attraction to the brand
4. **Knowledge**: consumers’ awareness of the brand and understanding of what it represents

1. Aaker A. David (1996) Measuring Brand Equity Across Products and Markets. California Management Review 38(3) 102-120
2. Mereu Sebastiano (May 18, 2015) The Everton F.C. brand value and the Young & Rubicam model of brand dynamics. Sports Business Research. https://sportsbusinessresearch.academy/2015/05/18/the-everton-f-c-brand-value-and-the-young-rubicam-model-of-brand-dynamics/

This approach is useful for gaining a detailed understanding of how target audiences perceive a brand, how well they understand it, and how relevant it is in their lives. Y&R uses this methodology to help organizations diagnose whether their brands are rising or fading relative to competitors and help them develop strategies and tactics to strengthen existing brands or freshen up/rebuild those that are waning.

There are several different categories of brands, sorted by their differentiation, relevance, esteem, and knowledge. Note that we'll also discuss their brand strength (which is their differentiation and relevance) and their brand stature (which is their esteem and knowledge).

- **New/Fading Brands** have low brand stature and low brand strength. They can be sorted into two categories:
    - New has medium differentiation, less relevance, less esteem, and low knowledge.
    - Unfocused (fading) has low-medium differentiation, low relevance, low esteem, and high-medium knowledge.
- **Aspiring Brands** have low brand stature and high brand strength. They have high differentiation, medium relevance, slightly less esteem, and slightly less knowledge.
- **Power Brands** have high brand stature and high brand strength. They can be sorted into two categories:
    - Leadership has high differentiation, high relevance, high esteem, and high knowledge.
    - Declining has low differentiation and high relevance, high esteem, and high knowledge.
- **Eroding Brands** have low brand stature and high brand strength. They have low differentiation, slightly higher relevance, slightly higher esteem, and medium knowledge.

Other Methods for Measuring Brand Equity

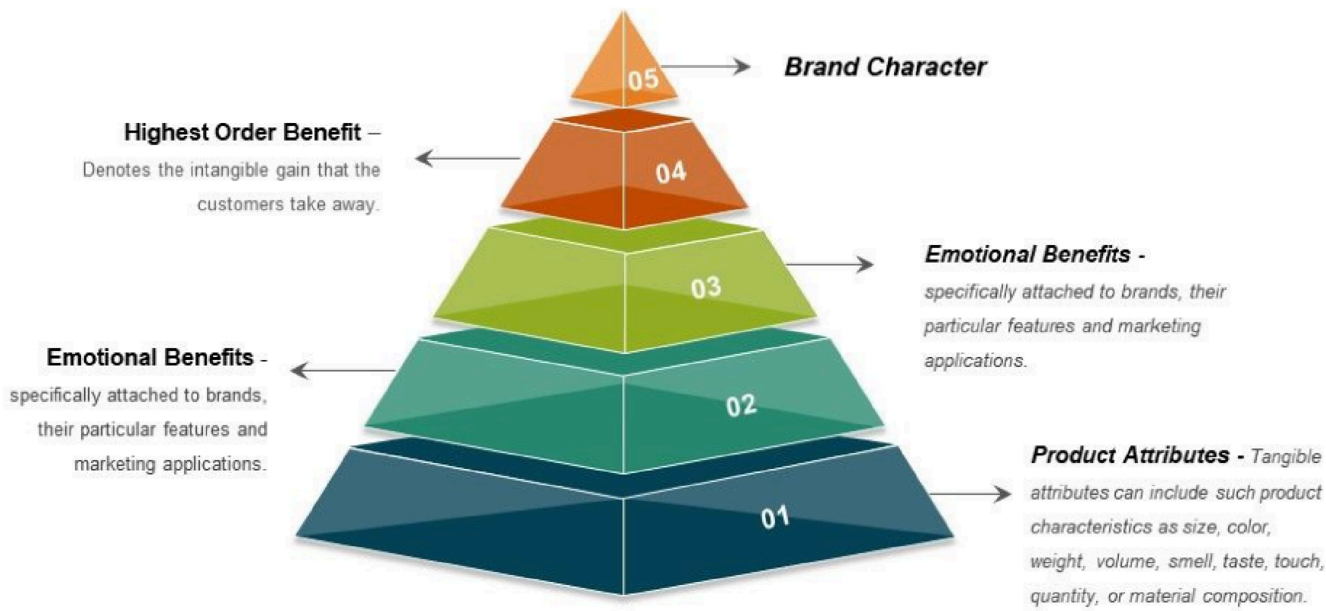
Brand equity can also be measured using other methods, such as the following:

- **As a financial asset:** Brand equity can be studied as a financial asset by making a calculation of a brand's worth as an intangible asset. For example, a company can estimate brand value on the basis of projected profits discounted to a present value. In turn, the present value can be used to calculate the risk profile, market leadership, stability, and global reach. Forbes, Interbrand and other organizations conduct this type of valuation and publish annual lists of the most valuable global brands.
- **As a price differential**: The price of an equivalent well-known brand can be compared to that of competing, no-name, or private-label products. The value of this price differential can be calculated to estimate the brand's price premium in terms of past, present, or future revenue.
- **As consumer favourability and preference**: Several brand-equity methodologies try to map the mind of the consumer to uncover associations with a given brand. For example, projective techniques can be used to identify tangible and intangible attributes, attitudes, and various

perceptions about the brand. Under this approach, the brands with the highest levels of awareness and most favorable and unique associations are considered high-equity brands.

- **As consumer perceptions:** Another brand-equity measurement technique assesses which attributes are most important in influencing customer buying choices, and then measures how well various competitors perform against the most important attributes. This approach helps marketers better understand the customer decision-making process, how brands influence it, and which competitors "own" key attributes that drive customer decisions.

These different approaches build the brand vision. Some elements of the brand are more impactful than others.



Brand Architecture is a sum of all its elements to determine its Brand Equity. Brand equity is multi-dimensional.

Watch David Aaker's describe his view on the Brand equity to build the overall Brand vision or character.

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Building Brand Loyalty

One of the most important reasons for building brand equity is to win brand-loyal customers. In marketing, brand loyalty refers to a consumer's commitment to repurchase or otherwise continue using a particular brand by repeatedly buying a product or service.

According to the Canadian Marketing Association achieving true customer loyalty and retention is a challenge and is only deemed successful if brands can deliver *superior experiences* in the following areas:

- Corporate Image
- Service and Relationship
- Rewards
- Product and Brand Differentiators
- Customer Service
- Relevancy

Aside from a consumer's ability to repurchase a brand, true brand loyalty exists when the customer is committed to the brand and has a high relative attitude toward the brand, which is then demonstrated through repurchase behaviour. For example, if Joe has brand loyalty to Company A, he will purchase Company A's products even if Company B's products are cheaper and/or of a higher quality. As an organization increases its number of brand-loyal customers, it develops a stronger and more predictable position in the market. As noted above, brand equity and brand loyalty enable an organization to enjoy price premiums over competitors.

Like brand equity, brand loyalty is multidimensional. It is determined by several distinct psychological processes, such as the customers' perception of value, brand trust, satisfaction, repeat-purchase behaviour, and commitment. *Commitment* and *repeated-purchase behaviour* are considered necessary conditions for brand loyalty, followed by *perceived value*, *satisfaction*, and *brand trust*.

Philip Kotler identifies the following four customer types that exhibit similar patterns of behaviour:

1. **Hard-core Loyals**, who buy the brand all the time
2. **Split Loyals**, who are loyal to two or three brands
3. **Shifting Loyals**, who move from one brand to another
4. **Switchers**, who have no loyalty (are possibly "deal-prone," constantly looking for bargains, or are "vanity prone," looking for something different)

Understanding the dynamics of these audiences can be very important for marketers, so they know what's happening among their target segments and where to focus their attention and marketing investment. A large-scale 2013 study across 14 million store visits by 1 million customers found that loyal customers (those visiting the stores 10+times) accounted for about 20 percent of all customers but 80 percent of revenue and 72 percent of all store visits. Obviously, knowing and growing your loyal customer base makes a huge difference.[3]

Benefits of Brand Loyalty

The benefits of brand loyalty are longer tenure, or staying a customer for longer, and lower sensitivity

3. http://www.marketingprofs.com/chirp/2013/11338/surprising-facts-about-customer-loyalty-marketing-infographic#ixzz2wj6EeIlJ

to price. Recent research found evidence that longer-term customers were indeed less sensitive to price increases.

According to Andrew Ehrenberg, consumers buy “portfolios of brands.” They regularly switch between brands, often because they simply want a change. Thus, “brand penetration” or “brand share” reflects only a statistical chance that the majority of customers will buy that brand next time as part of a portfolio of brands. It does not guarantee that they will remain loyal.

By creating promotions and loyalty programs that encourage the consumer to take some sort of action, companies are building brand loyalty by offering more than just an advertisement. Offering incentives like big prizes creates an environment in which customers see the advertiser as more than just the advertiser. Individuals are far more likely to come back to a company that uses interesting promotions or loyalty programs than a company with a static message of “buy our brand because we’re the best.”

Popular Loyalty Programs

Below are some of the most popular customer loyalty programs used today by many companies. These programs allow organizations to engage their customers beyond traditional advertising and create incentives for consumers to become brand-loyal, repeat customers.

- Sweepstakes and Advergames
- Points-based loyalty programs, awarding prizes for incremental purchase behaviour (e.g., frequent-flyer programs, credit cards)
- Branded digital games that engage consumers with prize incentives
- Contests
- Skill tests and user-generated promotions such as video and photo contests
- Social media applications and management
- Social media promotions and offers
- Customer rewards programs (e.g., pay lower prices using a frequent-buyer card)
- Coupons (hard copy and/or digital)
- Promotional auctions—bid for prizes with points earned from incremental purchase behaviour
- Email clubs
- Subscription databases—national and/or segmented by market
- SMS Promotions
- iPhone apps
- Branded Web apps

As you’ll see in the following video, customers are well aware that companies are using loyalty programs to court them and win their repeat business—but it doesn’t seem to matter. Customers have come to expect something in exchange for their loyalty.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=55#oembed-2

You can view the transcript for "Give and Take Rewards" (opens in new window).

9.4 Brand Positioning and Alignment

Learning Objectives

- Explain the concept of brand positioning
- Discuss techniques marketers use to achieve strong brand positioning and alignment:
    - Brand promise
    - Brand voice and personality
    - Brand positioning statement
- Explain how marketers use brand positioning to align marketing activities and build successful brands

It is clear that brands are valuable assets that benefit organizations and their customers. Building brand loyalty is an important goal for marketers. But what does it take to build a brand?

Brands are shaped by many different activities. As a marketer, you can control some of these activities, but not others. For instance, you can put together an amazing product design, a fabulous brand name, memorable packaging, irresistible marketing promotions, and delightful customer service—those are all things within your control. But you can't control how customers actually react to and use the product, despite your best efforts to direct and influence them. You also can't control what they write in online reviews.

In order to optimize the success of your brand, you should become very good at aligning all the activities you can control, so that the brand experience you provide is consistent for the customers you care about. Consistency and alignment are essential for building strong brands.

Brand positioning is an ideal tool for creating this alignment. It's how you figure out what your brand really means to you. It's the yardstick you use to figure out which messages and activities will communicate that brand most effectively. It provides the pattern for helping customers understand what to think about your brand and decide whether it matters to them and they can trust it.

In the end, brand positioning is the clearest path toward creating brand-loyal customers.

Learning Activities

- Reading: Brand Positioning and Alignment
- Video: Red Bull’s Extreme Brand Alignment
- Self Check: Brand Positioning and Alignment

Reading: Brand Positioning and Alignment

Building Strong Brands: Consistency Matters

In order to make an impression in a market, brands need to stand for something. Inconsistent brands and messages fail to make a lasting impression because it is difficult for customers to trust them or register what these brands represent. On the other hand, when a brand is both consistent and relevant to customers, it builds recognition, credibility, trust, and ultimately loyalty. And loyalty, as you've learned, translates into sales.

Consistency is also important when it comes to differentiating a product. Brands simplify decisions for customers. When a brand consistently communicates how and why it is distinct from competitors, it reminds customers why they prefer this brand over others–and why they may be willing to pay more for it.

Finally, consistency is imperative in the globalized economy in which virtually every business operates today. Brand-related messages and communications circulate around the world at astonishing speed: Just ask any company that has seen a major story break on social media. While it does make sense to target specific messages to different global markets according to consumer needs, those messages should all be aligned to a consistent, centralized brand identity. A brand manager–the marketer responsible for directing and managing brand strategy–must think of herself as an ambassador, advocating and communicating on behalf of that common brand in the various markets where the brand is represented.

Brand Positioning: A Tool for Achieving Consistency

The Brand Platform

As you learned in the previous module, product positioning is an important strategic tool that helps organizations focus their messages and marketing activities around a consistent, differentiating message aimed at a target segment. Brand positioning works on the same principle. The goal of brand positioning—like the positioning for any product or service—is to explain why that brand is different and better for its target customers, and why the differences matter.

At the same time, brands need a consistent, universal identity that is the same regardless of whom you communicate with. For this reason, brand positioning starts with defining precisely what the brand stands for. This is called the *brand platform*. The brand platform may include a variety of descriptive elements to paint a clear picture of what a brand represents. Some brand platform models are very complex, with ten or more inputs. Others are simpler and more streamlined.

The brand platform begins with the organization's mission statement, since the ultimate purpose of a brand is to help the organization achieve its mission. It also incorporates the value proposition for whatever the brand promotes. Remember that brands may operate at the company level (needing a company-level value proposition) or at the product or service level (needing an offering-specific value proposition). In addition to the mission statement and value proposition, the basic elements of any brand platform are a brand promise, core values, a brand voice or personality, and a brand positioning statement. These are discussed below.

The Brand Promise

The brand promise is, in effect, the singular experience your brand promises to provide to your customers. It expresses what you want them to feel when they interact with your products and services. Year in, year out, the brand promise is what your customers count on and, ideally, it's the reason they keep coming back to you. The brand promise should be unique and linked to your competitive advantage: something other brands do not and cannot deliver in the way you do. It describes the most salient benefits your brand provides, including benefits that create an emotional connection with customers.

The brand promise is important not only for customers, but also for employees and other internal audiences. It sets the tone for how the company operates and for the experience the brand provides to customers across all segments and all points of contact.

Finally, the brand promise should be simple and easily understood, so it's easy to communicate and reinforce. Some marketers equate the marketing tagline, or advertising slogan, with the brand promise. While there are some exceptions, most brand-promise statements do not use the same marketing language that's used in ad slogans. For instance, Nike's "Just Do It" slogan works very well as part of an ad campaign, but it's not very illuminating as a brand promise. Similarly, fast-food chain Taco Bell never intended it's catchy "Make a Run for the Border" tagline to be interpreted as a brand promise. Also, taglines, which are part of marketing communications, may need to be updated more frequently than the brand promise. In contrast, the brand promise should be the global, enduring commitment you stand for overtime.

A brand promise can be communicated through different means and is not always described specifically as a "promise". The essence of the brand promise is to express a certain experience or feeling towards customers while communicating the brand's purpose, as long as that is reflected, we can consider it as a brand promise. The following are examples of effective brand promises:

- **The Coca-Cola Company:** Refresh the world. Make a difference. [1]
- **TOMS Shoes:** We believe in a future where all people have the chance to thrive. That's why we invest 1/3 of our profits in grassroots efforts, like organizations creating change at the local level, and driving progress from the ground up.[2]
- **Target:** To help all families discover the joy of everyday life [3]
- **Clearwater Seafood:** Together we are building the world's most extraordinary, ***wild*** seafood company, dedicated to Sustainable Seafood Excellence.[4]

Core (Brand) Values

Core values are guiding principles for how an organization does business. These values express a perspective on the world, and they govern both internal conduct and external behaviour. While the brand promise explains *what* consistent experience a brand will deliver, the core values describe *how* the company will behave as it delivers that experience.

Zappos' Values

An excellent example of core values infusing a strong brand comes from online retailer Zappos. The company's ten "Family Core Values," listed below, are written for current and prospective employees and describe Zappos' operating principles. At the same time, these values also set the tone for what customers can expect from Zappos and how they interact with the Zappos brand.

Zappos Family Core Values[5]

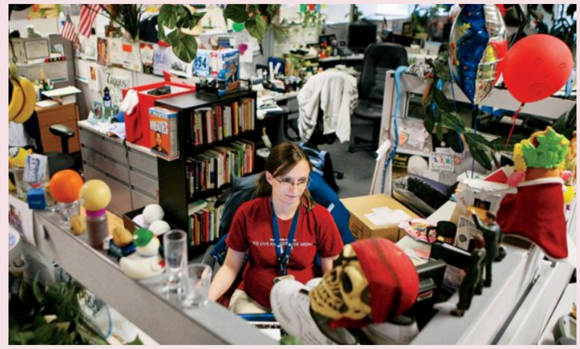
1. Deliver WOW through Service
2. Embrace and Drive Change
3. Create Fun and a Little Weirdness
4. Be Adventurous, Creative, and Open-Minded
5. Pursue Growth and Learning
6. Build Open and Honest Relationships with Communication
7. Build a Positive Team and Family Spirit
8. Do More with Less
9. Be Passionate and Determined

1. *Purpose and Vision*. (n.d.). The Coca-Cola Company. https://www.coca-colacompany.com/company/purpose-and-vision
2. *Impact*. (n.d.). TOMS® Official Site. https://www.toms.com/ca/impact.html.
3. *our purpose & history*. (n.d.). A Bullseye View. https://corporate.target.com/about/purpose-history
4. Clearwater (n.d.) Mission, Strategies & Values https://www.clearwater.ca/en/our-story/history/mission-strategies-values/
5. *Zappos 10 Core Values*. (n.d.). Zappos Insights. https://www.zapposinsights.com/about/core-values.

10. Be Humble

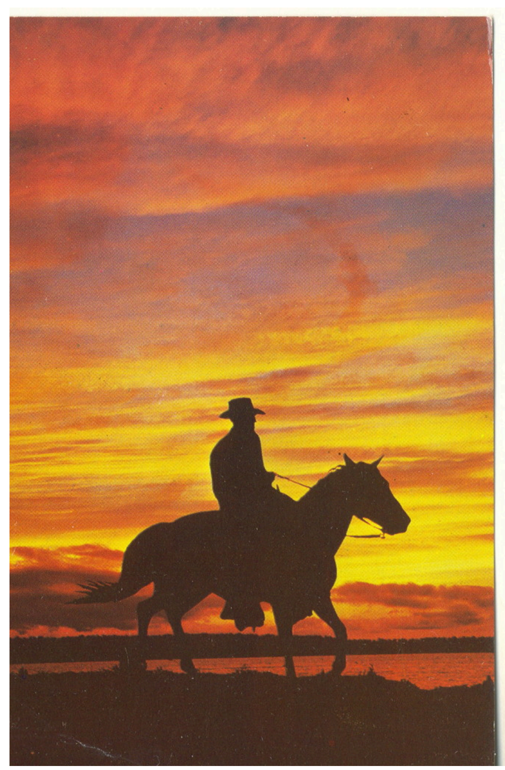
Even if you are unfamiliar with Zappos, these core values give you a strong sense of what the company must be like, either to work for or to do business with.

Not every organization defines ten core values; in fact, most keep the number to six or fewer in order to retain a better focus on defining and expressing the organization's identity. What does matter is to find ways for the brand to deliver these values, so that they become real for employees and customers. For example, Zappos empowers individual employees to make judgment calls about how they deliver WOW-worthy customer service; every decision doesn't have to go through manager approval. By encouraging personal initiative in this way, the company also invites creativity, learning, and passion from its employees.



Zappos has a unique environment to work.

Brand Voice and Personality



Just like people, strong brands have an outlook, tone, and personality that help reinforce the consistency of what and how the brand gets communicated to customers, employees, and other stakeholders. The brand voice and personality are rooted in the brand promise and values, but they help flesh out the brand's distinctive image and presence. A useful template for defining brand voice and personality is the "is/is never" template. Using this template, marketers define the voice and personality attributes of the brand, almost as if it were a person. For example:

- Brand X **is** strong, authentic, independent, resourceful, and classic.
- Brand X **is never** frivolous, trendy, or fake.

A well-defined brand voice is a window into the personality of the brand. Together, the brand voice and personality set the linguistic tone for all brand-related communications and promotions. They also guide the choice of visual design, logo, and the look and feel of the brand, ensuring that the overall visual representation is a good match for what the organization wants the brand to convey.

As a short exercise, take a moment and see if you can construct "is/is never" statements for a couple of well-known brands. What are the brand voice and personality of, say, Under Armour compared with another well-known clothing brand, such as LuLulemon?

Brand-Positioning Statement

Brand positioning follows the same process for product and service positioning outlined in the positioning module: understanding market and competitive dynamics, confirming competitive advantages, defining the market niche and positioning strategy, and delivering on that strategy. Fortunately, the brand promise should provide strong guidance around the competitive advantages and market niche that should be represented in the positioning statement.

Brand managers may develop brand-positioning statements according to the same formula used for product positioning (discussed in the positioning module):

> To [*target audience*], Brand X is the only [*category or frame of reference*] that [*points of differentiation/benefits delivered*] because [*reasons to believe*].[6]

Note that the target audience for the brand-positioning statement should include all the audiences for the brand, not just the specific, narrowly defined target segment you'd expect in a product- or service-positioning statement. The brand needs to be relevant to every conceivable audience you are trying to reach (which may include multiple target segments). For that reason, the brand-positioning statement needs to be written in such a way that it has a broad enough appeal to speak to that "larger" audience.

As with a product- or service-positioning statement, the brand-positioning statement becomes a guiding document for decisions about the key messages the organization should communicate about the brand, as well as other marketing activities.

Aligning to Deliver the Brand

It takes strong focus and hard work to get through the brand-positioning process and build a brand platform. But once this work is done, brand managers and marketers have a basis for deciding what they want to achieve with the brand. Next, the fun of brand building can begin.

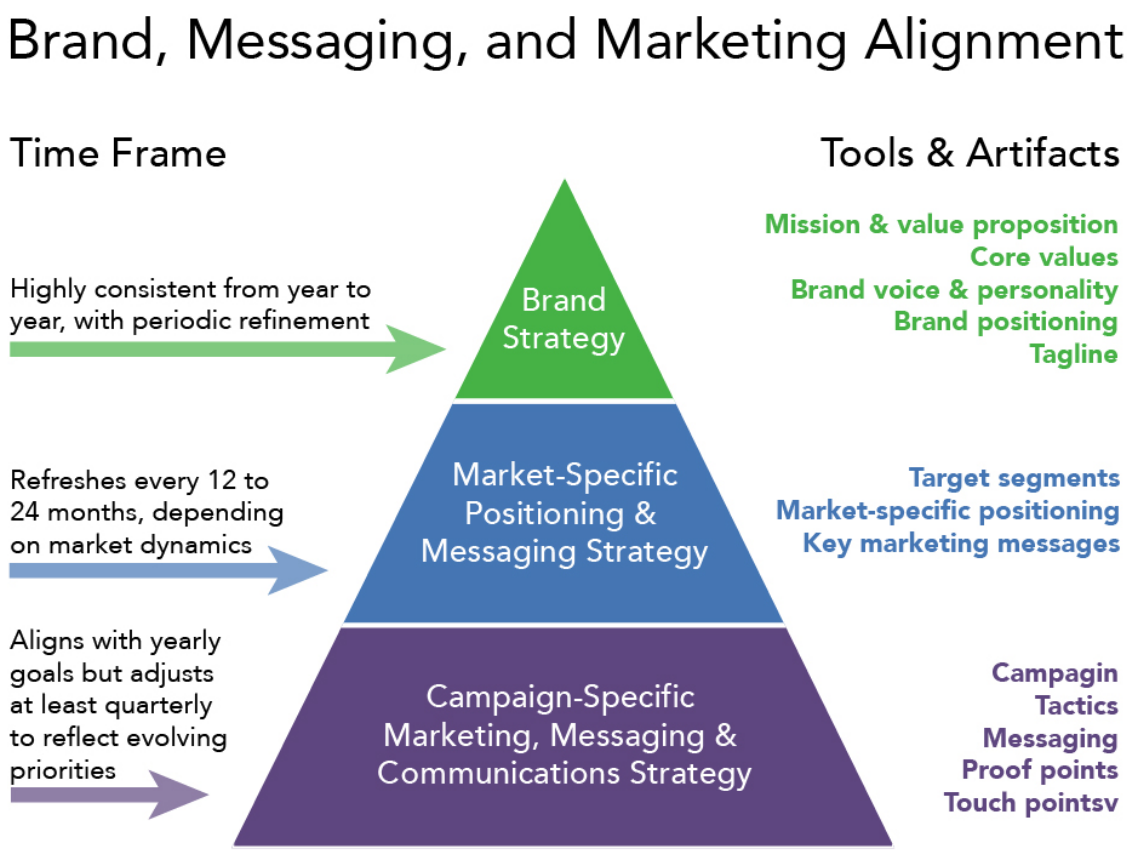
Because brand encompasses much more than just marketing, it is important for the entire organization to understand the brand and each person's role in delivering the brand promise to customers. Every employee in every department, from Accounting and Finance to Product Development and Technology (and everyone in between) plays a part. Organizations with great brands look for ways to educate all internal stakeholders about what the brand means and how it connects with their way of doing business. Company leaders provide incentives for employees to innovate and excel at delivering the brand effectively.

Of course, organizations also communicate about their brands to external audiences—to current and future customers, investors, thought leaders, and influencers, for instance. Brand is embedded in every strategy, tactic, and activity associated with a marketing mix for a given target segment. The brand platform is like a filter that lets through the kinds of communication that an organization needs to

6. P*ositioning Templates*. (n.d.). EquiBrand Consulting Branding. http://equibrandconsulting.com/templates/positioning-templates.

reach its audience, but it keeps out the distracting noise and chatter that might confuse or alienate that audience. The brand platform gives a brand coherence and helps the company stay on track.

Figure 1, below, illustrates the tools and artifacts marketers use to deliver strong alignment between brand, messaging, and other marketing activities. The brand strategy and positioning are very consistent from year to year, and they rely on the tools and artifacts we've discussed in this reading. Market-specific positioning and messaging are designed to reinforce the brand while promoting the organization's products and services to target segments. The positioning tools and process discussed in the previous positioning module work at this level of marketing alignment. They remain relatively consistent, with marketers reviewing and refining positioning strategy every twelve to twenty-four months in alignment with company strategy, priorities, and performance.



At the bottom of the alignment pyramid are the day-to-day marketing activities associated with executing the marketing mix to reach target segments. These include marketing campaigns and the tactics, messaging, promotions, and other activities that accompany these campaigns. We'll explore this dimension of marketing activity in much more detail when we turn to integrated marketing communications (IMC).

Video: Red Bull's Extreme Brand Alignment

The energy drink Red Bull has developed a fun, edgy, maverick identity to match the young adult segment it targets. To stay true to this brand identity, Red Bull's leadership decided not to go with business as usual and only sponsor sporting events like they usually do. In Addition, they set out to control the entire brand experience in a different way by creating new extreme sporting events, for example, they broke a couple of world records at their highly publicized Stratos event.

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9.5 Name Selection

Learning Objectives

- Discuss the connection between brand and name
- Outline key steps in the naming process
- Explain the importance of name selection in the success of a brand

How important is naming in the success of a brand? Very important.

Consider the function of a brand name: It identifies a product, service, or company and differentiates it from competitors. But it does much more than that. It can generate attention or make something utterly forgettable. It can evoke positive or negative feelings and emotions. It can capture the imagination or drive someone to boredom. It can make a remarkable or unremarkable first impression.

Naming can be difficult in the crowded, increasingly global marketplace in which businesses operate today. As you understand the role of naming and the systematic process for selecting a new brand name, you can help lead your organization in making wise, informed choices about this essential element of branding.

Learning Activities

- Reading: Name Selection
- Self Check: Name Selection

Reading: Name Selection

What's in a (Brand) Name?

A brand identifies a company, product, or service as distinct from the competition. The brand is comprised of all the things that create this identity. A brand's name is an essential part of the package. A brand name may be a product name (like *Windows* or *Gmail*), or it may be the name under which the entire organization operates (like *Microsoft* or *Google*). Because the name is so central to identity, naming a brand is an integral part of creating the brand's reputation, development, and future success.

To some extent, a brand name amounts to whatever an organization makes of it: this is the genius of brand building and marketing strategy. Unlikely names have, on occasion, become powerhouse brands, and well-named brands have fizzled out. Naming is important because an ill-conceived or poorly chosen name can torpedo an organization's chances. At the same time, a great name alone isn't enough to guarantee success.

Naming a Brand

Selecting a brand name is one of the most important product decisions a seller makes. A brand name reflects the overall product image, positioning, and, ideally, its benefits. A successful brand name can enable a product to be meaningfully advertised and distinguished from competitors; tracked down by consumers; and given legal protection. At its best, a brand can provide a carryover effect when customers are able to associate quality products with an established brand name. Attention to naming also helps customers associate products within the same brand family. For example, Apple names its mobile products with a lowercase *i*—for example, iPad, iPod, iPhone. Starbucks names its coffee sizes in Italian.

Apple iPod line as of 2014. From left to right: iPod Shuffle, iPod Nano, iPod Touch. iPod is one of Apple's products named with the distinctive "i."

Remember that legally protectable brand names are mandatory if an organization plans to produce mass advertising for its product or service. Once an organization starts using a new brand name, it may encounter other organizations' claims to own the rights to that name and threaten legal action. To avoid the risks and potential expense associated with legal challenges to a brand name, it is important to use a thorough, systematic process for selecting a brand name.

Selecting a Naming Strategy

Before you start brainstorming new brand names and registering domain names, the company should evaluate which naming/branding policy to pursue the new offering and choose one of the following three viable options. This process helps determine whether you even need a new brand name.

- **Strategy 1: Own Brand.** A strict branding policy under which a company only produces products and services using its own brand. In this scenario, you need a new brand name.
- **Strategy 2: Private-Label Brand.** An exclusive distributor's brand policy in which a producer does not have a brand of his own but agrees to sell his products only to a particular distributor and carry that distributor's brand name (typically employed by private brands). In this scenario, the new offering will carry the distributor's brand name, so you don't need to create your own new brand.
- **Strategy 3: Mixed Brand.** A mixed-brand policy allows both own-branded and private-label versions of the offering. In this scenario, you need a new brand name for the own-branded product, and the distributor's version of the product will carry the distributor's brand name.

Steps to Develop a New Brand Name

Once you have confirmed that you need a new brand name, you should follow a systematic approach to developing and selecting one, as described below:

1. **Define what you're naming.** Define the personality and distinctive attributes of the company or product to be named.
2. **Check the landscape.** Scan the competitive landscape to identify brand names already active in the category, in order to avoid selecting a name that would easily be confused with competitors.
3. **Brainstorm ideas.** Engage a naming team to brainstorm ideas and generate potential brand names. Due to the challenges of identifying a unique, protectable name in today's global market, the naming team should include some members with prior naming experience. Often companies hire specialty naming firms to add creative power and expertise to the process. The team should generate lots of ideas, knowing that the vast majority will fall out during the screening process.
4. **Screen out problematic names.** Screen favourite names to make sure they are available to use perceptually (no mind-share conflicts with other known brands), legally (no trademark conflicts) and linguistically (no problems in translation).

   A. Perceptual screening: Start the screening process with thorough Google searches on the names being considered in order to eliminate any that could easily be confused with established players in your product or service category, or a related category. If an established brand name is similar in terms of phonetics (sound), spelling, root word, or meaning, there is probably a conflict. Check with a trademark attorney if you have questions.

   B. Legal screening: The next screening process is to evaluate potential conflicts with registered trademarks that exist in the product or service categories in question. Each country has its own trademark registry, so this search must be performed in each country where you expect to do business using this brand name. While anyone can attempt this process, due to the legal complexities of global trademark law, it's advisable to engage an experienced trademark attorney to review the names, conduct an authoritative search, and provide legal clearance for the shortlist of final names. To learn more about this process, check out the freely available trademark search tools with the Canadian Trademark Database .

C. Linguistic screening: If you plan to use the brand name in different countries and languages, a linguistic screening is a must. Use a naming firm or a linguistic screening firm to screen your final, short-listed name candidates with native speakers from the countries where you plan to operate. The linguistic screening can help you avoid blunders like GM rushing to rename the Buick LaCrosse sedan in Canada when it learned that the word *crosse* means either *rip-off* or *masturbation* in Quebec French, depending on the context.[1]

5. Check domain name and social media availability. If you want to operate a Web site or social media using your new brand name, you will need an Internet domain name for your Web site, as well as social media accounts. As you are refining your shortlist of cleared names, check on the availability of domain names and social media handles. If you're lucky, a clear .com or .ca domains will be available to reserve or purchase at a reasonable price, and a clear Twitter name will also be available. Here are some tips for navigating this process:

A. Use a reputable registry to check availability. When you're checking on domain-name availability, don't just google domain names at random. Instead, use a reputable domain-name registry like Godaddy.com or Register.com. When you use Google or other standard search engines, Internet bots track this activity to detect interest in unregistered domain names. Unscrupulous Internet profiteers buy up these domains and then offer them for resale at a significant markup. When you decide to reserve your domain names, be sure to use reputable registries in all the countries where you plan to operate.

B. Look at variations of your chosen name(s). Consider reserving domain-name variations of your chosen brand name(s), either because the original names you want are not available, or because you may want to control close variations to avoid letting them fall into the hands of competitors or Internet profiteers. For example, if your chosen brand name is "Chumber," you may find that *chumber.com* has been taken, but *chumber.net*, *chumber.org*, and *chumbercompany.com* are all available. Although you don't need all of

1. Buick LaCrosse. (2021, June). In Wikipedia. https://en.wikipedia.org/wiki/Buick_LaCrosse

these, you might choose to register them so that no one else can “own” the names and make mischief for you. For social media account names, if your first choice isn’t available, explore variations—perhaps a shortened version of your desired name. Remember, for services such as Twitter, shorter names fit better into the limited length of social media posts.

C. Check out your Internet “neighbours.” For any domain names that are *not* available according to a reputable domain-name registry, *do* google them to see where they take you. Some may be operated by other businesses, while others may be “parked” and inoperative. Before you settle on a final domain name for your brand, make sure you investigate where common misspellings of your name might take site visitors. For example, an education technology company seriously considered the brand name “OpenMind” and the domain *openmind.com* until a marketing team member discovered that a variant spelling, *openminded.com*, would take prospective site visitors to an adult entertainment Web site.

D. Reserve domains in geographies where you plan to do business. Consider whether to reserve domain names using different extensions. In other words, not just *yourbrand.com*, but also other extensions including those in other countries where you plan to operate: *yourbrand.mx* for Mexico, *yourbrand.cn* for China, *yourbrand.ca* for Canada, and so forth. If you plan to do business in multiple countries, it is wise to reserve domain names in each of the countries that are strategically important to your company.

6. Customer-test your final short-listed names. It is always wise to conduct market research to test short-listed names among your target customers. This gives you insight into how they will hear, interpret, and think about the names you are considering. Customer testing can reveal nuances or connotations of a name that didn’t occur to the naming team earlier–for better or for worse. Customer testing results can also be a great tie-breaker if the naming team is split between finalists.

7. Make your final selection. Ultimately the naming team should select the name with the most potential for creating a strong, differentiated brand, combined with the least risk from a trademark ownership perspective.

8. Take steps to get trademark protection for your new brand.

Once a final name is chosen, engage a trademark attorney to file a trademark or service mark registration for the new brand. It is part of your company’s intellectual property. Ask for legal counsel on where to register your marks based on where you plan to operate globally. While this step may seem expensive and time-consuming, it can protect you and diminish risk for the organization if your brand name is ever challenged legally. Down the road, it is easier to enter into licensing and other types of agreements if a brand name is registered. Licensing can be a lucrative strategy for strong brands.

Official registered trademark symbol

9.6 Packaging

Learning Objectives

- Discuss the role of packaging in the brand-building process

Imagine yourself standing in the aisle of a grocery store, scanning the shelves and trying to decide which product brand to buy. What catches your eye? What makes you pick something and take a closer look? What influences your decision to drop it into your basket . . . or return it to the shelf?

This critical moment for brands and the purchasing process is often won or lost because of *packaging*. According to Marty Neumeier in his book *The Brand Gap*, "A retail package is the last and best chance to make a sale."[1]

In this section, we'll explore how packaging can play a powerful role in shaping consumer perceptions of brands and influencing buying decisions.

Learning Activities

- Reading: Packaging
- Self Check: Packaging

1. Moré, M. E. (2010, December 14). *The Importance of Product Design and Packaging In Branding.* More Than Branding. http://morethanbranding.com/2010/12/14/product-design-and-packaging/

Reading: Packaging

Creating the Perfect Package

Product packaging is an underappreciated hero in the marketing world. Packaging is supremely functional: it protects the product. It contains the product. It displays the product. It promotes the product. It's design and labeling communicate about the product. And the package itself can even increase the product's utility, making it better suited to however the customer wants to use it.

If packaging does all these things, why is it undervalued? As a marketing tool, packaging often feels low-tech and old-school in the information age. It's just not as sexy as Web sites, events, or social media—and yet, it remains a staple of the purchasing environment.

With the increased emphasis on self-service marketing at supermarkets, drugstores, and even department stores, the role of packaging is significant. For example, in a typical supermarket a shopper passes about six hundred items per minute—or one item every tenth of a second. Thus, the only way to get some consumers to notice a product is by in-store displays, shelf hangers, tear-off coupon blocks, other point-of-purchase devices, or, last but not least, effective packages.[1]

Packaging provides an opportunity for a product to jump out and differentiate itself on the crowded, viciously competitive shelves of supermarkets, drugstores, department stores, and other retailers. Every single customer who buys a product inevitably interacts with the packaging, which is what makes it such a potentially powerful touchpoint.

The Roles Packaging Can Play

Marketers invest a great deal in motivational research, color testing, psychological manipulation, and so on in order to learn how the majority of consumers will react to a new package. Based on the results of this research, past experience, and the current and anticipated decisions of competitors, marketers determine what primary role the package will play relative to the product. They determine which of the following needs to be included:

- **Quality** Example: Lush Handmade Cosmetics won awards for their recyclable gift box for Lush demonstrating true packaging engineering by morphing into new shapes as it's folded and refolded to reveal a range of 8 products to the consumer. Once products are removed it becomes a unique keepsake box. Unique and innovative, it was a sell-out in many countries. Taking inspiration from a Rubik's cube, the secret to its design lies in four pairs of interlocking compartments, each with a unique one-way locking tab. When interlocked in a specific order they create a never-ending, free-flowing design that, even when filled with products, holds its shape.
- **Safety**

1. William O. Bearden and Michael G. Etzel (1982, September) Reference Group Influence on Product and Brand Choice, *Journal of Consumer Research*. 183–194

Example: Product protection and child-proofing are standard features in the packaging of Tylenol, Benadryl, Children's Motrin, and other over-the-counter drugs.

A recyclable gift box for Lush demonstrating true packaging engineering by morphing into new shapes as it's folded and refolded to reveal a range of 8 products to the consumer. Once products are removed it becomes a unique keepsake box.

- **Instruction**
  Example: Dosage information for drugs and "how to use this product" information for a variety of appliances, devices, and other products helps ensure that consumers use products responsibly and as intended.
- **Legal compliance**
  Example: Health Canada, Canadian Competition Bureau and the Canadian Food Inspection Agency maintains strict regulations about the types of information food companies must disclose on their product labels: ingredients, calorie counts, nutritional information, serving size and servings per container, and so forth.
- **Distinction**
  Example: Packaging can be distinctive as a familiar, favoured brand: the Coca-Cola or Heinz Ketchup bottles, the Campbell's Soup can, the Kleenex tissue box. Alternatively, designers may use colour, shape, materials, labeling and other packaging features to convey something is new, different or improved such as Toblerone's iconic triangle.

Toblerone Chocolate's distinctive shape is an inherent part of its brand packaging

- **Affordability**
  Example: In packaged goods, packaging simplicity and plainness—for generic and store-brand products—often suggests greater affordability in the minds of consumers.
- **Convenience**
  Example: Resealable packages have been a welcome, convenient packaging innovation for a variety of products, from baby wipes to sliced bologna to snack foods.

- **Aesthetic beauty** 

Example: Perfume manufacturers devote extensive time and attention to making beautiful, distinctive designs for perfume bottles and packaging. One estimate suggests that for each $100 bottle of perfume, the manufacturer's expense for the bottle and packaging is $10. Meanwhile, their expense for the bottle's contents is only about $2.[2]
- **Improved utility**
Example: Packaging single-serving yogurt or applesauce in tubes rather than traditional packages makes them usable in more settings and circumstances because they are less messy and no longer require spoons or a table-top to be able to eat them effectively.
- **Sustainability**
Example: Environmentally-friendly packaging can create brand preference from consumers who are conscious about their carbon footprints. Using fewer chemical-based inks and dyes, less wasteful packaging design, and preference for recycled and recyclable materials all set products apart as "green" and eco-friendly.

Matching the Package to the Product . . . and the Consumer

Clearly delineating the role of the product should lead to the actual design of the package: its colour, size, texture, location of trademark, name, product information, and promotional materials. Market leaders in the dry food area, such as cake mixes, have established a tradition of recipes on the package. However, there are many package-related questions. Do the colours complement one another? Are you taking advantage of consumer confusion by using a package design similar to that of the market leader? Can the product be made for an acceptable cost? Can it be transported, stored, and shelved properly? Is there space for special promotional deals? Finally, various versions of the product will be tested in the market. How recognizable is the package? Is it distinctive? Aesthetically pleasing? Acceptable by dealers?

Packaging designers can be extremely creative when it comes to incorporating multiple requirements into the container design. The key is to understand what factors most influence customer decisions about what to buy. For a given purchase situation, any of the factors above–or a combination of them–might help a consumer settle on which product to buy.

In some product categories, promoting the package has become almost as important—if not more important—than promoting product performance. This is true for products as diverse as powdered and soft drinks, margarine, perfumes, and pet foods. In the case of Pringles, the stacked potato chip made by Procter & Gamble, a package had to be designed that would protect a very delicate product. Hence the

2. Thau, B. (2012, March 22). *Behind the Spritz: What Really Goes Into a Bottle of $100 Perfume*. AOL.com. AOL. https://www.aol.com/2012/05/22/celebrity-perfume-cost-breakdown/.

Pringles can. When it introduced Pringles to the market, Procter & Gamble took a risk that retailers and consumers would be open to something new.

Packaging and Brand Loyalty

Packaging is one dimension of a brand that can contribute to customer loyalty. Familiar or aesthetically pleasing packaging can simplify the buying process in customers' minds. The package is a clear extension of the brand, and brands with strongly loyal fans (or "tribes," as they are sometimes called) may create significant brand equity associated with the package.

GAp's 2010 Logo

An interesting example of this phenomenon is actually a brand misstep on the part of clothing manufacturer Gap. In "8 of the Biggest Marketing Faux Pas of All Time," Amanda Sibley describes what happened when Gap introduced a new logo in October 2010. The company was trying to make its image more contemporary and hip. How long did the logo last?

A whopping two days.

Gap quickly put the old logo back into place after unbelievable backlash from the public. Gap, known for everyday basics, tried to redo their image to appeal to a more hip crowd. Unfortunately, they didn't understand who their target market is—people who want the basics and aren't interested in trendy styles. Their loyal customers felt that Gap was changing their image for the worse and lost a connection with the brand. Gap was also unsuccessful at attracting the younger, trendy generation with the redesign (albeit only a two-day redesign), resulting in a failure on two fronts with this new logo.

It wasn't so awful for Gap to pursue a logo redesign, the lesson is simply to stay in touch with your buyer personas so you can ensure your new design reflects them. Marketers focus a lot on metrics—for good reasons—but never underestimate your audience's *feelings* toward your brand. They're harder to quantify, sure, but boy will people speak out when their sensibilities are offended.[3]

3. Sibely, A. (2017, November 28). *8 of the Biggest Marketing Faux Pas of All Time.* HubSpot. http://blog.hubspot.com/blog/tabid/6307/bid/33396/8-of-the-Biggest-Marketing-Faux-Pas-of-All-Time.aspx

9.7 Brand Development Strategies

Learning Objectives

- Explain key strategies for developing brands including brand ownership, brand and line extensions, co-branding and licensing

Up to this point, this module has explored the important ingredients of creating brands. But once you've combined the ingredients and you have a fledgling brand, then what?

You need a branding strategy.

Branding strategies are different approaches for expanding the reach of a brand, reinforcing its value, and finding advantageous ways to coexist with other brands. It's a crowded marketplace for brands today, and in the future it will only grow more crowded. As you'll discover, carefully selected and wisely executed branding strategies can multiply the benefits of the brands you build.

Learning Activities

- Reading: Brand Development Strategies
- Self Check: Brand Development Strategies

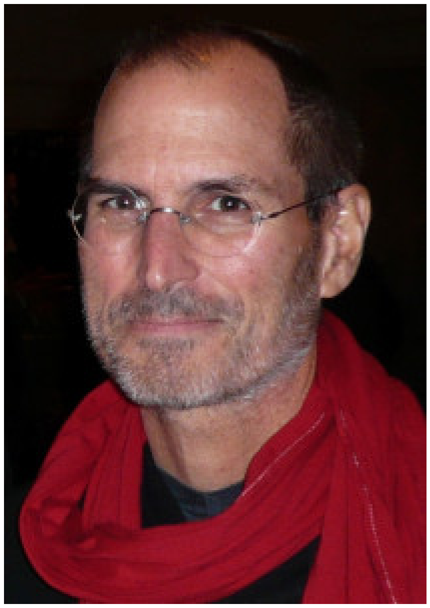
Reading: Brand Development Strategies

Managing Brands As Strategic Assets

As organizations establish and build strong brands, they can pursue a number of strategies to continue developing them and extending their value to stakeholders (customers, retailers, supply chain and distribution partners, and of course the organization itself).

Brand Ownership

Who "owns" the brand? The legal owner of a brand is generally the individual or entity in whose name the legal registration has been filed. Operationally speaking, brand ownership should be the responsibility of an organization's management and employees. Brand ownership is about building and maintaining a brand that reflects your principles and values. Brand *building* is about effectively persuading customers to believe in and purchase your product or service. Iconic brands, such as Apple and Disney, often have a history of visionary leaders who champion the brand, evangelize about it, and build it into the organizational culture and operations.



Steve Jobs, Co-founder and CEO of Apple

When an organization truly owns its brand, its efforts are unified around a common symbol of the value it provides to customers. These organizations use their resources wisely to produce marketing that is targeted and effective because they have a sophisticated understanding of the marketplace; they know how their brand and offerings fit into it, which audiences they are targeting, and they have a strategy for successful growth. These advantages lead to disciplined and effective brand management, which enables these organizations to remain relevant in a rapidly changing and often saturated marketplace.

Branding Strategies

A branding strategy helps establish a product within the market and to build a brand that will grow and mature. Making smart branding decisions upfront is crucial since a company may have to live with its decisions for a long time. The following are commonly used branding strategies:

"Branded House" Strategy

A "branded house" strategy (sometimes called a "house brand") uses a strong brand—typically the company name—as the identifying brand name for a range of products (for example, Mercedes Benz or Black & Decker) or a range of subsidiary brands (such as Cadbury Dairy Milk or Cadbury Fingers). Because the primary focus and investment are in a single, dominant "house" brand, this approach can be simpler and more cost-effective in the long run when it is well aligned with broader corporate strategy.

"House of Brands" Strategy

With the "house of brands" strategy, a company invests in building out a variety of individual, product-level brands. Each of these brands has a separate name and may not be associated with the parent company name at all. These brands may even be in de facto competition with other brands from the same company. For example, Kool-Aid and Tang are two powdered beverage products, both owned by Kraft Foods. The "house of brands" strategy is well suited to companies that operate across many product categories at the same time. It allows greater flexibility to introduce a variety of different products, of differing quality, to be sold without confusing the consumer's perception of what business the company is in or diluting brand perceptions about products that target different tiers or types of consumers within the same product category.

Kool-Aid Man

Competitive Multi-Brand Strategy

In a very saturated market, a supplier can deliberately launch totally new brands in apparent competition with its own existing strong brand (and often with identical product characteristics) to soak up some of the share of the market. The rationale is that having three out of twelve brands in such a market will give a greater overall share than having one out of ten. Procter & Gamble is a leading exponent of this philosophy, running as many as ten detergent brands in the U.S. market. In 2015, hotel giant Marriott International operated sixteen different hotel chains across different pricing tiers, including some chains that compete with one another directly. A sampling of these includes Fairfield Inn, Springhill Suites, Residence Inn, Courtyard, Marriott, JW Marriott, and The Ritz Carlton, among others.

Cannibalization is a particular problem with the multi-brands-strategy. As will be discussed further in the product marketing module, cannibalization occurs when the new brand takes business away from an established one, which the organization also owns. This may be acceptable (indeed expected) if there is a net gain overall.

Brand Families, or "Umbrella Branding"

Similar to a "branded house" strategy, a brand family uses a single brand name for multiple products. However, brand families–also called umbrella branding–may also be used in a "house of brands" strategy to extend the reach of some of the company's brands. For instance, consumer products powerhouse Procter & Gamble manages many popular brands including Tide (laundry detergent), Pampers (disposable diapers), Ivory (soap), and Olay (skin care and beauty products) among many others. Each of these brands constitutes its own family, with multiple products carrying the same brand name.

Attitude Branding and Iconic Brands

Attitude branding is a strategy of representing the larger feeling that a brand comes to embody. The idea is that the brand's feeling or "attitude" transcends the specific products being consumed. Examples of companies that use this approach effectively include:

- Nike: "Just do it"
- Apple: "Think different"
- Patagonia: "We're in business to save the planet."

Effective attitude branding can transform strong brands into iconic, "lifestyle" brands that contribute to the consumer's self-expression and personal identity.

Component Branding

Some suppliers of important services or product manufacturing components try to guarantee positions of preference by promoting these components as brands in their own right. For example, Intel created competitive advantage for itself in the PC market with the slogan (and famous sticker) "Intel Inside." As a B2B (business to business) Intel was marketed as a component of IBM hardware solutions to consumers and businesses. In the digital space, a similar strategy has succeeded with Shopify's entrepreneurship brand as an e-commerce platform with its campaign of "Let's Make You a Business" to assist in using their brand. Watch the video on how Cee Cee's closet builds their business using the digital tool kit of Shopify. These success stories have made Shopify Canada's largest company in May 2020, surpassing RBC, the world's 14th largest bank.

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Private-Label or Store Branding

Shopify is Canada's largest company. It offers e-commerce solutions to entrepreneurs with a B2B digital branding strategy.

Also called store branding, private-label branding has become increasingly popular. In cases where the retailer has a particularly strong identity, the private label may be able to compete against even the strongest brand leaders and may outperform those products that are not otherwise strongly branded. The Westin ownership of Loblaw has expanded its brands and offering in Canada and Europe. Loblaw operates a private label program that includes grocery and household items, clothing, baby products, pharmaceuticals, cellular phones, general merchandise, and financial services. Loblaw brands include President's Choice, No Name, Joe Fresh, T&T, Exact, life, Seaquest, Azami, and Teddy's Choice.

"No-Brand" Branding

A number of companies successfully pursue "no-brand" strategies by creating packaging that imitates generic-brand simplicity. "No brand" branding can be considered a type of branding since the product is made conspicuous by the absence of a brand name.

'Loblaw again offers both store and product concepts of No-Frills stores with No-Name products with a distinctive yellow package. It is recognized as and by simply by the colour of the cap of this cleaning products company.

No Name' 'No Frills' Private Label from Loblaw

Personal and Organizational Brands

Personal and organizational branding are strategies for developing a brand image and marketing engine around individual people or groups. Personal branding treats persons and their careers as products to be branded and sold to target audiences. Organizational branding promotes the mission, goals, and/or work of the group being branded. The music and entertainment industries provide many examples of personal and organizational branding. From Justin Bieber to George Clooney to Kim Kardashian, virtually any celebrity today is a personal brand. Likewise, bands, orchestras, and other artistic groups typically cultivate an organizational (or group) brand. Faith branding is a variant of this brand strategy, which treats religious figures and organizations as brands seeking to increase their following. Mission-driven organizations such the Girl Scouts of America, the Sierra Club, the National Rifle Association (among millions of others) pursue organizational branding to expand their membership, resources, and impact.

Crowd-Sourced Branding

Crowd-sourced branding is the phenomenon of brands being created "by the people" for the business, which is the opposite of how branding traditionally works (business create the brands). This method minimizes the risk of brand failure, since the people who might reject the brand are the ones involved in the branding process. The drawback is that the business cannot fully control these brands, because they are the product of crowdsourcing and, in effect, are owned by "the crowd."

An interesting example of crowd-sourced branding is the Timbers Army, the independent fan organization of the Portland Timbers Major League Soccer (MLS) Team. The Timbers Army was created by fans, and it operates independently from the MLS team and the Portland Timbers management. Although the organizations coordinate in many areas, ultimately the fan organization gets to assert and control its own brand identity.

Iconic brands such as Pepsi Co have also engaged in crowdsourcing with a social media component including product and private label branding strategies such as Frito-Lay's 'Do us a Flavour' campaign.

Place Branding and Nation Branding

The developing fields of place branding and nation branding work on the assumption that places compete with other places to win over people, investment, tourism, economic development, and other resources. With this in mind, public administrators, civic leaders, and business groups may team up to "brand" and promote their city, region, or nation among target audiences. Depending on the goals they are trying to achieve, targets for these marketing initiatives may be real-estate developers, employers and business investors, tourists and tour/travel operators, and so forth. While place branding may focus on any given geographic area or destination, nation branding aims to measure, build, and manage the reputation of countries.

The city-state Singapore is an early, successful example of nation branding. The Las Vegas "What Happens Here, Stays Here" campaign, shown in in the following video, is a well-known example of place branding.

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You can view the transcript for "What Happens Here, Stays Here – Sketchbook Commercial" (opens in new window) or the text alternative for "What Happens Here, Stays Here – Sketchbook Commercial" (opens in new window).

Co-Branding

Co-branding is an arrangement in which two established brands collaborate to offer a single product or service that carries both brand names. In these relationships, generally, both parties contribute something of value to the new offering that neither would have been able to achieve independently. Effective co-branding builds on the complementary strengths of the existing brands. It can also allow each brand an entry point into markets in which they would not otherwise be credible players.

The following are some examples of co-branded offerings:

- Delta Airlines and American Express offer an entire family of co-branded credit cards; other airlines offer similar co-branded cards that offer customer rewards in terms of frequent flyer points and special offers.
- Home furnishings company Pottery Barn and the paint manufacturer Benjamin Moore co-brand seasonal colour palettes for home interior paints
- Forever 21 worked with the USPS to create an exclusive line of clothing featuring USPS branding.

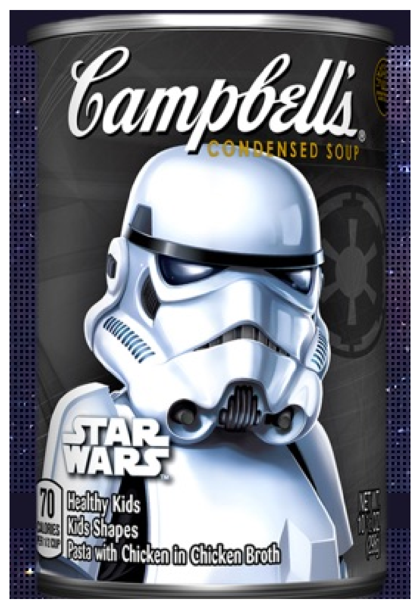
- Automaker Fiat and toymaker Mattel teamed up to celebrate Barbie's fiftieth anniversary with the nail-polish-pink Fiat 500 Barbie car.

Fiat 500 "Barbie"

Co-branding is a common brand-building strategy, but it can present difficulties. There is always risk around how well the market will receive new offerings, and sometimes, despite the best-laid plans, co-branded offerings fall flat. Also, these arrangements often involve complex legal agreements that are difficult to implement. Co-branding relationships may be unevenly matched, with the partners having different visions for their collaboration, placing different priority on the importance of the co-branded venture, or one partner holding significantly more power than the other in determining how they work together. Because co-branding impacts the existing brands, the partners may struggle with how to protect their current brands while introducing something new and possibly risky.

Brand Licensing

Brand licensing is the process of leasing or renting the right to use a brand in association with a product or set of products for a defined period and within a defined market, geography, or territory. Through a licensing agreement, a firm (licensor) provides some tangible or intangible asset to another firm (licensee) and grants that firm the right to use the licensor's brand name and related brand assets in return for some payment. The licensee obtains a competitive advantage in this arrangement, while the licensor obtains inexpensive access to the market in question.



Campbell's "Star Wars" Soup.

Licensing can be extremely lucrative for the owner of the brand, as other organizations pay for permission to produce products carrying a licensed name. The Walt Disney Company was an early pioneer in brand licensing, and it remains a leader in this area with its wildly popular entertainment and toy brands: Star Wars, Disney Princesses, Toy Story, Mickey Mouse, and so on. Toy manufacturers, for example, pay millions of dollars and vie for the rights to produce and sell products affiliated with these "super-brands."

A licensing arrangement contains risk, in that if the licensing venture is very successful, the profit potential is limited by the terms of the licensing agreement. If the venture isn't successful, the licensee loses a substantial investment, and the failure may reflect poorly on the original brand. Also, a licensor might be very controlling about how the licensed offering is designed, produced, distributed, marketed, or sold, making it difficult for the licensee to meet the expectations or requirements of the licensor. Conversely, a licensor might make a long-term commitment to a firm, and that firm could be less capable than expected, leading to a botched implementation of the licensing venture. Or, the licensee may be unwilling to invest in product quality, marketing, distribution, or other areas needed to be successful.

Franchising represents a very popular type of licensing arrangement for many consumer products firms. Holiday Inn, Hertz Car Rental, Pizza Pizza and McDonald's have all expanded globally through franchising. In a franchise, the entity purchasing the franchise (the franchisee) typically pays an up-front fee plus a percentage of revenue in return for the right to use branded assets such as recognized brand name(s), proven products, building design and decor (as in a fast-food restaurant chain), business processes, and so forth.

Lines Extensions and Brand Extensions

Organizations use line extensions and brand extensions to leverage and increase brand equity.

A company creates a *line extension* when it introduces a new variety of offering within the same product category. To illustrate with the food industry, a company might add new flavours, package sizes, nutritional content, or products containing special additives in line extensions. Line extensions aim to provide more variety and hopefully capture more of the market within a given category. More than half of all new products introduced each year are line extensions. For example, M&M candy varieties such as peanut, pretzel, peanut butter, and dark chocolate are all line extensions of the M&M brand. Diet Coke™ is a line extension of the parent brand Coke ™. While the products have distinct differences, they are in the same product category.

A *brand extension* moves an existing brand name into a new product category, with a new or somehow modified product. In this scenario, a company uses the strength of an established product to launch a product in a different category, hoping the popularity of the original brand will increase receptivity of the new product. An example of a brand extension is the offering of Jell-O pudding pops in addition to the original product, Jell-O gelatin. This strategy increases awareness of the brand name and increases profitability from offerings in more than one product category.

Another form of brand extension is a licensed brand extension. In this scenario, the brand owner works with a partner (sometimes a competitor), who takes on the responsibility of manufacturing and selling the new products, generally paying a royalty every time a product is sold.

Line extensions and brand extensions are important tools for companies because they reduce financial risk associated with new-product development by leveraging the equity in the parent brand name to enhance consumers' perceptions and receptivity towards new products. Due to the established success of the parent brand, consumers will have instant recognition of the product name and be more likely to try the new line extension.

Also, launching a new product is time-consuming, and it requires a generous budget to create awareness and promote a product's benefits. As a result, promotional costs are much lower for a line extension than for a completely new product. More products expand the company's shelf-space presence, too, thereby enhancing brand recognition. For example, consider Campbell's Soups™: the strength of Campbell's™ brand lowers costs of launching a new flavor of soup, such as Healthy Request Roasted Chicken with Country Vegetables Soup™, due to the established brand name and package design. Consumers who have enjoyed Campbell's Chicken Noodle Soup™ are likely to try Campbell's Healthy Request Roasted Chicken with Country Vegetables Soup™, even with minimal impact from advertisements and promotions.

Overall, the main benefits of line extensions and brand extensions are the following:

- Expand company shelf-space presence
- Gain more potential customers
- Offer customers more variety
- Greater marketing efficiency
- Greater production efficiency
- Lower promotional costs
- Increased profits

Risks of Brand/Line Extension

While there can be significant benefits to brand-extension strategies, there can also be significant risks, resulting in a diluted or severely damaged brand image. Poor choices for brand extension may overextend the brand so that it no longer stands for something meaningful and valued by consumers. This phenomenon is called *brand dilution*. It causes the core brand to deteriorate, and it damages brand equity. According to research, there is a higher rate of brand extension failures than successes. Studies also suggest that when brand extensions fail, not only does the new product fail but the core brand's image and equity also suffer. When products fail, negative associations and a poor communications strategy can harm the parent brand and even an entire brand family.

Zippo Perfume. Brand extension, or dilution?

A common, visible example of brand dilution occurs when fashion and designer companies extend brands into fragrances, shoes, and accessories, furniture, hotels, vehicles, and beyond. Often the products being introduced are no different from the offerings already available in the market, with the exception of an added brand name (and probably a higher "designer" price tag). Brand dilution is almost guaranteed when consumers no longer see the branded product adding value. Brand dilution can also happen when the new products do not meet the standards consumers expect around quality, workmanship, price, design, or other differentiating features of the brand. An inferior brand extension leads to negative associations that reflect poorly on the original brand. Customers no longer trust the brand in all product categories, and they may be less willing to pay a price premium for it in the future.

Line extensions carry similar risks. If the new line extension fails to satisfy, consumers' attitudes toward other products carrying the same brand name may be damaged. Additionally, there is potential for intra-firm competition between the parent product and the line extension or between two or more line extensions. The key to avoiding intra-firm competition is to clearly differentiate between products. Although similar, the products must be different enough that they will not compete with one another as much as they will with the brands of rival companies.

9.8 Putting It Together: Branding

Investigating Brand Power

As noted earlier in this module, every year organizations conduct analyses and publish lists of the world's top brands. Forbes publishes a list of the *most valuable* brands in terms of dollar value. Interbrand analyzed what *Business Insider* called the *most powerful* brands in terms of the companies' "financial performance, their role in purchasing decisions, and their competitive strength."[1] The results are summarized in the following table:

Forbes Most Valuable Brands and Business Insider's Most Powerful Brands

Most *Valuable* Brands in 2019[2]	**Most *Powerful* Brands in 2018**[3]
1. Apple	1. Apple
2. Google	2. Google
3. Microsoft	3. Amazon
4. Amazon	4. Microsoft
5. Facebook	5. Coca-Cola
6. Coca-Cola	6. Samsung
7. Samsung	7. Toyota
8. Disney	8. Mercedes-Benz
9. Toyota	9. Facebook
10. McDonald's	10. McDonald's

Most of the brands on both lists are household names. Not surprisingly in our present information age, technology companies are heavily represented on both the most valuable brand list and the most powerful brand list.

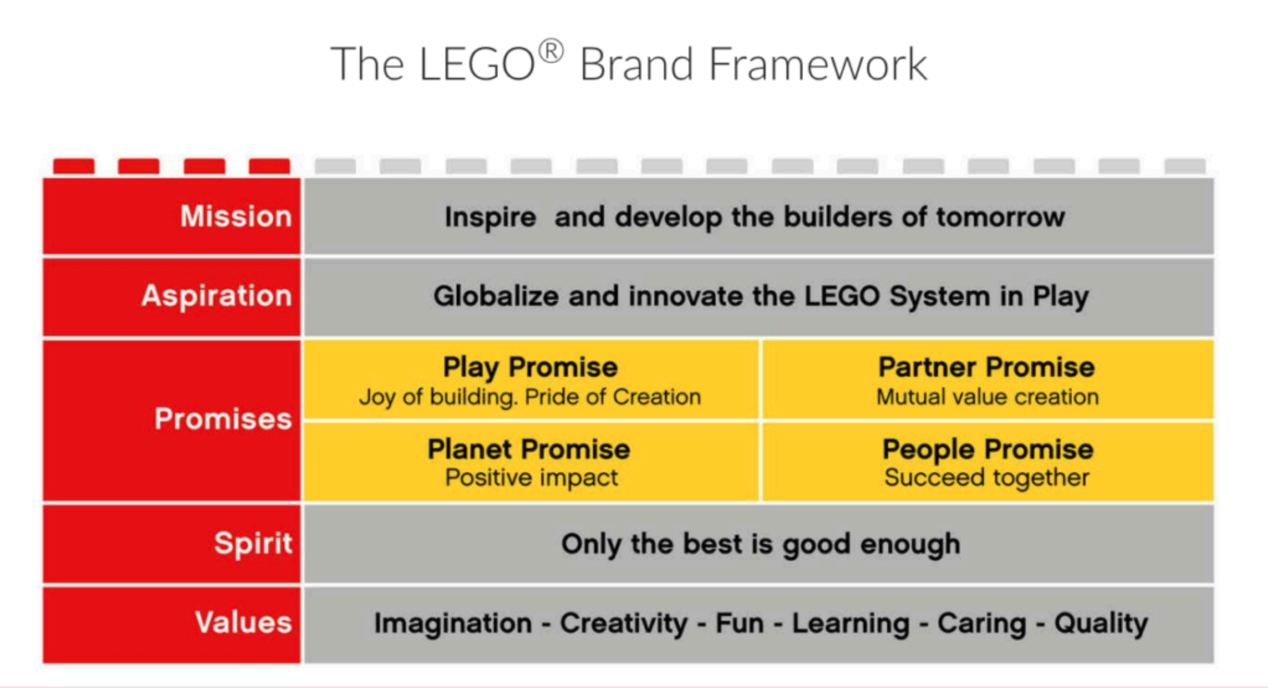
All of these brands offer products and services that have created, shaped, or fundamentally redefined the categories in which they operate. What sets these companies apart from their competitors who didn't make the list is how they have invested in brand building to support their broader corporate goals for growth and success.

1. Chenel, T. (2018, October 9). *These are the 17 most powerful brands in the world.* Business Insider. https://www.businessinsider.com/these-are-the-17-most-powerful-brands-in-the-world-2018-10.
2. Swant, M. (n.d.). *The World's Most Valuable Brands.* Forbes. https://www.forbes.com/powerful-brands/list/.
3. Interbrand Releases 2018 Best Global Brands Report. (n.d.). Businesswire. https://www.businesswire.com/news/home/20181003005944/en/Interbrand-Releases-2018-Best-Global-Brands-Report#:~:text=Interbrand%20has%20announced%20Apple%2C%20Google,2018%20Best%20Global%20Brands%20report.

Behind the Power Brand: LEGO

Toymaker LEGO provides a great example of the brand-alignment and brand-building strategies explored in this module. Anyone who has wandered through the LEGO section of a toy store or a department store knows that the company understands its target audiences very well: young children (ages 1.5 to 11) who like to build things and parents who want to guide their children's development and success—in other words, virtually all children and all parents.

LEGO articulates perfectly the brand promise its toys deliver to these audiences: *Joy of building, pride of creation*. As illustrated in the LEGO Brand Framework (see Figure 1, below), the company values are in step with this promise: imagination, creativity, fun, learning, caring, and quality.



The company has also developed a fairly elaborate definition–and a name–for its brand personality: My LEGO Friend. What is this friend like?

> My LEGO friend . . . has a vivid imagination . . . is curious and likes to try out new things . . . is always positive and optimistic . . . is fun to be around with . . . enjoys bringing people together . . . is friendly and approachable . . . is caring for others . . . doesn't get bothered by the little things . . . can comfortably adapt to play different roles[4]

With such a clear articulation of its brand promise, brand personality, and the related benefits it aspires to deliver, LEGO employees have clear guidance about what they need to accomplish. The next step is to effectively deliver on the brand promise with products, services, and marketing activities that guarantee that children and their parents will experience *joy* and *pride* in connection with LEGO Bricks. Here is just a sampling:

- **Product Design:** Easy, step-by-step instructions that do not require reading, in every building kit. After a short learning curve, children can assemble age-appropriate LEGO creations without help from adults.
- **Events:** Free, monthly "Mini Model Build" events at LEGO toy stores around the world, where

4. Lego. (2014). *Lego Brand Identity & Experience [4000019]*. http://www.hothbricks.com/pdf/6123880.pdf.

children can build and take home a mini model, free of charge.

- **Fan Communications:** A free quarterly magazine, available online or mailed to a child's home, filled with stories, contests, fan photos, building ideas to capture the imagination, and, of course, the latest generation of LEGO products any child might desire.
- **Licensing Agreements:** Product lines offering toys linked to popular children's entertainment brands such as Disney Princesses, Star Wars, Frozen, Hello Kitty, and Minecraft.
- **Theme Parks:** LEGOLAND amusement parks designed around the LEGO theme, inviting fans to experience a life-size world of LEGO and see the wonders of the world constructed out of LEGO bricks.

LEGOLAND

It is worth noting that LEGO considers seriously only the activities that are in keeping with its brand, but also the activities that might undermine it. In October 2015, the Chinese dissident artist Ai Weiwei tried to place a bulk order of LEGO bricks for an art exhibition he was planning at the National Gallery of Victoria, Australia, on the subject of free speech. Somewhat surprisingly for many LEGO fans, the company declined Weiwei's request.

According to the artist, the company indicated that "they cannot approve the use of LEGOs for political works." This explanation was later confirmed by a company spokesman.

Weiwei went on to denounce the company publicly in social media, accusing it of censorship and discrimination. He also suggested that LEGO's decision was motivated by trying to protect its commercial interests in China. In response to the social media flurry, many LEGO owners offered to donate their bricks to help Weiwei complete the project. Donation centers were set up in eleven cities (including Beijing) to help the artist's cause. LEGO itself faced public criticism from longtime fans who were disappointed by its decision. People cited other artistic projects with political themes that LEGO had supported, complaining about the company's apparently inconsistent behaviour.[5]

So why would LEGO make this decision, and how does it relate to brand management? The company was concerned about politicizing its brand and product, and it didn't want to get embroiled in a controversy that might overshadow the universal, positive experience at LEGO's core: *Joy of building, pride of creation*.

Then, in January 2016, the Weiwei vs. LEGO story broke again, but this time with a different ending. In the intervening weeks, the artist had continued to lobby LEGO's executive leadership to change their position, and eventually they agreed.[6] When people submit bulk order requests, the company will no longer inquire about the "thematic purpose" of the project. Instead, it will simply require any publicly displayed works to make it clear that LEGO does not endorse or support the project. According to a company statement,

> Previously, when asked to sell very large quantities of LEGO® bricks for projects, the LEGO Group has asked about

5. Ryan, F. (2015, October 25). *Ai Weiwei swamped by Lego donation offers after ban on use for 'political' artwork*. The Guardian. http://www.theguardian.com/artanddesign/2015/oct/25/ai-weiwei-swamped-by-lego-donation-offers-after-ban-on-use-for-political-artwork.
6. Curry, C. (2016, January 13). *The Chinese Artist Ai Weiwei Has Convinced Lego to Change Its Policy on Political Projects*. Vice https://news.vice.com/article/the-chinese-artist-ai-weiwei-has-convinced-lego-to-change-its-policy-on-political-projects

> the thematic purpose of the project. This has been done, as the purpose of the LEGO Group is to inspire children through creative play, not to actively support or endorse specific agendas of individuals or organizations.
>
> However, those guidelines could result in misunderstandings or be perceived as inconsistent, and the LEGO Group has therefore adjusted the guidelines for sales of LEGO bricks in very large quantities. As of January 1st, the LEGO Group no longer asks for the thematic purpose when selling large quantities of LEGO bricks for projects. Instead, the customers will be asked to make it clear – if they intend to display their LEGO creations in public – that the LEGO Group does not support or endorse the specific projects.[7]

With the opportunity for deeper consideration, LEGO found a new policy that is consistent with its brand promise and purpose of supporting creative activity, while at the same time protecting the LEGO brand from being politicized.

Navigating the complexities of brand management is never simple. As LEGO discovered, even hard-core fans may turn away from a beloved brand. However, brand building is a long-term endeavor. Over time, most super-brands demonstrate that staying true to consistent, well-designed brand positioning pays off.

7. Trangbæk, R. R. (2016, January12). *Adjusted guidelines for bulk sales*. Lego Newsroom. http://www.lego.com/en-gb/aboutus/news-room/2016/january/adjusted-guidelines-for-bulk-sales.

9.9 Practice Quiz

Check Your Understanding

Answer the question(s) below to see how well you understand the topics covered in the previous section. This short quiz does **not** count toward your grade in the class, and you can retake it an unlimited number of times.

Use this quiz to check your understanding and decide whether to (1) study the previous section further or (2) move on to the next section.

An interactive H5P element has been excluded from this version of the text. You can view it online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=723#h5p-2

Chapter 10: Product Marketing

Learning Objectives

- Why product marketing matters
- Explain what a product is and the importance of products in the marketing mix
- Discuss the product life cycle and its implications for marketing
- Explain product portfolio management and how it relates to the organization's marketing strategy and tactics
- Define the process for creating new products
- Identify the challenges associated with creating a successful new product

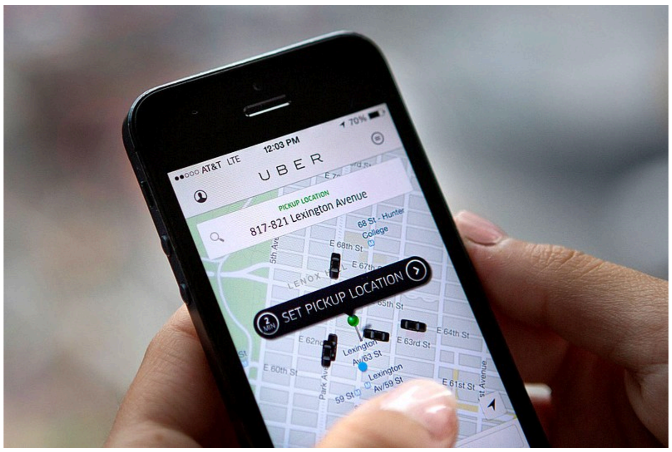
10.1 Why It Matters: Product Marketing

Learning Objectives

- Why product marketing matters
- Why make product marketing decisions based on product life cycle and product portfolio structure?

Often when students begin to study marketing they expect to study promotion or perhaps only advertising, but product is the core of the marketing mix. Product defines what will be priced, promoted, and distributed. If you are able to create and deliver a product that provides exceptional value to your target customer, the rest of the marketing mix becomes easier to manage. A successful product makes every aspect of a marketer's job easier—and more fun.

Is it possible to offer a product that is so good it markets itself? Yes. When this is the case, marketers can employ something called *viral marketing*, which is a method of product promotion that relies on customers to market an idea, product, or service themselves by telling their friends. Generally, in order for viral marketing to work, the product must be so compelling that customers who use it can't stop talking about it.



Let's look at an example of viral marketing and a successful new product that has changed transportation in cities around the world. How did the individuals who created the product at the beginning of its life cycle develop a winning product concept and take it to market?

Technically speaking, Uber is a ride-sharing solution—an incredibly successful one. The company launched in June 2010, and today Uber drivers provide well over one million rides each day to passengers around the globe. The company's self-reported annual revenue for 2018 was $11.3 billion.[1]

When a passenger needs a ride, they simply open the Uber app on their phone. They can immediately see the locations of cars nearby and request a pickup. The passenger knows which driver is coming and can

1. https://www.cnbc.com/2019/02/15/uber-2018-financial-results.html

track the car's location until it arrives. When the ride is over, the passenger's credit card is automatically billed for the service.

Bill Gurley, a seasoned investor who has put money in Uber, evaluates the company this way: "The product is so good, there is no one spending hundreds of thousands of dollars on marketing."[2] Industry experts who have analyzed Uber's success agree again and again that Uber took on a problem that was real for many people—poor taxicab availability and abysmal service—and completely fixed it.

> Among the many problems Uber is tackling are: poor cab infrastructure in some cities, poor service, and fulfillment–including dirty cabs, poor customer experience, late cars, drivers unwilling to accept credit cards, and more.
>
> Uber set out to reimagine the entire experience to make it seamless and enjoyable across the board. They didn't fix one aspect of the system (e.g. mobile payments for the existing taxi infrastructure); they tackled the whole experience from mobile hailing, seamless payments, better cars, to no tips and driver ratings.
>
> By avoiding the trap of smaller thinking, and iterating on one element of the taxi experience (say, by making credit card payments more accessible in the car) they were able to create a wow experience that has totally redefined what it means to use a car service, sparking an avalanche of word of mouth and press.[3]

Again, the product creates a "wow experience" that creates "an avalanche of word of mouth and press." That is the power of the product in the marketing mix.

2. http://techcrunch.com/2013/04/29/benchmarks-bill-gurley-uber-is-growing-faster-than-ebay-did/
3. https://growthhackers.com/growth-studies/uber

10.2 Products and Marketing Mix

Learning Objectives

- Define a product
- Identify difference between products that offer goods versus services
- Explain how to augment a product with services
- Define product marketing
- Explain the role of product marketing in the marketing mix

We'll start this module by defining what a product is and seeing how it fits in the marketing mix. When thinking about the target customer's perspective, it's useful to have an "expansive" view of product and keep in mind that the customer experience is not only about the tangible aspects of a good.

For example, imagine that you stop at a fast-food restaurant for a quick sandwich. The sandwich is fresh and delicious and is exactly what you wanted to eat. However, the wait for the sandwich was exceptionally long, the restaurant was filthy, and the sales clerk was rude. Does that change your level of satisfaction?

Or, have you ever been excited to get a bargain on an airline ticket and then been surprised by additional fees for what seem like basic services, such as checking your luggage? Do the fees change your level of satisfaction with the product?

As we explore products and product marketing, you will find that most products include a broader range of components than you might first expect.

Learning Activities

- Reading: Defining Product
- Reading: Consumer Product Categories
- Reading: Products and Services
- Reading: Augmenting Products with Services
- Reading: Product Marketing and the Marketing Mix

- Self Check: Products and Marketing Mix

Reading: Defining Product

A product is a bundle of attributes (features, functions, benefits, and uses) that a person receives in an exchange. In essence, the term "product" refers to anything offered by a firm to provide customer satisfaction, tangible or intangible. Thus, a product may be an idea (recycling), a physical good (a pair of jeans), a service (banking), or any combination of the three.[1]

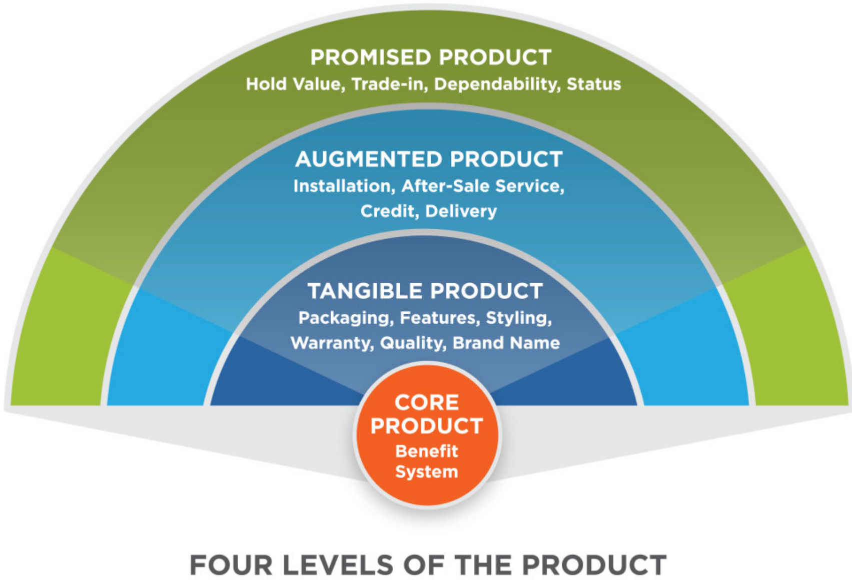
Broadly speaking, products fall into one of two categories: consumer products and business products (also called industrial products and B2B products). Consumer products are purchased by the final consumer. Business products are purchased by other industries or firms and can be classified as *production goods*—i.e., raw materials or component parts used in the production of the final product—or *support goods*—such as machinery, fixed equipment, software systems, and tools that assist in the production process.[2] Some products, like computers, for instance, may be both consumer products and business products, depending on who purchases and uses them.

The product fills an important role in the marketing mix because it is the core of the exchange. Does the product provide the features, functions, benefits, and uses that the target customer expects and desires? Throughout our discussion of product, we will focus on the target customer. Often companies become excited about their capabilities, technologies, and ideas and forget the perspective of the customer. This leads to investments in product enhancements or new products that don't provide value to the customer—and, as a result, are unsuccessful.

Four Levels of the Product

There are four levels of a product (shown in the figure below): core, tangible, augmented, and promised. Each is important to understand in order to address the customer's needs and offer the customer a complete experience.

1. American Marketing Association [AMA]. (n.d.) *AMA Definitions of marketing*. https://www.ama.org/the-definition-of-marketing-what-is-marketing/
2. Business Dictionary. (n.d.). Wohlner Roger (2021, July) *Industrial Goods Sector* https://www.investopedia.com/terms/i/industrial-goods-sector.asp



The Core Product

The core product satisfies the most basic need of the customer. For example, a consumer who purchases a healthy snack bar may be seeking health, convenience, or simply hunger relief. A student who buys low-priced, sturdy sneakers may just be seeking footwear. A student on a tight budget who buys top-of-the-line sneakers might be hoping to achieve status. Or, the student might be seeking a sense of freedom by splurging on an item that represents a true sense of style, even though they can't really afford it. Footwear, status, and freedom are all legitimate core products. The core product is complex because it is so individualized, and, often, vague. The marketer must have a strong understanding of the target customer (and the different segments of target customers) in order to accurately identify the core product.

The Tangible Product

Once the core product has been identified, the tangible product becomes important. Tangible means "perceptible by touch," so the tangible aspects of a product are those that can be touched and held. This idea can be expanded to also include the characteristics of the product that directly touch the buyer in the buying decision. These are the product elements that the customer will use to evaluate and make choices: the product features, quality level, brand name, styling, and packaging. Every product contains these components to a greater or lesser extent, and they are what the consumer uses when evaluating alternatives.

The importance of each aspect of the tangible product will vary across products, situations, and individuals. For example, let's say the core product is a car (transportation). At age twenty, a consumer might choose a particular brand of car based on features such as gas mileage, styling, and price: such as a Toyota Yaris. A consumer at the age of forty-five, while looking for the same core product, might be searching for different tangible components such as quality level, power, features, and brand prestige: choosing an Audi A6.

The Augmented Product

Every product is backed up by a host of supporting services. The augmented product includes the tangible product and all of the services that support it. Often, the buyer expects these services and would reject the tangible product if they were not available. For example, if you shop at a department store, you are likely focused on a core and tangible product that centers on the merchandise, but you will still expect the store to have restrooms, escalators, and elevators. Dow Chemical, an American chemical and agricultural products manufacturer, has earned a reputation as a company that will bend over backward in order to service an account. It means that a Dow sales representative will visit a troubled farmer after hours in order to solve a serious problem. This extra service is an integral part of the augmented product and a key to their success.

When the tangible product is a service, there is still an augmented product that includes support services. Westin hotels offer hotel nights with a specific set of features as their tangible product. The augmented product also includes dry cleaning services, concierge services, and shuttle services, among others.

In a world with many strong competitors and few unique products, the augmented product is gaining ground, since it creates additional opportunities to differentiate the product from competitive offerings.

The Promised Product

The outer ring of the product is referred to as the *promised product*. Every product has an implied promise, which is a characteristic that is attached to the product over time. The promised product is the long-term result that the customer hopes to achieve by selecting the product. The promised product may be financial—the resale value of a car, home, or property, for example—but it is often more aspirational. The customer hopes to be healthier, happier, more productive, more successful, or enjoy greater status.

Like the core product, the promised product is highly personal. Generally, marketers find that there will be groupings of customers seeking a similar promise but that there is not a single promised product across all customers.

Can the core product and the promised product be the same thing? Yes, they can, but often the core product is more focused on the immediate need and the promised product has a longer-term element.

Let's compare two different examples of the same purchase to understand how the product levels might change for different customers.

- Convenient routing
- Reasonable cost
- Frequent-flier points

- Optimal flight times
- Reasonable cost
- Ease of booking
- Quality of flight experience and service

Purchase Comparison

Impetus to Buy	I need to be in Miami for a meeting next Thursday	I need a break from my stressful life
Core Product	Transportation	Escape, peace of mind
Tangible Product	Airline ticket from New York to Miami	Airline ticket from New York to Miami
Augmented Product	• In-flight meal purchase • Insurance for flight changes	• Full vacation services (hotel, rental car) • In-flight meal and premium drink purchase • Baggage services
Promised Product	Productivity, convenience, success	Escape, peace of mind, happiness

In the first case, the customer’s impetus to buy is transportation, so that is the core product. In the second case, the purchase is more aspirational and less concrete, so the core product and the promised product are quite similar.

For a marketer, the most important element is to have a holistic view of the product. If I believe that I’m simply selling airline tickets, then I fail to provide the full product offering that will satisfy either of my customers in the example above. And of course, it is always key to truly understand the motivation and perspective of the target customer.

Reading: Consumer Product Categories

Consumer products are often classified into four groups related to different kinds of buying decisions: convenience, shopping, specialty, and unsought products. These are described below.

Convenience Products

A convenience product is an inexpensive product that requires a minimum amount of effort on the part of the consumer in order to select and purchase it. Examples of convenience products are bread, soft drinks, pain reliever, and coffee. They also include headphones, power cords, and other items that are easily misplaced.

From the consumer's perspective, little time, planning, or effort goes into buying convenience products. Often these product purchases are made on impulse, so availability is important. Consumers have come to expect a wide variety of products to be conveniently located at their local supermarkets. They also expect easy online purchase options and low-cost, quick shipping for those purchases. Convenience items are also found in vending machines and kiosks.

For convenience products, the primary marketing strategy is extensive distribution. The product must be available in every conceivable outlet and must be easily accessible in these outlets. These products are usually of low unit value, and they are highly standardized. Marketers must establish a high level of brand awareness and recognition. This is accomplished through extensive mass advertising, sales promotion devices such as coupons and point-of-purchase displays, and effective packaging. Yet, the key is to convince resellers (wholesalers and retailers) to carry the product. If the product is not available when, where, and in a form the consumer desires, the convenience product will fail.

Shopping Products

In contrast, consumers want to be able to compare products categorized as shopping products. Shopping products are usually more expensive and are purchased occasionally. The consumer is more likely to compare a number of options to assess quality, cost, and features.

Although many shopping goods are nationally advertised, in the marketing strategy it is often the ability of the retailer to differentiate itself that generates the sale. If you decide to buy a TV at BestBuy, then you are more likely to evaluate the range of options and prices that BestBuy has to offer. It becomes important for BestBuy to provide a knowledgeable and effective salesperson, and have the right pricing discounts to offer you a competitive deal; BestBuy might also offer you an extended warranty package or in-store service options. While shopping in BestBuy, consumers can easily check prices and options for online retailers, which places even greater pressure on BestBuy to provide the best total value to the shopper. If the retailer can't make the sale, product turnover is slower, and the retailer will have a great deal of their capital tied up in inventory.

There is a distinction between heterogeneous and homogeneous shopping products. Heterogeneous shopping products are unique. Think about shopping for clothing or furniture. There are many stylistic differences, and the shopper is trying to find the best stylistic match at the right price. The purchase decision with heterogeneous shopping products is more likely to be based on finding the right fit than on price alone.

In contrast, homogeneous shopping products are very similar. Take, for example, refrigerators. Each model has certain features that are available at different price points, but the basic functions of all of the models are very similar. A typical shopper will look for the lowest price available for the features that they desire.

Specialty Products

Specialty goods represent the third product classification. From the consumer's perspective, these products are so unique that it's worth it to go to great lengths to find and purchase them. Almost without exception, price is not the principle factor affecting the sales of specialty goods. Although these products may be custom-made or one-of-a-kind, it is also possible that the marketer has been very successful in differentiating the product in the mind of the consumer.


Blizzcon attendees, 2014

For example, some consumers feel a strong attachment to their hairstylist or barber. They are more likely to wait for an appointment than schedule time with a different stylist.

Another example is the annual Blizzcon event produced by Blizzard Entertainment. The $200 tickets sell out minutes after they are released, and they are resold at a premium. At the event, attendees get the chance to learn about new video games and play games that have not yet been released. They can also purchase limited-edition promotional items. From a marketer's perspective, in Blizzcon, the company has succeeded in creating a specialty product that has an incredibly high demand. Moreover, Blizzard's customers are paying for the opportunity to be part of a massive marketing event.

It is generally desirable for a marketer to lift their product from the shopping to the specialty class—and keep it there. With the exception of price-cutting, the entire range of marketing activities is needed to accomplish this.

Unsought Products

Unsought products are those the consumer never plans or hopes to buy. These are either products that the customer is unaware of or products the consumer hopes not to need. For example, most consumers hope never to purchase pest control services and try to avoid purchasing funeral plots. Unsought products have a tendency to draw aggressive sales techniques, as it is difficult to get the attention of a buyer who is not seeking the product.

Reading: Products and Services

Goods vs. Services

In marketing, are services considered products? Should products that are predominately goods be treated differently than products that are predominantly services? Whether or not there are substantial differences between goods, products, and service products has been the source of great debate in marketing. Opponents of the division assert that "products are products," and just because there are some characteristics associated with service products and not goods products and vice versa, it doesn't mean that customized strategies are necessary for each. Advocates on the other side offer evidence that the differences are significant indeed.

You may have noticed that throughout this course we use the term "product" broadly to address the full product offering that is comprised of goods, services, and often a combination of both. We've given examples of service products (hotel stays, for instance) and goods products (sneakers and bread, for instance). Thinking inclusively about the tangible and intangible aspects of all products is useful because it creates a more complete view of the customer's product needs and experience. Still, there are unique characteristics of services that set them apart from goods. It is important to understand the differences and to consider them in the development of strategies, tactics, and objectives.

Service products are reflected by a wide variety of industries: utilities, restaurants, educational institutions, consulting firms, hotels, medical care providers, and banking, to name but a few. Beyond these traditional industries, there is a growing sector of software as a service offered by companies that provide individuals and other companies with hosted and managed access to software systems. In 2013, software as a service was a \$22.6 billion industry, it is projected to hit \$100 billion in 2019.[1]Services account for 51 percent of the Canadian Gross National Product (GNP)[2]Clearly, the service sector is large

1. https://www.cbronline.com/news/saas-market
2. https://tradingeconomics.com/canada/gdp-from-services

and is growing. While all products share certain common facets, service products tend to differ from goods products in a number of ways.

Characteristics of Service Products

As you can see from the examples above, service products are quite diverse. Nonetheless, they tend to have the following characteristics.

Intangible

Leonard Berry offers this useful differentiation: "A good is an object, a device, a thing; a service is a deed, a performance, an effort."[3] With the purchase of a good, you have something tangible—an item that can be seen, touched, tasted, worn, or displayed. That's not true of a service, which is *intangible* (quite literally, "not able to be touched").

Although you pay your money and consume the service, there is nothing tangible to show for it. For example, if you attend a professional football game, you spend money on a ticket and spend nearly three hours taking in the entertainment. After the game, you leave. Unless you have purchased a good at the game, you will not take anything tangible to take away (except, perhaps, the ticket stub).

Simultaneous Production and Consumption

Service products are consumed at the same time they are being produced. The tourist attraction is producing entertainment or pleasure at the same time it is being consumed. In contrast, goods products are produced, stored, and then consumed. A result of this characteristic is that the provider of the service is often present when consumption takes place. Dentists, hotel staff, hairstylists, and ballet dancers are all present when the product is used.

Little Standardization

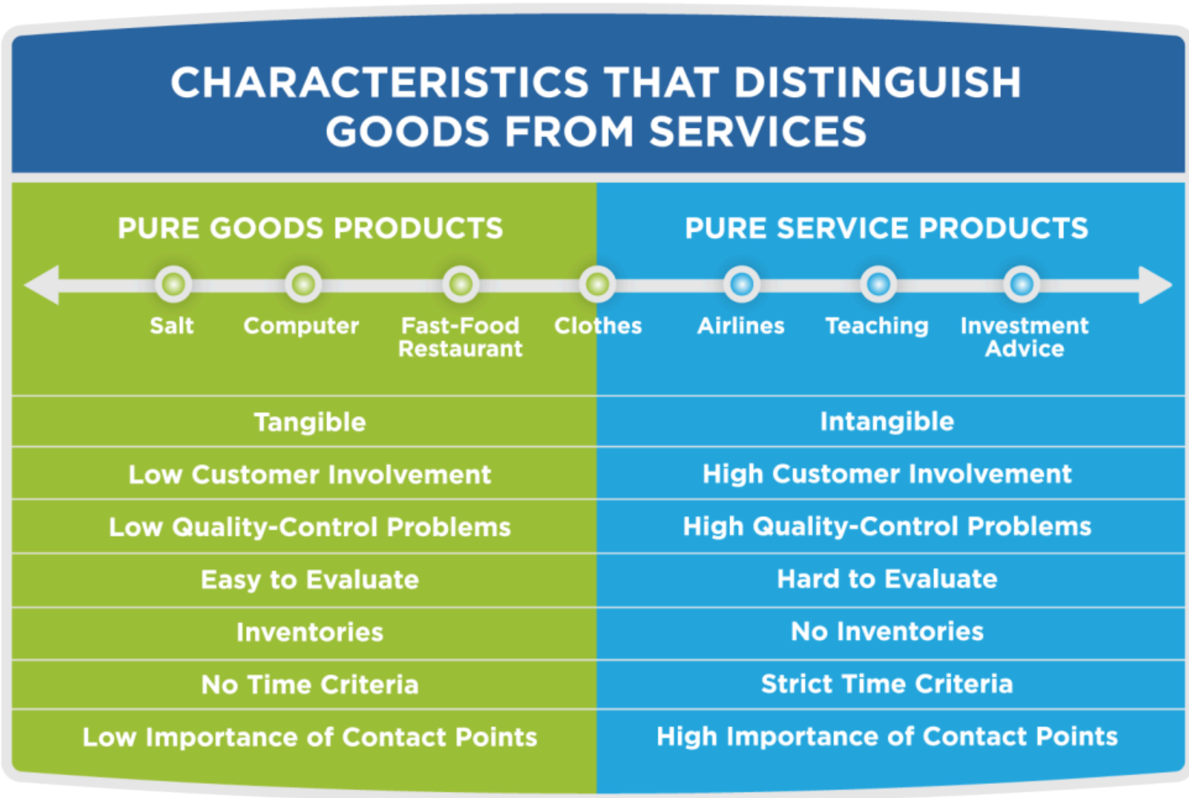
Because service products are so closely related to the people providing the service, ensuring the same level of satisfaction every time is very difficult. Dentists have their bad days, not every baseball game is exciting, and the second vacation to Walt Disney World Resort may not be as wonderful as the first.

High Buyer Involvement

With many service products, the purchaser may provide a great deal of input into the final form of the product. For example, if you wanted to go on a Caribbean cruise, you would visit a number of websites describing the various cruise locations, review the available options for cabin location and size, islands visited, food, entertainment, prices, and whether they accommodate children. Although the task would be very time-consuming, you could, if you wanted, practically design every moment of your vacation.

3. Leonard L. Berry (1980, May/June). Services Marketing Is Different. Business. 24–29

It should be noted that the four characteristics associated with service products described above vary in intensity from product to product. In fact, service products are best treated as existing on a continuum, shown in the following figure.



When marketing a service, it's important to remember that (a) service products on the right side of the continuum (i.e., those with greater intangibility) are different from goods products on the left side of the continuum, and (b) service products tend to require certain adjustments in their marketing strategy on account of these differences.

All products, whether they are goods, services, blankets, diapers, or plate glass, possess peculiarities that require adjustments in the marketing effort. However, "pure" goods products and "pure" service products (i.e. those on the extreme ends of the continuum) tend to reflect characteristics and responses from customers that suggest different marketing strategies. Admittedly, offering an exceptional product at the right price, through the most accessible channels, promoted extensively and accurately, should work for any type of product. The goods/services classification provides the same useful insights provided by the B2B/B2C classification discussed earlier.

Reading: Augmenting Products with Services

Earlier we touched on "augmented products," which are tangible products, along with all of the services that support them. When companies devise product strategies and decide whether or not to augment their products with additional services, they typically evaluate whether the following criteria will be met:

1. Services can provide a more complete and satisfying customer experience.
2. Services can increase the total revenue for each sale.

Improved Customer Experience

Relatively speaking, goods tend to be more fixed, and services are more variable. If you're trying to control the quality of a product, the "fixedness" of goods is obviously problematic—perhaps you'll need costly new equipment or production methods or a new product design to make improvements. If you're focused on personalizing the customer experience, though, the variability of services can be a tremendous benefit. A company can provide a range of services around a tangible product—whether that product is a good or a service—thereby providing an enhanced experience for the customer.

Zappos

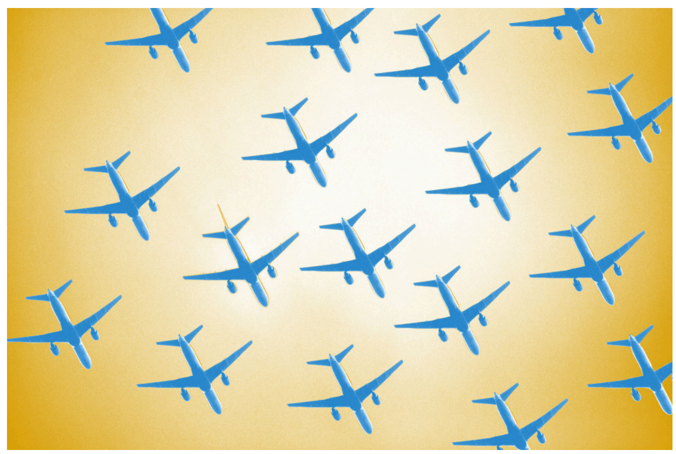
Zappos provides the quintessential example of an augmented product that adds tremendous value by offering an improved customer experience. You'll recall from the module on corporate strategy that Zappos sells shoes and apparel online. The tangible products are the shoes and clothing items that are delivered to the customer's doorstep. The company has a broad selection and has invested significant capital and effort to create an online shopping experience that is easy and pleasant. The company's tangible products are very good.

However, Zappos is not the low price leader. In fact, its prices are often 5–10 percent higher than other online shoe retailers. Nor does the company do a lot of national advertising to build its brand. Instead, Zappos has focused on creating a "wow" customer service experience that not only exceeds customers' expectations but brings people back again and again. In fact, the company's goal is to be the company that provides the best service online, period—not just in shoes, but in any category. When customers buy shoes online they expect the product to be accurately presented, they expect to receive what they order in a timely fashion, and they expect to receive help with any questions and have any problems with orders resolved. These are fairly standard customer-service features that customers expect along with the delivery of their shoes or clothes. Zappos goes a step further, though, to provide an even higher level of service to all its customers—at no extra charge:

- Zappos has a 100-percent-satisfaction-guaranteed return policy—at no cost to the customer and no complaints about items returned.
- Customer-service employees encourage customers to order two sizes of shoes to make sure they get a pair that fits and return the other.
- The company frequently upgrades orders from valued clients to one-day shipping and sends personal notes expressing appreciation for their business.
- Zappos posts a support phone number on every page of its website. The company has found that only 5 percent of sales come through the phone, but when customers do call, there is an opportunity to create a deeper relationship.

As a result of these services, Zappos' augmented product is significantly more valuable and more differentiated than its tangible product, and it's helped to set Zappos apart as a company that treats its customers well.

Increased Revenue per Customer



It is often the case that augmented services do create new revenue opportunities for the company. Some customers want a different level of service and are willing to pay more for it. By adding services a company can customize its product offering for the segments that desire something more.

Many of these services have become so standard that we hardly think about them. Most electronics come with an option to buy an extended warranty or a higher level of customer support. Airlines provide in-flight meals and drinks; many hotel and rental car packages are essentially augmented products. Many online services such as LinkedIn and the Slack team messaging service offer tiered packages, or offer a free version and a version that includes additional services for a fee.

These services can prove to be highly profitable. Despite LinkedIn's free offering, 39 percent of its 640 million users in 2020 pay for premium services.[1] In 2017, airlines earned $82.2 billion in non-ticket revenue.[2]

Companies often struggle to determine when it is best to add a fee for additional services and when the augmented services should be a free extension of the tangible product. The question often ties back to the company mission and objectives, as well as to the competitive landscape. If Zappos charged customers for the various services the company provides, customers would probably feel irritated instead of pampered. Also, Zappos' extensive customer services are core to the company's mission and strategy.

1. https://99firms.com/blog/linkedin-statistics/#gref
2. https://www.phocuswire.com/cartrawler-ideaworkscompany-2018-ancillary-revenue

If American Airlines decided not to charge the baggage and change fees that Delta charges, then it would likely need to recoup those costs in higher ticket prices for all customers. Generally, when customers purchase tickets, they consider the base ticket price and not the price that includes all fees. As a result, American Airlines would struggle to compete on ticket prices in a highly price-sensitive market.

Augmented services give marketers a valuable approach to customizing products and better meeting the needs of all target customers.

Reading: Product Marketing in the Marketing Mix

The Role of Product Marketing

Product marketing is the function of understanding the target customer's needs and promoting and selling the product to the target customer. In many organizations, this is a different function from product management, which is responsible for defining the product that the company will build. Obviously, the two functions must interact closely, but each has a different primary focus.

The product marketer is focused on the market. This includes analyzing and understanding the market and presenting the product to the market. In other words, product marketers must bring information in and get it out. These activities are summarized in the table below:

Product Marketing Responsibilities[1]

Inputs to the company	**Outputs to the market**
Define market needs or problems that the product should address	Define key messages to communicate the product benefits to the target market
Complete a competitive analysis to understand other offerings in the market	Create marketing materials about the product
Identify which market segments the product will target	Define the sales approach
Define market requirements for the product	Create lead generation plans
Create buyer persona documents that describe the personality, behaviour, and desires of buyer types	Develop sales materials such as Web site content, brochures, presentations, and product demonstrations
Determine price	Provide training and support to distribution channel partners

The product management function will use the inputs from product marketing to define detailed product requirements and oversee the development of products that meet those requirements. We will discuss the complexity of this process further when we delve into new-product development.

Product marketing and product management are both functions that must be managed well, but in different organizations, they are managed differently. The specific roles of individuals will vary significantly depending on the company and the types of products. In a very large company, there may be teams of individuals in the product marketing function filling very specialized roles. In a very small company, a single individual may fill both the product marketing and product management functions. In general, it is difficult to span both product marketing and product management because the skills needed to understand and translate broad market needs are different from the skills needed to create detailed product requirements.

1. Pragmatic Marketing. (n.d.). *Pragmatic marketing framework.* http://pragmaticmarketing.com/about-us/framework

The Marketing Mix

As you can see from the list of responsibilities, the product marketing function is not confined to only one aspect of the marketing mix. Instead, the product marketing function focuses on a single product or product line across the marketing mix. Let's look at a specific example of the product marketing role and a corporate marketing role, and see how they each use the marketing mix.

Apple Watch

When Apple introduced the Apple Watch, they had a large team responsible for product marketing. The team was following emerging technology, consumer, and societal trends and identifying what would impact customer needs. They became experts in the features and marketing of competitive products. Product marketers defined the target buyer for the watch and identified the key features the buyer would require. They met with distribution partners. The product marketing team developed pricing recommendations. They managed tradeoffs involving features, schedule, cost, and pricing. They also traveled to trade shows, customer briefings, and press visits to talk about the watch. The product marketing team was Apple's resident expert on the target market for the Apple watch and the marketing strategy for that product.

Prior to the product launch, product marketing worked with Apple's marketing communications team to develop the press releases, press strategy, and marketing materials for the launch and ongoing sales. Marketing communications is a corporate function that works across all products. They do not try to become experts in each product but look to the product marketing team to bring that expertise. Instead, the marketing communications team are the experts in promotion across all of Apple's products.

Product marketing understands the right message for the Apple watch's target market. Let's say the target market is 30-40 years old, well-informed, with a higher level of disposable income; The marketing communications team knows a great way to reach that audience is by getting a writer at the *New York Times* to write a story about their message.

10.3 Product Life Cycle

Learning Objectives

- Identify the stages of the product life cycle
- Explain the unique marketing requirements of each stage
- Identify challenges with using product lifecycle in marketing
- Discuss the product life cycle and its implications for marketing

We just considered the case of Apple launching a new product (the Apple Watch). A particular set of marketing strategies and tactics was needed to define a product that did not exist, to create it, and introduce it to the world. If we were instead focused on marketing the iPhone, which was introduced in 2007, would the strategies and tactics be different? The answer is yes.

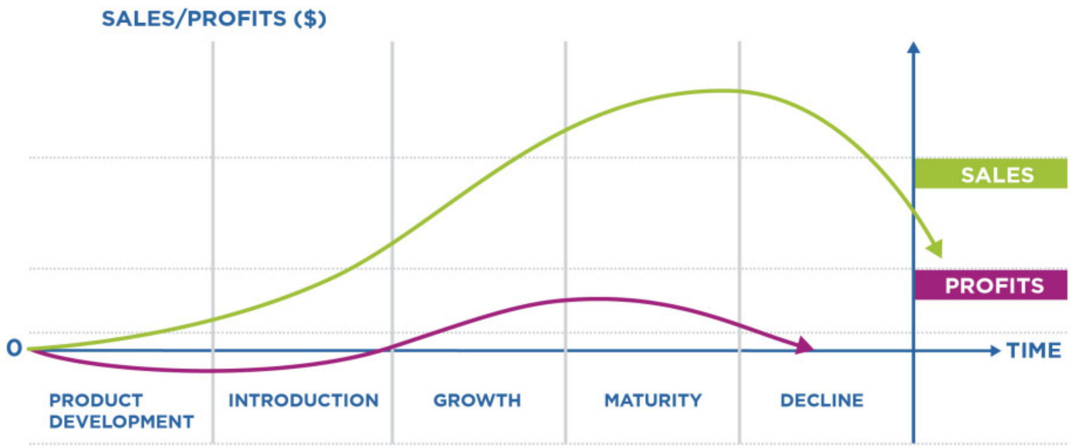
In this section, we will look at how marketing approaches for a product change over time. Nabisco introduced Wheat Thins crackers in 1947, yet the brand continues to be strong (it generated $344.8 million in revenue in 2015). The cracker brand even has more than 200,000 Twitter followers. In contrast, other products like children's toys and trendy clothing are designed for a single sales season and have to be quickly replaced with the next model, in order to draw sales. While the length of time is different, there are common patterns across the product life cycle that we will discuss in this section.

Learning Activities

- Reading: Stages of the Product Life Cycle
- Reading: Marketing through the Product Cycle
- Reading: Challenges in the Product Life Cycle
- Self Check: Product Life Cycle

Reading: Stages of the Product Life Cycle

A company has to be good at both developing new products and managing them in the face of changing tastes, technologies, and competition. Products generally go through a life cycle with predictable sales and profits. Marketers use the product life cycle to follow this progression and identify strategies to influence it. The product life cycle (PLC) starts with the product's development and introduction, then moves toward withdrawal or eventual demise. This progression is shown in the graph, below.



PRODUCT LIFE CYCLE

The five stages of the PLC are:

1. Product development
2. Market introduction
3. Growth
4. Maturity
5. Decline

The table below shows the common characteristics of each stage.

Product Life Cycle Stages and Common Characteristics

Stage 1: Product Development	1. investment is made 2. sales have not begun 3. new product ideas are generated, operationalized, and tested
Stage 2: Market Introduction	1. costs are very high 2. slow sales volumes to start 3. little or no competition 4. demand has to be created 5. customers have to be prompted to try the product 6. makes little money at this stage
Stage 3: Growth	1. costs reduced due to economies of scale 2. sales volume increases significantly 3. profitability begins to rise 4. public awareness increases 5. competition begins to increase with a few new players in establishing market 6. increased competition leads to price decreases
Stage 4: Maturity	1. costs are lowered as a result of increased production volumes and experience curve effects 2. sales volume peaks and market saturation is reached 3. new competitors enter the market 4. prices tend to drop due to the proliferation of competing products 5. brand differentiation and feature diversification is emphasized to maintain or increase market share 6. profits decline
Stage 4: Decline	1. costs increase due to some loss of economies of scale 2. sales volume declines 3. prices and profitability diminish 4. profit becomes more a challenge of production/distribution efficiency than increased sales

Using the Product Life Cycle

The product life cycle can be a useful tool in planning for the life of the product, but it has a number of limitations.

Not all products follow a smooth and predictable growth path. Some products are tied to specific business cycles or have seasonal factors that impact growth. For example, enrollment in higher education tracks closely with economic trends. When there is an economic downturn, more people lose jobs and enroll in college to improve their job prospects. When the economy improves and more people are fully employed, college enrollments drop. This does not necessarily mean that education is in decline, only that it is in a down cycle.

Furthermore, evidence suggests that the PLC framework holds true for industry segments but not necessarily for individual brands or projects, which are likely to experience greater variability.[1]

Of course, changes in other elements of the marketing mix can also affect the performance of the product during its life cycle. Change in the competitive situation during each of these stages may have a much greater impact on the marketing approach than the PLC itself. An effective promotional program or a dramatic lowering of price may improve the sales picture in the decline period, at least temporarily. Usually, the improvements brought about by non-product tactics are relatively short-lived, and basic alterations to product offerings provide longer benefits.

Whether one accepts the S-shaped curve as a valid sales pattern or as a pattern that holds only for some products (but not for others), the PLC concept can still be very useful; it offers a framework for dealing systematically with product marketing issues and activities. The marketer needs to be aware of the generalizations that apply to a given product as it moves through the various stages.

1. Mullor-Sebastian, Alicia. (1983) The Product Life Cycle Theory: Empirical Evidence. *Journal of International Business Studies* 14 (3). 95–105 https://www.jstor.org/stable/154692

Reading: Marketing through the Product Cycle

There are some common marketing considerations associated with each stage of the PLC. How marketers think about the marketing mix and the blend of promotional activities–also known as the promotion mix–should reflect a product's life-cycle stage and progress toward market adoption. These considerations cannot be used as a formula to guarantee success, but they can function as guidelines for thinking about budget, objectives, strategies, tactics, and potential opportunities and threats.

Keep in mind that we will discuss the new-product development process later in this module, so it is not covered here.

Market Introduction Stage

Think of the market introduction stage as the product launch. This phase of the PLC requires a significant marketing budget. The market is not yet aware of the product or its benefits. Introducing a product involves convincing consumers that they have a problem or need which the new offering can uniquely address. At its core, messaging should convey, "This product is a great idea! You want this!" Usually, a promotional budget is needed to create broad awareness and educate the market about the new product. To achieve these goals, often a product launch includes promotional elements such as a new website (or significant update to the existing site), a press release and press campaign, and a social media campaign.

There is also a need to invest in the development of the distribution channels and related marketing support. For a B2B product, this often requires training the sales force and developing sales tools and materials for direct and personal selling. In a B2C market, it might include training and incentivizing retail partners to stock and promote the product.

Pricing strategies in the introduction phase are generally set fairly high, as there are fewer competitors in the market. This is often offset by early discounts and promotional pricing.

It is worth noting that the launch will look different depending on how new the product is. If the product is a completely new innovation that the market has not seen before, then there is a need to both educate the market about the new offering and build awareness of it.

While we often think of an introduction or launch as a single event, this phase can last several years. Generally, a product moves out of the introduction stage when it begins to see rapid growth, though what counts as "rapid growth" varies significantly based on the product and the market.

Growth Stage

Once rapid growth begins, the product or industry has entered the growth stage. When a product category begins to demonstrate significant growth, the market usually responds: new competitors enter the market, and larger companies acquire high-growth companies and products.

These emerging competitive threats drive new marketing tactics. Marketers who have been seeking to build broad market awareness through the introduction phase must now differentiate their products from competitors, emphasizing unique features that appeal to target customers. The central thrust of market messaging and promotion during this stage is “This brand is the best!” Pricing also becomes more competitive and must be adjusted to align with the differentiation strategy.

Often in the growth phase, the marketer must pay significant attention to distribution. With a growing number of customers seeking the product, more distribution channels are needed. Mass marketing and other promotional strategies to reach more customers and segments start to make sense for consumer-focused markets during the growth stage. In business-to-business markets, personal selling and sales promotions often help open doors to broader growth. Marketers often must develop and support new distribution channels to meet demand. Through the growth phase, distribution partners will become more experienced in selling the product and may require less support over time.

The primary challenges during the growth phase are to identify a differentiated position in the market that allows the product to capture a significant portion of the demand and to manage distribution to meet the demand.

Maturity Stage

When growth begins to plateau, the product has reached the maturity phase. In order to achieve strong business results through the maturity stage, the company must take advantage of economies of scale. This is usually a period in which marketers manage the budget carefully, often redirecting resources toward products that are earlier in their life cycle and have higher revenue potential.

At this stage, organizations are trying to extract as much value from an established product as they can, typically in a very competitive field. Marketing messages and promotions seek to remind customers about a great product, differentiate from competitors, and reinforce brand loyalty: “Remember why this brand is the best.” As mentioned in the previous section, this late in the life cycle, promotional tactics, and pricing discounts are likely to provide only short-term benefits. Changes to the product have a better chance of yielding more sustained results.

In the maturity stage, marketers often focus on niche markets, using promotional strategies, messaging, and tactics designed to capture new shares in these markets. Since there is no new growth, the emphasis shifts from drawing new customers to the market to winning more of the existing market. The company may extend a product line, adding new models that have greater appeal to a smaller segment of the market.

Often, distribution partners will reduce their emphasis on mature products. A salesforce will shift its focus to new products with more growth potential. A retailer will reallocate shelf space. When this happens the manufacturer may need to take on a stronger role in driving demand.

We have repeatedly seen this tactic in the soft drink industry. As the market has matured, the number of different flavors of large brands like Coke and Pepsi has grown significantly. We will look at other product tactics to extend the growth phase and manage the maturity phase in the next section.

Decline Stage

Once a product or industry has entered the decline stage, the focus shifts almost entirely to eliminating costs. Little if any marketing spending goes into products in this life stage, because the marketing investment is better spent on other priorities. For goods, distributors will seek to eliminate inventory by cutting prices. For services, companies will reallocate staff to ensure that delivery costs are in check. Where possible, companies may initiate a planned obsolescence process. Commonly technology companies will announce to customers that they will not continue to support a product after a set obsolescence date.

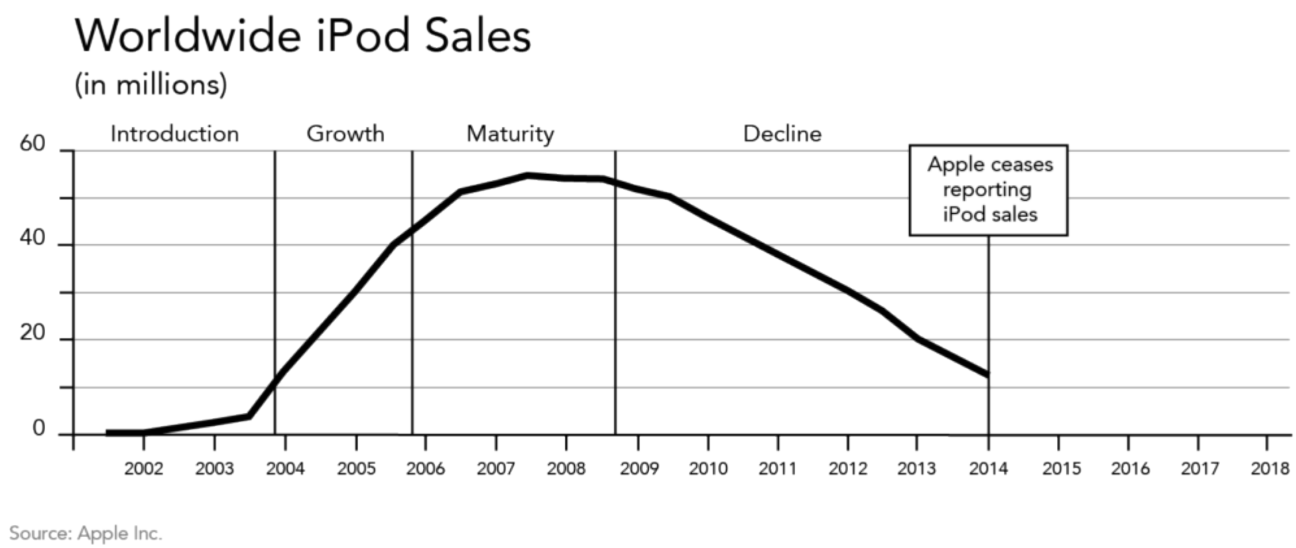
Often a primary focus for marketers during this stage is to transition customers to newer products that are earlier in the product life cycle and have more favorable economics. Promotional activities and marketing communications, if any, typically focus on making this transition successful among brand-loyal segments who still want the old product. A typical theme of marketing activity is “This familiar brand is still here, but now there’s something even better.”

Reading: Challenges in the Product Life Cycle

In theory, the product life cycle follows a predictable path that is easy to understand. This might suggest that the marketer just needs to gear up for the ride and be ready to adjust tactics as the product moves through its life cycle. On the contrary, a marketer's job is much less passive—instead, the marketer's goal is to influence the life cycle. An effective marketer tries to extend the growth stage in order to maximize revenue and profits and to extend the maturity stage in order to fund the development and introduction of new products.

Apple's iPod Life-Cycle Strategies

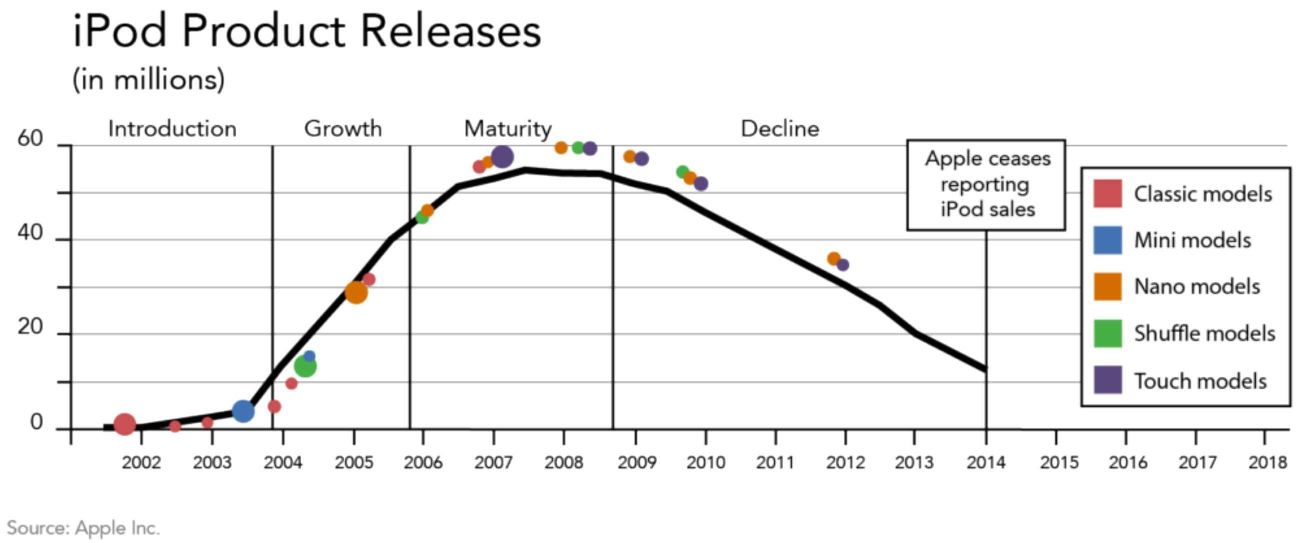
It is easier to understand the complexity of the product life cycle in the context of a real-life example. The total sales of Apple's iPod across all models follow a classic product life-cycle curve (see Figure 1[1] below).



Worldwide iPod Sales. Data from Apple sales reporting.

Remember, these data include all models of iPods. One strategy that Apple employs to increase growth is to introduce new product models often. They used this strategy during the popularity of iPods; the new models had fairly similar functions but offered significantly different styling. This drove multiple sales to the same buyer. A buyer was less likely to say, "I already have an iPod," than to say, "I have an iPod Classic but I want an iPod Nano." From the initial launch in October 2002 through 2007, Apple introduced five major iPod models, with multiple versions of each.[2] The graph below shows the sequence of releases, with large dots representing the initial release of each new model. In September of 2008 and 2010, Apple released new versions of three different iPod models at the same time.

1. Statista Research Department. (2014, October 7). *Apple: iPod sales worldwide 2006-2014.* Statista. https://www.statista.com/statistics/276307/global-apple-ipod-sales-since-fiscal-year-2006
2. Richter, F. (2019, May 29). Statista. *The slow goodbye of Apple's former cash cow.* https://www.statista.com/chart/10469/apple-ipod-sales/



Apple iPod sales units 2002 – 2014.

Apple's rapid product releases kept it on the cutting edge of design and made it difficult for competitors to take market share during the product's growth stage. In September 2006, Apple CEO Steve Jobs reported that iPods held a 75.6 percent market share.

Throughout the growth period, Apple chose not to sell old versions of new devices. Once the company introduced the third generation of the iPod Nano, it stopped selling new second-generation iPod Nanos (though it did still offer refurbished versions of the older products). This allowed the company to quickly make the older versions obsolete, which drove new sales and reduced the ongoing support costs for older models.

When companies talk about "cannibalizing" their market, they mean that one product takes market share from another. In effect, one of the company's products is eating the other product's market share. Each new model of the iPod took market share from its predecessors, but collectively the iPod products dominated their market. The greatest cannibal of all in the Apple story is the iPhone, which was first released in June 2007.

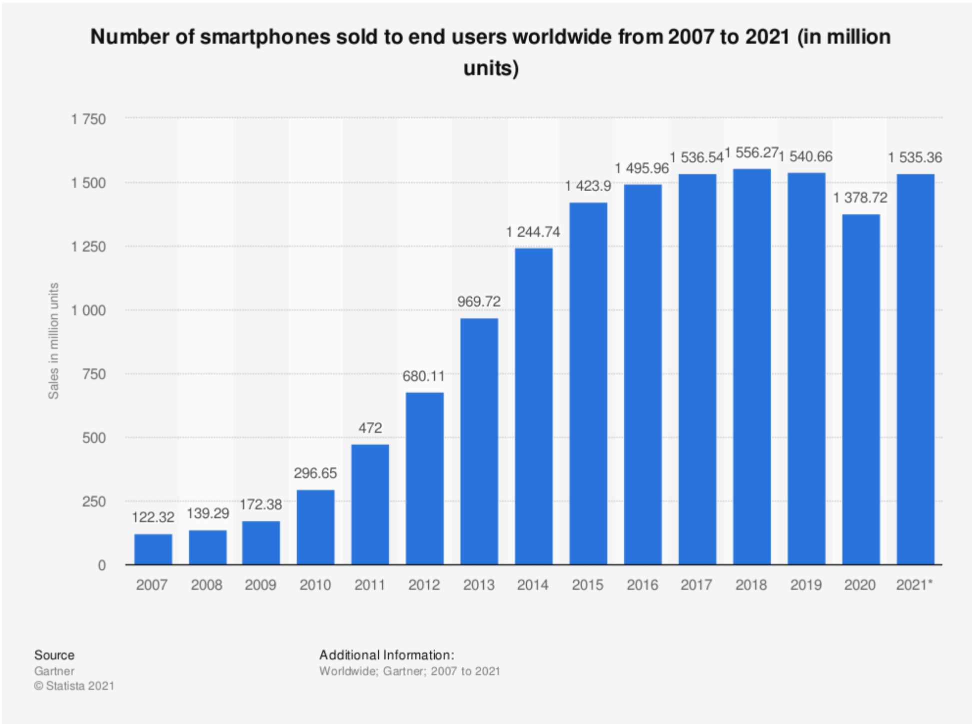
The Smartphone Product Life Cycle

A smartphone is a mobile phone that performs many of the same functions as a computer. Prior to the introduction of the smartphone, most people used cell phones—which are now referred to as "feature phones." Feature phones provide phone and text capabilities but lack an operating system that can support the more advanced capabilities of today's smartphones.

Early smartphones saw broad adoption in Japan in 2001, but mass adoption of smartphones did not reach the U.S. until business users fell in love with the Blackberry in 2003. Today, smartphones from a range of providers use primarily Google's Android operating system, Apple's iOS, or Microsoft Mobile.

Global sales of smartphones have grown rapidly, as shown in Figure 3[3] below.

3. O'Dea, S. (2021, March 31). *Global smartphone sales to end-users 2007-2021*. Statista. https://www.statista.com/statistics/263437/global-smartphone-sales-to-end-users-since-2007/



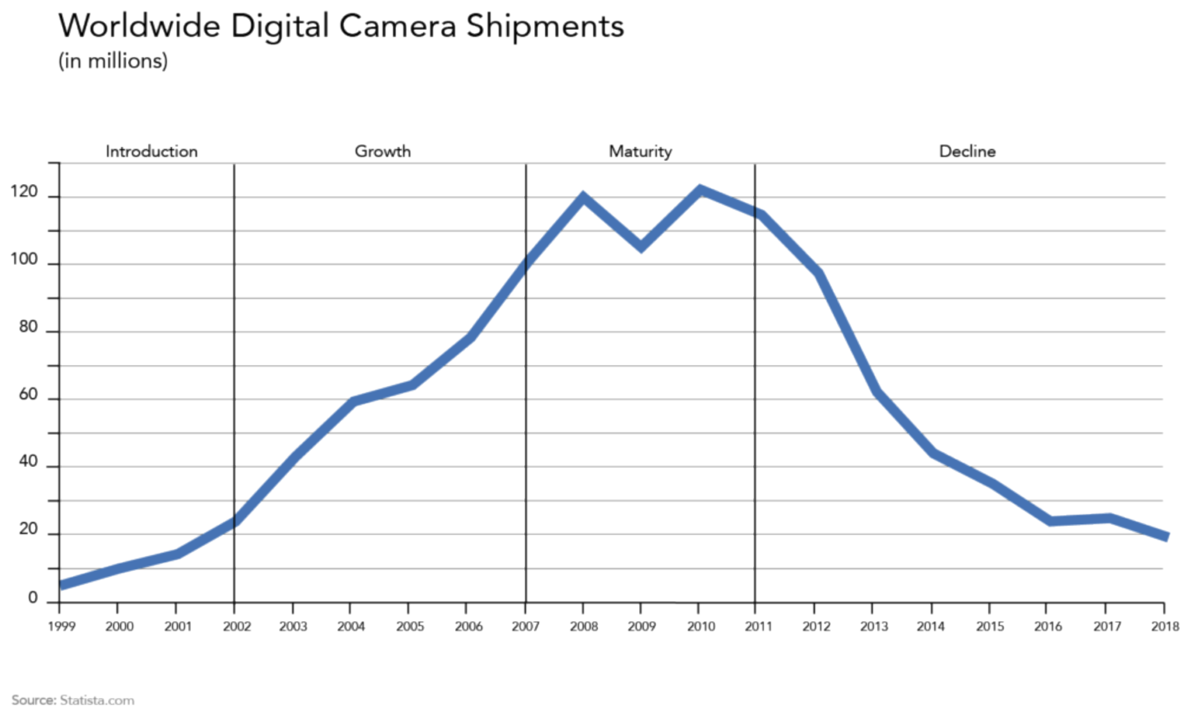
Global smartphone sales to end-users.

Marketers are using many different strategies to drive the growth of smartphones, but perhaps the greatest impact has been the opening of the technology platform to allow other vendors to offer applications for them. Apple, Samsung, Microsoft, and other players have not tried to imagine every possible use for a smartphone and build it themselves. Instead, they have created the technology infrastructure and an open marketplace for applications. Programmers can develop applications that can run on any phone, and smartphone owners can select and buy the apps that are of interest.

Through this broad range of applications, the smartphone brings together a number of different functions on one device. Before the first release of the smartphone, many people carried a feature phone to answer calls and a personal digital assistant to manage email and calendars. With the smartphone, these two functions came together, and as the device has matured, it has taken over many other tasks that were formerly performed on a separate device.

The adoption of smartphones has had a tremendous impact on the product life cycle of a range of other products. When Apple introduced the iPhone in 2007, the company was cannibalizing its market for iPods. Today, most Apple customers play their media on a phone rather than on a separate media-dedicated device. There are still sales of iPods, but the company, in effect, initiated the decline of the market with its own introduction of the iPhone—a market in which it had more than 75 percent market share.

The markets for digital cameras (especially the low-end models) and personal navigation systems (GPS systems) have also been impacted. The product life-cycle graph for digital camera purchases, shown in Figure 4,[4] below, shows a striking resemblance to that of the iPod.



CIPA companies: shipments of digital cameras 1999-2018.

While in the past, smartphone cameras have lagged behind digital cameras in terms of features and performance, they provided two distinct benefits:

1. The smartphone adds the camera to an existing device that the user already carries with him
2. The smartphone makes it easier to use and share photos through other applications on the phone

With the technological improvements made to smartphone cameras in recent years, those two distinct benefits have become amplified. Smartphones are a dominant factor in the product life cycle of digital cameras, iPods, and a number of other products.

Lessons from the Smartphone Life Cycle

This example shows some benefits of considering the product life cycle in marketing strategies but also some significant limitations.

The product life cycle is not forward-looking. At any point on the graph, a marketer can see what has already occurred but not what is ahead. In planning a product strategy, it is important to understand the past sales performance of the product and the industry broadly, but the role of marketing is to shape future performance, and the product life cycle doesn't offer many tools to inform that proactive work.

4. Statista Research Department. (2021, April 21). *CIPA companies: shipments of digital cameras 1999-2021*. Statista. https://www.statista.com/statistics/264337/cipa-companies-shipments-of-digital-cameras-since-1999/

The product life cycle can focus a marketer on a defined set of products and competitors in the current market—but miss broad trends or innovations in adjacent markets and products. A marketer looking for the next feature to add to a digital camera to extend the maturity phase could easily miss the impact that the smartphone would have on the digital camera market. We can learn from Apple's description of a product marketing manager position in its own company: One of the product marketing manager's responsibilities is to "closely follow emerging technology, consumer, and societal trends and make recommendations for how products will leverage or fit into those emerging trends." This broad view is critical to successful marketing.

Finally, this example demonstrates the importance of creating a diverse set of products. When the iPod lost market share to the iPhone, Apple won. Other companies that have lost market on account of the transition to smartphones—Nikon and Canon in cameras, Garmin in navigation devices, etc.—have not fared as well.

10.4 Product Portfolio Management

Learning Objectives

- Define the product portfolio and explain its use in marketing
- Identify marketing strategies and tactics used to achieve portfolio objectives
- Explain why new products are crucial to an organization's success
- Explain product portfolio management and how it relates to the organization's marketing strategy and tactics

Our last example showed the importance of marketing a diverse set of products and using new products to gain a strategic advantage. Defining and managing this collection of products is called product portfolio management.

Think of an artist's portfolio. The artist will use their portfolio to display a range of work. They will try to select works that showcase their strengths in different areas so that someone reviewing their portfolio can see the range of different things they can do well.

Similarly, a product portfolio requires diversity in order to be effective. In this module, we will talk about what the product portfolio is and how a marketer can use the power of a product portfolio to achieve marketing objectives.

Learning Activities

- Reading: The Product Portfolio
- Reading: Achieving Portfolio Objectives
- Reading: New Products in the Portfolio
- Self Check: Product Portfolio Management

Reading: The Product Portfolio

Throughout this course, we have discussed a number of ways that organizations market products successfully. How does an organization decide which products to offer? When should a company add new products, and when should it discontinue existing ones? Product portfolio management answers these questions.

Organizing for Effective Product Marketing

Before we dive into the product portfolio it is important to understand how products are organized in most businesses.

Typically, organizations group like products into product lines, and then group lines of business targeting a common set of customers into something called strategic business units (SBUs).

A product line is a group of products marketed by an organization to one general market. The products have some characteristics, customers, and uses in common, and may also share technologies, distribution channels, prices, services, etc. There are often product lines within product lines.[1]

Before we take a look at an example, let's review some definitions within product organizations:

- A **product** is a bundle of attributes (features, functions, benefits, and uses) that a person receives in an exchange. In essence, the term "product" refers to anything offered by a firm to provide customer satisfaction—tangible or intangible. Thus, a product may be an idea (recycling), a physical good (a pair of jeans), a service (banking), or any combination of the three.
    - An example of a product is Tylenol pain reliever.
- A **product line** is a group of products marketed by an organization to one general market. The products have some characteristics, customers, and/or uses in common, and may also share technologies, distribution channels, prices, services, etc. There are often product lines within product lines.
    - An example of a product line is the full range of Tylenol products.
- A **strategic business unit** or **SBU** is a self-contained planning unit for which discrete business strategies can be developed.
    - An example of a strategic business unit is consumer health care products.

1. American Marketing Association.(n.d.). AMA *Definitions of marketing*. https://www.ama.org/the-definition-of-marketing-what-is-marketing/

Johnson & Johnson

Johnson & Johnson has hundreds of products. They sell baby shampoo to new parents and knee systems to surgeons who perform knee replacement surgeries. Imagine trying to understand all of the different products and their target buyers. It would be impossible to span all of those products well. At the same time, what if your organization owns a single product—say, Johnson & Johnson's Neutrogena face wash? A different organization owns Johnson & Johnson's Aveeno face wash. It would be easy to optimize for a single product, rather than trying to achieve company objectives across all the products.

And as for a product line inside a product line? Johnson & Johnson has a product line of skin and hair care products. Within that product line, there are a number of brands that have a set of complementary products. Returning to our previous example, the Neutrogena product line includes a complete set of dermatologist-recommended skin and hair care products. The Aveeno product line includes a complete set of natural skincare products. Neutrogena products target buyers who place greater trust doctors, and Aveeno targets buyers who trust natural products, but both are part of the Johnson & Johnson skin and hair care product line.

The skin and hair care product line is part of a larger strategic business unit for Johnson & Johnson: the consumer health care products business unit. This SBU includes:

- baby care
- skin and hair care
- wound care and topicals
- oral health care
- over-the-counter medicines
- vision care
- nutritionals

Think about this list. There are differences in the target buyer for each product line, but drugstores like Shoppers Drug Mart and Lawtons Drugs carry all of these products, and they are, of course, all targeting consumers.

Johnson & Johnson's other SBUs include medical devices and prescription products.

Managing the Product Portfolio

The goal of product portfolio management is to ensure that the company's investment in products meets objectives. In order to do this, portfolio management must understand the needs and contributions of the products and allocate resources across product lines and SBUs to optimize their market performance.

Analyzing SBU Performance

Should Johnson & Johnson invest equally in all of its SBUs and product lines? The table below shows Johnson & Johnson's 2014 financial results.[2]

Johnson & Johnson's 2014 Financial Results

SBU	2014 revenue	Revenue growth from 2013	% profit	Research and Development spending
Consumer health care	$14.5 billion	1%	13.4%	$629 million
Medical devices	$27.5 billion	1.6%	28.9%	$1.7 billion
Prescription products	$32.3 billion	16.5%	36.2%	$6.2 billion

You can see that Johnson & Johnson is spending ten times more on research and development (R&D) for prescription products than for consumer health care products. Given the higher growth rates and profit margins for prescription products, this looks like a good decision.

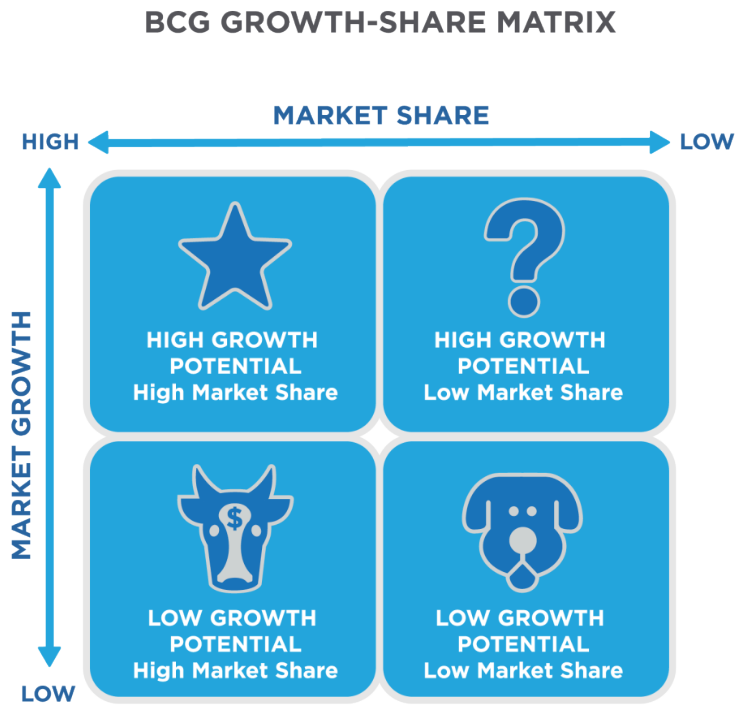
Within the SBUs, managers also make important decisions about where to invest. For example, in 2013, the lowest-growth product line in medical devices was diagnostics, which decreased by 8.9 percent from 2012 to 2013. In 2014, Johnson & Johnson sold a major diagnostic product from that product line to another company for $4 billion. This eliminated a product that was not contributing to the portfolio objectives, and it generated new capital that could be invested in higher-growth product lines.

The examples here demonstrate a simple review of SBU performance, but companies can also perform a deep analysis of an SBU and product performance in order to understand past performance and identify future growth opportunities.

Analyzing Market Opportunities

Beyond the internal performance data, portfolio analysis considers broader market factors. In the marketing planning module, we discussed the Boston Consulting Group's growth-share matrix, which is a tool to used analyze the product portfolio. You'll recall that this model considers the attractiveness of the market by studying the growth potential in the market, and it includes company performance by showing the product's current market share. These are both important factors to consider in determining future growth opportunities.

2. Johnson & Johnson. (2015, January 20). *Johnson & Johnson reports 2014 fourth-quarter and full-year results.* https://www.jnj.com/media-center/press-releases/johnson-johnson-reports-2014-fourth-quarter-and-full-year-results

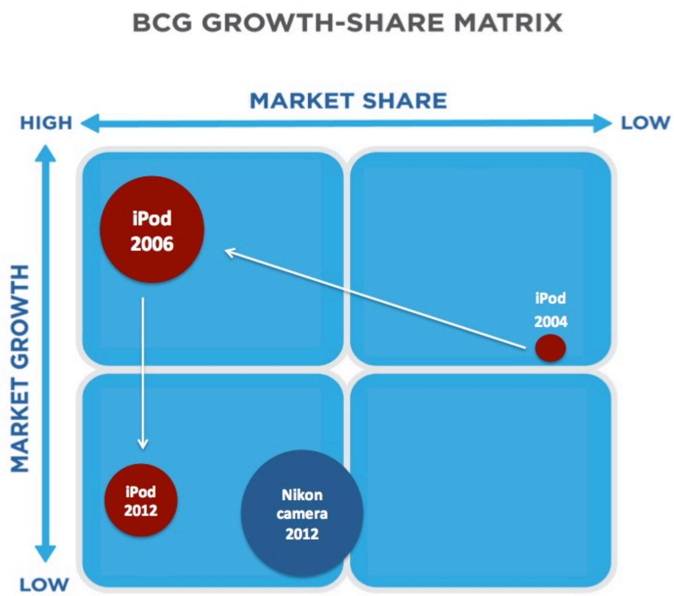


In its annual report, Johnson & Johnson shared the following information with investors about its largest prescription-drug product line:

> Immunology products achieved sales of $10.2 billion in 2014, representing an increase of 10.9 percent as compared to the prior year. The increased sales of STELARA® (ustekinumab) and SIMPONI® /SIMPONI ARIA® (golimumab) were primarily due to market growth and market share gains. REMICADE® (infliximab) growth was primarily due to market growth.

A very simplistic analysis of this information suggests that Stelara and Simponi are stars (high market growth and high market share) while Remicade is a question mark. It is benefiting from market growth but is not achieving gains in market share.

Knowing about the product life cycle is also important to understanding market growth. During the introduction phase, the market growth rate is low, and the longer-term potential is unknown. As the market moves into the growth phase, it moves up the market growth axis and creates opportunities for products that are gaining market share and becoming stars. Those that don't perform well in gaining market share will become question marks. As the market moves into maturity and decline, the market growth moves back down the axis and products will become either cash cows or dogs.



If we add the data from the iPod product life cycle to the growth-share matrix, as shown above, we can see how Apple's products might be analyzed. In the growth-share matrix, the size of the product sphere is determined by the total sales. Obviously, this diagram is not perfectly sized, but it gives a picture of the way in which product life cycle can be used to inform product portfolio management.

Reading: Achieving Portfolio Objectives

In our discussion of the product life cycle, we saw that competition generally increases as more competitors are drawn to high-growth markets. As more brands enter the marketplace and lock into a particular share of the market, it becomes more difficult to win and hold buyers. Apart from these competitive factors, other market factors can shift, too. For example:

- Changes in consumer tastes
- Changes in the size and characteristics of particular market segments
- Changes in availability or cost of raw materials and other production or marketing components

Internally, a company might have a proliferation of small-share brands that were introduced to address market opportunities but never saw significant growth. This can reduce efficiencies in production, marketing, and servicing for existing brands.

In product portfolio management there is an assumption that a company has an existing set of products. The number may be small or large, but each brand, product, and product line has an impact on the external market view of the others and on the internal resources available to the others. For this reason, portfolio management requires marketers to consider each product individually but also understand the way the products fit together collectively.

In order to optimize the product portfolio, marketers may change the marketing mix for a product, change a product line, delete products, or introduce new products.

Marketing Mix Strategies

When a product is introduced, it's not locked down forever. Marketers continually gather market data about products so they can refine the product and its position in the marketplace.

Product Modification

It is normal for a product to be changed several times during its life. Certainly, a product should be equal or superior to those of principal competitors. If a change can provide superior satisfaction and win more initial buyers and switchers from other brands, then a change is probably warranted.

However, the decision to make a significant product change introduces risk and cannot be approached in a haphazard manner. First, the marketer must answer the question "What specific attributes of the product and competing products are perceived to be most important by the target customer?" Factors such as quality, features, price, services, design, packaging, and warranty may all be determinants. Each change introduces the risk that it may not align with customer needs. For example, a dramatic increase in product quality might drive the price too high for the existing target consumer, or it might cause them to perceive the product differently and unfavorably. Similarly, the removal of a particular product feature might be the one characteristic that's regarded as most important by a market segment.

The product modification decision can only be made if the marketer has a strong understanding of the target customer. What new information is the marketer learning about the buyer persona? Perhaps additional market research is needed to understand the improvements buyers want, to evaluate the market reception of competitors' products, and evaluate improvements that have been developed within the company. In determining product improvements, sales teams and distributors can provide valuable information. Sales is likely to hear objections from target customers or learn the reasons why they are choosing not to buy. Distributors often deal with a range of products in a category and provide helpful insights into what is tipping the purchase process toward a competitor's product.

Repositioning

In an earlier module, we discussed product positioning, which requires finding the right marketing mix for a product in order to distinguish it from competitors and give it a unique position in the market. As competitors' offerings and customer preferences change, marketing may need to make a significant change to the marketing mix to reposition the product. This involves changing the market's perceptions of a product or brand so that the product or brand can compete more effectively in its present market or in other market segments.

For example, since its heyday in the late seventies and early eighties, Cadillac sales have dropped by more than 50 percent as the Cadillac customer base aged. In order to restore sales, General Motors is trying to redefine the Cadillac product and brand for a new generation of consumers. This is a dramatic example in which a substantial change is needed. Product repositioning can also involve a very subtle change, such as updating the packaging or tweaking the pricing approach, but it is an important way to shift perceptions as market factors change.

Product Line Decisions

A product line can contain one product or hundreds of products. The number of products in a product line refers to its *depth*, while the number of separate product lines owned by a company is the product line *width*.

There are two overarching strategies that deal with product line coverage. With a full-line strategy, the company will attempt to carry every conceivable product needed and wanted by the target customer. Few full-line manufacturers attempt to provide items for every conceivable market niche. Instead, they provide many products for a particular market segment.

Companies that employ a limited-line strategy will carry selected items. Limited-line manufacturers will add an item if the demand is great enough, but they make that decision based on the market opportunity for the product rather than on a desire to meet all customer needs with their product line.

Line Extension Strategies

A line extension strategy involves adding new products under an already established and well-known brand name. The objective is to serve different customer needs or market segments while taking advantage of the widespread name recognition of the original brand.[1]

When Frito-Lay added Doritos Flamin' Hot to its Doritos line, that was an example line-extension strategy.[2] Frito-Lay is able to take advantage of a strong brand with existing shelf space and add a new product that has an appeal to shoppers seeking a spicier snack than the traditional nacho cheese flavor. Similarly, Clinique provides high-end skincare products and has extended its line to provide anti-acne products and anti-aging products.

Doritos Line-Extension

Generally, line extension strategies are lower risk because they introduce a product change but are able to take advantage of other proven elements of the marketing mix. Still, there is a risk of cannibalizing the market for existing products or, if the product is not well received, damaging the brand. Also, there a danger in overextending the product line by offering so many products that consumers can't find unique value, and company resources get stretched across many, low-volume products.

Line Filling Strategies

Line-filling strategies involve increasing the number of products in an existing product line to take advantage of marketplace gaps and to reduce competition. Many businesses use line filling to round out an already well-established product line and to help increase the market success of new related products.[3]

Before considering such a strategy several key questions should be answered:

- Can the new product support itself?
- Will it cannibalize existing products?
- Will existing outlets be willing to stock it?
- Will competitors fill the gap if we do not?
- What will happen if we do not act?

Assuming that a company decides to fill out the product line further, there are several ways of going about it. The following three are most common:

1. Koop M. Carol. (2021, February 26) *Brand Extension*. https://www.investopedia.com/terms/b/brand-extension.asp
2. Doritos. (n.d.). *Doritos product screenshot*. https://www.doritos.com/products/doritos-flamin-hot-nacho
3. Bhasin Hitesh (2019, September 14) *Line Filling: Anatomy, Examples, Factors, Case Study* https://www.marketing91.com/line-filling

1. **Product proliferation**: the introduction of new varieties of the initial product or products that are similar (e.g., a ketchup manufacturer introduces hickory-flavored and pizza-flavored barbecue sauces and a special hot dog sauce).
2. **Brand extension**: strong brand preference allows the company to introduce the related product under the brand umbrella (e.g. Jell-O introduces pie filling and diet desserts under the Jell-O brand name).
3. **Private branding**: producing and distributing a related product under the brand of a distributor or other producers (e.g., Firestone producing a less expensive tire for Costco).

In addition to the demand from consumers or pressure from competitors, there are other legitimate reasons to engage in these tactics. First, the additional products may have a greater appeal and serve a greater customer base than did the original product. Second, the additional product or brand can create excitement both for the manufacturer and distributor. Third, shelf space taken by the new product means it cannot be used by competitors. Finally, the danger of the original product becoming outmoded is hedged. Yet, there is a serious risk that must be considered as well: unless there are markets for the proliferations that will expand the brand's share, the newer forms will cannibalize the original product and depress profits.

Product Deletion

Eventually, a product reaches the end of its life. There are several reasons for deleting a mature product. First, when a product is losing money, it is a prime deletion candidate. In regard to this indication, it is important to make sure that the loss is truly attributable to the product. If the product appears not to be profitable when it is actually covering costs of other products, then deleting the product could negatively impact other products in the portfolio.

Second, there are times when a company with a long product line can benefit if the weakest of these products is dropped. This thinning of the line is referred to as *product-line simplification*. Product overpopulation spreads a company's productive, financial, and marketing resources very thin. Moreover, an excess of products in the line, some of which serve overlapping markets, not only creates internal competition among the company's own products but also creates confusion in the minds of consumers. Consequently, a company may apply several criteria to all its products and delete those that are faring worst.

A third reason for deleting a product is that problem products absorb too much management attention. Many of the costs incurred by weak products are indirect: management time, inventory costs, promotion expenses, a decline of company reputation, and so forth.

Missed-opportunity costs constitute the final reason for product deletion. Even if a mature product is making a profit contribution and its indirect cost consequences are recognized and considered justifiable, the company might still be better off without the product. Each product requires focus and resources that are not available to grow other products or create new ones.

Reading: New Products in the Portfolio

Factors Influencing the Pace of Product Development

New-product introductions are an important component of the product portfolio. This has always been the case, but there have been a number of changes since 2000 that have increased the pace of new-product development and, with it, the importance of new products in the portfolio.

The Internet has fundamentally changed the way that we think about new products. We could devote an entire course to exploring and substantiating this statement, but for our purposes here, we'll concentrate on the following notable developments:

1. The Internet increases our ability to find new products. In the past, if a local store carried version 3.0 of any product, a buyer could consider the attributes of version 3.0 and make a purchase decision. Today, the buyer may enter the store, but they're more likely to know the improvements incorporated in version 4.0 and the new features expected in version 5.0.
2. The Internet supports real-time comparisons of competitive products, including their features and users' experience with the products.
3. The Internet enables new products and services that have changed expectations for service delivery.
4. The Internet enables customers to recommend new products and experiences to others.

In addition to these Internet-related developments, there are many new tools, technologies, and methodologies that are speeding the pace of new product development. For example, software development frameworks make it possible to launch, test, and refine a new Web-based service in a fraction of the time that it required in the past. A new retail offering that, in the past, would have required a team of programmers to bring to market can be launched on Etsy today in less than an hour.

New products have never been faster and easier to launch.

New Products Bring Risk

Still, new products are risky. In the strategic opportunity matrix section, we reviewed a number of strategies that include new and existing products. Why is it important to consider whether the product and/or market is new in this strategic context? Current products in current markets are known, and new products and new markets are not known.

In this section, we have discussed a couple of examples of new products in the context of company strategies. Apple launched five major iPod models in six years, and then followed them with a total of twenty different versions of those models. Perhaps most interesting, Apple launched three different iPod models—the Classic, the Mini, and the Shuffle—before it saw significant sales growth.

The Johnson & Johnson medical practices unit launched more than fifty new products between 2012 and 2014 but has seen only a 0.5 percent increase in sales during that period. With the 2014 sale of a diagnostics product that was showing declining sales numbers, the SBU is better poised to show growth in its 2015 sales numbers.

Both of these examples show that new products do not guarantee new sales, and they certainly don't guarantee immediate success.

Role of New Products in the Portfolio

New products bring greater risk to the product portfolio but also greater potential reward. The goal of portfolio management is to balance risk in order to create strong performance today and in the future. Though new products can drain resources in the short run, they are positioned to generate new sales in the long run—and to take off when other products are entering stages of maturity and decline.

The early investment in multiple new iPod models that were not growing quickly created a future base for the growth of the iPod. That, in turn, generated returns and positioned the Apple brand for the development and release of the iPhone. Johnson & Johnson's medical products division has aggressively invested in new products that can spur growth and divested products with declining sales. Still, in the first three quarters of 2015, overall growth for the division is down. It is not yet clear whether the new products will generate enough growth to replace the growth of their predecessors.[1]

1. Johnson & Johnson. (2015, January 20). *Johnson & Johnson reports 2014 fourth-quarter and full-year results.* https://www.jnj.com/media-center/press-releases/johnson-johnson-reports-2014-fourth-quarter-and-full-year-results

10.5 New Product Development Process

Learning Objectives

- Explain how new products are planned
- Identify approaches to generate new product ideas
- Identify methods to evaluate new product ideas
- Explain the process to create and commercialize new products
- Describe the new-product development process

We have considered the role of new products throughout this module. It is important to introduce new products in order to have a balanced portfolio containing products at the various stages of the product life cycle. We have not yet focused on ways of creating successful new products.

In this module, we will discuss a standard, somewhat fixed new-product development process. The logic behind this rather rigid process is that it requires a great deal of discipline to create new products. It's expensive to launch a successful new product—but it's far more expensive to launch unsuccessful products. For these reasons, organizations invest a lot in the creation and refinement of their new product development processes. It helps them raise the odds that they'll be successful.

Consider the following dramatic product failures that, in hindsight, should have been screened out much earlier in the product development process.

In 1998 Frito-Lay introduced WOW! chips. These snack chips contained significantly less fat and fewer calories than other snack foods thanks to the fat substitute Olestra. Initially, the product performed well, generating $347 million in 1998 and making WOW! the best-selling potato chip brand that year. The success was short-lived, though. Olestra had an unpleasant side-effect: soon customers complained of cramping, incontinence, and diarrhea—in some cases requiring hospitalization—after eating the chips. Frito-Lay's parent company, PepsiCo, spent $35 million on an advertising campaign to turn things around, but sales plummeted nonetheless.[1]

In 2011 Hewlett Packard launched a product designed to go head-to-head with Apple's iPad. The product boasted a higher number of performance features than the iPad, but it had none of the "cool factor" that drew customers to Apple. MarketWatch reported, "Despite large-scale press events and promotions, the HP TouchPad was a colossal failure and was discontinued almost immediately. As a result of the TouchPad's failure, the company wrote off $885 million in assets and incurred an additional $755

1. Market Watch. (2015, April 11). 12 worst American product flops. http://www.marketwatch.com/story/12-worst-american-product-flops-2015-04-10

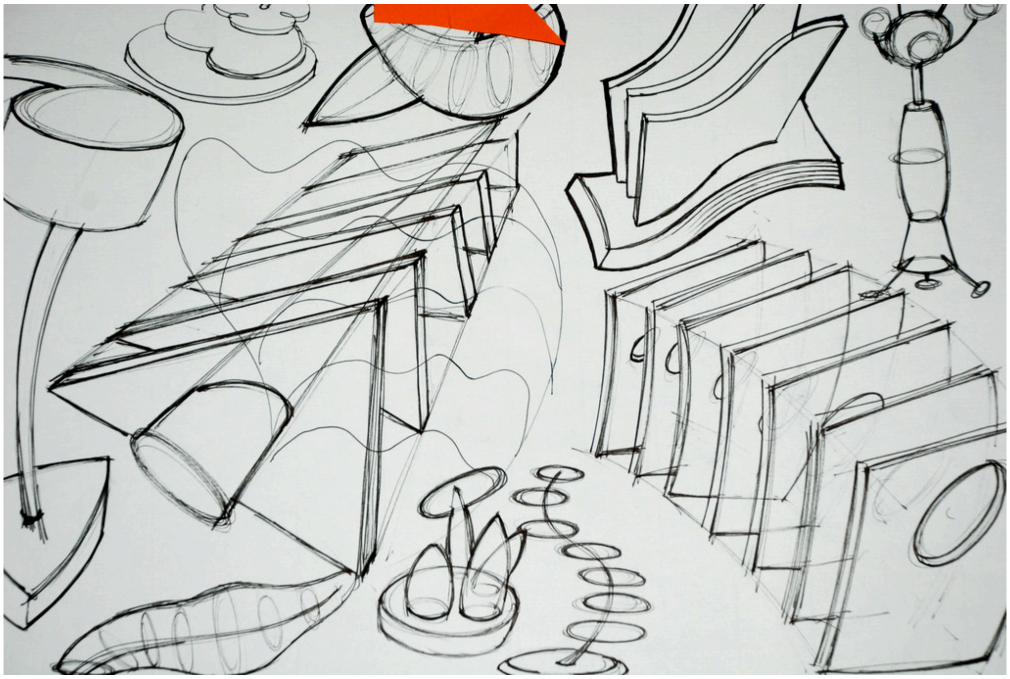
million in costs to wind down its webOS operations, ending all work on the TouchPad's failed operating system."

To repeat: developing new products creates opportunity and risk.

Learning Activities

- Reading: Generating and Screening Ideas
- Reading: Developing New Products
- Reading: Commercializing New Products
- Video: Target Product Design
- Self Check: New Product Development Process

Reading: Overview of the New-Product Development Process



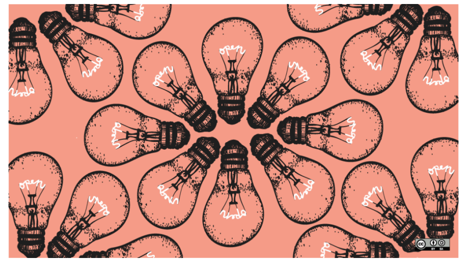
Introduction

There are probably as many varieties of new-product development systems as there are types of companies, but most of them share the same basic steps or stages—they are just executed in different ways. Below, we have divided the process into eight stages, grouped into three phases; subsequent readings will discuss these phases in greater detail. Many of the activities are performed repeatedly throughout the process, but they become more concrete as the product idea is refined and additional data are gathered. For example, at each stage of the process the product team is asking, "Is this a viable product concept?" but the answers change as the product is refined and more market perspectives can be added to the evaluation.

New-Product Development Process: Phases and Stages

Phase I: Generating and Screening Ideas	**Phase II: Developing New Products**	**Phase III: Commercializing New Products**
Stage 1: Generating New Product Ideas	Stage 4: Business Case Analysis	Stage 6: Test Marketing
Stage 2: Screening Product Ideas	Stage 5: Technical and Marketing Development	Stage 7: Launch
Stage 3: Concept Development and Testing		Stage 8: Evaluation

Stage 1: Generating New Product Ideas



Generating new product ideas is a creative task that requires a particular way of thinking. Coming up with ideas is easy, but generating *good* ideas is another story. Companies use a range of internal and external sources to identify new product ideas. A SWOT analysis might suggest strengths in existing products that could be the basis for new products or market opportunities. Research might identify market and customer trends. A competitive analysis might expose a hole in the company's product portfolio. Customer focus groups or the sales team might identify unmet customer needs. Many amazing products are also the result of lucky mistakes—product experiments that don't meet the intended goal but have an unintended and interesting application. For example, 3M scientist Dr. Spencer Silver invented Post-It Notes in a failed experiment to create a super-strong adhesive.[1]

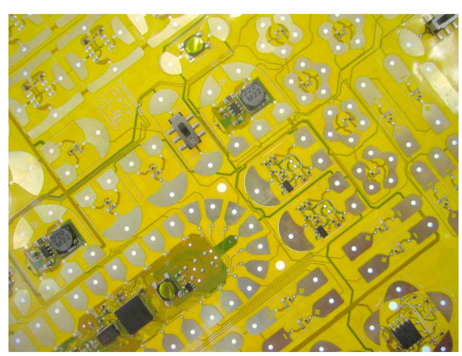
The key to the idea generation stage is to explore possibilities, knowing that most will not result in products that go to market.

Stage 2: Screening Product Ideas

The second stage of the product development process is idea screening. This is the first of many screening points. At this early stage, much is *not* known about the product and its market opportunity. Still, product ideas that do not meet the organization's objectives should be rejected at this stage. If a poor product idea is allowed to pass the screening stage, it wastes effort and money in later stages until it is abandoned. Even more serious is the possibility of screening out a worthwhile idea and missing a significant market opportunity. For this reason, this early screening stage allows many ideas to move forward that may not eventually go to market.

At this early stage, product ideas may simply be screened through some sort of internal rating process. Employees might rate the product ideas according to a set of criteria, for example; those with low scores are dropped and only the highest-ranked products move forward.

Stage 3: Concept Development and Testing



Today, it is increasingly common for companies to run some small concept tests in a real marketing setting. The *product concept* is a synthesis or a description of a product idea that reflects the core element of the proposed product. Marketing tries to have the most accurate and detailed product concept possible in order to get

1. Post-it note. (n.d.). in Wikipedia. https://en.wikipedia.org/wiki/Post-it_note

accurate reactions from target buyers. Those reactions can then be used to inform the final product, the marketing mix, and the business analysis.

New tools for technology and product development are available that support the rapid development of prototypes that can be tested with potential buyers. When concept testing can include an actual product prototype, the early test results are much more reliable. Concept testing helps companies avoid investing in bad ideas and at the same time helps them catch and keep outstanding product ideas.

Stage 4: Business Case Analysis

Before companies make a significant investment in a product's development, they need to be sure that it will bring a sufficient return.

The company seeks to answer such questions as the following:

1. What is the market opportunity for this product?
2. What are the costs to bring the product to market?
3. What are the costs through the stages of the product life cycle?
4. Where does the product fit in the product portfolio and how will it impact existing product sales?
5. How does this product impact the brand?
6. How does this product impact other corporate objectives such as social responsibility?

The marketing budget and costs are one element of the business analysis, but the full scope of the analysis includes all revenues, costs, and other business impacts of the product.

Stage 5: Technical and Marketing Development

A product that has passed the screening and business analysis stages is ready for technical and marketing development. Technical development processes vary greatly according to the type of product. For a product with a complex manufacturing process, there is a lab phase to create specifications and an equally complex phase to develop the manufacturing process. For a service offering, there may be new processes requiring new employee skills or the delivery of new equipment. These are only two of many possible examples, but in every case, the company must define both what the product is and how it will be delivered to many buyers.

While the technical development is underway, the marketing department is testing the early product with target customers to find the best possible marketing mix. Ideally, marketing uses product prototypes or early production models to understand and capture customer responses and to identify how best to present the product to the market. Through this process, product marketing must prepare a complete marketing plan—one that starts with a statement of objectives and ends with a coherent picture of product distribution, promotion, and pricing integrated into a plan of marketing action.

Stage 6: Test Marketing and Validation

Test marketing is the final stage before commercialization; the objective is to test all the variables in the marketing plan including elements of the product. Test marketing represents an actual launching of the total marketing program. However, it is done on a limited basis.

Initial product testing and test marketing are not the same. Product testing is totally initiated by the producer: they select the sample of people, provide the consumer with the test product, and offer the consumer some sort of incentive to participate.

Test marketing, on the other hand, is distinguished by the fact that the test group *represents* the full market, the consumer must make a purchase decision and pay for the product, and the test product must compete with the existing products in the actual marketing environment. For these and other reasons, a market test is an accurate simulation of the broader market and serves as a method for reducing risk. It should enhance the new product’s probability of success and allow for final adjustment in the marketing mix before the product is introduced on a large scale.

Stage 7: Launch

Finally, the product arrives at the commercial launch stage. The marketing mix comes together to introduce the product to the market. This stage marks the beginning of the product life cycle.

Stage 8: Evaluation

The launch does not in any way signal the end of the marketing role for the product. On the contrary, after launch, the marketer finally has real market data about how the product performs in the wild, outside the test environment. These market data initiate a new cycle of idea generation about improvements and adjustments that can be made to all elements of the marketing mix.

Reading: Generating and Screening Ideas

Introduction

The first phase of the new product development process is creating a viable product concept that can move through the development phase. This phase includes the following:

- Stage 1: Generating New Product Ideas
- Stage 2: Screening Product Ideas
- Stage 3: Concept Development and Testing

This early phase of the process differs from later phases in several ways. First, it requires immense creativity. Each of the later phases focuses on screening out ideas, but this is a generative stage whose goal is the production of new ideas. Second, the early phase of the process is difficult to plan and manage. On what day will the innovative product idea emerge? That can't be planned or scheduled.

The Fuzzy Front End

Researcher Peter Koen refers to this first phase as the Fuzzy Front End (FFE) of the product development process. In his work, he has identified a number of characteristics that differentiate the FFE from later phases of product development. These are shown in the table below.

Difference Between the Fuzzy Front End and the New-Product Development Process[1]

Fuzzy Front End vs. New-Product Development Traits

	Fuzzy Front End (FFE)	**New-Product Development (NPD)**
Nature of Work	Experimental, often chaotic. "Eureka" moments.	Can schedule work—but not invention. Disciplined and goal-oriented with a project plan.
Commercialization Date	Unpredictable or uncertain.	High degree of certainty.
Funding	Variable—in the beginning phases many projects may be "bootlegged," while others will need funding to proceed.	Budgeted.
Revenue Expectations	Often uncertain, with a great deal of speculation.	Predictable, with increasing certainty, analysis, and documentation as the product release date gets closer.
Activity	Individuals and team conducting research to minimize risk and optimize potential.	Multifunction product and/or process development team.
Measures of Progress	Strengthened concepts.	Milestone achievement.

As the product concept moves through the stages of the product development process, everything will become more refined and more certain. The timeline, the budget, and the performance expectations will all become more concrete, but in the early phase, it is important to allow for the ambiguity that supports creativity.

Creating Successful Product Concepts

How can businesses influence the success of the new business idea? Koen suggests a number of factors that play a role: the corporation's organizational capabilities, customer and competitor influences, the outside world's influences, and the depth and strength of enabling sciences and technology.[2]

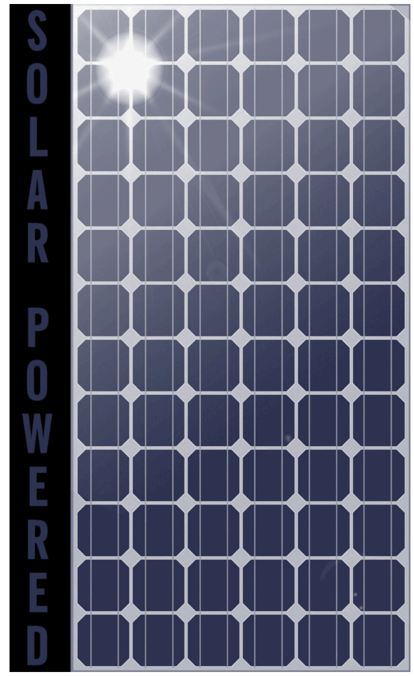
Organizational Capabilities

You may have noticed that some companies are able to launch one dominant product after another. Other companies struggle to create any products that compete well or have one amazing product and then disappear. Companies develop processes to manage new products, hire leaders to manage new-product development, and develop a culture based on their institutional values and norms around new products. All of these factors tip the scale toward success or failure. If leaders ask employees to take risks with cutting-edge product ideas but fire those whose ideas are not successful, they will not draw out risky ideas that might lead to the greatest success. Also, the best ideas are often refinements of

1. Koen, P.A., Ajamian, G., Boyce, S.D., Clamen, A., Fisher, E.S., Fountoulakis, S.G., Johnson, A., Puri, P.S., & Seibert, R. (2002). 1 Fuzzy front end: Effective methods, tools, and techniques. https://api.semanticscholar.org/CorpusID:10643155
2. Ibid.

and enhancements to other ideas. If individual performance is rewarded over team success, there is less likelihood of idea sharing and collaboration.

Customer and Competitor Influences



Innovation by a competitor can spur new ideas and possibilities across the industry. Similarly, customers seeking innovation who are willing to share ideas with their vendors can accelerate the generation of new product ideas and bring a voice of reality that increases the chance of success.

Outside World Influences

There are a range of influences outside of the company that affects the ease with which new ideas can be developed. Government regulations can positively or negatively influence new-product and idea generation. Society, culture, and the economic environment can create a rich environment for new ideas.

Enabling Sciences and Technologies

Enabling technologies refer to those technologies that can be used to develop new products. When employees have access to technologies that expose them to new ideas, or technologies that allow rapid development and iteration of new ideas, this can be instrumental in sparking the development of new products. Often companies invest in technology components that can be reused across multiple products. Such technology has the effect of both speeding the new-product development process and facilitating the addition of refinements and enhancements to existing products.

Evaluating Product Concepts

The goal of the initial product development process is to generate ideas, actively evaluate the ideas, and create a viable product concept. In the past, it was difficult to get a clear reading on how products might perform until late in the product development process. That is less true today. Consider the following examples of innovations that accelerate market feedback on new products:

Kickstarter is a crowd-funding platform that allows entrepreneurs to pitch a new product concept to potential funders. The entrepreneur receives immediate feedback on the idea from a broad market and, if it generates enough support, funding to bring the product to market.

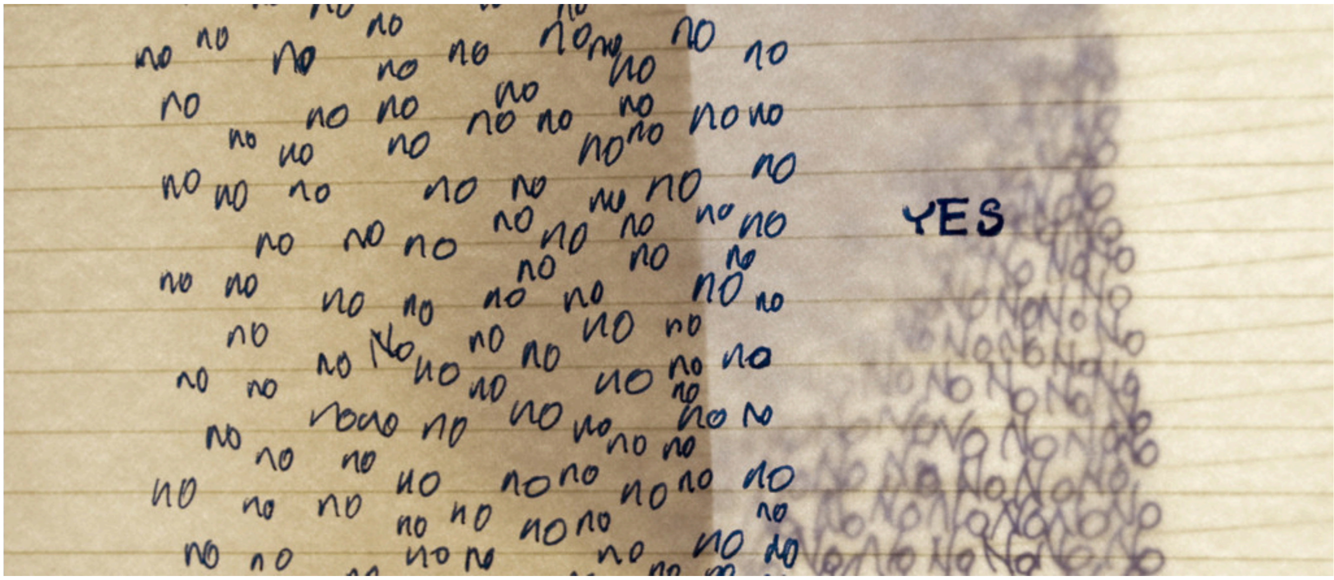
Etsy offers an e-commerce platform from which entrepreneurs can sell products on the Internet without having to develop their own e-commerce websites to present products or process payments.

3-D printers create physical products from digital files. These products can be tested and refined with users much more quickly and economically than traditionally manufactured prototypes and products.

On a larger scale, there are a number of Web application frameworks that allow programmers to quickly develop Internet applications, significantly speeding the pace at which software companies can prototype and develop new features.

Once a product concept has been successfully evaluated, it moves to the next phase of development.

Reading: Developing New Products



The second phase of the new-product development process focuses on the actual development of the new product. This phase includes the following:

- Stage 4: Business Case Analysis
- Stage 5: Development

Making the Business Case

The business case is often the most challenging screening process in the new-product development process. It is not uncommon for a product team to get excited about an idea, get positive feedback on the concept from target buyers, and then fail to make the numbers work in the business case. Usually, the business case review results in a “go, no-go” decision for the product concept.

The business case doesn’t only need to answer the question “Can this product make money?” It’s also trying to answer a more complicated question: “Will the product provide the greatest total return out of all the potential strategies we could pursue?” In addition, the business case is looking at the expected performance of the product—financial and otherwise—over the entire product life cycle. For these reasons, the business case takes into account a broad range of factors.

One common tool for presenting a summary of the business case is called the “business model canvas” (see Figure 1, below). The canvas doesn’t cover all of the analysis that must be done, but it does provide a nice structure for identifying the different components that are important to the success of the product or business.

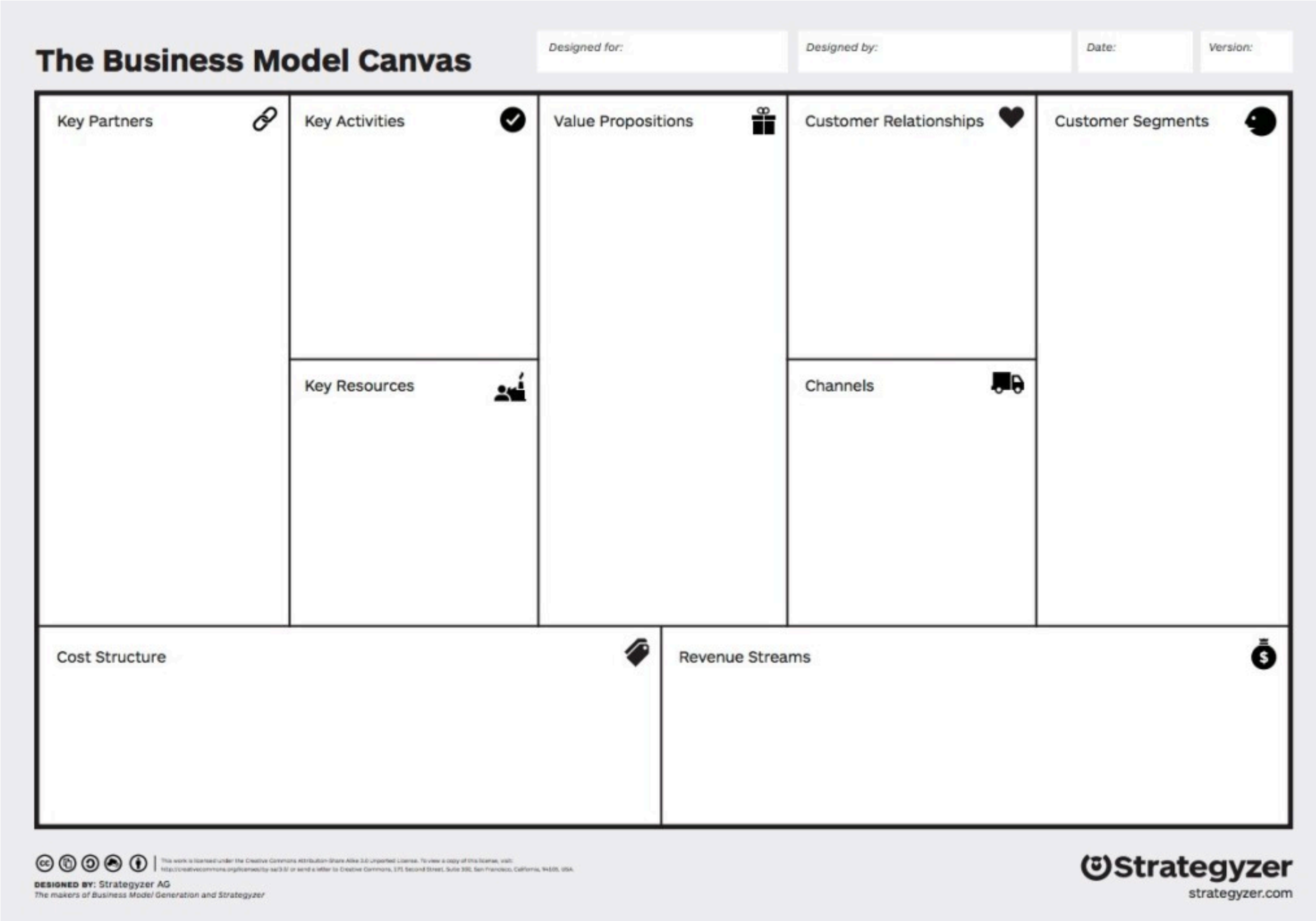


Figure 1. The Business Model Canvas

You will notice that the center of the canvas focuses on the value proposition of the product, whereas the lower segments specify the costs to create value and the revenue earned by delivering the value. In the analysis of the business case, the key questions are the following:

1. Does the product provide sufficient unique value to the target customer?
2. Can that be achieved at a cost that supports the value?
3. Does that value appeal to a large enough target market to generate sufficient revenue?

If the product development team can demonstrate satisfactory answers to these questions, without introducing other objections, then the product will move into development.

Developing the Product

Regardless of the type of product—a tangible good, a service, a business-to-business product—someone needs to define the marketing requirements for the product. This is the role of a product marketing manager. Product marketing isn't usually tasked with the technical specifications for the product but is focused on specifying the needs of the target buyer. Product marketing addresses the following question: "What problem does this product solve for the target buyer?" The answers to this question are typically presented in a marketing requirements document, which also includes a full buyer persona. (Recall that a buyer persona describes the needs, experiences, feelings, and preferences of a specific buyer.)

Defining Market Requirements

Let's say your new product is a packaged meal item, and you're the product marketer. Your marketing requirements document would explain who the buyer is, what she needs, and which particular features of the product will best address her needs. Your buyer persona is a woman named Aleisha. She has three kids and works part-time as a nurse. She feels stretched between her job and her kids' busy schedule and the demands of keeping up the house. She needs to be able to come home from work and get dinner on the table in twenty minutes, yet not feel like she's cutting corners. It's important to her to provide her family with a healthy home-cooked meal.

This description of target-buyer Aleisha suggests and guides a set of product requirements that will inform the design and development of the product. Whether the product is a food item, a fashion accessory, a software program, or a banking service, defining the marketing requirements based on the buyer persona will increase the chances that the final product meets the market need.

Defining Product Requirements

The marketing requirements become an input to the product team to define the technical product requirements for the product. In the packaged meal example, someone will need to decide whether there are visible solids in Aleisha's sauce and how much ground oregano should be added. Those will become product requirements that drive the production process.

With more technical products or products that include a complex manufacturing process, the translation from marketing requirements to technical requirements can be a daunting task. For example, in the manufacturing of semiconductors that power computers and electronics, there is a significant interplay between the marketing requirements, the technical requirements, and the manufacturing process. The factory cannot deliver products that exceed their technical capabilities regardless of the market's desires. In that case, the limits of the manufacturing process are set, and the role of product marketing is to identify the most attractive products given a fixed manufacturing capability.

In all cases, the product team seeks a tight match between the market need and the product that is designed, developed, and delivered.

Creating the Go-to-Market Plan

The marketing requirements drive the technical product requirements that will be used to develop the product, but they have a second purpose, too. The market requirements are the major input to the marketing plan that will be used during the product launch.

In answering what problem a product solves for the target buyer, we gain information about the messaging and promotion strategy. By understanding the alternatives that the target buyer might select and the unique value that our product provides, we can begin to understand the pricing dynamics. In knowing how she wants to buy the product we have options to analyze for the distribution strategy. The initial marketing mix for the product launch is driven by the information in the marketing requirements document.

Reading: Commercializing New Products

The final phase of the new-product development process focuses on commercializing the new product. This phase includes:

- Stage 6: Test Marketing
- Stage 7: Launch
- Stage 8: Evaluation

At last, the product is ready to go. It has survived the development process and is now, you hope, on the way to commercial success. How can it be guided to reach that marketing success?

The different stages in this phase include a common set of activities performed on an increasingly larger scale. In all three stages, the marketer is implementing, evaluating, and improving the marketing plan, which includes the full marketing mix.

Test Marketing

The goal of test marketing is to improve the success of the product launch. The marketer will launch the marketing plan to a smaller subset of the market, quickly analyze how the plan can be improved, refine the plan, and then launch to the full market.

Test marketing provides a wonderful opportunity to get feedback from buyers in a realistic buying situation in which they experience the full marketing mix—but it's a challenge to do it right. Because of the special expertise needed to conduct test markets, and the associated expenses, many large manufacturers employ independent marketing research agencies that specialize in test marketing. Among the challenging decisions are the following:

- *Duration of testing*: the product should be tested long enough to account for market factors to even out, but a long test cycle delays the broad launch and may diminish the impact of the product announcement.
- *Selection of test markets*: the test market should reflect the norms for the new product in such areas as advertising, competition, distribution system, and product usage.
- *Sample size determination*: the number of markets and tests must account for the different variables in the market while allowing for the fact that each test market adds cost to the launch budget and time to the product release cycle.

The test data drives the evaluation and refinement of the marketing plan. Even after all the test results are in, adjustments to the product and other elements of the marketing mix may still be made. Additional testing may be required, or the product may be canceled.

The Launch

The product launch is truly the beginning of the implementation of a sustained marketing plan—a plan that will be analyzed, evaluated, and adjusted throughout the product life cycle. That said, there are certain marketing techniques that figure more prominently during the launch phase.

Press Strategies

Often companies issue press releases about new products in order to increase visibility through earned media. The press release can be sent to targeted press outlets, posted on the company Web site, sent as an information message to customers, and distributed to industry influencers. The goal of the press strategy is to build broad visibility for the product, backed up by the credibility of the media outlet.

Price Discounts

Companies will sometimes offer a price discount during a product launch. When we cover pricing in more detail in the next module, we will discuss when this can be an effective strategy.

Channel Partner Incentives

If the company depends on a partner to sell or distribute the pricing, it might choose to offer pricing discounts and incentives to the distribution partner. A new product carries some risk, and an incentive at launch can encourage channel partners that might be reluctant to add the new product or to sell it aggressively.

Evaluation

Though we are identifying “evaluation” here as the final stage of the development process, it should be clear that product evaluation is a recurring activity that begins with the idea-screening stage. Careful, objective evaluation of the product at every stage leads to better investment decisions and better products. The difference in this final stage of the process is that the marketer has the benefit of significant market data for the evaluation, which can help improve the marketing plan going forward. It is only at this stage—after the product launch—when the marketer can see which buyers purchase the product, how competitors respond, and how the new product interacts with the company’s other products in the marketplace.

Video: Target Product Design

Target's design products include many of the success factors we've discussed in this module. As you watch the following video, see if you can identify which aspects of Target's approach and design process are key to their success. What role does the corporate culture play?

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=143

You can view the transcript for "Target Product Design and Development" (opens in new window).

10.6 Challenges for New Products

Learning Objectives

- Explain common challenges of new products
- Identify approaches to improving the success of new products
- Identify the challenges associated with marketing a new product successfully

Have you ever waited in line to be among the first to buy a new product when it was released?

Are you careful, maybe pragmatic, about trying new products?

Do you continue to use products that your friends and family believe are outdated?

Your answers to these questions matter to the marketers who are targeting you. We have looked at the life cycle of products and the process for developing new products. As a buyer, you have specific attitudes and behaviours when it comes to new products—or at least toward groups of products. These behaviours are both intriguing and vexing to marketers.

Learning Activities

- Reading: Diffusion of Innovation
- Reading: Improved Success in Product Development
- Self Check: Challenges for New Products

Reading: Diffusion of Innovation

Just as the product life cycle has a typical bell-shaped pattern, there is a predictable—and similar-shaped—pattern of buying, or adoption, when it comes to new products. This customer adoption pattern is important because it can be used to inform marketing decisions.

Diffusion-of-Innovation Theory

Common sense suggests that not everyone will buy a new product at the same time. Some will rush out and buy first or try to get an early version of a product before it is widely available. Others will wait until many people have adopted a product before they reluctantly consider the purchase. As early as 1962, Everett Rogers recognized this phenomenon and described it as the "diffusion of innovation." He developed a theory to support it, explaining how, why, and at what rate an innovation will be adopted by participants in a social system. The theory divides adopters into different groups with shared characteristics, as shown in Figure 1, below:

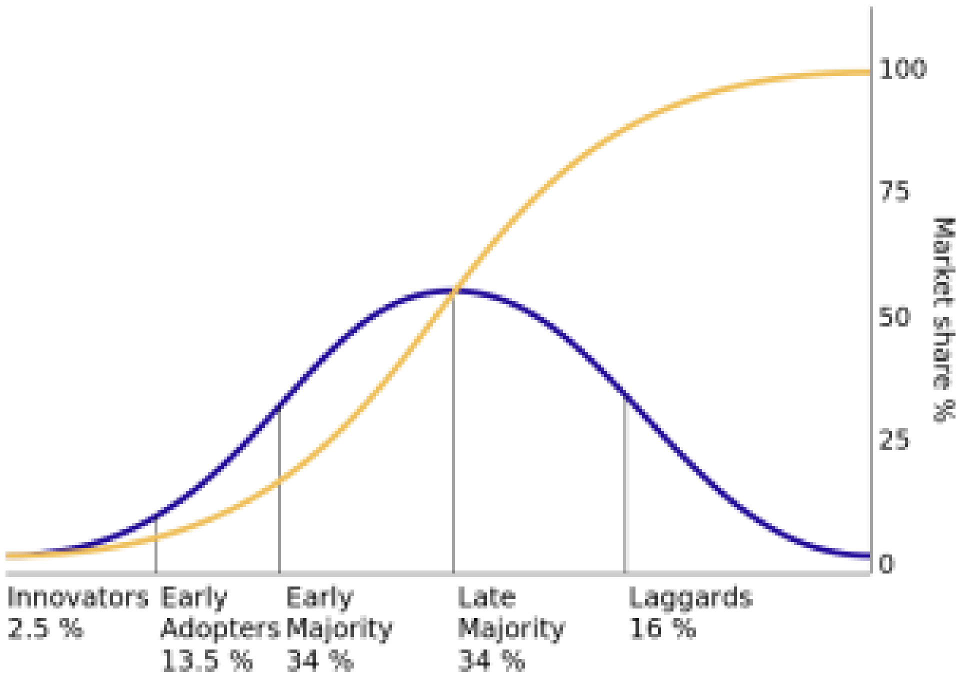


Figure 1. Diffusion of Ideas

The purple line on the graph indicates the percentage of the market that will buy a new product in *each phase* of product adoption. You can see from the graph that there is a small number of innovators, and a large number of early majority and late majority adopters. The yellow line on the graph shows the *cumulative* market share gained. In other words, the yellow line shows the total of the market share gained at the end of each phase, adding together the share from each prior phase.

Consumer Adoption Patterns

Innovators

Innovators are willing to take risks and are viewed by their peers as risk-takers. Innovators' risk tolerance enables them to adopt technologies that may ultimately fail, and they typically need sufficient financial resources to absorb these failures. Innovators tend to be very tuned into market leaders and the latest developments. To stay on top of current trends, they research products thoroughly using "in-the-know" sources such as expert blogs and product forums. Innovators are willing to pay a premium to be the first to try a new offering. Although this is the smallest segment in the diffusion-of-innovation theory, if innovators approve of a product, it marks an important gateway toward generating broader market acceptance.

Early Adopters

Early adopters have a high degree of opinion leadership among the adopter categories. Others look to this group to road-test and validate new products. As a significantly larger segment than innovators, early adopters are influential in shaping the opinions of later adopters. Therefore it is essential to achieve high customer satisfaction with this segment. Early adopters are more aggressive than later adopters, but they are judicious about their adoption choices. Early adopters don't look to be first at any cost, so they actively consider risk as part of the decision-making process. To illustrate, classic innovator behaviour is to camp out overnight for the first showing of a new film, while early adopters read the reviews before deciding to see a film during the opening weekend.

Early Majority

Early majority adopters are more risk-averse than early adopters, so they wait for the wrinkles to be ironed out of new products before making a purchase. Early majority buyers tend to seek a lot of opinion and validation to guide their choices: they want to know that the early adopters and innovators have had a good experience before they invest. The window of early majority purchasing spans a longer period of time than the innovators' and early adopters.' Early majority buyers generally have more choices in terms of quality, features, and price because competition tends to peak when this group's buying cycle is in full swing. Like the early adopters, the early majority's opinions and decisions carry weight across the adopter categories.

Late Majority

Late majority adopters arrive after the "average" participant has embraced innovation. These individuals approach innovations reluctantly and with more skepticism than their predecessors. Late majority buyers are less likely to conduct extensive research about a purchase; instead, they tend simply to follow the buying behaviours of earlier-adopting segments.

Laggards

Laggards are the last to adopt an innovation. Often they are older and less educated than buyers in the other diffusion of innovation segments. Laggards typically have little or no opinion leadership and are averse to things they perceive as “agents of change.” Laggards tend to be focused on traditions. They are less connected socially, less involved with media, and harder to reach than the other groups.

Marketing an Innovation

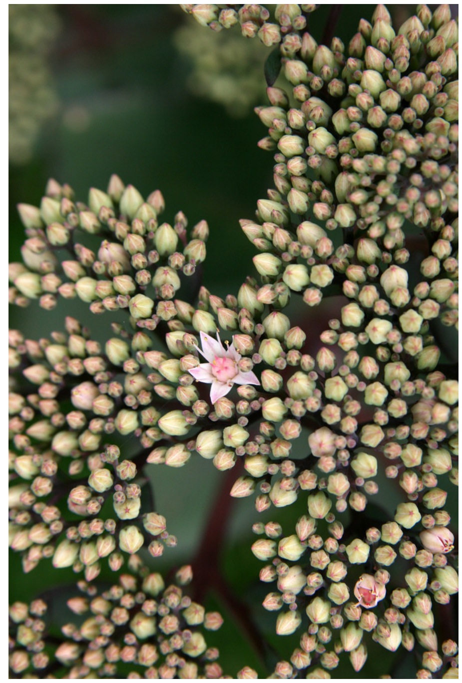


Figure 1, above, shows a tipping point between the early majority and the late majority adopters. A tipping point is the point at which small changes are enough to cause a larger, more substantial change. The challenge for the marketer is to encourage the adoption of a product by early adopters and the early majority in order to reach that tipping point. Once these groups are on board, their momentum helps drive the product from the introduction stage of the life cycle into the growth stage.

Often marketers are tempted to focus their marketing efforts on the innovators. Innovators are game to try the product, which makes them an easier target than risk-averse consumers. In all but the most unusual, extreme cases, though, this will be a flawed strategy. The early adopters are actually in a much better position to influence the broad opinion of the product and to draw in the early majority. By the same token, aggressive marketing to laggards is unlikely to influence their pattern of adoption.

Understanding the patterns of adoption and adjusting the marketing strategy to address changes in adoption profiles is a challenge that marketers of new products need to understand and face.

Reading: Improved Success in Product Development

One common cause of failure in the developing and marketing of new products is something called “product-market fit.” Marc Andreesen, a technology entrepreneur and investor who has written about this, explains that product-market fit is simply *being in a good market with a product that can satisfy that market.*[1]

New technologies enhance the ability of companies to bring products to market quickly, but speed doesn’t guarantee the right product-market fit. Without a good fit, companies risk launching a product that doesn’t satisfy the market need.

A couple of innovations in new-product development strategies have had a significant impact on the way companies improve their chances of a successful fit.

User-Centered Design

Have you ever found a product that seems like it was made for you? You don’t need to read the instructions. You don’t have to learn how to use it. It seems natural to conform to your preferences and needs. The creation of such products is the goal of user-centered design.

User-centered design is a product development process in which the needs, wants, and limitations of end-users are given extensive attention at each stage of the design process. The chief difference from other product design approaches is that user-centered design tries to optimize the product around how users can, want, or need to use the product, rather than forcing the users to change their behaviour to accommodate the product.

In a user-centered design process, the product team tries to understand user needs and define the requirements to meet those needs—but that’s true of any good product-design process. User-centered design requires the designers to test their assumptions about user behaviour and requirements in real-world settings with actual users during every step of the product development process—all the way from product concept and requirements to production and prelaunch. This recursive approach gives designers a steady stream of information that confirms the original requirements or suggests needed modifications. The frequent user testing encourages designers to think of typical or

1. Andreesen,M. (2007, June 25). Product/market fit. Stanford University. http://web.stanford.edu/class/ee204/ProductMarketFit.html

recurring user challenges as design requirements rather than problems that ought to be solved by the user.

For example, most educational institutions want to make the course selection and registration process easier for students. Portland State University decided to employ a user-centered design process when it set out to improve its own system. After a number of student interviews, the university created a prototype of the new process. When they were ready to test the concept, the university registrar went to the homes of students and watched them try to work through the course selection and registration processes on their home computers. The idea was to gain information about students' real experience of these processes in the places where they actually happen—and make design decisions accordingly. The home-setting experiment revealed a number of unanticipated design flaws and new requirements that hadn't come to light during interviews or simulations run in the campus computer lab. As a result, by prioritizing the user perspective, the university was able to design a much more effective solution.

Today, there is a significant focus on the User Experience (UX) in product design and many new terms to speak to this evolving process. In this video, Rachel Krause a User Experience Specialist with Nielsen Norman Group explains how her team incorporates storytelling, UX in agile, design thinking, scaling design, and UX leadership to develop new products and take into account the user experience.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=151#oembed-1

The Lean Startup Methodology

The "lean startup methodology" has been described by Eric Ries as an approach that helps new companies achieve product-market fit during their earliest product launch. The methodology is based on the assumption that it's essential to get real market data from product users as early as possible in the design process. The challenge, as you have learned, is that marketers don't see substantial, realistic market data (which are used to refine the marketing mix) until well after the product launch. The lean startup methodology tries to get around this problem by shortening the time frame needed to capture the data.

Ries proposes that rather than launching a fully developed, full-featured product, companies should begin with a very limited launch of what he calls "the minimum viable product." The minimum viable product (MVP) is the most streamlined product that any group of users will accept. According to this approach, the company develops and launches its MPV, captures market and user data, and quickly uses that information to make adjustments for its next minimal feature set. In each cycle of development, the product team learns from the actual market and user data and uses them to refine the product and stay aligned with company goals.[2]

The lean startup methodology is used by organizations of all sizes, but it's particularly well suited to small companies that can't afford the risk of a single product-fit issue and to software-based companies

2. Ries, E. (n.d.). The lean startup methodology. http://theleanstartup.com/principles

that can launch an online offering to a user base without needing complex manufacturing processes and distribution channels.

Neither of these approaches will address all new-product challenges or guarantee success, but both are considered important innovations in the new-product design process since they improve the odds of new-product success and reduce the cost of product failure.

10.7 Putting It Together: Product Marketing

In this module, we've covered a wide range of topics related to the role of the product in the marketing mix. As you've seen, creating clear value for the customer, understanding the product life cycle, and creating a balanced product portfolio are all interrelated aspects of thinking about the customer and market behaviour.

At the beginning of this module, we discussed the success of Uber's ride-sharing product. Let's take another look at it from the viewpoint of the new-product development process.

Recall that the business model canvas is a tool companies use to layout the business case for a new product concept. Figure 1, below, is an example of how Uber's business model canvas might have looked when the founders cooked up the idea for their ride-sharing offering. Given what we know now about the product's success, it's pretty clear that Uber hit its mark: the company identified and delivered on a value proposition with incredible product-market fit.

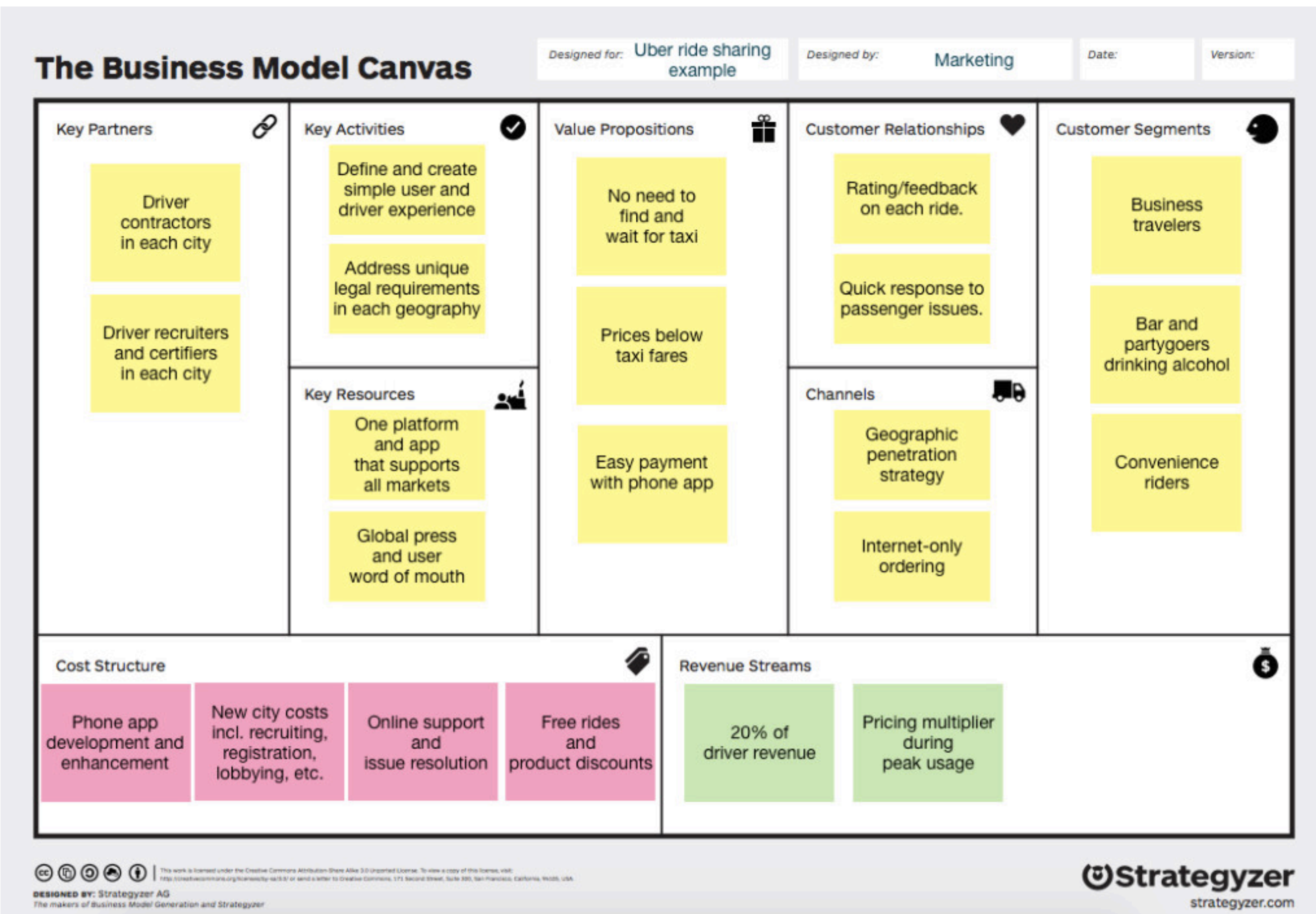


Figure 1. Uber Business Model Canvas

The successful definition, development, and delivery of the product reduced risk in other elements of the marketing mix, though Uber's affordable and predictable pricing is an important part of the value proposition. The product has been successful and is continuing to grow in the market. In 2018 the company reported revenue growth of 43 percent year over year.[1]

Uber's market may be reaching maturity. In terms of the adoption cycle, Uber has moved far past the innovators and early adopters and likely past most of the early majority. Now it needs to attract late majority customers and fight to hold on to its existing customers in a very competitive marketplace. As you think about Uber's product and market, will laggards ever use the service? Should the company try to influence them?

Chris Nicholson, from FutureAdvisor, explains the impact of this trend on Uber and its competitor, Lyft: "They both feel that the only way to maintain their growth rate in the U.S. is to grab each other's market share." As the market reaches maturity, competition is getting more fierce. The companies have to fight to keep their customers and try to lure customers from competitors if they want to sustain their growth.[2]

In using more of the tools and frameworks that we have discussed in this module, you are better able to understand a product's success, identify risks to its future success, and use effective marketing to influence the course of that product's success.

1. Zaveri, P. & Bosa, D. (2019, February 15). Uber's growth slowed dramatically in 2018. CNBC. https://www.cnbc.com/2019/02/15/uber-2018-financial-results.html
2. Griswold, A. (2014, September 11).How Uber and Lyft stack up in the United States. *Slate*. http://www.slate.com/blogs/moneybox/2014/09/11/uber_vs_lyft_futureadvisor_study_compares_revenue_users_growth_at_the_companies.html

10.8 Practice Quiz

Check Your Understanding

Answer the question(s) below to see how well you understand the topics covered in the previous section. This short quiz does **not** count toward your grade in the class, and you can retake it an unlimited number of times.

Use this quiz to check your understanding and decide whether to (1) study the previous section further or (2) move on to the next section.

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Chapter 11: Pricing Strategies

Learning Objectives

- Why pricing strategies matter
- Discuss how price affects the value of the organization's products or services
- Explain the primary factors to consider in pricing
- Compare common pricing strategies
- Explain price elasticity and how it can be used to set price
- Explain the use of competitive bidding for B2B pricing

11.1 Why It Matters: Pricing Strategies

Why use pricing strategies to enhance marketing of products and services?

When Amazon.com was created in 1994, the company sold books online. While many viewed it as a real threat to traditional bookstores, few, other than its founder and CEO, Jeff Bezos, imagined what the company would become. Today the services that Amazon offers are extensive, and many of them center on a quiet service membership called Amazon Prime. The following video shows the impact of this offering on one American family.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=159#oembed-1

You can view the transcript for "Amazon Prime" (opens in new window).

What is Amazon Prime? When Amazon launched the product in 2005, it included free two-day shipping for most orders, and it was priced as an annual $79 membership fee. At the time, analysts wondered how Amazon could justify the value to customers (implying that it was too expensive) and, at the same time, how it could afford to keep offering the service if demand should grow (implying that it was too cheap to cover costs).

Greg Greeley, the vice president of Amazon Prime Global, reflected on the company's decision and told the *Washington Post*,

> *We have always thought of it as the best bargain in shopping—Jeff [Bezos] went on record again saying that—in 2005 when we launched it with unlimited two-day shipping on 1 million items. But we did not think of it as a shipping program, but as a convenience program.*
>
> *Prime introduced three concepts. It had two-day shipping at a time when people expected to pay for shipping and still not get their items for four to seven business days. It was very predictable: We put it on the Web site that if you ordered in the next 3 hours and 20 min., for example, you could have it in two days. And it was an unlimited, single membership fee that made fast delivery an everyday experience instead of an occasional indulgence*.[1]

Was the initial $79 price too low? Too high? Does it really matter that much?

After 2005, Amazon began adding services to the Prime membership without raising the price. Today the service includes unlimited video streaming, unlimited music streaming, $5.99 flat-fee shipping on discounted household items, access to a Kindle lending library and a host of others services. In spite of

1. Tsukayama, H. (2015, February 03). *What Amazon's learned from a decade of Prime.* The Washington Post. https://www.washingtonpost.com/news/the-switch/wp/2015/02/03/what-amazons-learned-from-a-decade-of-prime/

increased services, Amazon held pricing flat at $79 per year. In 2013, Amazon admitted that by simply adjusting the 2005 price for inflation, transportation, and fuel costs, the price would be more than $100 today.

Finally, in January 2014 Amazon told its customers to expect a price increase of $40 for Amazon Prime memberships, which would make the new price $119. In March 2014, the company announced the actual price increase: a $20 increase, or annual price of $99. While there were some disgruntled customers, the majority accepted the increase without complaint.

While Amazon doesn't share its usage or financial data for Amazon Prime, analysts have completed customer surveys, analyzed Internet traffic, and reviewed enough detailed financial data to support the following:

- Amazon loses at least $1 billion annually on Prime-related shipping expenses
- Amazon spent $1.3 billion into Prime Instant Video in 2014, over and above the shipping costs
- Amazon Prime has between 40 and 50 million subscribers
- Prime members spend an average of $538 annually with Amazon, far more than the $320 by non-Prime members[2]

Is it strategic genius or terrible folly for Amazon to lose billions of dollars a year on Amazon Prime on account of its pricing? Is Amazon actually losing money on Prime, or is Prime bringing in enough other sales to cover its costs . . . and more?

Choosing a price is as easy as picking a random number. As you'll discover in this module, however, finding the right price to achieve company objectives and provide sustained value to customers is much more complicated.

2. Mangalindan, J. P. (2015, February 3). *Inside Amazon Prime*. Fortune. http://fortune.com/2015/02/03/inside-amazon-prime/

11.2 Pricing Impact on Value of Products or Services

Learning Objectives

- Describe the customer view of value and pricing
- Discuss psychological factors in pricing
- Discuss how price affects the value of an organization's products or services

Price determines how much revenue a company is going to earn. It determines whether the business is covering the costs to create and deliver its products. Price drives the financial health of the business.

In out initial discussion of pricing, we'll start with the perspective of the customer. If the customer doesn't see value in the product offering—and that includes pricing—company objectives won't be met. Customer perceptions of value must be the central consideration in the pricing process.

The specific things you'll learn in this section include:

Learning Activities

- Reading: Demonstrating Customer Value
- Reading: The Psychology of Pricing
- Video: Value in Branded Eyewear
- Self Check: Pricing Impact on Value of Products or Services

Reading: Demonstrating Customer Value

Introduction

Rent the Runway is a company that lets customers borrow expensive designer dresses for a short time at a low price—to wear on a special occasion, e.g.— and then send them back. A customer can rent a Theia gown that retails for $995 for four days for the price of $150. Or, they can rent a gown from Laundry by Shelli Segal that retails for $325 for the price of $100. The company offers a 20 percent discount to first-time buyers and offers a "free second size" option to ensure that customers get the right fit.

Do the customers get a bargain when they are able to wear a designer dress for a special occasion at 15 percent of the retail price? Does the retail price matter to customers in determining value, or are they only considering the style and price they will pay for the rental?

What does value really mean in the pricing equation?

The Customer's View of Price

Whether a customer is the ultimate user of the finished product or a business that purchases components of the finished product, the customer seeks to satisfy a need through the purchase of a particular product. The customer uses several criteria to decide how much they are willing to spend in order to satisfy that need. Their preference is to pay as little as possible.

PRICE-VALUE EQUATION

VALUE = PERCEIVED BENEFITS - PERCEIVED COSTS

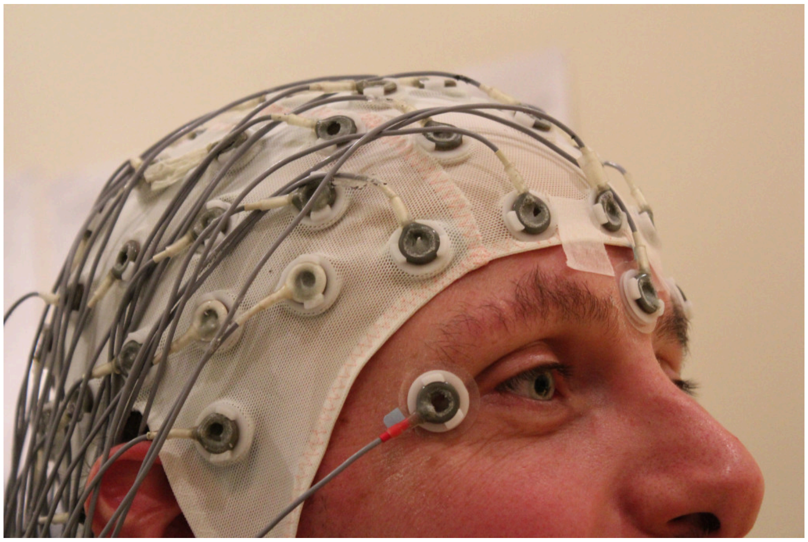
In order to increase value, the business can either increase the **perceived benefits** or reduce the **perceived costs**. Both are important aspects of price. If you buy a Louis Vuitton bag for $600, in return for this high price you perceive that you are getting a beautifully designed, well-made bag that will last for decades—in other words, the value is high enough for you that it can offset the cost. On the other hand, when you buy a parking pass to park in a campus lot, you are buying the convenience of a parking place close to your classes. Both of these purchases provide value at some cost. The perceived benefits are directly related to the price-value equation; some of the possible benefits are status, convenience, the deal, brand, quality, choice, and so forth. Some of these benefits tend to go hand in hand. For instance, a Mercedes Benz E750 is a very high-status brand name, and buyers expect superb quality to be part of the value equation (which makes it worth the $100,000 price tag). In other cases, there are tradeoffs between benefits. Someone living in an isolated mountain community might prefer to pay a lot more for groceries at a local store than drive sixty kilometers to the nearest Sobeys. That person is willing to sacrifice the benefit of choice for the benefit of greater convenience.

When we talk about increasing perceived benefits, we refer to this as increasing the “value added.” Identifying and increasing the value-added elements of a product is an important marketing strategy. In our initial example, Rent the Runway is providing dresses for special occasions. The price for the dress is reduced because the customer must give it back, but there are many value-added elements that keep the price relatively high, such as the broad selection of current styles and the option of trying a second size at no additional cost. In a very competitive marketplace, the value-added elements become increasingly important, as marketers use them to differentiate the product from other similar offerings.

Perceived costs include the actual dollar amount printed on the product, plus a host of additional factors. If you learn that a gas station is selling gas for 25 cents less per gallon than your local station, will you automatically buy from the lower-priced gas station? That depends. You will consider a range of other issues. How far do you have to drive to get there? Is it an easy drive or a drive-through traffic? Are there long lines that will increase the time it takes to fill your tank? Is the low-cost fuel the grade or brand that you prefer? Inconvenience, poor service, and limited choice are all possible perceived costs. Other common perceived costs are the risk of making a mistake, related costs, lost opportunity, and unexpected consequences, to name but a few.

Viewing price from the customer’s point of view pays off in many ways. Most notably, it helps define value–the most important basis for creating a competitive advantage.

Reading: The Psychology of Pricing



You will notice that when we discussed the value equation in the previous reading, we referred to *perceived benefits* and *perceived costs*, rather than absolute/actual benefits and costs. Every customer perceives benefits and costs differently, and many of these perceptions aren't even conscious. There are very few buying decisions in which a customer meticulously lists and weighs the benefits and costs in order to determine value. More often than not, the buying process involves snap judgments and decisions, and psychological factors likely come into play.

Despite tremendous advances in brain research, the factors involved in perception and decision-making are still not well understood. We do know that perception is highly individual and complex. If you, as a marketer, are trying to understand how consumers perceive something abstract like the "value" or "benefit" of a product, it's important to know that there is certainly a psychological dimension to that perception, but there isn't a scientific formula that can give you all the answers or accurately predict whether someone will buy. Still, you can avail yourself of the interesting work that has been done in this field and be aware of some of the factors that *might* affect buying decisions.

Studies of Psychology in Pricing

Most of our understanding of the psychology of pricing comes from research studies that explore buyer behaviour.

The Case for the Number Nine

Many studies show that customers are more likely to buy products whose price points end in the number nine. That is, they prefer products that cost $99 over identical items priced at $100. Somehow the brain perceives greater value from a small price change that ends in nine.

A study in the journal *Quantitative Marketing and Economics* validates the benefit of using nines in pricing—with a few important qualifiers, noted below. The study compared purchases of women's clothing discounted to $35 and the same clothing discounted to $39. The study found that 24 percent more consumers purchased when the clothing was priced at $39, even though the price was higher.

The study found that if a product has been available at a different price for a long time, then changing the price to end in nine will have a smaller effect than if it's a new product that starts out with a price that ends in nine. It also found that if a product is marked "on sale," the nine will have a small impact.

The researchers conclude that the nine has more power in situations where the buyer has limited information. If there is enough information for the customer to suspect that the nine is being used to manipulate the sales decisions, the customer is less likely to buy.[1]

Providing Pricing Options

Anchoring is a cognitive bias that describes the common human tendency to rely too heavily on the first piece of information offered (the "anchor") when making decisions. During decision making, anchoring occurs when individuals use an initial piece of information to make subsequent judgments. Once an anchor is set, other judgments are made by adjusting away from that anchor, and there is a bias toward interpreting other information around the anchor.[2]

In the presentation of pricing, anchoring has a powerful impact on buyer behaviour. In negotiated pricing, the first price offered becomes the anchor. For example, the initial price offered for a used car sets the standard for the rest of the negotiations, so that prices lower than the initial price seem more reasonable even if they are still higher than what the car is really worth.

On company Web sites, on restaurant menus, and in the layout of retail stores, anchoring is used to

1. Anderson, E. T. & Simester, D. I. (2003). Effects of $9 price endings on retail sales: Evidence from field experiments. *Quantitative Marketing and Economics*, 1(1) 93–110. https://www.kellogg.northwestern.edu/faculty/anderson_e/htm/personalpage_files/Papers/Effects_of_9_Price_Endings_on_Retail_Sales.pdf
2. *Anchoring bias in decision-making*. (n.d.). Science Daily. https://www.sciencedaily.com/terms/anchoring.htm#:~:text=During%20normal%20decision%20making%2C%20individuals,a%20bias%20toward%20that%20value.

adjust perceptions of price. The prominent presentation of a higher-priced item lifts the buyer's price expectations in a way that makes other items seem more reasonable, even if their prices are also high.

Inviting Price Comparisons

Are there limitations on the impact of anchoring? Another study examined the impact of *providing* price comparisons on buying behaviour.

First, researchers listed popular music CDs on the auction site eBay flanked by CDs of the same title with different prices. In one auction, CDs with an opening bid of $1.99 were positioned next to CDs of the same title with a starting bid of 99 cents. In a second auction, those with a starting bid of $1.99 were positioned next to CDs with a starting bid of $6.99. In an auction, the buyer sets the top price, but the cheaper CDs positioned next to the $6.99 CDs sold at much higher prices than the same CDs presented next to those with an initial bid price of 99 cents.

Researcher Itamar Simonson explains, "We didn't tell people to make a comparison; they did it on their own, and when people make these kinds of comparisons on their own, they are very influential."

Next, the research team ran the same auctions but in this case explicitly told the auction participants to compare the $1.99 price to the price of the other CDs presented. This explicit instruction to compare prices adversely impacted buyer behaviour in a number of ways. The price of the adjacent CDs ceased to have a statistically significant impact, buyers waited longer to make the first bid, submitted fewer bids, and were much less likely to participate in multiple auctions simultaneously. Simonson explains, "The mere fact that we had asked them to make a comparison caused them to fear that they were being tricked in some way."[3]

So while pricing comparisons can be a value presentation strategy, they are not without risk.

As you can see, pricing has a profound impact on buyer behaviour, not only in determining what the buyer can afford, but in the deeper perceptions of value and the marketing exchange process.

3. LaPlante, A. (2005, July 01). *Asking consumers to compare may have unintended results.* Stanford Business. https://www.gsb.stanford.edu/insights/asking-consumers-compare-may-have-unintended-results

Video: Value in Branded Eyewear

Many consumers pay a premium price for branded eyewear. How does the brand name influence the price and value? The following video shows the mechanics behind these brands and considers the impact on price.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=167

You can view the transcript for "Expensive Glasses" (opens in new window).

11.3 Pricing Considerations

Learning Objectives

- Explain company objectives in the pricing strategy
- Define break-even pricing
- Describe how competition affects pricing strategies
- Describe the benefit of value-based pricing for customers
- Explain the primary factors to consider in pricing

Now that we've considered the customer perspective, we need to understand how pricing fits into the company strategy. It's important to remember that all elements of the marketing mix, including pricing, fit into a larger customer mission and strategy.

An effective pricing strategy will align with the corporate mission, account for competitive factors, and support corporate strategies and objectives.

The specific things you'll learn in this section include:

Learning Activities

- Reading: Pricing Objectives
- Reading: Break-Even Pricing
- Reading: Competitor Impact on Pricing
- Reading: Benefits of Value-Based Pricing
- Self Check: Pricing Considerations

Reading: Pricing Objectives

Introduction

Companies set the prices of their products in order to achieve specific objectives. Consider the following examples:

In 2014 Nike initiated a new pricing strategy. The company determined from a market analysis that its customers appreciated the value that the brand provided, which meant that it could charge a higher price for its products. Nike began to raise its prices 4–5 percent a year. *Footwear News* reported on the impact of their strategy:

> "*The ability to raise prices is a key long-term advantage in the branded apparel and footwear industry—we are particularly encouraged that Nike is able to drive pricing while most U.S. apparel names are calling for elevated promotional [and] markdown levels in the near-term," said UBS analyst Michael Binetti. Binetti said Nike's new strategy is an emerging competitive advantage.*[1]

Nike's understanding of customer value enabled it to raise prices and achieve company growth objectives, increasing U.S. athletic footwear sales by $168 million in one year.

In 2015 the U.S. airline industry lost $12 billion in value *in one day* because of concerns about potential price wars. When Southwest Airlines announced that it was increasing its capacity by 1 percent, the CEO of American Airlines—the world's largest airline—responded that American would not lose customers to price competition and would match lower fares. *Forbes* magazine reported on the consequences:

> *This induced panic among investors, as they feared that this would trigger a price war among the airlines. The investors believe that competing on prices would undermine the airline's ability to charge profitable fares, pull down their profits, and push them back into the shackles of heavy losses. Thus, the worried investors sold off stocks of major airlines, wiping out nearly $12 billion of market value of the airline industry in a single trading day.*[2]

Common Pricing Objectives

Not surprising, product pricing has a big effect on company objectives. (You'll recall that objectives are essentially a company's business goals.) Pricing can be used strategically to adjust performance to meet revenue or profit objectives, as in the Nike example above. Or, as the airline-industry example shows, pricing can also have unintended or adverse effects on a company's objectives. Product pricing will impact each of the objectives below:

1. Jordan. (2014, July 14). *Nike Price Hikes Drive U.S. Sneaker Growth*. footwearnews. http://footwearnews.com/2014/business/news/nike-price-hikes-drive-u-s-sneaker-growth-144128/
2. Trefis Team. (2015, June 11). *Airlines' stocks drop as fear of price war clouds the industry*. Forbes. http://www.forbes.com/sites/greatspeculations/2015/06/11/airlines-stocks-drop-as-fear-of-price-war-clouds-the-industry/#2715e4857a0b103622d442d5

- Profit objective: For example, “Increase net profit in 2016 by 5 percent”
- Competitive objective: For example, “Capture 30 percent market share in the product category”
- Customer objective: For example, “Increase customer retention”

Of course, over the long run, no company can really say, “We don’t care about profits. We are pricing to beat competitors.” Nor can the company focus only on profits and ignore how it delivers customer value. For this reason, marketers talk about a company’s “orientation” in pricing. Orientation describes the relative importance of one factor compared to the others. All companies must consider customer value in pricing, but some have an orientation toward profit. We would call this profit-oriented pricing.

Profit-Oriented Pricing

Profit-oriented pricing places an emphasis on the finances of the product and business. A business’s profit is the money left after all costs are covered. In other words, **profit = revenue – costs**. In profit-oriented pricing, the price per product is set higher than the total cost of producing and selling each product to ensure that the company makes a profit on each sale.

The benefit of profit-oriented pricing is obvious: the company is guaranteed a profit on every sale. There are real risks to this strategy, though. If a competitor has lower costs, then it can easily undercut the pricing and steal market share. Even if a competitor does not have lower costs, it might choose a more aggressive pricing strategy to gain momentum in the market.

Also, customers don’t really care about the company’s costs. Price is a component of the value equation, but if the product fails to deliver value, it will be difficult to generate sales.

Finally, profit-oriented pricing is often a difficult strategy for marketers to succeed with, because it limits flexibility. If the price is too high, then the marketer has to adjust other aspects of the marketing mix to create more value. If the marketer invests in the other three Ps—by, say, making improvements to the product, increasing promotion, or adding distribution channels—that investment will probably require additional budget, which will further raise the price.

It’s fairly standard for retailers to use some profit-oriented pricing—applying a standard mark-up over wholesale prices for products, for instance—but that’s rarely their only strategy. Successful retailers will also adjust pricing for some or all products in order to increase the value they provide to customers.

Competitor-Oriented Pricing

Sometimes prices are set almost completely according to competitor prices. A company simply copies the competitor’s pricing strategy or seeks to use price as one of the features that differentiates the product. That could mean either pricing the product higher than competitive products, to indicate that the firm believes it to provide greater value, or lower than competitive products in order to be a low-price solution.

This is a fairly simple way to price, especially with products whose pricing information is easily collected and compared. Like profit-oriented pricing, it carries some risks, though. Competitor-oriented pricing doesn’t fully take into account the value of the product to the customer vis-à-vis the value of competitive products. As a result, the product might be priced too low for the value it provides, or too high.

As the airline example illustrates, competitor-oriented pricing can contribute to a difficult market dynamic. If players in a market compete exclusively on price, they will erode their profits and, over time, limit their ability to add value to products.

Customer-Oriented Pricing

PRICE-VALUE EQUATION

VALUE = PERCEIVED BENEFITS - PERCEIVED COSTS

Figure 1

Customer-oriented pricing is also referred to as *value-oriented pricing*. Given the centrality of the customer in a marketing orientation (and this marketing course!), it will come as no surprise that customer-oriented pricing is the recommended pricing approach because its focus is on providing value to the customer. Customer-oriented pricing looks at the full price-value equation (Figure 1, above; discussed earlier in the module in “Demonstrating Customer Value”) and establishes the price that balances the value. The company seeks to charge the highest price *that supports the value received* by the customer.

Customer-oriented pricing requires an analysis of the customer and the market. The company must understand the buyer persona, the value that the buyer is seeking, and the degree to which the product meets the customer’s need. The market analysis shows competitive pricing but also pricing for substitutes.

In an attempt to bring the customer voice into pricing decisions, many companies conduct primary market research with target customers. Crafting questions to get at the value perceptions of the customer is difficult, though, so marketers often turn to something called the Van Westerndorp price sensitivity meter. This method uses the following four questions to understand customer perceptions of pricing:

1. At what price would you consider the product to be so expensive that you would not consider buying it? (Too expensive)
2. At what price would you consider the product to be priced so low that you would feel the quality couldn’t be very good? (Too cheap)
3. At what price would you consider the product starting to get expensive, such that it’s not out of the question, but you would have to give some thought to buying it? (Expensive/High Side)
4. At what price would you consider the product to be a bargain—a great buy for the money? (Cheap/Good Value)

Each of these questions asks about the customer’s perspective on the product value, with price as one component of the value equation.

The responses of many potential buyers can be plotted on a graph (see Figure 2, below). Each line shows the different customer responses to each of the questions at different price points. For example, 100 percent of those interviewed think the product is too cheap at $0, and 40 percent think that it's still too cheap at a price of $500. The graph shows an acceptable price range in which the customers' responses cross one another. They become torn between whether the prices are cheap or expensive but are not clearly landing on one side or the other. The results of this graph suggest a price band between $500 and $1,200.

For the purposes of this course, we won't be getting into a full analysis of these data or the price-sensitivity meter; the important point is that marketers need to balance the customer's perception of the value provided with the customer's perception of the right price ("perceived costs" in Figure 1, above) in the value equation.

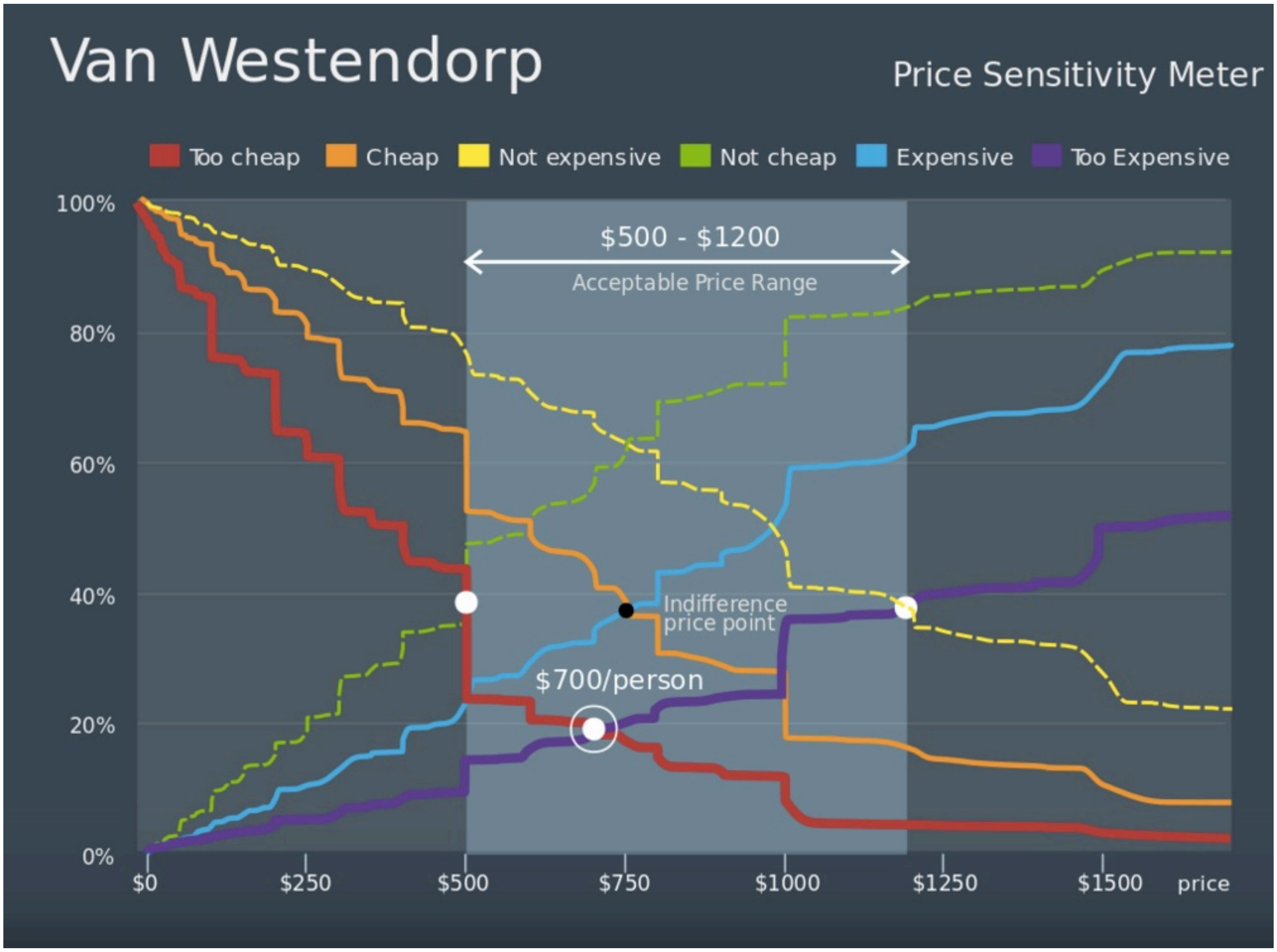


Figure 2. Van Westendorp Price Sensitivity Meter

Reading: Break-Even Pricing

Introduction

Regardless of the pricing strategy a company ultimately selects, it is important to do a break-even analysis beforehand. Marketers need to understand break-even analysis because it helps them choose the best pricing strategy and make smart decisions about the short- and long-term profitability of the product.

The break-even price is the price that will produce enough revenue to cover all costs at a given level of production. At the break-even point, there is neither profit nor loss. A company may choose to price its product below the break-even point, but we'll discuss the different pricing strategies that might favor this option later in the module.

Understanding Breakeven

Let's begin with a very simple calculation of breakeven and build from there.

Imagine that you decide to hold a bake sale and sell cookies in the student union as a social event for students. You don't want to lose money on the cookies, but you are not trying to make a profit or even cover your time. You spend a very convenient $24 on groceries and bake 4 dozen cookies (48 cookies). What is your break-even price for the cookies? It's the total cost divided by the number of cookies that you expect to sell, represented by the formula below:

Break-Even Price = Costs / Units

So, it would be $24 / 48 = $.50, or 50 cents per cookie. What if you sell only 40 cookies? The calculation would be $24 / 40 = $.60. Your break-even price goes up if you sell fewer cookies.

One challenge of calculating breakeven is that all of the variables can change, and some are unknown. For instance, it may be impossible to know exactly the quantity that you will sell. For that reason, companies often calculate the break-even *quantity* rather than the break-even *price*. Focusing on quantity enables the marketer to answer the following question: "Given this set of costs and this price, how many products must I sell to break even?" The break-even quantity is shown by the following formula:

Break-Even Quantity (in terms of units) = Costs / Price

In our cookie example, once you have spent $24 on groceries, you know your cost. What if you plan to sell the cookies for $1 apiece? According to the equation above, units = cost / price, so in our case, units = $24 / $1, or 24 cookies.

Of course this is a very simple example, but it gives you a sense of why breakeven matters, and how you would calculate it.

Helen, the baker. She also makes capes.

Including Fixed and Variable Costs

Let’s add one more complication to make our example a little more realistic and interesting. Your cookies have been such a hit that you decide to sell them more broadly. In fact, you rent commercial kitchen space and hire an experienced baker named Helen to do the baking. Your break-even point just went up dramatically. Now you need to cover the costs of your kitchen and an employee. For the sake of this exercise, let’s assume that Helen works a set number of hours every week—20 hours—and that you pay her $20 per hour including all taxes and benefits. You rent the kitchen for $100 per week, and that price includes all the equipment and utilities. Those are costs that are not going to change no matter how many cookies you sell. If you baked nothing, you would still need to pay $100 per week in rent and $400 per week in wages. Those are your fixed costs. *Fixed costs* do not change as the level of production goes up or down. Your fixed costs are $500 per week.

Now you need to buy ingredients for the cookies. Once you add up the food costs of making a single large batch of cookies, you find that it’s a total of $7.20 for a batch of 12 dozen (144) cookies. If you divide that out, you can tell that each cookie costs $.05 in food costs ($7.20 / 144 cookies = $.05). In other words, every cookie you sell is going to have a variable cost of $.05. *Variable costs* do change as production is increased or decreased.

Adding these different types of costs makes the break-even equation more complicated, as shown below:

$$pn = Vn + FC$$

p = price

n = number of units sold

V = variable cost per unit

FC = fixed costs

With this equation we can calculate either the break-even price or the break-even quantity.

Calculating Break-Even Price

Chances are good that you can only bake a certain number of cookies each week—let's say it's 2,500 cookies—so, based on that information, you can calculate the break-even price. The formula to do that is the following:

$$p = (Vn + FC) / n$$

n = 2,500

V = $.05

FC = $500

Therefore, p = (($.05 x 2,500) + $500) / 2,500

p = ($125 + $500) / 2,500

p = $.25

Your break-even price for your cookies is 25 cents. That doesn't mean it's the right market price for the cookies; nor does it mean that you can definitely sell 2,500 cookies at whatever price you choose. It simply gives you good information about the price and quantity at which you will cover all your costs.

Calculating Break-Even Quantity

Now let's assume that you have set your price and you need to know your break-even quantity. You are an exceptional marketing student, so you have talked to the people who are likely buyers for your cookies, and you understand what price is a bargain and what price is too expensive. You have compared the price with competitor prices. And, you have considered the price of your cookie compared to the price of doughnuts and ice cream (both are "substitutes" for your product). All of this analysis has led you to set a price of $2 per cookie, but you want to make sure that you don't lose money on your business: You need to calculate the break-even quantity. The formula to do that is the following:

$$n = FC /(p – V)$$

Using the same inputs for the variables, your equation looks like this: n = $500 / ($2 – $.05) n = \$500 / \$1.95

n = 256.41 cookies

So, let’s round-up and just call the break-even quantity 257 cookies. Does that mean that you keep the full \$2 as profit for every cookie after 257? Sadly, no. First, you have to cover the variable cost for each cookie (\$.05 per cookie), which means you make just \$1.95 per cookie you sell (after you’ve surpassed the break-even point). Second, our simple break-even example did not include *all* of the costs. After you’ve locked down the product costs and the pricing, you will need to invest in promotion and distribution of the cookies. You’ll also probably want to cover your time (i.e., pay yourself) and add some profit into the total fixed costs. For instance, if you wanted to earn a profit of \$600 each week, then you would need to add that to the \$500 fixed costs of the kitchen and Helen.

Breakeven in the Marketing Strategy

Now that we have a cost example, it’s a little easier to think about the pricing objectives. If you decided to price your cookies with a profit orientation, then you would simply add a profit (\$1 per cookie, say,) to the break-even price. That approach doesn’t take the customer into account at all, though, since a profit orientation is only about the business.

What if you found that your campus stores and vending machines sell a national chain of cookies for 75 cents? Using a competitor-oriented pricing approach, you might decide to match that price and compete on that basis. The drawback is that this approach does not take into account the value your customers find in a fresh, local product—i.e., *your* cookies—made from high-quality ingredients.

A customer-oriented pricing approach allows you to treat the break-even data as one input to your pricing, but it goes beyond that to bring your customers’ perceptions and the full value of your product into the pricing evaluation.

Reading: Competitor Impact on Pricing

Introduction

It's important to remember that pricing is just one component of the marketing mix, and even very specific pricing decisions need to take into account the other components. This is particularly true in a competitive marketplace. Actions by different competitors integrate all elements of the marketing mix and do not focus on price alone. A competitor might make a change to a product or initiate a promotion that impacts customers' perceptions of value and, therefore, their perceptions of price.

Competitive Pricing

Once a business decides to use price as a primary competitive strategy, there are many well-established tools and techniques that can be employed. The pricing process normally begins with a decision about the company's pricing approach to the market. Price is a very important decision criterion that customers use to compare alternatives. It also contributes to the company's position. In general, a business can price its offering to match its competition, or it can price higher or price lower. Each has its pros and cons.

Pricing to Meet Competition

Many organizations attempt to establish prices that, on average, are the same as those set by their more important competitors. Automobiles of the same size with comparable equipment and features tend to have similar prices, for instance. This strategy means that the organization uses price as an indicator or baseline. Quality in production, better service, creativity in advertising, or some other element of the marketing mix is used to attract customers who are interested in products in a particular price category.

The key to implementing a strategy of meeting competitive prices is to have an accurate definition of competition and knowledge of competitors' prices. A maker of handcrafted leather shoes is not in competition with mass producers. If they attempt to compete with mass producers on price, higher production costs will make the business unprofitable. A more realistic definition of competition in this case would be other makers of handcrafted leather shoes. Such a definition along with an understanding of competitors' prices would enable management to put the strategy into effect.

The banking industry often uses this strategy by using technology to actively monitor competitors' rates, fees, and packages in order to adjust their own prices.

Pricing Above Competitors

Pricing above competitors can be rewarding to organizations, provided that the objectives of the policy are clearly understood and the marketing mix is developed in such a way that the policy can be successfully implemented by management.

Pricing above competition generally requires a clear advantage on some nonprice element of the marketing mix. In some cases, that advantage may be due to a high price-quality association on the part of potential buyers.

Betting on that advantage is increasingly dangerous in today's information-rich environment, however. Online shoppers can get quick price comparisons and read customer or expert reviews to evaluate other elements of the value proposition. This is true for both business-to-consumer and business-to-business offerings. Many consumers also take advantage of their smartphones when they shop: it's easy enough to stand in one store and compare price and distribution options for the same product and for competitive products. Customers' access to information puts more pressure on marketers to understand customer value and provide an offering whose price, relative to competitors' prices, contributes to the value.

You'll recall our earlier example of Nike using a strategy of raising prices—while its competitors were holding pricing flat or reducing prices—because its analysis showed that it was providing sufficient value to sustain a higher price.

Pricing Below Competitors

While some firms are positioned to price above competition, others wish to carve out a market niche by pricing below competitors. The goal of such a policy is to realize a large sales volume through a lower price and lower profit margins. By controlling costs and reducing services, these firms are able to earn an acceptable profit, even though profit per unit is usually less.

Such a strategy can be effective if a significant segment of the market is price sensitive and/or the organization's cost structure is lower than competitors'. Costs can be reduced by increased efficiency, economics of scale, or by reducing or eliminating such things as credit, delivery, and advertising. For example, if a firm could replace its field sales force with telemarketing or online access, this function might be performed at lower cost. Such reductions often involve some loss in effectiveness, so the trade-off must be considered carefully.

One of the worst outcomes that can result from pricing lower than a competitor is a “price war.” Price wars usually occur when a company believes that price-cutting will increase market share, but it doesn’t have a true cost advantage. Price wars are often caused by companies misreading or misunderstanding competitors. Typically, they are overreactions to threats that either are nonexistent or are not as big as they seem. You will remember our example of the airline price war, in which the stock price of airlines plummeted because stockholders reacted negatively to price reductions, fearing that a price war would eliminate profits and put the health of the industry at risk.

In the module on product marketing we described the ride-sharing service Uber. Uber has successfully undercut the taxi industry with a product that improves services while lowering prices, which has led to extremely rapid growth and success for the company. When lower prices are part of a complete, compelling value proposition, pricing can provide a powerful solution and create a challenging competitive environment for existing players.

Reading: Benefits of Value-Based Pricing

The Customer and the Pricing Decision

We have discussed common company objectives that affect pricing and the competitive impact on pricing. The most important perspective in the pricing process is the customer's. Value-based pricing brings the voice of the customer into the pricing process. It bases prices primarily on the value to the customer rather than on the cost of the product or historical prices determined by competitors.

If we consider the three approaches to setting price, cost-based pricing is focused entirely on the perspective of the company, with very little concern for the customer; demand-based pricing is focused on the customer, but only as a predictor of sales; and value-based pricing focuses entirely on the customer as the determiner of the total price/value package. Marketers who employ value-based pricing might describe it this way: "Price is what you think your product is worth to that customer at that time." This approach regards the following as marketing/price truths:

- To the customer, price is the only unpleasant part of buying.
- Price is the easiest marketing tool to copy.
- Price represents everything about the product.

Still, value-based pricing is not altruistic. It asks and answers two questions:

1. What is the highest price I can charge and still make the sale?
2. Am I willing to sell at that price?

In order to answer these questions we need to consider both customer- and competitor-related factors. In answering the second question, we would also want to use the break-even analysis that we discussed in the previous section, as well as other financial and strategic analyses.

Customer-Related Factors

Several customer-related factors are important in value-based pricing; one of them is understanding the customer buying process. For a convenience good, customers often spend little time, planning, or effort in the buying process, and purchases are more often made on impulse. With a shopping product, the consumer is more likely to compare a number of options when evaluating quality, cost, and features; as a result, he or she will require a better understanding of price in order to assess value.

Another issue is that different groups or segments of customers view price differently. Buyer personas can be instrumental to a marketer's grasp of those differences and the role price plays in the decision-making process. Some buyers will weight convenience or quality over price, for instance, while others will be highly price sensitive.

The marketer must understand what the customer values, what the customer expects, and how the customer evaluates price in the value equation.

Competitor-Related Factors

A second factor influencing value-based pricing is competitors. We asserted above that the primary driver of value-based pricing is the customer's estimation of value—not costs or historical competitor prices. Still, competitors do influence the customer's view of value. The marketing mix of competitive products have an impact on customer expectations because they an important part of the decision-making context. Customers are shopping across products and brands and take price differences into account when evaluating the quality and benefits of competitive products. These direct comparisons have tremendous impact on the customer's perceptions of value.

In value-based pricing, the marketer must also consider indirect competitors that consumers may use as a basis for price comparisons. For example, one might use the price of a vacation as a basis for buying vacation clothes. The cost of eating out is frequently compared to the cost of groceries.

Ultimately, value-based pricing offers the following three tactical recommendations:

- Employ a segmented approach toward price that considers how each group of customers assesses value.

- Establish the highest possible price level and justify it with comparable value.
- Use price as one component in the marketing mix, building compelling value across all elements of the offering.

11.4 Common Pricing Strategies

Learning Objectives

- Explain why a company would use skim pricing
- Explain why a company would use penetration pricing
- Explain why a company would use cost-oriented pricing
- Explain how price discounting is used and why it can be effective
- Compare common pricing strategies

Thus far we have discussed many pricing considerations: the impact of pricing on value perceptions, the effects of elasticity, and approaches to common pricing objectives. In this section we are going to introduce some very specific, yet standard pricing strategies that organizations use to bring these concepts together. They do not replace the information that we have discussed to this point, but they are important to understand.

Learning Activities

- Reading: Skim Pricing
- Reading: Penetration Pricing
- Reading: Cost-Oriented Pricing
- Reading: Discounting Strategies
- Self Check: Common Pricing Strategies

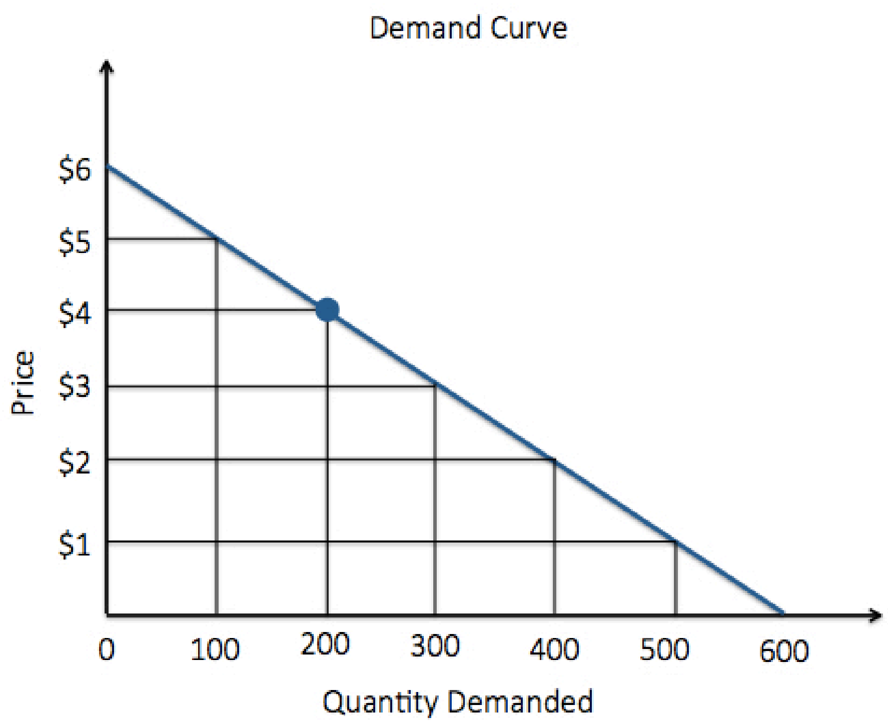
Reading: Skim Pricing

With a totally new product, competition either doesn't exist or is minimal, and there's no market data about customer demand. How should the price be set in such a case? There are two common pricing strategies that organizations use for new products: skim pricing and penetration pricing.

A skimmer skimming

The Economics of Price and Demand

In order to understand these pricing strategies, let's review the demand curve. In a typical economic analysis of pricing, the demand curve shows the quantity demanded at every price. In our graph below, the demand increases by 100 units each time the price drops by $1. Based on this demand, if a company priced its product at $4, consumers would buy 200 units. If the company wanted to raise its prices, it could charge $5, but then consumers would buy only 100 units. This is an oversimplified example, but it shows an important relationship between price and demand.

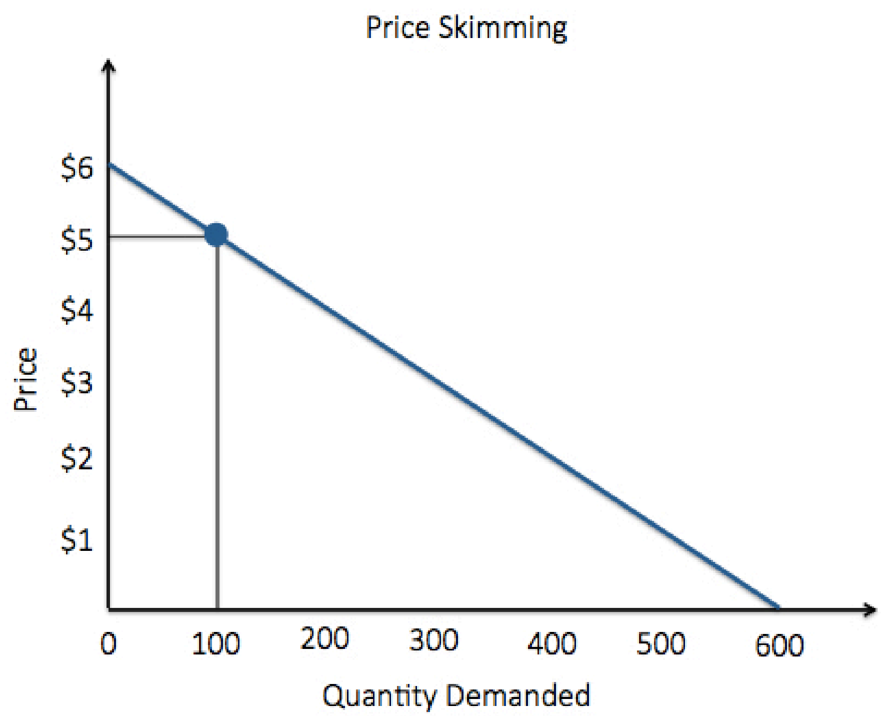


The key thing to understand about this model is that when all else is equal, *demand decreases as price* *increases*. Fortunately, the marketer does not have to regard everything else as fixed. She can make adjustments to product, promotion, or distribution to increase the value to the customer in order to increase demand without lowering price. Still, once the other elements of the marketing mix are fixed, it's generally true that a higher price will result in less demand for a product, and a lower price will result in more demand for a product.

What Is Skim Pricing?

Price skimming involves the top part of the demand curve. A firm charges the highest initial price that customers will pay. As the demand of the first customers is satisfied, the firm lowers the price to attract another, more price-sensitive segment.

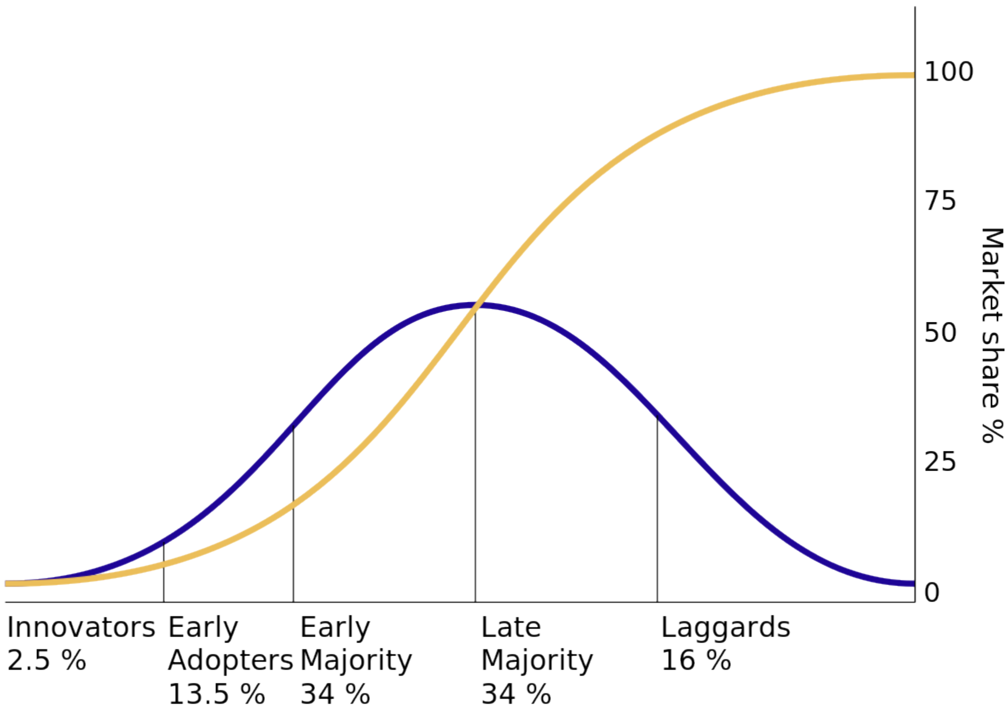
Using our example of the demand curve, the price might be set at $5 per unit at first, generating a demand of only 100 units.



The skimming strategy gets its name from skimming successive layers of "cream"—or customer segments—as prices are lowered over time.

Why Might Skim Pricing Make Sense?

There are a number of reasons why an organization might consider a skimming strategy. Sometimes a company simply can't deliver enough of a new product to meet demand. By setting the price high, the company is able to maximize the total revenue that it can generate from the quantity of product that it can make available.



Price skimming can also be part of a customer segmentation strategy. Take a look at the graph, above. You'll remember from our discussion of the product life cycle and customer adoption patterns that the Innovators—the adventurous customers on the left who are game to try new products—are less price sensitive and place a premium on being first to own a new product. A skim-pricing strategy targets these customers and sets a higher price for them. As the product starts to move through the Early Adopters stage, the marketer will often reduce the price to begin drawing Early Majority buyers.

A skimming strategy is most appropriate for a premium product. Today we can see many examples of skim pricing in the electronics industry when new product innovations are introduced. Electronics companies know that many buyers will wait to purchase new technologies, so they use skim pricing to get the highest possible price from the Innovators and Early Adopters.

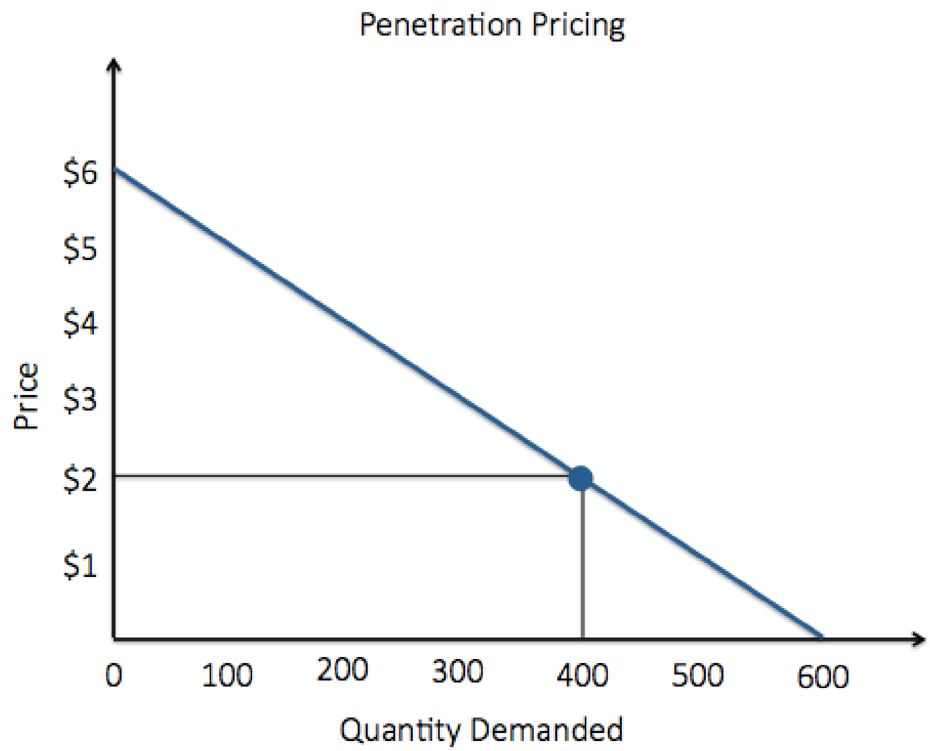
Reading: Penetration Pricing

What Is Penetration Pricing?

Penetration pricing is a pricing strategy in which the price of a product is initially set low to rapidly reach a wide fraction of the market and initiate word of mouth.[1] The strategy works on the assumption that customers will switch to the new product because of the lower price. Penetration pricing is most commonly associated with marketing objectives of enlarging market share and exploiting economies of scale or experience.

Returning to our economic model, below, you can see that penetration pricing focuses at the bottom of the demand curve. If the initial price is set low, at $2, for instance, the quantity demanded will be high: 400 units.

1. J. Dean (1976). Pricing Policies for New Products. *Harvard Business Review* 54 (6): 141–153. https://hbr.org/1976/11/pricing-policies-for-new-products



Penetration pricing offers a lower price in order to draw in higher demand from consumers.

Why Might Penetration Pricing Make Sense?

Like skim pricing, penetration pricing shows an awareness of the dynamics in the product life cycle. The advantages of penetration pricing to the firm are the following:

- It can result in fast diffusion and adoption across the product life cycle. The strategy can achieve high market penetration rates quickly, taking competitors by surprise and not giving them time to react.
- It can create goodwill among the Innovators and Early Adopters, which can generate more demand via word of mouth.
- It establishes cost-control and cost-reduction pressures from the start, leading to greater efficiency.
- It discourages the entry of competitors.
- It can generate high stock turnover throughout the distribution channel, which creates important enthusiasm and support in the channel.

The main disadvantage of penetration pricing is that it establishes long-term price expectations for the product and image preconceptions for the brand and company. Both can make it difficult to raise prices later. Another potential disadvantage is that the low-profit margins may not be sustainable long enough for the strategy to be effective.

Reading: Cost-Oriented Pricing

Cost-Plus Pricing

Cost-plus pricing, sometimes called *gross margin pricing*, is perhaps the most widely used pricing method. The manager selects as a goal a particular gross margin that will produce a desirable profit level. Gross margin is the difference between how much the goods cost and the actual price for which it sells. This gross margin is designated by a percent of net sales. The percent chosen varies among types of merchandise. That means that one product may have a goal of 48 percent gross margin while another has a target of 33.5 percent or 2 percent.

A primary reason that the cost-plus method is attractive to marketers is that they don't have to forecast general business conditions or customer demand. If sales volume projections are reasonably accurate, profits will be on target. Consumers may also view this method as fair, since the price they pay is related to the cost of producing the item. Likewise, the marketer is sure that costs are covered.

A major disadvantage of cost-plus pricing is its inherent inflexibility. For example, department stores often find it hard to meet (and beat) competition from discount stores, catalog retailers, and furniture warehouses because of their commitment to cost-plus pricing. Another disadvantage is that it doesn't take into account consumers' perceptions of a product's value. Finally, a company's costs may fluctuate, and constant price changing is not a viable strategy.

Markups

When middlemen use the term **markup**, they are referring to the difference between the average cost and price of all merchandise in stock, for a particular department, or for an individual item. The difference may be expressed in dollars or as a percentage. For example, a man's tie costs $14.50 and is sold for $25.23. The dollar markup is $10.73. The markup may be designated as a percent of the selling price or as a percent of the cost of the merchandise. In this example, the markup is 74 percent of cost ($10.73 / $14.50) or 42.5 percent of the retail price ($10.73 / $25.23).

There are several reasons why expressing markup as a percentage of selling price is preferred to expressing it as a percentage of cost. One is that many other ratios are expressed as a percentage of sales. For instance, selling expenses are expressed as a percentage of sales. If selling costs are 8 percent, it means that for each $100,000 in net sales, the cost of selling the merchandise is $8,000. Advertising expenses, operating expenses, and other types of expenses are quoted in the same way. Thus, when making comparisons, there is a consistency in expressing all expenses and costs, including markup, as a percentage of sales (selling price).

As an illustration of the cost-based process of pricing, let's look at Johnnie Walker Black Label Scotch Whisky. This product sells for about $30 in most liquor stores. How was this price derived? The per-bottle costs are shown below:

$5.00 production, distillation, maturation

+ $2.50 advertising

+ $3.11 distribution

+ $4.39 taxes

+ $7.50 markup (retailer)

<u>+ $7.50 net margin (manufacturer)</u>

$30.00 total

Each of the cost elements, including the retailer's markup, is added to the initial production costs, and the total is the final price.

Cost-Oriented Pricing of New Products

Certainly costs are an important component of pricing. No firm can make a profit until it covers its costs. However, the process of determining costs and setting a price based on costs does not take into account what the customer is willing to pay at the marketplace. This strategy is a bit of a trap for companies that develop products and continually add features to them, thus adding cost. Their cost-based approach leads them to add a percentage to the cost, which they pass on to customers in the form of a new, higher price. Then they are disappointed when their customers do not see sufficient value in the cost-based price.

Reading: Discounting Strategies

In addition to deciding about the base price of products and services, marketing managers must also set policies regarding the use of discounts and allowances. There are many different types of price reductions–each designed to accomplish a specific purpose. The major types are described below.

Quantity Discounts

Quantity discounts are reductions in base price given as the result of a buyer purchasing some predetermined quantity of merchandise. A noncumulative quantity discount applies to each purchase and is intended to encourage buyers to make larger purchases. This means that the buyer holds the excess merchandise until it is used, possibly cutting the inventory cost of the seller and preventing the buyer from switching to a competitor at least until the stock is used. A cumulative quantity discount applies to the total bought over a period of time. The buyer adds to the potential discount with each additional purchase. Such a policy helps to build repeat purchases.

Both Home Depot and Lowe's offer a contractor discount to customers who buy more than $5,000 worth of goods. Home Depot has a tiered discount for painters, who can save as much as 20 percent off of retail once they spend $7,500.[1]

Seasonal Discounts

Seasonal discounts are price reductions given for out-of-season merchandise—snowmobiles discounted during the summer, for example. The intention of such discounts is to spread demand over the year, which can allow fuller use of production facilities and improved cash flow during the year.

Seasonal discounts are not always straightforward. It seems logical that gas grills are discounted in September when the summer grilling season is over, and hot tubs are discounted in January when the weather is bad and consumers spend less freely. However, the biggest discounts on large-screen televisions are offered during the weeks before the Super Bowl when demand is greatest. This strategy aims to drive impulse purchases of the large-ticket item, rather than spurring sales during the off-season.

1. http://www.homedepot.com/c/Pro_Xtra

Cash Discounts

Cash discounts are reductions on base price given to customers for paying cash or within some short time period. For example, a 2 percent discount on bills paid within 10 days is a cash discount. The purpose is generally to accelerate the cash flow of the organization and to reduce transaction costs.

Generally cash discounts are offered in a business-to-business transaction where the buyer is negotiating a range of pricing terms, including payment terms. You can imagine that if you offered to pay cash immediately instead of using a credit card at a department store, you wouldn't receive a discount.

Trade Discounts

Trade discounts are price reductions given to middlemen (e.g., wholesalers, industrial distributors, retailers) to encourage them to stock and give preferred treatment to an organization's products. For example, a consumer goods company might give a retailer a 20 percent discount to place a larger order for soap. Such a discount might also be used to gain shelf space or a preferred position in the store.

Calico Corners offers a 15 percent discount on fabrics to interior designers who are creating designs or products for their customers. They have paired this with a quantity discounts program that offers gift certificates for buyers who purchase more than $10,000 in a year.

Personal Allowances

Personal allowances are similar strategies aimed at middlemen. Their purpose is to encourage middlemen to aggressively promote the organization's products. For example, a furniture manufacturer may offer to pay some specified amount toward a retailer's advertising expenses if the retailer agrees to include the manufacturer's brand name in the ads.

Some manufacturers or wholesalers also give retailers prize money called "spiffs," which can be passed on to the retailer's sales clerks as a reward for aggressively selling certain items. This is especially common in the electronics and clothing industries, where spiffs are used primarily with new products, slow movers, or high-margin items.

When employees in electronics stores recommend a specific brand or product to a buyer they may receive compensation from the manufacturer on top of their wages and commissions from the store.

Trade-In Allowances

Trade-in allowances also reduce the base price of a product or service. These are often used to help the seller negotiate the best price with a buyer. The trade-in may, of course, be of value if it can be resold. Accepting trade-ins is necessary in marketing many types of products. A construction company with a used grader worth $70,000 probably wouldn't buy a new model from an equipment company that did not accept trade-ins, particularly when other companies do accept them.

Price Bundling

Price bundling is a very popular pricing strategy. The marketer groups similar or complementary products and charges a total price that is lower than if they were sold separately. Comcast and Direct TV both follow this strategy by combining different products and services for a set price. Similarly, Microsoft bundles Microsoft Word, Excel, Powerpoint, OneNote, and Outlook in the Microsoft Office Suite. The underlying assumption of this pricing strategy is that the increased sales generated will more than compensate for a lower profit margin. It may also be a way of selling a less popular product—like Microsoft OneNote—by combining it with popular ones. Industries such as financial services, telecommunications, and software companies make very effective use of this strategy.

11.5 Price Elasticity

Learning Objectives

- Define elasticity
- Explain the impact of elasticity on price changes
- Identify examples of products with elastic and inelastic demand

Now that you understand different pricing strategies, we're going to tackle one more concept that helps when selecting the right strategy: price elasticity. Elasticity helps us understand how much a change in price will affect market behaviours. If we make a small change in price, will the change have a dramatic impact on the demand for the product or only a small impact? Price elasticity is the measure of the market's response to price changes.

Elasticity is important to pricing decisions because it helps us understand whether raising prices or lowering prices will enable us to achieve our pricing objectives. Will a discount drive increased sales? Will a price increase cause us to lose many buyers or just a few? We have to answer these questions in order to select the most effective pricing strategy.

When you work through this section, start by trying to get a handle on the concept: elasticity helps us understand whether a price change will have a big impact on demand or a small impact. That's it. Don't get too hung up on the math at first. Master the concept; then add the math.

The following video gives an overview of economics that will better prepare you for the readings.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=195

You can view the transcript for "What is Economics" here (opens in new window).

Learning Activities

- Video: Elasticity of Demand
- Reading: Elasticity and Price Changes
- Reading: Products with Elastic and Inelastic Demand
- Self Check: Pricing Elasticity

Video: Elasticity of Demand

The following video is a little long to watch, but it provides an excellent overview of elasticity and explains both the concept and the calculations in a simple, easy-to-follow way.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=197#oembed-1

You can view the transcript for "Episode 16: Elasticity of Demand" here (opens in new window).

In review:

- Price elasticity measures the responsiveness of quantity demanded to a change in the product price
- The calculation for price elasticity is the percentage change in quantity demanded divided by the percentage change in price
- When the absolute value of the price elasticity is >1, the price is elastic and people are very sensitive to changes in price
- When the absolute value of the price elasticity is <1, the price is inelastic and people are insensitive to changes in price

Reading: Elasticity and Price Changes

Introduction

With a good understanding of what elasticity means and how it is calculated, we can now investigate its impact on pricing strategies. In order to do this, we'll look at a couple of examples and answer the following questions:

1. How much of an impact do we think a price change will have on demand?
2. How would we calculate the elasticity, and does it confirm our assumption?
3. What impact does the elasticity have on the business or pricing objectives?

Please note: when we calculate elasticity, we will always use the *absolute value*, or the real number without regard to its sign. In other words, you can disregard the positive and negative signs and just pay attention to the real number.

Example 1: The Student Parking Permit

How elastic is the demand for student parking passes at your institution? The answer to that question likely varies based on the profile of your institution, but we are going to explore a particular example. Let's consider a community college campus where all of the students commute to class. Required courses are spread throughout the day and the evening, and most of the classes require classroom attendance (rather than online participation). There is a reasonable public transportation system with busses coming to and leaving campus from several lines, but the majority of students drive to campus. A student parking permit costs $40 per term. As the parking lots become increasingly congested, the college considers raising the price of the parking passes in hopes that it will encourage more students to carpool or to take the bus.

If the college increases the price of a parking permit from $40 to $48, will fewer students buy parking permits?

If you think that the change in price will cause many students to decide not to buy a permit, then you are suggesting that the demand is elastic—the students are quite sensitive to price changes. If you think that the change in price will not impact student permit purchases much, then you are suggesting that the demand is inelastic—student demand for permits is insensitive to price changes.

In this case, we can all argue that students are very sensitive to increases in costs *in general*, but the determining factor in their demand for parking permits is more likely to be the quality of alternative solutions. If the bus service does not allow students to travel between home, school, and work in a reasonable amount of time, many students will resort to buying a parking permit, even at the higher price. Because students don't generally have extra money, they may grumble about a price increase, but many will still have to pay.

Let's add some numbers and test our thinking. The college implements the proposed increase of $8. If we divide that by the original price ($40) then we can see that the price increase is 20% (8 / 40 = 0.20). Last year the college sold 12,800 student parking passes. This year, at the new price, the college sells 11,520 parking passes—which is a decrease of 10%, as shown below:

12,800 – 11,520 = 1,280

1,280 / 12,800 = 1 / 10 = 10%

Without doing any more math, we know that a 20% change in price resulted in a 10% change in demand. In other words, a large change in price created a comparatively smaller change in demand. This means that student demand is inelastic. Let's test the math.

% change in quantity demanded / % change in price = absolute value of price elasticity

10% / 20% = 0.10 / 0.20 = 0.50

0.50 < 1

When the absolute value of the price elasticity is < 1, the demand is inelastic. In this example, student demand for parking permits is inelastic.

What impact does the price change have on the college and its goals for students? First, there are 1,280 fewer cars taking up parking places. If all of those students are using alternative transportation to get to school and this change has relieved parking-capacity issues, then the college may have achieved its goals. However, there's more to the story: the price change also has an effect on the college's revenue, as we can see below:

Year 1: 12,800 parking permits sold x $40 per permit = $512,000

Year 2: 11,520 parking permits sold x $48 per permit = $552,960

The college earned an additional $40,960 in revenue. Perhaps this can be used to expand parking or address other student transportation issues.

In this case, student demand for parking permits is inelastic. A significant change in price leads to a comparatively smaller change in demand. The result is lower sales of parking passes but more revenue.

Note: If you attend an institution that offers courses completely or largely online, the price elasticity for parking permits might be completely inelastic. Even if the institution gave away parking permits, you might not want one.

Example 2: Helen's Cookies

When we discussed break-even pricing, we used the example of a new cookie company that was selling its cookies for $2. In this example, let's put the cookies in a convenience store, which has several options on the counter that customers can choose as a last-minute impulse buy. All of the impulse items range between $1 and $2 in price. In order to raise revenue, Helen (the baker, who has taken over the company,) decides to raise her price to $2.20.

If Helen increases the cookie price from $2.00 to $2.20—a 10% increase—will fewer customers buy cookies?

If you think that the change in price will cause many buyers to forego a cookie, then you are suggesting that the demand is elastic, or that the buyers are sensitive to price changes. If you think that the change in price will not impact sales much, then you are suggesting that the demand for cookies is inelastic, or insensitive to price changes.

Let's assume that this price change does impact customer behaviour. Many customers choose a $1 chocolate bar or a $1.50 doughnut over the cookie, or they simply resist the temptation of the cookie at a higher price. Before we do any math, this assumption suggests that the demand for cookies is elastic.

Adding in the numbers, we find that Helen's weekly sales drop from 200 cookies to 150 cookies. This is a 25% change in demand on account of a 10% price increase. We immediately see that the change in demand is greater than the change in price. That means that demand is elastic. Let's do the math.

% change in quantity demanded / % change in price

25% / 10% = 2.5

2.5 > 1

When the absolute value of the price elasticity is > 1, the demand is elastic. In this example, the demand for cookies is elastic.

What impact does this have on Helen's objective to increase revenue? It's not pretty.

Price 1: 200 cookies sold x $2.00 per cookie = $400

Price 2: 150 cookies sold x $2.20 = $330

She is earning less revenue because of the price change. What should Helen do next? She has learned that a small change in price leads to a large change in demand. What if she lowered the price slightly from her original $2.00 price? If the pattern holds, then a small reduction in price will lead to a large increase in sales. That would give her a much more favorable result.

Reading: Products with Elastic and Inelastic Demand

Now that you've had some practice calculating the value of elasticity, let's turn to some of the factors that play a role in whether a product is likely to have elastic or inelastic demand. The following factors can have an effect on elasticity:

- **Substitutes**: If it's easy to choose a different product when prices change, the demand will be more elastic. If there are few or no alternatives, demand will be more inelastic.
- **Absolute price**: When a product is very expensive, even a small percentage change in price will make it prohibitively expensive to more buyers. If the price of a product is a tiny percentage of the buyer's overall spending power, then a change in price will have less impact.
- **Importance of use**: In our previous example, we examined the elasticity of demand for cookies. A buyer may enjoy a cookie, but it doesn't fulfill a critical need the way a snow shovel after a blizzard or a life-saving drug does. In general, the more important the product's use, the more inelastic the demand will be.
- **Competitive dynamics**: Goods that are produced by a monopoly generally have inelastic demand, while products that exist in a competitive marketplace have elastic demand. This is because a competitive marketplace will create more options for the buyer.

With these considerations in mind, take a moment to see if you can figure out which of the following products have elastic demand and which have inelastic demand. It may be helpful to remember that when the buyer is **in**sensitive to price, demand is **in**elastic.

Gasoline

Gasoline (Generic Need)

The demand for gasoline generally is fairly **inelastic**. Car travel requires gasoline. The substitutes for car travel offer less convenience and control. Much car travel is necessary for people to move between activities and cannot be reduced to save money.

Gas from a Specific Station

The demand for gasoline from any single gas station, or chain of gas stations, is highly **elastic**. Buyers can choose between comparable products based on price. There are often many stations in a small geographic area that are equally convenient.

College Textbooks

Traditional Textbooks

Generally an instructor assigns a textbook to the student, and the student who wants access to the learning materials must buy it, regardless of the price. Because the student can't easily identify another textbook or resource that will ensure the same content and grade for the class, he has no substitutes and must buy the book at any price. Thus the demand is **inelastic**.

New Textbook Distribution Channels

Increasingly, students have new options to buy the same textbooks from different distribution channels at different price points. The introduction of new distribution channels is increasing options for buyers and having an impact on the price elasticity for publishers.

Coffee

Specialty Coffee Drinks

Many coffee shops have developed branded drinks and specialized experiences in order to reduce substitutes and build customer loyalty. While black coffee is available almost universally, there are few substitutes for a Starbucks Java Chip Frappuccino. Demand for such products is more **inelastic**.

Black Coffee

Coffee is generally widely available at a level of quality that meets the needs of most buyers. The combination of a low price, relative to the buyer's spending power, and the fact that the product is sold by many different suppliers in a competitive market make the demand highly **elastic**.

Tickets

Concert Tickets

Only Taylor Swift can offer a Taylor Swift concert. She holds a monopoly on the creation and delivery of that experience. There is no substitute, and loyal fans are willing to pay for the experience. Because it is a scarce resource and the delivery is tightly controlled by a single provider, access to concerts has **inelastic** demand.

Airline Tickets

Airline tickets are sold in a fiercely competitive market. Buyers can easily compare prices, and buyers experience the services provided by competitors as being very similar. Buyers can often choose not to travel it the cost is too high, or to substitute travel by car or train. This makes the demand **elastic**.

Health

Medical Procedures

Essential medical procedures have inelastic demand. The patient will pay what she can or what she must. In Canada most health services are paid for by the government. But elsewhere in the world, like the USA, people pay for health care services. In general, products that significantly affect health and well-being have **inelastic** demand.

Soft Drinks

Soft drinks and many other nonessential items have highly **elastic** demand. There is competition among every brand and type of soda, and there are many substitutes for the entire category of soft drinks.

Simulation: Demand for Food Trucks

Try It

Play the simulation below multiple times to see how different choices lead to different outcomes. All simulations allow unlimited attempts so that you can gain experience applying the concepts.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=203

11.6 Competitive Bidding

Learning Objectives

- Describe the competitive bidding process
- Describe the role of pricing in the competitive bid
- Explain the use of competitive bidding for B2B pricing

Generally in business-to-consumer sales there is a standard price structure for all customers. That doesn't necessarily mean that every customer will pay exactly the same price. The company may provide discounts—such as "loyalty" discounts, for instance—to a particular group of customers, but overall, the pricing is fairly uniform.

This is not at all the case in business-to-business marketing. In B2B marketing, most vendors will expect to give deep discounts to large customers who generate significant revenue. They also expect to tailor the solution to the customer to a much greater extent. This may include making adjustments to the levels of service, response time for issues, payment terms, and other aspects of the solution. The B2B marketing requires solutions that are more customized to the individual buyer, and the pricing is no exception.

Learning Activities

- Reading: Competitive Bidding
- Reading: Price in the Competitive Bid
- Self Check: Competitive Bidding

Reading: Competitive Bidding

When we discussed buyer behaviour, we identified the stages that organizations go through to make a purchase decision. When it comes to pricing consideration, two of these stages are especially relevant: proposal solicitation and supplier selection.

You will remember that during the proposal solicitation stage of the process, qualified suppliers are invited to submit proposals. Those vendors will each craft a detailed proposal outlining what the provider can offer to address the buyer's needs, along with product specifications, timing, and pricing. These proposals are submitted to the buying organization, which will review them during the supplier selection stage of the process. During this stage the buyer completes a thorough review of the proposals submitted, scores the proposals, and often narrows down the list of vendors to the highest-scoring proposals. This shortlist is marked for "further negotiation," which may include negotiating product quantity, specifications, pricing, timing, delivery, and other terms of sale. This process is called a competitive bid process.

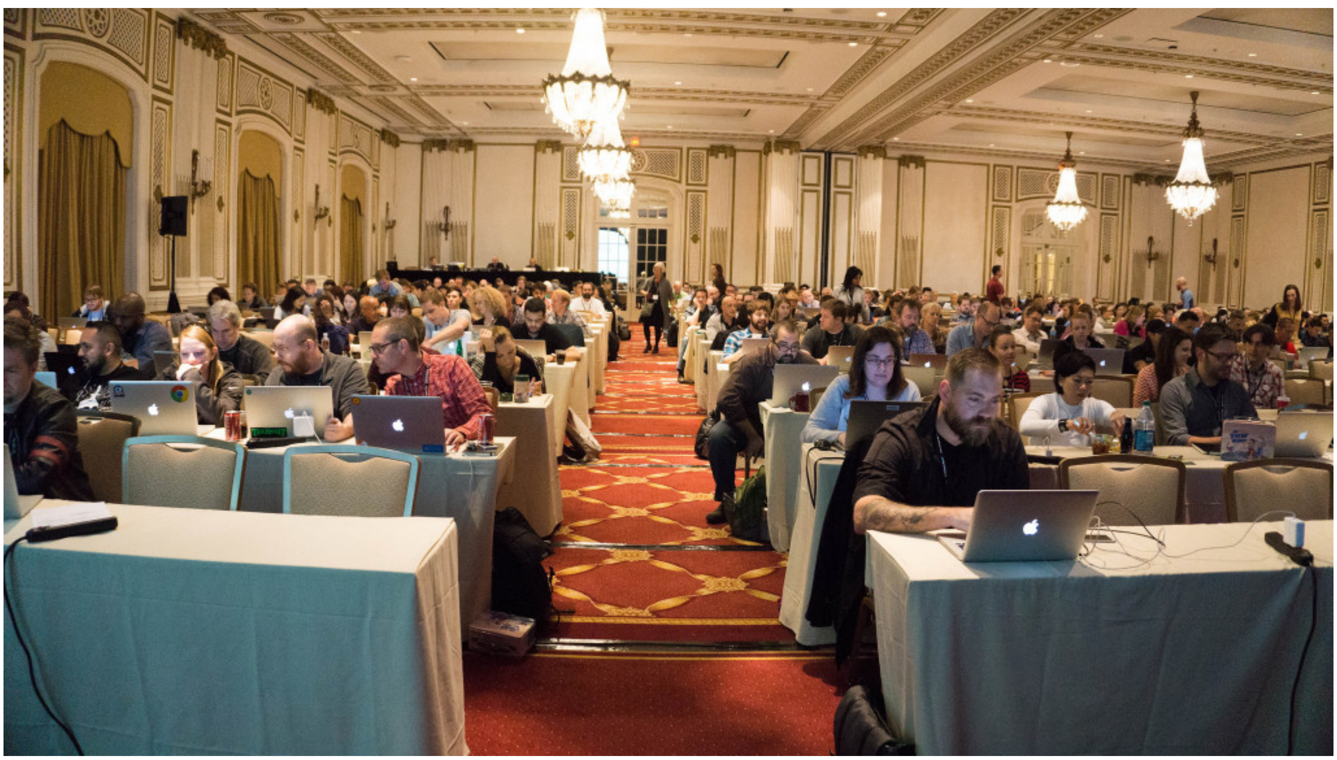
A competitive bid is a procurement process in which bids from competing suppliers are solicited. The competitive bid process generally advertises the requirements and specifications of solutions and invites suppliers to provide a proposal about how they will meet the need and at what price. Together, the steps of requesting proposals from multiple vendors, evaluating the proposals by comparing them against one another, and negotiating the terms constitute a competitive bid process.

Let's consider a very simple example of the differences between the competitive pricing for a *B2C* sale and a competitive bid in a *B2B* sale.

Imagine that you are traveling to Toronto and you want to find a low-cost hotel room. There are a number of Web sites that allow you to compare costs of different hotels. You are able to select the location and dates for your stay, compare information about the available hotels, and see the price for each option. This enables you, as a buyer, to select and reserve your room without ever having direct contact with the hotel.

If you are planning to hold a large conference at a hotel in Toronto, then the process if very different. The meeting planner will generally do some research to identify all of the hotels in the area that have facilities with sufficient capacity to accommodate the conference. Then the planner will issue a request for proposals (RFP) to all of the possible venues. The RFP will provide information to the hotel about the conference needs: number of expected attendees, meeting space required, hotel rooms required, and any special requirements (such as catering, etc.). Each of the hotels has the opportunity to craft and submit a proposal. The hotels have a good sense of what their competitors offer, so they will describe what is unique about their facilities and available services. They will also price their proposal according to how confident they are that their facilities and services can support the value. Unlike the consumer, the business will be offered a full, customized package with pricing that will include a hotel room rate for a defined block of rooms, a minimum dollar amount that must be spent on food and beverages, and pricing for other items. If the food-and-beverage expense is high, then the hotel might waive the cost of the meeting-space rental. Once the business has reviewed the proposals, it might negotiate on any of these terms or ask to have some of the services that will incur a fee, such as Internet access, included in the package.

The competitive bid process creates an opportunity to tailor pricing for a specific customer's needs, based on the value is provided relative to a specific set of competitors.



Reading: Price in the Competitive Bid

What role does the price play in the competitive bid process? The answer to this question can vary significantly, but in every case, the marketer has a specific goal: to minimize the role of price in the proposal. To understand what this means, let's consider two different scenarios.

Scenario 1: The value proposition of all solutions is identical; there is absolutely no differentiation between the products, companies, or brands. In such a case, suppliers can only compete on price. Each proposal must slash prices to the lowest possible level in hopes of coming in below the other bids.

Scenario 2: Each solution is differentiated in every element of the marketing mix. Price is different for each solution and is based on the value provided by the product, the service and relationship commitments, the brand, and the expected customer experience.

Consider both scenarios. If you are hoping to set the highest possible price, which one would you prefer? Clearly, scenario 2 provides much greater flexibility in pricing, because the marketer can use price as one of several tools to differentiate the proposal and maximize the value, rather than having *only* the option to drop price.

There are two primary reasons why businesses don't want to compete on price alone in a competitive bid situation.

1. Price is not a sustainable competitive advantage. Competitors can copy prices more easily than any other element of the marketing mix. When a strong competitor sees weaker companies competing only on price, it can lower prices temporarily and drive others out of

the market.

2. Low prices can jeopardize a company's ability to profitably deliver sustained value. When the price is very low, there's a risk of cutting into profits or needing to reduce service in order to cut costs. Both create risk for the business over the long term.

The best approach to pricing in a competitive bid situation is to be disciplined about optimizing the full marketing mix. Practically, companies generally use one of two approaches to arrive at the package that provides the greatest value in a competitive bid situation. In situations where price is not the dominant decision factor, the marketer can craft a proposal that best addresses the customer's business goals and needs. Then price can be set at an appropriate level to support the unique value offered in the proposal. In this case, price supports a differentiated proposal that provides unique value.

Sometimes price is unavoidably the dominant consideration. In fact, in some government bid processes, the buying organization is required to select the bid with the lowest total cost. In other situations, the company knows how competitors are pricing and has an indication of where it must price in order to be competitive. In this case the price becomes somewhat fixed, and the marketer must determine which proposal offers the highest possible value at that price. It requires discipline to be realistic about costs and trade-offs, else there is risk of underpricing. A disciplined approach enables the marketer to create a proposal that maximizes value, rather than ignoring the pricing realities and submitting an uncompetitive proposal.

11.7 Putting It Together: Pricing Strategies

Let's return to our discussion of Amazon Prime pricing in the context of the pricing concepts we've discussed. It might be helpful to review the key facts:

- In 2005, Amazon introduced Amazon Prime for an annual membership fee of $79
    - The service initially included unlimited 2-day shipping on orders
    - Over the next 8 years, Amazon augmented Prime with a host of new features without changing the price
- In 2014 Amazon raised the pricing for annual Amazon Prime memberships to $99
- Annually, Amazon loses at least $1 billion on Prime-related shipping expenses
- Amazon spent $1.3 billion on Prime Instant Video in 2014, over and above the shipping costs
- Amazon Prime has between 40 and 50 million subscribers
- Prime members spend an average of $538 annually with Amazon, far more than the $320 by non-Prime members[1]

Returning to our original question, is it strategic genius or terrible folly for Amazon to lose billions of dollars a year on Amazon Prime on account of its pricing? Is Amazon actually losing money on Prime, or is Prime bringing in enough other sales to cover its costs?

Customer Value

Amazon was able to clearly articulate benefits to the customer that aligned with the offering and supported the pricing. It did this by

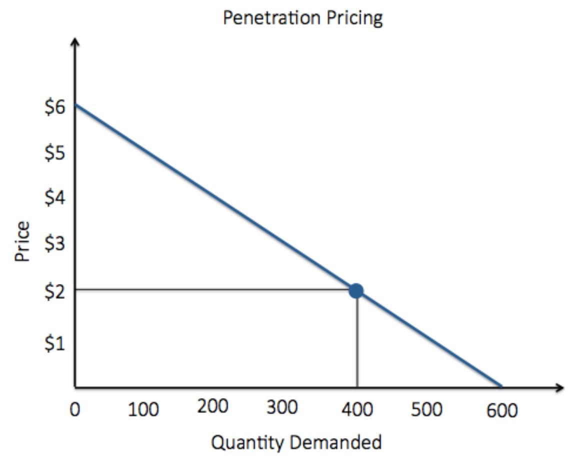
- Providing shipping that had been a luxury
- Eliminating delivery risk with predictable fulfillment
- Offering ease of purchase by combining the cost into one annual purchase

These benefits allowed Amazon to create value with the offering.

1. Tsukayama, H. (2015, February 03). *What Amazon's learned from a decade of Prime*. The Washington Post. https://www.washingtonpost.com/news/the-switch/wp/2015/02/03/what-amazons-learned-from-a-decade-of-prime/

Introductory Pricing

It wasn't completely clear whether Amazon's initial pricing was penetration pricing. Because it was a completely new offering, it was difficult to know how much it would be used and hard to analyze the cost to Amazon for providing the service. The decision to keep the pricing at $79 while adding significant new services certainly looks like penetration pricing. As a reminder, this is a strategy to drive significant early sales—to penetrate the market.



Achieving Pricing Objectives

Clearly, Amazon is hoping to draw new customers and increase total sales. Let's look at some of the assumptions and see whether this is working. If Amazon has 40 million Prime subscribers, and each is spending $218 more annually ($538 – $320 from the data above) because of Prime, then Amazon is bringing in an additional $8.7 billion in revenue annually from increased Prime sales. Perhaps only half of the members truly spend more, but that would still mean $4.36 billion in revenue.

Not all of that revenue is profit. If Amazon's average markup on the sales of the items sold is 25 percent, then $8.7 billion in revenue might result in $2.2 billion in profit. This could then cover some of the losses that the Prime service collects as an independent offering.

Based on this simple analysis, it is not immediately clear if Amazon is growing its profitability because of Amazon Prime. It does indicate that Amazon is growing revenue because of Prime. Both revenue growth and profitability growth are common objectives, and Amazon has historically been willing to take losses on the profit side in order to grow product lines and markets with long-term potential. If that is the case here, then Amazon is achieving a key objective.

Answering the Strategic Question

Is the pricing for Amazon Prime the right decision? Clearly, the answer has to be, "It depends." That's not completely satisfying, but it does acknowledge the complexity of pricing an offering that is driving growth, increasing sales per customer, opening new offerings and markets (like video and music streaming), and generating a significant financial loss for the company.

Amazon reminds us that pricing is complex, and it doesn't always have a clear right answer.

11.8 Practice Quiz [11.1-11.7]

Check Your Understanding

Answer the question(s) below to see how well you understand the topics covered in the previous sections 11.1 -11.7. This short quiz does **not** count toward your grade in the class, and you can retake it an unlimited number of times.

Use this quiz to check your understanding and decide whether to (1) study the previous section further or (2) move on to the next section.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=727#h5p-4

11.9 Discounts

Discounts

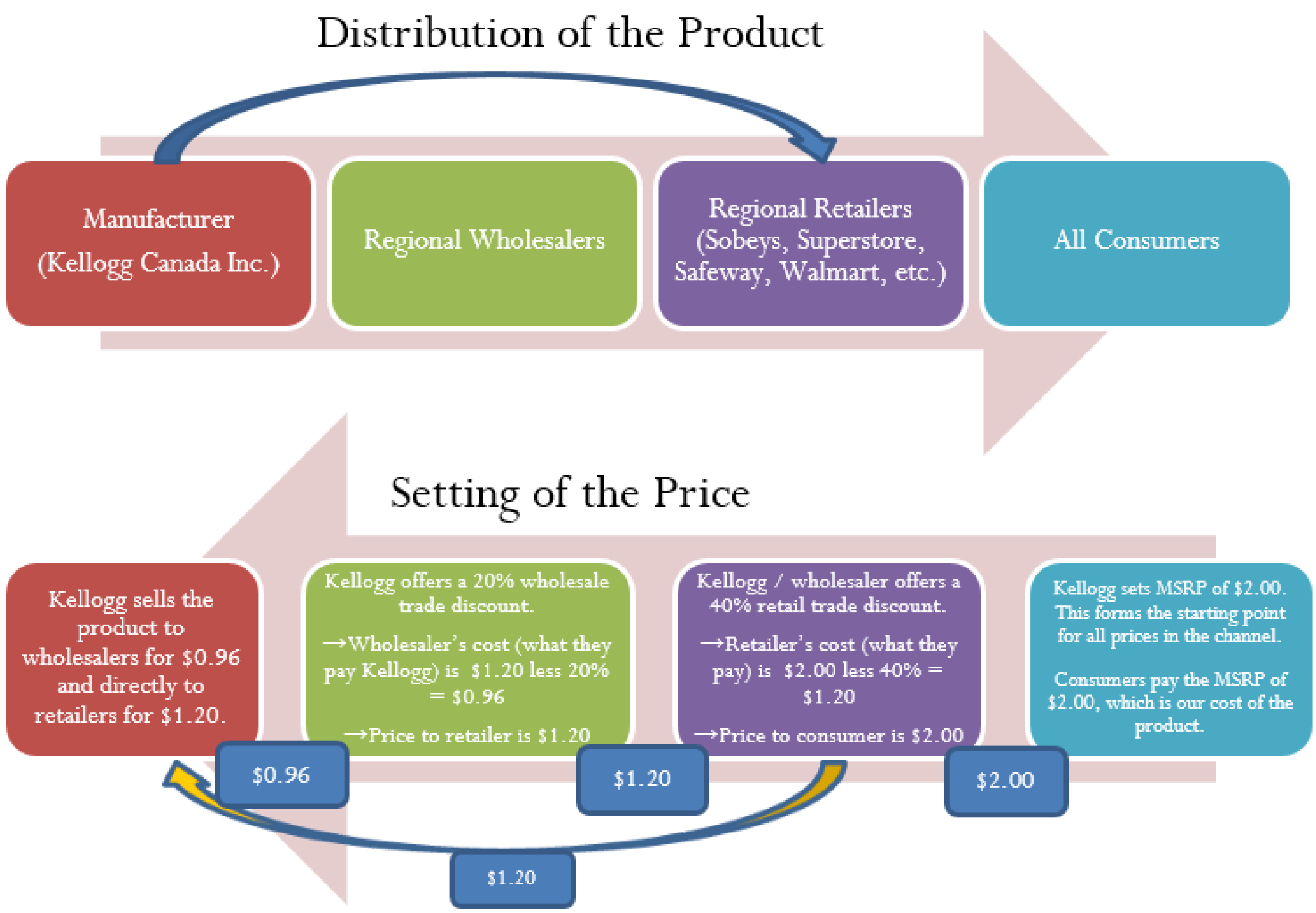
You mutter in exasperation, “Why can’t they just set one price and stick with it?” Your mind boggles at all the competing discounts you encounter at the mall in your search for that perfect Batman toy for your nephew. Walmart is running their Rollback promotion and is offering a Batmobile for 25% off, regularly priced at $49.99. Toys R’ Us has an outlet in the parking lot where the regular price for the same toy is $59.99, but all Batman products are being cleared out at 40% off. You head over to The Bay for a warehouse clearance event that has the same toy priced at $64.99 but at 35% off. It is also Bay Days, which means you can scratch and win a further 10% to 20% off the sale price. You go to Dairy Queen for a Blizzard to soothe your headache while you figure things out.

The **cost** of a product is the amount of money required to obtain the merchandise. If you are a consumer, the ticketed price tag on the product is your cost. If you are a reseller (also known as a middleman or intermediary), what you pay to your supplier for the product is your cost. If you are a manufacturer, then your cost equals all of the labour, materials, and production expenditures that went into creating the product.

A **discount** is a reduction in the price of a product. As a consumer, you are bombarded with discounts all the time. Retailers use various terms for discounts, including sales or clearance. If your business purchases a product from a supplier, any discount it receives lowers how much the business pays to acquire the product. When a business buys products, the price paid is the cost to the business. Therefore, a lower price means a lower cost.

If your business is the one selling the product, any discount offered lowers the selling price and reduces revenue per sale. Since the revenue must cover all costs and expenses associated with the product, the lower price means that the business reduces profits per sale. In business, it is common practice to express a discount as a percentage off the regular price.

How Distribution and Pricing Work



Start with distribution in the top half of the figure and work left to right. As an example, let's look at a manufacturer such as Kellogg Canada Inc. (which makes such products as Pop-Tarts, Eggo Waffles, and Rice Krispies). Kellogg's Canadian production plant is located in London, Ontario. To distribute its products to the rest of Canada, Kellogg Canada uses various regional wholesalers. Each wholesaler then resells the product to retailers in its local trade area; however, some retailers (such as the Real Canadian Superstore) are very large, and Kellogg Canada distributes directly to these organizations, bypassing the wholesaler as represented by the blue arrow. Finally, consumers shop at these retailers and acquire Kellogg products.

The relationship of distribution to pricing is illustrated in the bottom half of the figure, working right to left. For now, focus on understanding how pricing works; the mathematics used in the figure will be explained later in this chapter. Kellogg Canada sets a **manufacturer's suggested retail price**, known as the MSRP. This is a recommended retail price based on consumer market research. Since grocery retailers commonly carry thousands or tens of thousands of products, the MSRP helps the retailer to determine the retail price at which the product should be listed. In this case, assume a $2.00 MSRP, which is the price consumers will pay for the product.

The retailer must pay something less than $2.00 to make money when selling the product. Kellogg Canada understands its distributors and calculates that to be profitable most retailers must pay approximately 40% less than the MSRP. Therefore, it offers a 40% discount. If the retailer purchases directly from Kellogg, as illustrated by the yellow arrow, the price paid by the retailer to acquire the product is $2.00 less 40%, or $1.20. Smaller retailers acquire the product from a wholesaler for the same price. Thus, the retailer's cost equals the wholesaler's price (or Kellogg Canada's price if the retailer purchases it directly from Kellogg).

The wholesaler's price is $1.20. Again, Kellogg Canada, knowing that the wholesaler must pay something less than $1.20 to be profitable, offers an additional 20% discount exclusively to the wholesaler. So the price paid by the wholesaler to acquire the product from Kellogg Canada is $1.20 less 20%, or $0.96. This $0.96 forms Kellogg Canada's price to the wholesaler, which equals the wholesaler's cost.

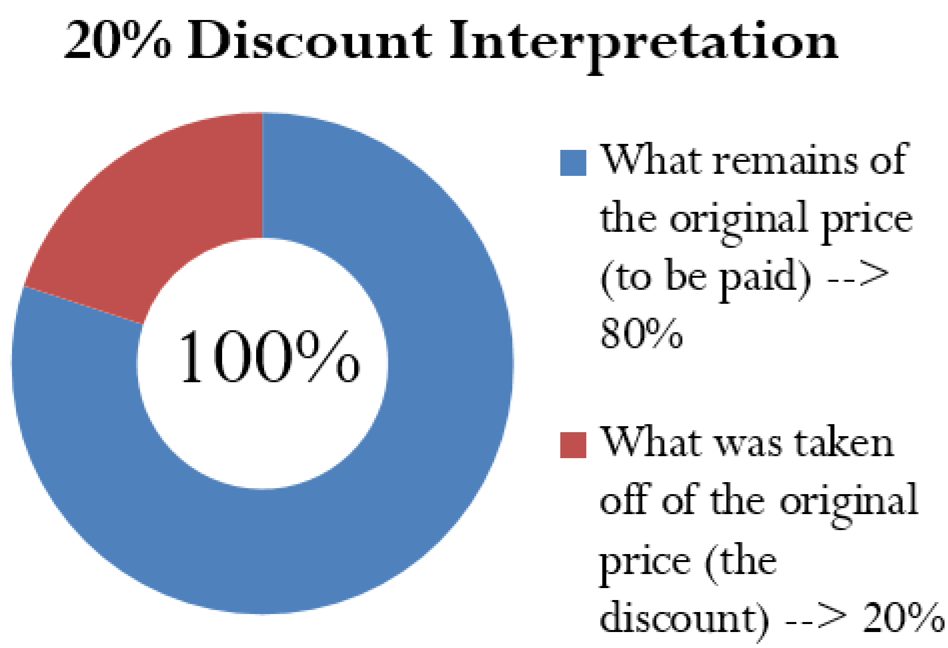
In summary, this discussion illustrates two key pricing concepts:

1. Companies higher up in the distribution channel pay lower prices than those farther down the channel. Companies receive discounts off the MSRP based on their level in the distribution system. This may result in multiple discounts, such as a wholesaler receiving both the retailer's discount and an additional discount for being a wholesaler.
2. One organization's price becomes the next organization's cost (assuming the typical distribution channel structure):
   Manufacturer's Price = Wholesaler's Cost
   Wholesaler's Price = Retailer's Cost
   Retailer's Price = Consumer's Cost

Single Discounts

Let's start by calculating the cost when only one discount is offered. Later in this section you will learn how to calculate a cost involving multiple discounts.

Figuring out the price after applying a single discount is called a net price calculation. When a business calculates the net price of a product, it is interested in what you still have to pay, not in what has been removed. Note in Formula 1.1 below that you take 1 and subtract the discount rate to determine the rate owing. If you are eligible for a 20% discount, then you must pay 80% of the list price, as illustrated in the figure below:



Formula 1.1 – Single Discount

$$N = L \times (1 - d)$$

N is the **Net Price:** The price of the product after the discount is removed from the list price. It is a dollar amount representing what price remains after you have applied the discount.

L is the **List Price**: The normal or regular dollar price of the product before any discounts. It is the Manufacturer's Suggested Retail Price (MRSP).

d is the **Discount Rate:** The percentage (in decimal format) of the list price that is deducted.

Formula 1.1 includes rate, portion, and base, where the list price is the base, the $(1d)$ is the rate, and the net price represents the portion of the price to be paid.

Formula 1.2a and Formula 1.2b – Discount Amount

Formula 1.2a

$$D\$ = L \times d$$

Formula 1.2b

$$D\$ = L - N$$

$D\$$ is **Discount Amount**: Determine the discount amount in one of two ways, depending on what information is known:
If the **list price** and **discount rate** are known, apply Formula 1.2a**.**
If the **list price** and **net price** are known, apply Formula 1.2b.

L is **List Price**: The dollar amount of the price before any discounts.

N is **Net Price**: The dollar amount of the price after you have deducted all discounts.

d is **Discount Rate:** The percentage (in decimal format) of the list price to be deducted. This time, you are interested in figuring out the amount of the discount, therefore you do not take it away from 1.

Notice that Formula 1.1 requires the discount to be in a percentage (decimal) format; sometimes a discount is expressed as a dollar amount, though, such as "Save $5 today." Formulas 1.2a and 1.2b relate the discount dollar amount to the list price, discount percent, and net price. Choose one formula or the other depending on which variables are known.

How It Works

Follow these steps to calculate the net price involving a single discount. These steps are adaptable if the net price is a known variable and one of the other variables is unknown.

Step 1: Identify any known variables, including list price, discount rate, or discount amount.

Step 2: If the list price is known, skip this step. Otherwise, solve for list price using an appropriate formula.

Step 3: Calculate the net price.

- If the list price and discount are are known, apply Formula 1.1.
- If the list price and discount amount are known, apply Formula 1.2b and rearrange for N.

Assume a product sells for $10 and is on sale at 35% off the regular price. Calculate the net price for the product.

Step 1: The list price of the product is $L = \$10$. It is on sale with a discount rate of $d = 0.35$.

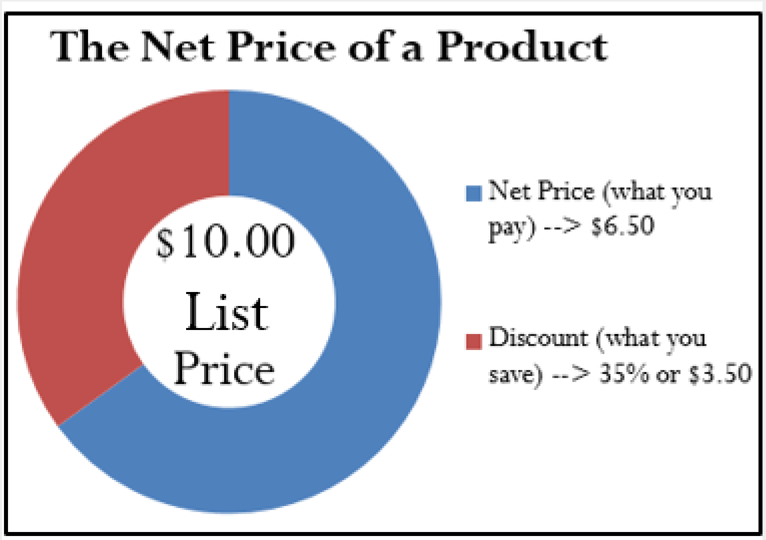
Step 2: List price is known, so this step is not needed.

Step 3: Applying Formula 1.1 results in a new price of

$N = \$10 \times (1 - 0.35) = \$6.50$.

Note that if you are interested in learning the discount amount, you apply Formula 1.2b to calculate:

$D\$ = \$10 - \$6.50 = \$3.50$.



You can combine Formula 1.1 and either version of Formula 1.2 in a variety of ways to solve any single discount situation for any of the three variables. As you deal with increasingly complicated pricing formulas, your algebraic skills in solving linear equations and substitution become very important.

Many of the pricing problems take multiple steps that combine various formulas, so you need to apply the PUPP model systematically. In any pricing problem, you must understand which variables are provided and match them up to the known formulas. To get to your end goal, you must look for formulas in which you know all but one variable. In these cases, solving for variables will move you forward toward solving the overall pricing problem.

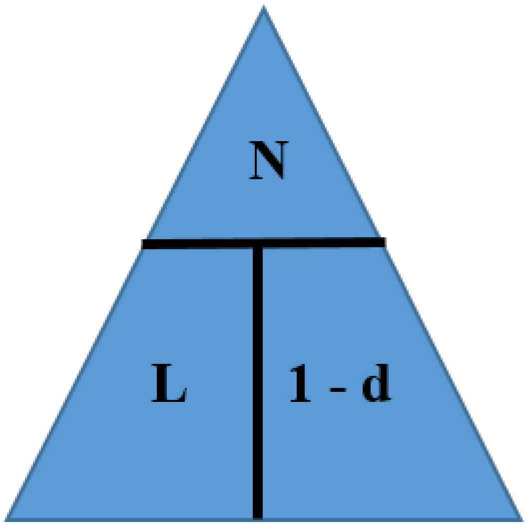
If you find you cannot produce a formula with only one unknown variable, can you find two formulas with the same two unknowns? If so, recall from Chapter 1 that you can use your algebraic skills to find the roots of the two equations simultaneously. Alternatively, you can solve one formula for a variable then substitute it into the other formula, allowing you to isolate the remaining variable. Throughout the examples in this chapter you will see many applications of these algebraic skills.

Remember to apply the rounding rules:

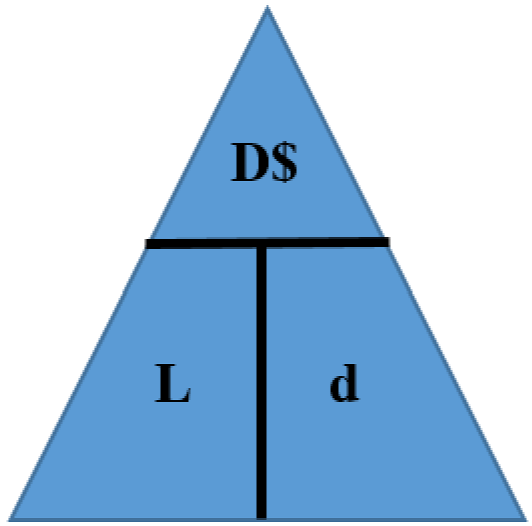
1. Until you arrive at the final solution, avoid rounding any interim numbers unless you have some special reason to do so.
2. Round all dollar amounts to the nearest cent. If the dollar amount has no cents, you may write it either

without the cents or with the ".00" at the end.
3. Round all percentages to four decimals when in percent format.

When working with single discounts, you are not always solving for the net price. Sometimes you must calculate the discount percent or the list price. At other times you know information about the discount amount but need to solve for list price, net price, or the discount rate. The triangle technique can remind you how to rearrange the formulas for each variable, as illustrated in the figure below.



Formula 4.1: Single Discount



Formula 4.2a: Discount Amount

Give It Some Thought:

1. Will you pay more than, less than, or exactly $10.00 for a product if you are told that you are paying:
   a. a net price of $10.00 when there is a discount of 25%?
   b. a list price of $10.00 when there is a discount of 25%?
2. If an item is subject to a 40% discount, will the net price be more than or less than half of the list price of the product?

Example 1.1A – Determining the Retailer's Net Price for a Pair of Jeans

A manufacturer that sells jeans directly to its retailers uses market research to find out it needs to offer a 25% trade discount. In doing so, the retailers will then be able to price the product at the MSRP of $59.99. What price should retailers pay for the jeans?

Plan:
Calculate how much a retailer should pay for the jeans after the regular price has been discounted to accommodate the trade discount. This is called the **net price** for the product, or N.

Understand:
Step 1: The list price and the discount rate are known.

$$L = \$59.99$$
$$d = 0.25$$

Step 2: List price is known, so skip this step.

Step 3: Apply Formula 1.1

Perform:
Step 3:

$$N = \$59.99 \times (1 - 0.25) = \$59.99 \times 0.75 = \$44.99$$

Present:
The manufacturer should sell the jeans to the retailers for $44.99.

Example 1.1B – Determining the List Price of a Jacket

Winners pays a net price of $27.50 for a winter jacket after receiving a retail trade discount of 45%. What was the MSRP of the jacket?

Plan:
Calculate the MSRP for the jacket before Winners received the retail trade discount to arrive at the net price. This is called the **list price** for the product, or L.

Understand:
Step 1: The net price and the discount rate are known:

$$N = \$27.50$$
$$d = 0.45$$

Step 2: List price is the unknown variable; skip this step.

Step 3: Apply Formula 1.1, rearranging for L.

Perform:
Step 3:

$$\begin{aligned} \$27.50 &= L(1-0.45) \\ L &= \$27.50 \div (1-0.45) \\ L &= \$27.50 \div 0.55 = \$50.00 \end{aligned}$$

Present:
The MSRP, or list price, of the winter jacket is \$50.00.

Example 1.1C – Determining the Discount Percent and Discount Amount

You are shopping at Mountain Equipment Co-op for a new environmentally friendly water bottle. The price tag reads \$14.75, which is \$10.24 off the regular price. Determine the discount rate applied.

Plan:
You need to find out how the sale price translates into the **discount rate**, or d.

Understand:
Step 1: The discount amount and net price are known:

$$D\$ = \$10.24$$
$$N = \$14.75$$

Step 2: Use Formula 1.2b to calculate the list price, rearranging for L.

Step 3: Convert the discount amount into a percentage by applying Formula 1.2a, rearranging for d.

Perform:
Step 2:
List price:

$$\begin{aligned} \$10.24 &= L - \$14.75 \\ L &= \$24.99 \end{aligned}$$

Step 3:
Discount rate:

$$d = D\$ \div L$$

$$d = \frac{\$10.24}{\$24.99} = 0.409764 \text{ or } 40.9764\%$$

Present:

The water bottle today has been reduced in price by the amount of $10.24. This represents a sale discount of 40.9674%.

Multiple Discounts

You are driving down the street when you see a large sign at Old Navy that says, “Big sale, take an additional 25% off already reduced prices!” In other words, products on sale (the first discount) are being reduced by an additional 25% (the second discount). Because Formula 1.1 handles only a single discount, you must use an extended formula in this case.

Businesses commonly receive more than one discount when they make a purchase. Consider a transaction in which a business receives a 30% trade discount as well as a 10% volume discount. First, you have to understand that this is not a 30% + 10% = 40% discount. The second discount is always applied to the net price after the first discount is applied. Therefore, the second discount has a smaller base upon which it is calculated. If there are more than two discounts, you deduct each subsequent discount from continually smaller bases. Formula 1.3 expresses how to calculate the net price when multiple discounts apply.

Formula 1.3 – Multiple Discounts

$$N = L \times (1 - d_1) \times (1 - d_2) \times \cdots \times (1 - d_n)$$

N is **Net Price:** The dollar amount of the price after all discounts have been deducted.
L is **List Price:** The dollar amount of the price before any discounts.
d_1 is **First Discount**, d_2 is **Second Discount**, d_n is **nth Discount**:
When there is more than one discount, you must extend beyond Formula 1.1 by multiplying another discount expression. These discounts are represented by the same d symbol; however, each discount receives a subscript to make its symbol unique. Therefore, the first discount receives the symbol of d_1, the second discount receives the symbol d_2, and so on. Recall that the symbol n represents the number of pieces of data (a count), so you can expand or contract this formula to the exact number of discounts being offered.

It is often difficult to understand exactly how much of a discount is being received when multiple discounts are involved. Often it is convenient to summarize the multiple discount percentages into a single percentage. This makes it easier to calculate the net price and aids in understanding the discount benefit. Simplifying multiple percent discounts into a single percent discount is called finding the **single equivalent discount**. Whether you apply the multiple discounts or just the single equivalent discount, you arrive at the same net price. The conversion of multiple discount percentages into a single equivalent discount percent is illustrated in Formula 1.4.

Formula 1.4 – Single Equivalent Discount

$$d_{equiv} = 1 - (1 - d_1) \times (1 - d_2) \times \cdots \times (1 - d_n)$$

d_{equiv} (or just d) is the **single equivalent discount rate** that is equal to the series of multiple discounts. Recall that taking $(1 - d)$ calculates what you pay. Therefore, if you take 1, which represents the entire amount, and reduce it by what you pay, the rate left over must be what you did not pay. In other words, it is the **discount rate**.

d_1 is **First Discount**, d_2 is **Second Discount**, d_n is **nth Discount:**
This is the same notation as in Formula 1.3. Since there are multiple discounts, each discount receives a numerical subscript to give it a unique identifier. You can expand or contract the formula to the exact number of discounts being offered.

How It Works

Refer back to the steps in calculating net price. The procedure for calculating a net price involving a single discount extends to a more generic procedure involving multiple discounts. As with the single discount procedures, you can adapt the model if the net price is known and one of the other variables is unknown. Follow these steps to calculate the net price involving any number of discounts:

Step 1: Identify any known variables, including list price, discount rate(s), or discount amount.

Step 2: If the list price is known, skip this step. Otherwise, solve for list price.

- If only one discount is involved, apply Formula 1.2a.
- If more than one discount is involved, the discount amount represents the total discount amount received from all of the discounts combined. This requires you first to convert the multiple discount rates into an equivalent single discount rate using Formula 1.4 and then to apply Formula 1.2a.

Step 3: Calculate the net price.

- If the list price and only a single known discount rate are involved, apply Formula 1.1.
- If the list price and multiple discount rates are known and involved, apply Formula 1.3.
- If the list price and the total discount amount are known, apply Formula 1.2b and rearrange for N.

Assume a product with an **MSRP** of $100 receives a trade discount of 30% and a volume discount of 10%. Calculate the net price.

Step 1: The list price and discounts are

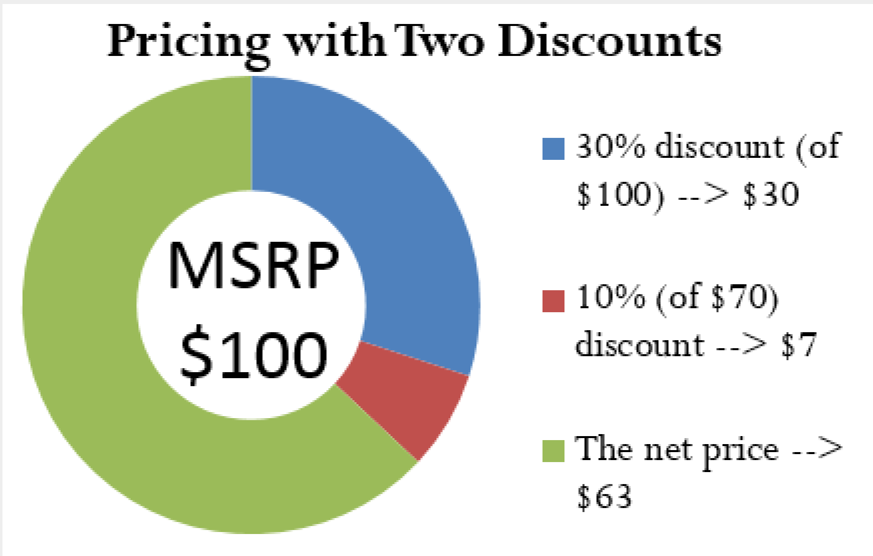
$$L = \$100$$
$$d_1 = 0.30$$
$$d_2 = 0.10.$$

Step 2: List price is known, so skip this step.

Step 3: Apply Formula 1.3 to calculate the net price:

$$N = \$100 \times (1 - 0.30) \times (1 - 0.10) = \$63$$

The net price is $63, which is illustrated in the following diagram:



If you are solely interested in converting multiple discounts into a single equivalent discount, you need only substitute into Formula 1.4. In the above example, the product received a trade discount of 30% and a volume discount of 10%. To calculate the single equivalent discount, apply Formula 1.4:

$$d_{equiv} = 1 - (1 - 0.30) \times (1 - 0.10)$$
$$d_{equiv} = 1 - (0.70)(0.90)$$
$$d_{equiv} = 1 - 0.63 = 0.37$$

Therefore, whenever discounts of 30% and 10% are offered together, the single equivalent discount is 37%. Whether it is the multiple discounts or just the single equivalent discount that you apply to the list price, the net price calculated is always the same.

Order of Discounts:

The order of the discounts *does not* matter in determining the net price. Remember from the rules of

BEDMAS that you can complete multiplication in any order. Therefore, in the above example you could have arrived at the $63 net price through the following calculation:

$$\$100 \times (1 - 0.10) \times (1 - 0.30) = \$63$$

The order of the discounts *does* matter if trying to interpret the value of any single discount. If the trade discount is applied before the quantity discount and you are wanting to know the quantity discount amount, then the quantity discount needs to be second. Thus,

$$\begin{aligned} \$100 \times (1 - 0.30) &= \$70 \\ \$70 \times 0.10 &= \$7 \end{aligned}$$

which is the amount of the quantity discount.

Price Does Not Affect Single Equivalent Discount:

Notice in Formula 1.4 that the list price and the net price are not involved in the calculation of the single equivalent discount. When working with percentages, whether you have a net price of $6.30 and a list price of $10, or a net price of $63 and a list price of $100, the equivalent percentage always remains constant at 37%.

A common mistake when working with multiple discounts is to add the discounts together to calculate the single equivalent discount. This mistaken single discount is then substituted into Formula 1.1 to arrive at the wrong net price. Remember that if two discounts of 30% and 10% apply, you cannot sum these discounts. The second discount of 10% is applied on a smaller price tag, not the original price tag. To calculate the net price you must apply Formula 1.3.

If you happen to know any two of the net price (N), list price (L), or the total discount amount ($D\$$), then you could also use Formula 1.2 to solve for the single equivalent discount, d_{equiv}.

For example, if you know the net price is $63 and the total discount amount for all discounts is $37, you could use Formula 1.2b to figure out that the list price is $100, then convert the discount amount into a percentage using Formula 1.2a. This method will also produce a single equivalent discount of 37%.

Another method of calculating the single equivalent discount is to recognize Formula 1.2a as an application of Formula 3.1 involving percent change. The variable d is a discount rate, which you interpret as a negative percent change. The discount amount, D, is the difference between the list price (representing the Old price) and the net price (representing the New price after the discount). Therefore, Formula 1.2a can be rewritten as follows:

$$D\$ = L \times d$$

becomes

$$\text{New} \ - \ \text{Old} \ = \ \text{Old} \times \Delta\%$$

or

$$\frac{\text{New} - \text{Old}}{\text{Old}} = \Delta\%$$

Therefore, any question about a single equivalent discount where net price and list price are known can be solved as a percent change. Using our ongoing net price example, you have:

$$\frac{\$63 - \$100}{\$100} = -0.37$$
$$\text{or}$$
$$-37\%$$

This is a discount of 37%.

Give It Some Thought:

3. If you are offered discounts in the amount of 25%, 15%, 10%, and 5%, will your total discount percent be 55%, less than 55%, or more than 55%?

Example 1.1D – Retailer Purchasing Ski-Doos with Multiple Discounts

A retail dealership purchases some Expedition TUV Yeti II Ski-Doos to stock in its stores. Examining the merchandising terms of the manufacturer, Bombardier, the dealership notices that it would be eligible to receive a 35% trade discount, 15% volume discount, and 3% loyalty discount. Because it is June and Ski-Doos are out of season, Bombardier offers a seasonal discount of 12% for purchases made before June 30. If the **MSRP** for the Ski-Doo is $12,399.00 and the dealership purchases this item on June 15, what price would it pay?

Plan:
You are looking for the net price that the retail dealership will pay for the Ski-Doo, or N.

Understand:
Step 1: The retail dealership is eligible for all four discounts (it qualifies for the seasonal discount since it is purchasing before June 30). Therefore,

$$L = \$12,399.00$$
$$d_1 = 0.35$$
$$d_2 = 0.15$$
$$d_3 = 0.03$$
$$d_4 = 0.12$$

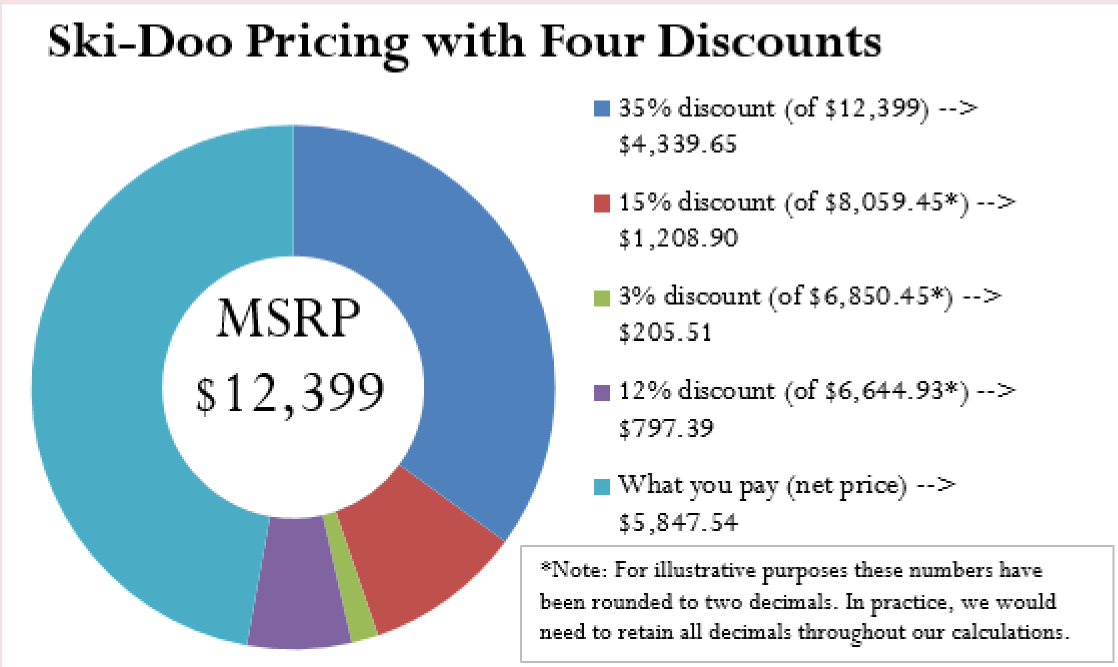
Step 2: You know the list price, so skip this step.

Step 3: Apply Formula 1.3.

Perform:
Step 3:

$$N = \$12,399 \times (1 - 0.35) \times (1 - 0.15) \times (1 - 0.03) \times (1 - 0.12)$$
$$N = \$12,399 \times 0.65 \times 0.85 \times 0.97 \times 0.88 = \$5,847.54$$

Present:
After all four discounts, the retail dealership could purchase the Ski-Doo for $5,847.54.



Example 1.1E – Reducing Multiple Discounts to a Single Equivalent Discount

The retail dealership in Example 1.1D purchases more products subject to the same discounts. It needs to simplify its calculations. Using the information from Example 1.1D, what single equivalent discount is equal to the four specified discounts?

Plan:

You are looking for a single equivalent discount that is equal to the four discount percentages, or d_{equiv} (or just d).

Understand:
You know the discount rates:

$$d_1 = 0.35$$

$d_2 = 0.15$
$d_3 = 0.03$
$d_4 = 0.12$

Apply Formula 1.4.

Perform:

$$d_{equiv} = 1 - (1 - 0.35) \times (1 - 0.15) \times (1 - 0.03) \times (1 - 0.12)$$
$$d_{equiv} = 1 - (0.65)(0.85)(0.97)(0.88)$$
$$d_{equiv} = 1 - 0.471614 = 0.528386$$
$$\text{or}$$
$$52.8386\%$$

Present:
The retail dealership can apply a 52.8386% discount to all the products it purchases.

Example 1.1F – Making a Smart Consumer Purchase

You are shopping on Boxing Day for an 80″ HDTV. You have just one credit card in your wallet, a cashback Visa card, which allows for a 1% cash rebate on all purchases. While scanning flyers for the best deal, you notice that Visions is selling the TV for $5,599.99 including taxes, while Best Buy is selling it for $5,571.99 including taxes. However, because of a computer glitch Best Buy is unable to accept Visa today. Where should you buy your television?

Plan:
You want to know which store you should buy the television at. You must calculate the **net price** (N) for each of the stores.

Understand:
Step 1: You know the list price for each of the stores. You also know the discount available from Visa. Thus,

$L_{BestBuy} = \$5,571.99$ with no discounts since Visa cannot be used there
$L_{Visions} = \$5,599.99$, $d = 0.01$, since you can use your Visa card there

Step 2: List price is known, so skip this step.

Step 3: Apply Formula 1.1.

Perform:
Step 3:
Best Buy: No discounts apply, so the list price equals the net price.

$$N = \$5,571.99$$

Visions:

$$N = \$5,599.99 \times (1 - 0.01) = \$5,599.99 \times 0.99 = \$5,543.99$$

Present:
The net price for Visions is $5,543.99. You save $5,571.99 – $5,543.99 = $28.00 by purchasing your TV at Visions.

Example 1.1G – Understanding the Price

An advertisement claims that at 60% off, you are saving $18. However, today there is an additional 20% off. What price should you pay for this item? What percent savings does this represent?

Plan:
You are looking for how much you should pay after the discounts (N), and the single equivalent percentage that represents the two discounts (d_{equiv} or just d).

Understand:
Step 1: You know the discount amount for the first discount only, as well as the two discount rates:

$$D\$_1 = \$18$$
$$d_1 = 0.60$$
$$d_2 = 0.20$$

Step 2: Calculate the list price by applying Formula 1.2a and rearranging for L.

Step 3: To calculate the net price, apply Formula 1.3.

Step 4: To calculate the single equivalent discount, apply Formula 1.4.

Perform:
Step 2:

$$\$18.00 = L \times 0.60$$
$$L = \$18.00 \div 0.6 = \$30.00$$

Step 3:

$$N = \$30 \times (1 - 0.60) \times (1 - 0.20) = \$30 \times (0.40) \times (0.80) = \$9.60$$

Step 4:

$$d_{equiv} = 1 - (1 - 0.60) \times (1 - 0.20) = 1 - (0.40)(0.80) = 1 - 0.32 = 0.68$$

or

$$68\%$$

Present:
You should pay $9.60 for the item, which represents a 68% savings.

Give It Some Thought Answers

1. a. Exactly $10. The net price is the price after the discount.
   b. Less than $10. The discount needs to be removed from the list price.
2. More than half. A 40% discount means that you will pay 60% of the list price.

Discount Exercises

Round all money to two decimals and percentages to four decimals in each of the following questions.

Mechanics

For questions 1–4, solve for the unknown variables (identified with a ?) based on the information provided. “N/A” indicates that the particular variable is not applicable in the question.

	List Price or MRSP	First Discount	Second Discount	Third Discount	Net Price	Equivalent Single Discount Rate	Total Discount Amount
1.	$980.00	42%	N/A	N/A	?	N/A	?
2.	?	25%	N/A	N/A	$600.00	N/A	?
3.	$1,975.00	25%	15%	10%	?	?	?
4.	?	18%	4%	7%	$366.05	?	?

Applications

5. A wholesaler of stereos normally qualifies for a 35% trade discount on all electronic products purchased from its manufacturer. If the MSRP of a stereo is $399.95, what net price will the wholesaler pay?

6. Mary is shopping at the mall where she sees a sign that reads, “Everything in the store is 30% off, including sale items!” She wanders in and finds a blouse on the clearance rack. A sign on the clearance rack states, “All clearance items are 50% off.” If the blouse is normally priced at $69.49, what price should Mary pay for it?

7. A distributor sells some shoes directly to a retailer. The retailer pays $16.31 for a pair of shoes that has a list price of $23.98. What trade discount percent is the distributor offering to its retailers?

8. A retailer purchases supplies for its head office. If the retailer pays $16.99 for a box of paper and was eligible for a 15% volume discount, what was the original MSRP for the box of paper?

9. Mountain Equipment Co-op has purchased a college backpack for $29 after discounts of 30%, 8%, and 13%. What is the MSRP for the backpack? What single discount is equivalent to the three discounts?

Check Your Work

Answers can be found in the section titled: Answers for Exercise Questions [11.8]

Attribution

11.10 Markup

Markup

As you wait in line to purchase your Iced Caramel Macchiato at Starbucks, you look at the pricing menu and think that $4.99 seems like an awful lot of money for a frozen coffee beverage. Clearly, the coffee itself doesn't cost anywhere near that much. But then gazing around the café, you notice the carefully applied colour scheme, the comfortable seating, the high-end machinery behind the counter, and a seemingly well-trained barista who answers customer questions knowledgeably. Where did the money to pay for all of this come from? You smile as you realize your $4.99 pays not just for the macchiato, but for everything else that comes with it.

The process of taking a product's cost and increasing it by some amount to arrive at a selling price is called markup. This process is critical to business success because every business must ensure that it does not lose money when it makes a sale. From the consumer perspective, the concept of markup helps you make sense of the prices that businesses charge for their products or services. This in turn helps you to judge how reasonable some prices are (and hopefully to find better deals).

The Components in a Selling Price

Before you learn to calculate markup, you first have to understand the various components of a selling price. Then, in the next section, markup and its various methods of calculation will become much clearer.

When your business acquires merchandise for resale, this is a monetary outlay representing a cost. When you then resell the product, the price you charge must recover more than just the product cost. You must also recover all the selling and operating expenses associated with the product. Ultimately, you also need to make some money, or profit, as a result of the whole process.

Most people think that marking up a product must be a fairly complex process. It is not. Formula 1.5 illustrates the relationship between the three components of cost, expenses, and profits in calculating the selling price.

Formula 1.5 – The Selling Price of a Product

$$S = C + E + P$$

S is **Selling Price:** Once you calculate what the business paid for the product (cost), the bills it needs to cover (expenses), and how much money it needs to earn (profit), you arrive at a selling price by summing the three components.

C is **Cost:** The cost is the amount of money that the business must pay to purchase or manufacture the product. If manufactured, the cost represents all costs incurred to make the product. If purchased, this number results from applying an appropriate discount formula. There is a list price from which the business will deduct discounts to arrive at the net price. The net price paid for the product equals the cost of the product. If a business purchases or manufactures a product for $10 then it must sell the product for at least $10. Otherwise, it fails to recover what was paid to acquire or make the product in the first place—a path to sheer disaster!

E is **Expenses:** Expenses are the financial outlays involved in selling the product. Beyond just purchasing the product, the business has many more bills to pay, including wages, taxes, leases, equipment, electronics, insurance, utilities, fixtures, décor, and many more. These expenses must be recovered and may be calculated as:

- A fixed dollar amount per unit.
- A percentage of the product cost. For example, if a business forecasts total merchandise costs of $100,000 for the coming year and total business expenses of $50,000, then it may set a general guideline of adding 50% ($50,000 ÷ $100,000) to the cost of a product to cover expenses.
- A percentage of the product selling price based on a forecast of future sales. For example, if a business forecasts total sales of $250,000 and total business expenses of $50,000, then it may set a general guideline of adding 20% ($50,000 ÷ $250,000) of the selling price to the cost of a product to cover expenses.

P is **Profit:** Profit is the amount of money that remains after a business pays all of its costs and expenses. A business needs to add an amount above its costs and expenses to allow it to grow. If it adds too much profit, though, the product's price will be too high, in which case the customer may refuse to purchase it. If it adds too little profit, the product's price may be too low, in which case the customer may perceive the product as shoddy and once again refuse to purchase it. Many businesses set general guidelines on how much profit to add to various products. As with expenses, this profit may be expressed as:

- A fixed dollar amount per unit.
- A percentage of the product cost.
- A percentage of the selling price.

How It Works

Follow these steps to solve pricing scenarios involving the three components:

Step 1: Four variables are involved in Formula 1.5. Identify the known variables. Note that you may have to calculate the product's cost by applying the single or multiple discount formulas (Formulas 1.1 and 1.3, respectively). Pay careful attention to expenses and profits to capture how you calculate these amounts.

Step 2: Apply Formula 1.5 and solve for the unknown variable.

Assume a business pays a net price of $75 to acquire a product. Through analyzing its finances, the business estimates expenses at $25 per unit, and it figures it can add $50 in profit. Calculate the selling price.

Step 1: The net price paid for the product is the product cost. The known variables are:

$C = \$75$
$E = \$25$
$P = \$50$

Step 2: According to Formula 1.5, the unit selling price is:

$$S = C + E + P = \$75 + \$25 + \$50 = \$150$$

In applying Formula 1.5 you must adhere to the basic rule of linear equations requiring all terms to be in the same unit. That is, you could use Formula 1.5 to solve for the selling price of an individual product, where the three components are the unit cost, unit expenses, and unit profit. When you add these, you calculate the unit selling price. Alternatively, you could use Formula 1.5 in an aggregate form where the three components are total cost, total expenses, and total profit. In this case, the selling price is a total selling price, which is more commonly known as total revenue. But you cannot mix individual components with aggregate components.

The most common mistake in working with pricing components occurs in the "Understand" portion of the PUPP model. It is critical to identify and label information correctly. You have to pay attention to details such as whether you are expressing the expenses in dollar format or as a percentage of either cost or selling price. Systematically work your way through the information provided piece by piece to ensure that you do not miss an important detail.

Give It Some Thought:

1. What three components make up a selling price? In what units are these components commonly expressed?
2. In what three ways are expenses and profits expressed?
3. What is the relationship between net price and cost?

Example 1.2A – Setting a Price on Fashion in Dollars

Mary's Boutique purchases a dress for resale at a cost of $23.67. The owner determines that each dress must contribute $5.42 to the expenses of the store. The owner also wants this dress to earn $6.90 toward profit. What is the regular selling price for the dress?

Plan:
You are looking for the regular selling price for the dress, or S.

Understand:
Step 1: The unit cost of the dress and the unit expense and the unit profit are all known:

$C = \$23.67$
$E = \$5.42$
$P = \$6.90$

Step 2: Apply Formula 1.5.

Perform:
Step 2:

$$S = \$23.67 + \$5.42 + \$6.90 = \$35.99$$

Present:
Mary's Boutique will set the regular price of the dress at $35.99.

Example 1.2B – Setting the Price Using Percentage of Cost

John's Discount Store just completed a financial analysis. The company determined that expenses average 20% of the product cost and profit averages 15% of the product cost. John's Discount Store purchases Chia Pets from its supplier for an MSRP of $19.99 less a trade discount of 45%. What will be the regular selling price for the Chia Pets?

Plan:
You are looking for the regular selling price for the Chia pets, or S.

Understand:
Step 1: The list price, discount rate, expenses, and profit are known:

$L = \$19.99$
d = 0.45
E = 20% of cost, or 0.20C
P = 15% of cost, or 0.15C

Although the cost of the Chia Pets is not directly known, you do know the **MSRP** (list price) and the trade discount. The cost is equal to the net price. Apply Formula 1.1.

Step 2: To calculate the selling price, apply Formula 1.5.

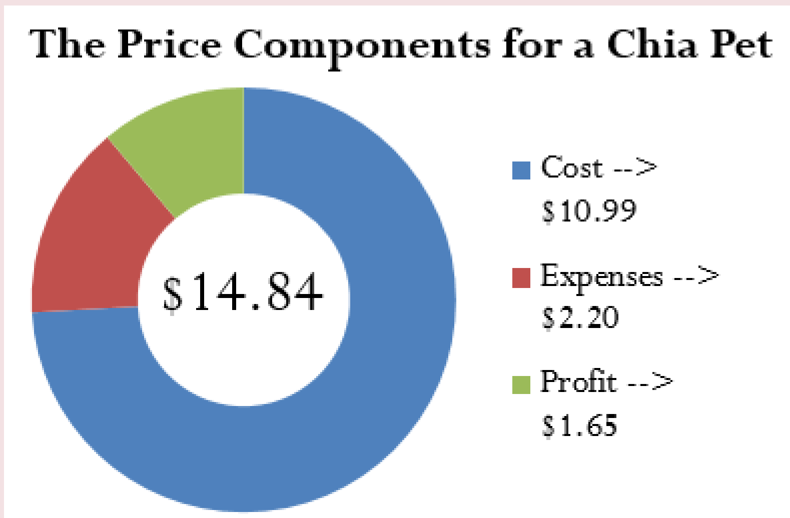
Perform:
Step 1:

$$N = \$19.99 \times (1 - 0.45) = \$19.99 \times 0.55 = \$10.99 = C$$

Step 2:

$$S = \$10.99 + 0.20C + 0.15C$$
$$S = \$10.99 + 0.20(10.99) + 0.15(\$10.99)$$
$$S = \$10.99 + \$2.20 + \$1.65 = \$14.84$$

Present:
John's Discount Store will sell the Chia Pet for $14.84.



Example 1.2C – Setting the Price Using Percentage of Selling Price

Based on last year's results, Benthal Appliance learned that its expenses average 30% of the regular selling price. It wants a 25% profit based on the selling price. If Benthal Appliance purchases a fridge for $1,200, what is the regular unit selling price?

Plan:
You are looking for the regular unit selling price for the fridge, or S.

Understand:
Step 1: The cost, expenses, and profit for the fridge are known:

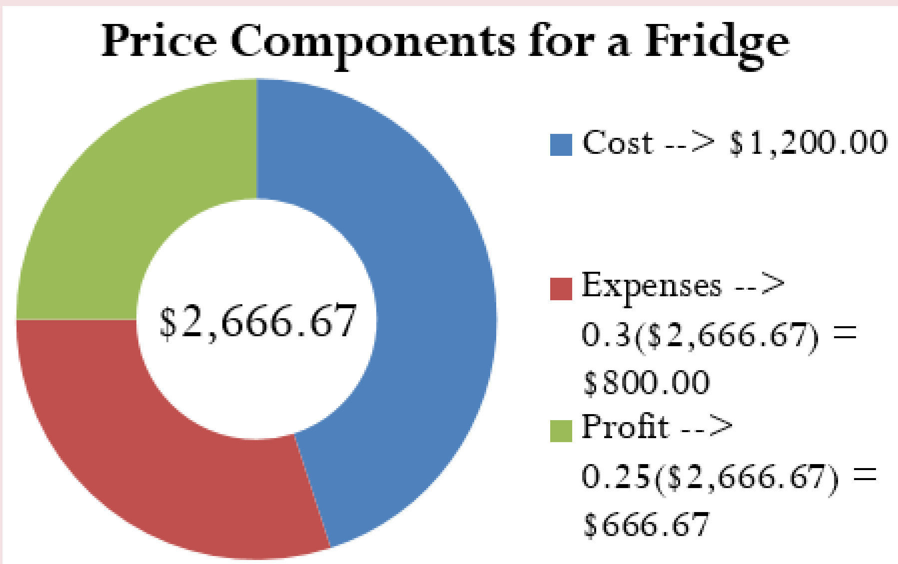
E = 30% of S, or $0.3S$
P = 25% of S, or $0.25S$
C = $1,200.00

Step 2: Apply Formula 1.5.

Perform:
Step 2:

$$S = \$1,200.00 + 0.3S + 0.25S$$
$$S = \$1,200 + 0.55S$$
$$S - 0.55S = \$1,200.00$$
$$0.45S = \$1,200.00$$
$$S = \$2,666.67$$

Present
Benthal Appliance should set the regular selling price of the fridge at $2,666.67.



Example 1.2D – Using Selling Price to Figure Out the Cost

If a company knows that its profits are 15% of the selling price and expenses are 30% of cost, what is the cost of an MP3 player that has a regular selling price of $39.99?

Plan:
You are looking for the cost of the MP3 player, or C.

Understand:
Step 1: The expenses, profits, and the regular unit selling price are as follows:

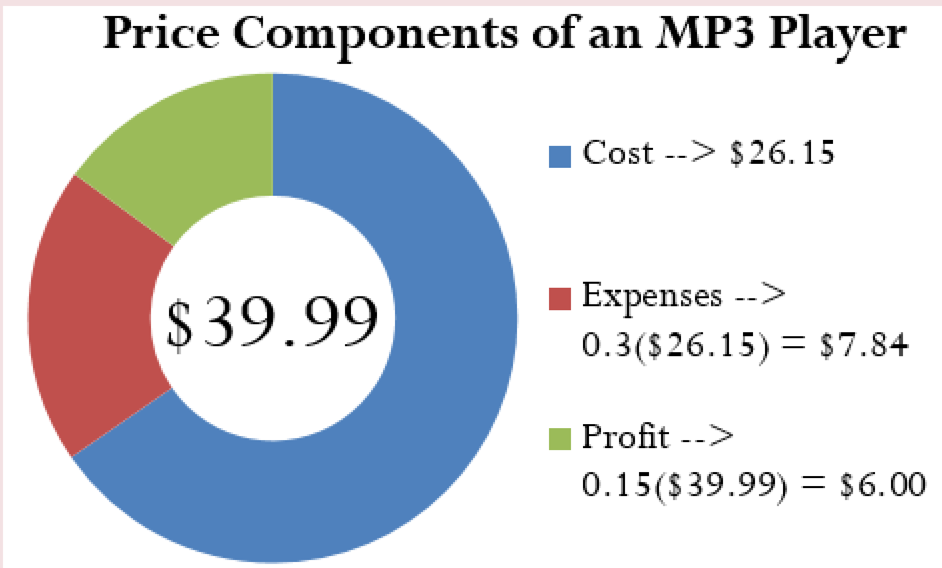
S = $39.99
P = 15% of S, or $0.15S$
E = 30% of cost, or $0.3C$

Step 2: Apply Formula 1.5, rearranging for C.

Perform:
Step 2:

$$\$39.99 = C + 0.3C + 0.15(\$39.99)$$
$$\$39.99 = 1.3C + \$6.00$$
$$\$33.99 = 1.3C$$
$$\$26.15 = C$$

Present:
The cost of the MP3 Player is $26.15.



Example 1.2E – Determining Profitability

Peak of the Market considers setting the regular unit selling price of its strawberries at $3.99 per kilogram. If it purchases these strawberries from the farmer for $2.99 per kilogram and expenses average 40% of product cost, does Peak of the Market make any money?

Plan:
In asking whether Peak of the Market makes money, you are looking for the profit, or P.

Understand:
Step 1: The cost, expenses, and proposed regular unit selling price for the strawberries are as follows:

S = \$3.99
C = \$2.99
E = 40% of cost, or $0.4C$

Step 2: Apply Formula 1.5, rearranging for P.

Perform:
Step 2:

$$\$3.99 = \$2.99 + 0.4(\$2.99) + P$$
$$\$3.99 = \$4.19 + P$$
$$-\$0.20 = P$$

Present:
The negative sign on the profit means that Peak of the Market would take a loss of \$0.20 per kilogram if it sells the strawberries at \$3.99. Unless Peak of the Market has a marketing reason or sound business strategy for doing this, the company should reconsider its pricing.

Calculating the Markup Dollars

Most companies sell more than one product, each of which has different price components with varying costs, expenses, and profits. Can you imagine trying to compare 50 different products, each with three different components? You would have to juggle 150 numbers! To make merchandising decisions more manageable and comparable, many companies combine expenses and profit together into a single quantity, either as a dollar amount or a percentage. This section focuses on the markup as a dollar amount.

One of the most basic ways a business simplifies its merchandising is by combining the dollar amounts of its expenses and profits together as expressed in Formula 1.6.

Formula 1.6 – Markup Amount

$$M\$ = E + P$$

$M\$$ is **Markup Amount:** Markup is taking the cost of a product and converting it into a selling price. The **markup amount** represents the dollar amount difference between the cost and the selling price.

E is **Expenses:** The expenses associated with the product.

P is **Profit:** The profit earned when the product sells.

Note that since the markup amount ($M\$$) represents the expenses (E) and profit (P) combined, you can substitute the variable for markup amount into Formula 1.5 to create Formula 1.7, which calculates the regular selling price.

Formula 1.7 – Selling Price Using Markup

$S = C + M\$$

S is **Selling Price:** The regular **selling price** of the product.

C is **Cost:** The amount of money needed to acquire or manufacture the product. If the product is being acquired, the cost is the same amount as the net price paid.

$M\$$ is **Markup Amount:** From Formula 1.6, this is the single number that represents the total of the expenses and profit.

How It Works

Follow these steps when you work with calculations involving the markup amount:

Step 1: You require three variables in either Formula 1.6 or Formula 1.7. At least two of the variables must be known. If the amounts are not directly provided, you may need to calculate these amounts by applying other discount or markup formulas.

Step 2: Solve either Formula 1.6 or Formula 1.7 for the unknown variable.

Recall from Example 1.2D that the MP3 player's expenses are \$7.84, the profit is \$6.00, and the cost is \$26.15. Calculate the markup amount and the selling price.

Step 1: The known variables are

E = \$7.84
P = \$6.00
C = \$26.15.

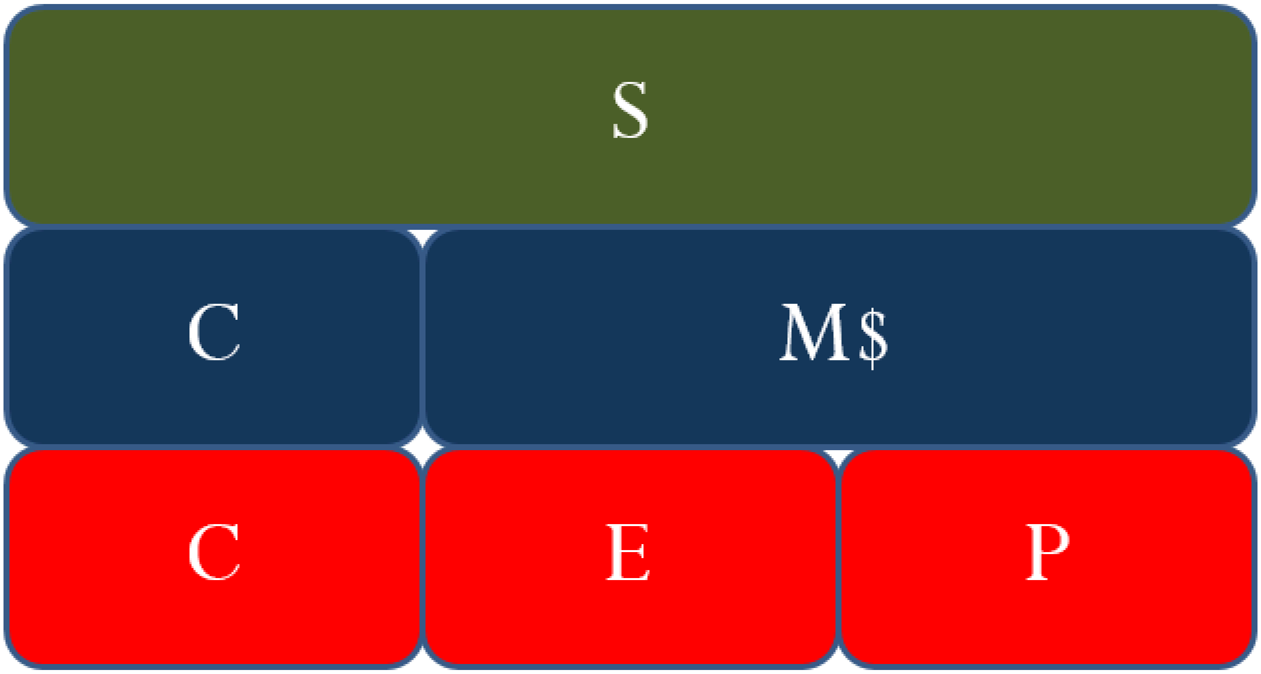
Step 2: According to Formula 1.6, the markup amount is the sum of the expenses and profit, or

$M\$ = \$7.84 + \$6.00 = \$13.84$.

Applying Formula 1.7, add the markup amount to the cost to arrive at the regular selling price, resulting in

$S = \$26.15 + \$13.84 = \$39.99$

You might have already noticed that many of the formulas in this chapter are interrelated. The same variables appear numerous times but in different ways. To help visualize the relationship between the various formulas and variables, many students have found it helpful to create a markup chart, as shown below.



This chart demonstrates the relationships between Formulas 1.5, 1.6, and 1.7. It is evident that the selling price (the green line) consists of cost, expenses, and profit (the red line representing Formula 1.5); or it can consist of cost and the markup amount (the blue line representing Formula 1.7). The markup amount on the blue line consists of the expenses and profit on the red line (Formula 1.6).

Example 1.2F – Markup as a Dollar Amount

A cellular retail store purchases an iPhone with an MSRP of $779 less a trade discount of 35% and volume discount of 8%. The store sells the phone at the MSRP.
a. What is the markup amount?
b. If the store knows that its expenses are 20% of the cost, what is the store's profit?

Plan:
First of all, you need to calculate the markup amount ($M\$$). You also want to find the store's profit (P).

Understand:
Step 1: The smartphone MSRP and the two discounts are known, along with the expenses and selling price:

L = $270
d_1 = 0.35
d_2 = 0.08
E = 20% of cost, or $0.2C$
S = $779

Calculate the cost of the iPhone by applying Formula 1.3.

Step 2: Calculate the markup amount using Formula 1.7.

Calculate the profit by applying Formula 1.6, rearranging for P.

Perform:
Step 1:

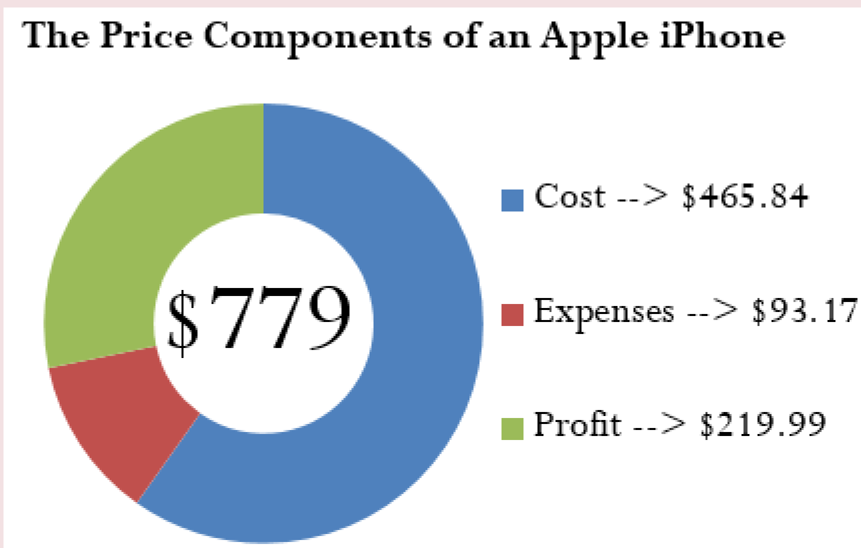
$$N = \$779.00 \times (1 - 0.35) \times (1 - 0.08)$$
$$N = \$779.00 \times 0.65 \times 0.92 = \$465.84 = C$$

Step 2:

$$\$779.00 = \$465.84 + M\$$$
$$\$313.16 = M\$$$

$$\$313.16 = 0.2(\$465.84) + P$$
$$\$313.16 = \$93.17 + P$$
$$\$219.99 = P$$

Present:
The markup amount for the iPhone is $313.16. When the store sells the phone for $779.00, its profit is $219.99.



Calculating the Markup Percent

It is important to understand markup in terms of the actual dollar amount; however, it is more common in business practice to calculate the markup as a percentage. There are three benefits to converting the markup dollar amount into a percentage:

1. Easy comparison of different products having vastly different price levels and costs, to help you see how each product contributes toward the financial success of the company. For example, if a chocolate bar has a 50¢ markup included in a selling price of $1, while a car has a $1,000 markup included in a selling price of $20,000, it is difficult to compare the profitability of these items. If these numbers were expressed as a percentage of the selling

price such that the chocolate bar has a 50% markup and the car has a 5% markup, it is clear that more of every dollar sold for chocolate bars goes toward list profitability.

2. Simplified translation of costs into a regular selling price—a task that must be done for each product, making it helpful to have an easy formula, especially when a company carries hundreds, thousands, or even tens of thousands of products. For example, if all products are to be marked up by 50% of cost, an item with a \$100 cost can be quickly converted into a selling price of \$150.
3. An increased understanding of the relationship between costs, selling prices, and the list profitability for any given product. For example, if an item selling for \$25 includes a markup on selling price of 40% (which is \$10), then you can determine that the cost is 60% of the selling price (\$15) and that \$10 of every \$25 item sold goes toward list profits.

You can translate the markup dollars into a percentage using two methods, which express the amount either as a percentage of cost or as a percentage of selling price:

- ***Method 1: Markup as a Percentage of Cost.***
  This method expresses the markup rate using cost as the base. Many companies use this technique internally because most accounting is based on cost information. The result, known as the **markup on cost percentage**, allows a reseller to convert easily from a product's cost to its regular unit selling price.
- ***Method 2: Markup as a Percentage of Selling Price.***
  This method expresses the markup rate using the regular selling price as the base. Many other companies use this method, known as the **markup on selling price percentage**, since it allows for quick understanding of the portion of the selling price that remains after the cost of the product has been recovered. This percentage represents the list profits before the deduction of expenses and therefore is also referred to as the list profit margin.

The markup on cost percentage is expressed in Formula 1.8, while the markup on selling price percentage is expressed in Formula 1.9.

Formula 1.8 – Markup On Cost Percentage

$$MoC\% = \frac{M\$}{C} \times 100$$

$MoC\%$ is **Markup on Cost Percentage:** This is the percentage by which the cost of the product needs to be increased to arrive at the selling price for the product.

$M\$$ is **Markup Amount:** The total dollars of the expenses and the profits; this total is the difference between the cost and the selling price.

C is **Cost:** The amount of money needed to acquire or manufacture the product. If the product is being acquired, the cost is the same amount as the net price paid.

× 100 is **Percent Conversion**: The markup on cost is always a percentage.

Formula 1.9 – Markup On Selling Price Percentage

$$MoS\% = \frac{M\$}{S} \times 100$$

$MoS\%$ is **Markup on Selling Price Percentage:** This is the percentage of the selling price that remains available as list profits after the cost of the product is recovered.

M is **Markup Amount**: The total dollars of the expenses and the profits; this total is the difference between the cost and the selling price.

S is **Selling Price**: The regular selling price of the product.

× 100 is **Percent Conversion**: The markup on cost is always a percentage.

How It Works

Refer back to the steps in calculating markup. The steps you must follow for calculations involving markup percent are almost identical to those for working with markup dollars:

Step 1: Three variables are required in either Formula 1.8 or Formula 1.9. For either formula, at least two of the variables must be known. If the amounts are not directly provided, you may need to calculate these amounts by applying other discount or markup formulas.

Step 2: Solve either Formula 1.8 or Formula 1.9 for the unknown variable.

Continuing to work with Example 1.2D, recall that the cost of the MP3 player is $26.15, the markup amount is $13.84, and the selling price is $39.99. Calculate both markup percentages.

Step 1: The known variables are

C = $26.15
$M\$$ = $13.84
S = $39.99.

Step 2: To calculate the markup on cost percentage, apply Formula 1.8:

$$MoC\% = \frac{\$13.84}{\$26.15} \times 100 = 52.9254\%$$

In other words, you must add 52.9254% of the cost on top of the unit cost to arrive at the regular unit selling price of $39.99.

To calculate the markup on selling price percentage, apply Formula 1.9:

$$MoS\% = \frac{\$13.84}{\$39.99} \times 100 = 34.6087\%$$

In other words, 34.6087% of the selling price represents list profits after the business recovers the $26.15 cost of the MP3 player.

Businesses are very focused on profitability. Your Texas Instruments BAII Plus calculator is programmed with the markup on selling price percentage. The function is located on the second shelf above the number three. To use this function, open the window by pressing 2nd 3. You can scroll between lines using your ↑ and ↓ arrows. There are three variables:

- CST is the cost. Use the symbol C.
- SEL is the selling price. Use the symbol S.
- MAR is the markup on selling price percentage. Use the symbol $MoS\%$.

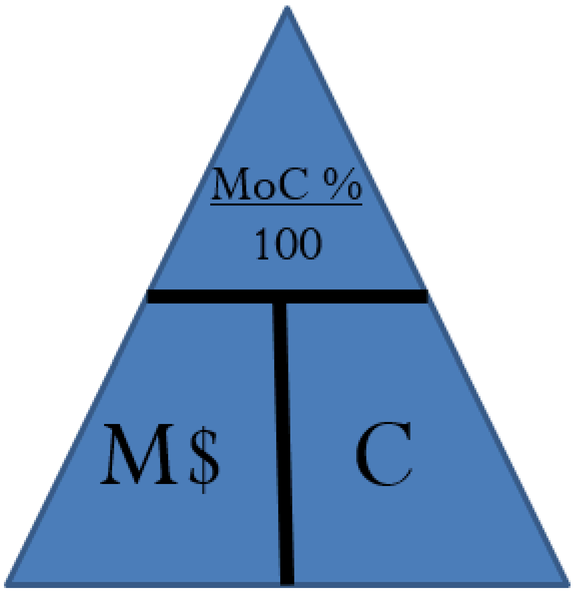
As long as you know any two of the variables, you can solve for the third. Enter any two of the three variables (you need to press ENTER after each), making sure the window shows the output you are seeking, and press CPT.

Merchandising involves many variables. Nine formulas have been established so far, and a few more are yet to be introduced. Though you may feel bogged down by all of these formulas, just remember that you have encountered most of these merchandising concepts since you were very young and that you interact with retailers and pricing every day. This chapter merely formalizes calculations you already perform on a daily basis, whether at work or at home. The calculation of discounts is no different than going to Walmart and finding your favourite CD on sale. You know that when a business sells a product, it has to recoup the cost of the product, pay its bills, and make some money. And you have worked with percentages since elementary school.

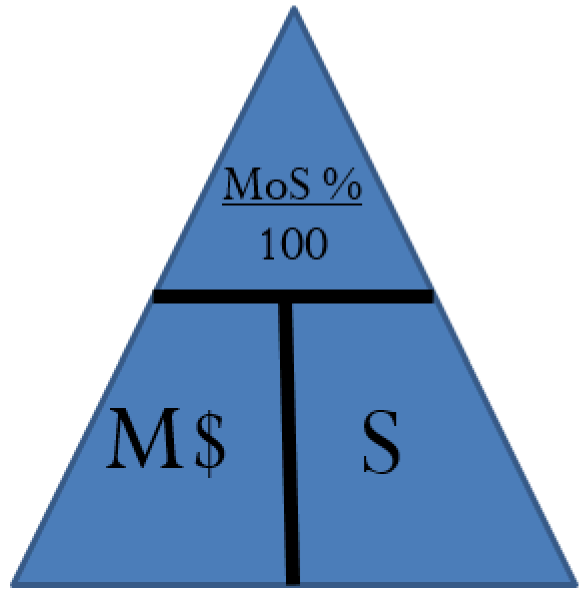
Do not get stuck in the formulas. Think about the concept presented in the question. Change the scenario of the question and put it in the context of something more familiar. Ultimately, if you really have difficulties then look at the variables provided and cross-reference them to the merchandising formulas. Your goal is to find formulas in which only one variable is unknown. These formulas are solvable. Then ask yourself, “How does knowing that new variable help solve any other formula?”

You do not need to get frustrated. Just be systematic and relate the question to what you already know.

The triangle method simplifies rearranging both Formulas 1.8 and 1.9 to solve for other unknown variables as illustrated in the figure below.



Formula 4.8: Markup on Cost



Formula 4.9: Markup on Selling Price

Sometimes you need to convert the markup on cost percentage to a markup on selling price percentage, or vice versa. Two shortcuts allow you to convert easily from one to the other:

$$MoC\% = \frac{MoS\%}{1-MoS\%}$$

$$MoS\% = \frac{MoC\%}{1+MoC\%}$$

Notice that these formulas are very similar. How do you remember whether to add or subtract in the denominator? In normal business situations, the $MoC\%$ is always larger than the $MoS\%$. Therefore, if you are converting one to the other you need to identify whether you want the percentage to become larger or smaller.

- To calculate $MoC\%$, you want a larger percentage. Therefore, make the denominator smaller by subtracting $MoS\%$ from 1.
- To calculate $MoS\%$, you want a smaller percentage. Therefore, make the denominator larger by adding $MoC\%$ to 1.

Give It Some Thought:

Answer the following true/false questions.

4. The markup on selling price percentage can be higher than 100%.
5. The markup dollar amount can be more than the selling price.
6. The markup on cost percentage can be higher than 100%.
7. The markup on cost percentage in most business situations is higher than the markup on selling price percentage.
8. If you know the markup on cost percentage and the cost, you can calculate a selling price.
9. If you know the markup on selling price percentage and the cost, you can calculate a selling price.

Example 1.2G – Markup as a Percentage

A large national retailer wants to price a Texas Instruments BAII Plus calculator at the MSRP of $39.99. The retailer can acquire the calculator for $17.23.
a. What is the markup on cost percentage?
b. What is the markup on selling price percentage?

Plan:
You have been asked to solve for the markup on cost percentage ($MoC\%$) and the markup on selling price percentage ($MoS\%$).

Understand:
Step 1: The regular unit selling price and the cost are provided:

S = $39.99
C = $17.23

You need the markup dollars. Apply Formula 1.7, rearranging for $M\$$.

Step 2: To calculate markup on cost percentage, apply Formula 1.8.

To calculate markup on selling price percentage, apply Formula 1.9.

Perform:
Calculator Instructions:

CST	SEL	MAR
17.23	39.99	Answer: 56.9142

Step 1:

$$\$39.99 = \$17.23 + M\$$$
$$\$22.76 = M\$$$

Step 2:

$$MoC\% = \frac{\$22.76}{\$17.23} \times 100 = 132.0952\%$$

$$MoS\% = \frac{\$22.76}{\$39.99} \times 100 = 56.9142\%$$

Present:
The markup on cost percentage is 132.0952%. The markup on selling price percentage is 56.9142%.

11.11 Maintained Markup

Maintained Markup

A price change results in a markup change. Whenever a selling price is reduced to a sale price, it has been demonstrated that the amount of the markup decreases (from $M\$$ to $M\$_{onsale}$) by the amount of the discount (D). This means that some of the products are sold at full markup and some at a partial markup. For businesses, the strategic marking up of a product must factor in the reality that they do not sell every product at the same level of markup. Therefore, if a business must achieve a specified level of markup on its products, it must set its price such that the average of all markups realized equals its markup objective. The average markup that is realized in selling a product at different price points is known as the **maintained markup.**

To understand the formula, assume a company has 100 units for sale. From past experience, it knows that 90% of the products sell for full price and 10% sell at a sale price because of discounts, damaged goods, and so on. At full price, the product has a markup of $10, and 90 units are sold at this level, equalling a total markup of $900. On sale, the product is discounted $5, resulting in a markup of $5 with 10 units sold, equalling a total markup of $50. The combined total markup is $950. Therefore, the maintained markup is $950 ÷ 100 = $9.50 per unit. If the company's goal is to achieve a $10 maintained markup, this pricing structure will not accomplish that goal. Formula 1.13 summarizes the calculations involved with maintained markup.

Formula 1.13 – Maintained Markup

$$MM = \frac{M\$(n_1)+(M\$-D\$)(n_2)}{n_1+n_2}$$

MM is **Maintained Markup:** The maintained markup is the average markup in dollars that is realized after factoring in the quantity of units sold and differing levels of markup. In its simplest form, this formula is an applied version of Formula 2.4 on weighted average discussed in Chapter 2.

$M\$$ is **Markup Amount**: The markup amount represents the amount of markup realized at the regular selling price for the product. If you do not know this amount directly, calculate it using any of the markup formula (Formulas 1.6 through 1.9).

n_1 is **Full Markup Output**: This variable represents the number of units sold at full markup (the regular selling price). It could be an actual or forecasted number of units sold. This variable acts as a weight: If you do not know actual unit information, then you can instead assign a forecasted weight or percentage.

n_2 is **Partial Markup Output**: This variable represents the number of units sold at the reduced markup (the sale price). If you do not know unit information, use a forecasted weight or percentage instead.

$D\$$ is **Markdown Amount:** The markdown amount represents the amount by which the regular selling price has been reduced to arrive at the sale price. If you do not know this amount directly, calculate it using any of the markdown formulas (Formulas 1.11a, 1.11b, or 1.12).

Formula 1.13 assumes that only one price reduction applies, implying that there is only one regular price and one sale price. In the event that a product has more than one sale price, you can expand the formula to include more terms in the numerator. To expand the formula for each additional sale price required:

1. Extend the numerator by adding another $(M\$D\$)(n_x)$, where the $D\$$ always represents the total difference between the selling price and the corresponding sale price and n_x is the quantity of units sold at that level of markup.
2. Extend the denominator by adding another n_x as needed.

For example, if you had the regular selling price and two different sale prices, Formula 1.13 appears as:

$$MM = \frac{M\$(n_1)+(M\$-D\$_1)(n_2)+(M\$-D\$_2)(n_3)}{n_1+n_2+n_3}$$

How It Works

Follow these steps to calculate the maintained markup:

Step 1: Identify information about the merchandising scenario. You must either know markup dollars at each pricing level or identify all merchandising information such as costs, expenses, profits, and markdown information. Additionally, you must know the number of units sold at each price level. If unit information is not available, you will identify a weighting based on percentages.

Step 2: If step 1 already identifies the markup dollars and discount dollars, skip this step. Otherwise, you must use any combination of merchandising formulas (Formulas 1.1 to 1.12) to calculate markup dollars and discount dollars.

Step 3: Calculate maintained markup by applying Formula 1.13.

Give It Some Thought:

1. A company's pricing objective is to maintain a markup of $5. It knows that some of the products sell at regular price and some of the products sell at a sale price. When setting the regular selling price, will the markup amount be more than, equal to, or less than $5?

Example 1.4B – What Level of Markup Is Maintained?

A grocery store purchases a 10 kg bag of flour for $3.99 and resells it for $8.99. Occasionally the bag of flour is on sale for $6.99. For every 1,000 units sold, 850 are estimated to sell at the regular price and 150 at the sale price. What is the maintained markup on the flour?

Plan:
You are looking to calculate the maintained markup (MM).

Understand:
Step 1: The cost, selling price, and sale price information along with the units sold at each price are known:

C = $3.99
S = $8.99
S_{onsale} = $6.99
n_1 = 850
n_2 = 150

Step 2: To calculate markup dollars, apply Formula 1.7, rearranging for M. To calculate markdown dollars, apply Formula 1.11b.

Step 3: Calculate maintained markup by applying Formula 1.13.

Perform:
Step 2:
Markup amount:

$$\$8.99 = \$3.99 + C$$
$$C = \$5.00$$

Markdown amount:

$$D\$ = \$8.99 - \$6.99 = \$2.00$$

Step 3:

$$MM = \frac{\$5(850)+(\$5-\$2)(150)}{850+150} = \$4.70$$

Present:
On average, the grocery store will maintain a $4.70 markup on the flour.

Example 1.4C – Setting Prices to Achieve the Maintained Markup

Maplewood Golf Club has set a pricing objective to maintain a markup of $41.50 on all 18-hole golf and cart rentals. The cost of providing the golf and rental is $10. Every day, golfers before 3 p.m. pay full price while "twilight" golfers after 3 p.m. receive a discounted price equalling $30 off. Typically, 25% of the club's golfers are "twilight" golfers. What regular price and sale price should the club set to meet its pricing objective?

Plan:
The golf club needs to calculate the regular selling price (S) and the sale price (S_{onsale}).

Understand:

Step 1: The cost information along with the maintained markup, markdown amount, and weighting of customers in each price category are known:

C = $10
MM = $41.50
$D\$$ = $30
$n_1 = 100\% - 25\% = 75\%$
$n_2 = 25\%$

Reverse steps 2 and 3 since you must solve Formula 1.13 first and use this information to calculate the selling price and sale price.

Step 3: Apply Formula 1.13, rearranging for $M\$$.

Step 2: Calculate the selling price by applying Formula 1.7.

Calculate the sale price by applying Formula 1.11b, rearranging for S_{onsale}.

Perform:
Step 3:

$$\$41.50 = \frac{M\$(0.75)+(M\$-30)(0.25)}{0.75+0.25}$$
$$\$41.50 = 0.75M\$ + 0.25M\$ - \$7.50$$
$$\$49 = M\$$$

Step 2:

$$S = \$10 + \$49 = \$59$$

$$\$30 = \$59 - S_{onsale}$$
$$S_{onsale} = \$29$$

Present:
In order to achieve its pricing objective, Maplewood Golf Club should set a regular price of $59 and a "twilight" sale price of $29.

11.12 Break-Even Pricing

Break-Even Pricing

In running a business, you must never forget the "bottom line." In other words, if you fully understand how your products are priced, you will know when you are making or losing money. Remember, if you keep losing money you will not stay in business for long! 15% of new businesses will not make it past their first year, and 49% fail in their first five years. This number becomes even more staggering with an 80% failure rate within the first decade.[1] Do not be one of these statistics! With your understanding of markup, you now know what it takes to break even in your business. **Break-even** means that you are earning no profit, but you are not losing money either. Your profit is zero.

If the regular unit selling price must cover three elements—cost, expenses, and profit—then the regular unit selling price must exactly cover your costs and expenses when the profit is zero. In other words, if Formula 1.5 is modified to calculate the selling price at the break-even point (S_{BE}) with P=0, then:

$$S_{BE} = C + E$$

This is not a new formula. It just summarizes that at break-even there is no profit or loss, so the profit (P) is eliminated from the formula.

How It Works

The steps you need to calculate the break-even point are no different from those you used to calculate the regular selling price. The only difference is that the profit is always set to zero.

Recall Example 1.2D that the cost of the MP3 player is $26.15 and expenses are $7.84.

The break-even price (S_{BE}) is

$$\$26.15 + \$7.84 = \$33.99$$

This means that if the MP3 player is sold for anything more than $33.99, it is profitable; if it is sold for less, then the business does not cover its costs and expenses and takes a loss on the sale.

1. Statistics Canada. (2000, February 16). *Failure Rates for New Firms. The Daily.* www.statcan.gc.ca/daily-quotidien/000216/dq000216b-eng.htm.

Example 1.2H – Knowing Your Break-Even Price

John is trying to run an eBay business. His strategy has been to shop at local garage sales and find items of interest at a great price. He then resells these items on eBay. On John's last garage sale shopping spree, he only found one item—a Nintendo Wii that was sold to him for $100. John's vehicle expenses (for gas, oil, wear/tear, and time) amounted to $40. eBay charges a $2.00 insertion fee, a flat fee of $2.19, and a commission of 3.5% based on the selling price less $25. What is John's minimum list price for his Nintendo Wii to ensure that he at least covers his expenses?

Plan:
You are trying to find John's break-even selling price (S_{BE}).

Understand:
Step 1: John's cost for the Nintendo Wii and all of his associated expenses are as follows:

C = $100.00
E (vehicle) = $40.00
E (insertion) = $2.00
E (flat) = $2.19
E (commission) = 3.5%(S_{BE} − $25.00)

You have four expenses to add together that make up the E in the formula.

Step 2: Formula 1.5 states $S = C + E + P$. Since you are looking for the break-even point, then P is set to zero and $S_{BE} = C + E$.

Perform:
Step 1:

$$E = \$40.00 + \$2.00 + \$2.19 + 3.5\%(S_{BE} - \$25.00)$$
$$E = \$44.19 + 0.035(S_{BE} - \$25.00) = \$44.19 + 0.035S_{BE} - \$0.875$$
$$E = \$43.315 + 0.035S_{BE}$$

Step 2:

$$S_{BE} = \$100 + \$43.315 + 0.035S_{BE}$$
$$S_{BE} = \$143.315 + 0.035S_{BE}$$
$$S_{BE} - 0.035S_{BE} = \$143.315$$
$$0.965S_{BE} = \$143.315$$
$$S_{BE} = \$148.51$$

Present:
At a price of $148.51 John would cover all of his costs and expenses but realize no profit or loss. Therefore, $148.51 is his minimum price.

Give It Some Thought Answers

1. Cost, expenses, and profit. They are expressed either per unit or as a total.
2. A specific dollar amount, a percentage of cost, or a percentage of the selling price.

3. The net price paid for a product is the same as the cost of the product.
4. False. The markup amount is a portion of the selling price and therefore is less than 100%.
5. False. The markup amount plus the cost equals the selling price. It must be less than the selling price.
6. True. A cost can be doubled or tripled (or increased even more) to reach the price.
7. True. The base for markup on cost percentage is smaller, which produces a larger percentage.
8. True. You could combine Formulas 1.7 and 1.8 to arrive at the selling price.
9. True. You could convert the $MoS\%$ to a $MoC\%$ and solve as in the previous question.

Exercises

Round all money to two decimals and percentages to four decimals for each of the following exercises.

Mechanics

For questions 1–8, solve for the unknown variables (identified with a ?) based on the information provided.

	Regular Unit Selling Price	Cost	Expenses	Profit	Markup Amount	Break-Even Price	Markup on Cost	Markup on Selling Price
1.	?	\$188.42	\$48.53	\$85.00	?	?	?	?
2.	\$999.99	?	30% of C	23% of C	?	?	?	?
3.	?	?	?	10% of S	\$183.28	?	155%	?
4.	\$274.99	?	20% of S	?	?	?	?	35%
5.	?	?	45% of C	?	\$540.00	\$1,080.00	?	?
6.	?	\$200 less 40%	?	15% of S	?	?	68%	?
7.	?	?	\$100.00	?	\$275.00	?	?	19%
8.	?	?	15% of C	12% of S	?	\$253.00	?	?

Applications

9. If a pair of sunglasses sells at a regular unit selling price of \$249.99 and the markup is always 55% of the regular unit selling price, what is the cost of the sunglasses?

10. A transit company wants to establish an easy way to calculate its transit fares. It has determined that the cost of a transit ride is $1.00, with expenses of 50% of cost. It requires $0.75 profit per ride. What is its markup on cost percentage?

11. Daisy is trying to figure out how much negotiating room she has in purchasing a new car. The car has an MSRP of $34,995.99. She has learned from an industry insider that most car dealerships have a 20% markup on selling price. What does she estimate the dealership paid for the car?

12. The markup amount on an eMachines desktop computer is $131.64. If the machine regularly retails for $497.25 and expenses average 15% of the selling price, what profit will be earned?

13. Manitoba Telecom Services (MTS) purchases an iPhone for $749.99 less discounts of 25% and 15%. MTS's expenses are known to average 30% of the regular unit selling price.
a. What is the regular unit selling price if a profit of $35 per iPhone is required?
b. What are the expenses?
c. What is the markup on cost percentage?
d. What is the break-even selling price?

14. A snowboard has a cost of $79.10, expenses of $22.85, and profit of $18.00.
a. What is the regular unit selling price?
b. What is the markup amount?
c. What is the markup on cost percentage?
d. What is the markup on selling price percentage?
e. What is the break-even selling price? What is the markup on cost percentage at this break-even price?

Challenge, Critical Thinking, & Other Applications

15. A waterpark wants to understand its pricing better. If the regular price of admission is $49.95, expenses are 20% of cost, and the profit is 30% of the regular unit selling price, what is the markup amount?

16. Sally works for a skateboard shop. The company just purchased a skateboard for $89.00 less discounts of 22%, 15%, and 5%. The company has standard expenses of 37% of cost and desires a profit of 25% of the regular unit selling price. What regular unit selling price should Sally set for the skateboard?

17. If an item has a 75% markup on cost, what is its markup on selling price percentage?

18. A product received discounts of 33%, 25%, and 5%. A markup on cost of 50% was then applied to arrive at the regular unit selling price of $349.50. What was the original list price for the product?

19. Mountain Equipment Co-op (MEC) wants to price a new backpack. The backpack can be purchased for a list price of $59.95 less a trade discount of 25% and a quantity discount of 10%. MEC estimates expenses to be 18% of cost and it must maintain a markup on selling price of 35%.
a. What is the cost of backpack?
b. What is the markup amount?
c. What is the regular unit selling price for the backpack?
d. What profit will Mountain Equipment Co-op realize?
e. What happens to the profits if it sells the backpack at the MSRP instead?

20. Costco can purchase a bag of Starbucks coffee for $20.00 less discounts of 20%, 15%, and 7%. It then adds a 40% markup on cost. Expenses are known to be 25% of the regular unit selling price.
a. What is the cost of the coffee?
b. What is the regular unit selling price?
c. How much profit will Costco make on a bag of Starbucks coffee?

d. What markup on selling price percentage does this represent?
e. Repeat questions (a) through (d) if the list price changes to $24.00.

11.13 Markdown

Markdown

Flashy signs in a retail store announce, "40% off, today only!" Excitedly you purchase three tax-free products with regular price tags reading $100, $250, and $150. The cashier processing the transaction informs you that your total is $325. You are about to hand over your credit card when something about the total makes you pause. The regular total of all your items is $500. If they are 40% off, you should receive a $200 deduction and pay only $300. The cashier apologizes for the mistake and corrects your total.

Although most retail stores use automated checkout systems, these systems are ultimately programmed by human beings. A computer system is only as accurate as the person keying in the data. A study by the Competition Bureau revealed that 6.3% of items at various retail stores scanned incorrectly. The average error spread is up to 13% around the actual product's price![1] Clearly, it is important for you as a consumer to be able to calculate markdowns.

Businesses must also thoroughly understand markdowns so that customers are charged accurately for their purchases. Businesses must always comply with the Competition Act of Canada, which specifically defines legal pricing practices. If your business violates this law, it faces severe penalties.

The Importance of Markdowns

A **markdown** is a reduction from the regular selling price of a product resulting in a lower price. This lower price is called the **sale price** to distinguish it from the selling price.

Many people perceive markdowns as a sign of bad business management decisions. However, in most situations this is not true. Companies must always attempt to forecast the future. In order to stock products, a reseller must estimate the number of units that might sell in the near future for every product that it carries. This is both an art and a science. While businesses use statistical techniques that predict future sales with a relative degree of accuracy, consumers are fickle and regularly change shopping habits. Markdowns most commonly occur under four circumstances:

1. ***Clearing Out Excess or Unwanted Inventory***. In these situations, the business thought it could sell 100 units; however, consumers purchased only 20 units. In the case of seasonal inventory, such as Christmas items on Boxing Day, the retailer wishes to avoid packing up and storing the inventory until the next season.
2. ***Clearing Out Damaged or Discontinued Items***. Selling a damaged product at a discount is better than not selling it at all. When products are discontinued, this leaves shelf space underused, so it is better to clear the item out altogether to make room for profitable items that can keep the shelves fully stocked.

1. competition Bureau, Fair Business Practices Branch, Price Scanning Report, Table B, page 5, 1999, www.competitionbureau.gc.ca/epic/site/cb-bc.nsf/en/01288e.html

3. ***Increasing Sales Volumes***. Sales attract customers because almost everyone loves a deal. Though special marketing events such as a 48 hour sale reduce the profitability per unit, by increasing the volume sold these sales can lead to a greater profit overall.
4. ***Promoting Add-On Purchases***. Having items on sale attracts customers to the store. Many times customers will not only purchase the item on sale but also, as long as they are on the premises, grab a few other items, which are regularly priced and very profitable. Like many others, you may have walked into Target to buy one item but left with five instead.

Markdowns are no different from offering a discount. Recall from Appendix A that one of the types of discounts is known as a sale discount. The only difference here lies in choice of language. Markdowns are common, so you will find it handy to adapt the discount formulas to the application of markdowns, replacing the symbols with ones that are meaningful in merchandising. Formula 1.1, introduced in Appendix A, calculates the net price for a product after it receives a single discount:

$$N = L \times (1 - d)$$

Formula 1.10 adapts this formula for use in markdown situations.

Formula 1.10 – The Sale Price Of A Product

$$S_{onsale} = S \times (1 - d)$$

S_{onsale} is **Sale Price:** The sale price is the price of the product after reduction by the markdown percent. Conceptually, the sale price is the same as the net price.

S is **Selling Price**: The regular selling price of the product before any discounts. The higher price is the list price. In merchandising questions, this dollar amount may or may not be a known variable. If the selling price is unknown, you must calculate it using an appropriate formula or combination of formulas from either Appendix A or Appendix B.

d is **Markdown Rate**: A markdown rate is the same as a sale discount rate. Therefore you use the same discount rate symbol from Appendix A to represent the percentage (in decimal format) by which you reduce the selling price. As in Formula 1.1, note that you are interested in calculating the sale price and not the amount saved. Thus, you take the markdown rate away from 1 to find out the rate owing.

In markdown situations, the selling price and the sale price are different variables. The sale price is always less than the selling price. In the event that a regular selling price has more than one markdown percent applied to it, you can extend Formula 1.10 in the same manner that Formula 1.3 calculated multiple discounts.

If you are interested in the markdown amount in dollars, recall that Formula 1.2 calculates the discount amount in dollars. Depending on what information is known, the formula has two variations:

Formula 1.2a: $D\$ = L \times d$
Formula 1.2b: $D\$ = L - N$

Formulas 1.11a and 1.11b adapt these formulas to markdown situations.

Formula 1.11a and 1.11b – Markdown Amount

Formula 1.11a

$$D\$ = S \times d$$

Formula 1.11b

$$D\$ = S - S_{onsale}$$

$D\$$ is **Markdown Amount**: You determine the markdown amount using either formula depending on what information is known. If you know the selling price and markdown percent, apply Formula 1.11a. If you know the selling price and sale price, apply Formula 1.11b.

S is **Selling Price**: The regular selling price before you apply any markdown percentages.

d is **Markdown Rate**: the percentage of the selling price to be deducted (in decimal format). In this case, because you are interested in figuring out how much the percentage is worth, you do not take it away from 1 as in Formula 1.10.

S_{onsale} is **Sale Price**: The price after you have deducted all markdown percentages from the regular selling price.

The final markdown formula reflects the tendency of businesses to express markdowns as percentages, facilitating easy comprehension and comparison. Recall Formula 1.9 from Appendix B, which calculated a markup on selling price percent:

$$MoS\% = \frac{M\$}{S} \times 100$$

Formula 1.12 adapts this formula to markdown situations.

Formula 1.12 – Markdown Percentage

$$d = \frac{D\$}{S} \times 100$$

d is **Markdown Percentage**: You always deduct a markdown amount from the regular selling price of the product. Therefore, you always express the markdown percent as a percentage of the selling price. Use the same symbol for a discount rate, since markdown rates are synonymous with sale discounts.

$D\$$ is **Markdown Amount**: The total dollar amount deducted from the regular selling price.

S is **Selling Price**: The regular selling price of the product before any discounts.

100 is **Percent Conversion**: The markdown is always expressed as a percentage.

How It Works

Follow these steps to calculate a markdown:

Step 1: Across all three markdown formulas, the four variables consist of the selling price (S), sale price (S_{onsale}), markdown dollars ($D\$$), and markdown rate (d). Identify which variables are known. Depending on the known information, you may have to calculate the selling price using a combination of discount and markup formulas.

Step 2: Apply one or more of Formulas 1.10, 1.11a, 1.11b, and 1.12 to calculate the unknown variable(s). In the event that multiple markdown rates apply, extend Formula 1.10 to accommodate as many markdown rates as required.

Recall from Appendix B the example of the MP3 player with a regular selling price of $39.99. Assume the retailer has excess inventory and places the MP3 player on sale for 10% off. What is the sale price and markdown amount?

Step 1: The selling price and markdown percent are S = $39.99 and d = 0.10, respectively.

Step 2: Apply Formula 1.10 to calculate the sale price, resulting in

$$S_{onsale} = \$39.99 \times (1 - 0.10) = \$35.99.$$

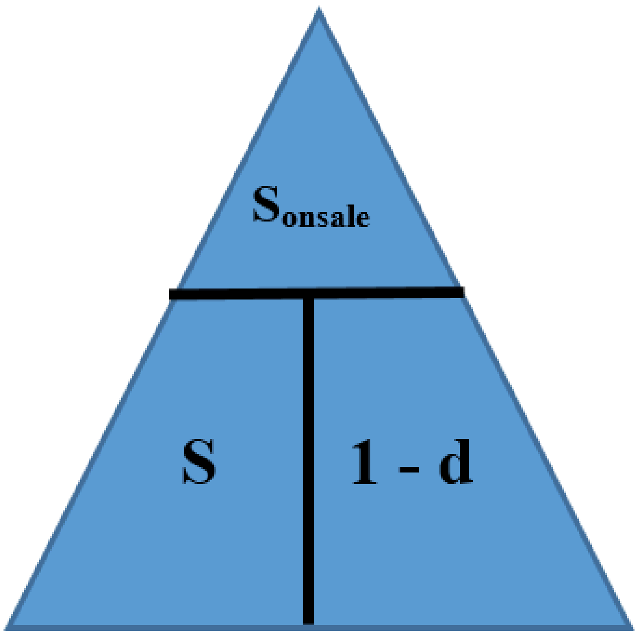
You could use either of Formulas 1.11a or 1.11b to calculate the markdown amount since the selling price, sale price, and markdown percent are all known. Arbitrarily choosing Formula 1.11a, you calculate a markdown amount of

$$D\$ = \$39.99 \times 0.10 = \$4.00$$

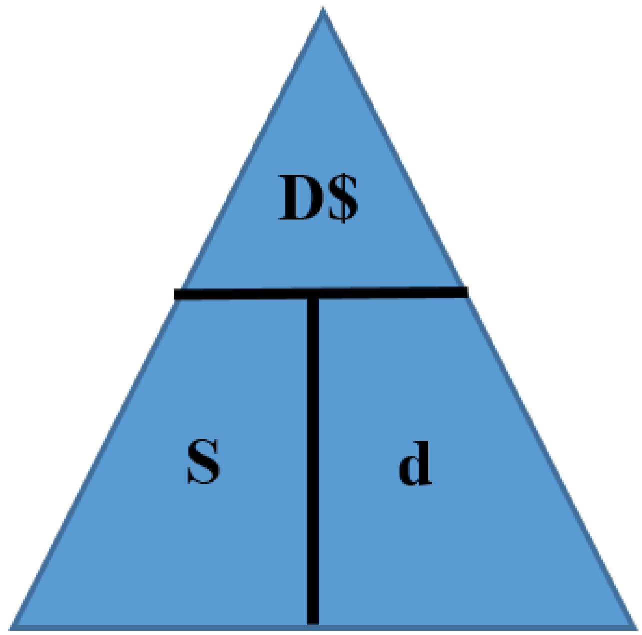
Therefore, if the retailer has a 10% off sale on the MP3 players, it marks down the product by $4.00 and retails it at a sale price of $35.99.

Just as in Appendix B, avoid getting bogged down in formulas. Recall that the three formulas for markdowns are not new formulas, just adaptations of three previously introduced concepts. As a consumer, you are very experienced with endless examples of sales, bargains, discounts, blowouts, clearances, and the like. Every day you read ads in the newspaper and watch television commercials advertising percent savings. This section simply crystallizes your existing knowledge. If you are puzzled by questions involving markdowns, make use of your shopping experiences at the mall!

Three of the formulas introduced in this section can be solved for any variable through algebraic manipulation when any two variables are known. Recall that the triangle technique helps you remember how to rearrange these formulas, as illustrated here.



Formula 4.10: The Sale Price of a Product



Formula 4.11a & 4.12: Markdown Amount and Rate

Example 1.3A – Determining the Sale Price and Markdown Amount

The MSRP for the "Guitar Hero: World Tour" video game is $189.99. Most retail stores sell this product at a price in line with the MSRP. You have just learned that a local electronics retailer is selling the game for 45% off. What is the sale price for the video game and what dollar amount is saved?

Plan:
There are two unknown variables. The first is the video game's sale price (S_{onsale}). The second is the markdown amount ($D\$$) that is realized at that sale price.

Understand:
Step 1: The regular selling price for the video game and the markdown rate are known:

S = $189.99
d = 0.45

Step 2: Calculate the sale price by applying Formula 1.10.

Calculate the markdown amount by applying Formula 1.11b.

Perform:
Step 2:

$$S_{onsale} = \$189.99 \times (1 - 0.45)$$
$$= \$189.99 \times 0.55 = \$104.49$$

$$D\$ = \$189.99 - \$104.49 = \$85.50$$

Present:
The sale price for the video game is $104.49. When purchased on sale, "Guitar Hero: World Tour" is $85.50 off of its regular price.

Example 1.3B – Markdown Requiring Selling Price Calculation

A reseller acquires an Apple iPad for $650. Expenses are planned at 20% of the cost, and profits are set at 15% of the cost. During a special promotion, the iPad is advertised at $100 off. What is the sale price and markdown percent?

Plan:
The unknown variables for the iPad are the sale price (S_{onsale}) and the markdown rate (d).

Understand:
Step 1: The pricing elements of the iPad along with the markdown dollars are known:

C = $650
$E = 0.2C$
$P = 0.15C$
$D\$$ = $100

Calculate the selling price of the product by applying Formula 1.5.

Step 2: Calculate the markdown percent by applying Formula 1.12.

Calculate the sale price by applying Formula 1.11b, rearranging for S_{onsale}.

Perform:
Step 1:

$$S = \$650 + 0.2(\$650) + 0.15(\$650) = \$877.50$$

Step 2:

$$d = \frac{\$100}{\$877.50} \times 100 = 11.396\%$$

$$\$100 = \$877.50 - S_{onsale}$$
$$S_{onsale} = \$777.50$$

Present:
When the iPad is advertised at $100 off, it receives an 11.396% markdown and it will retail at a sale price of $777.50.

Case Study: Making a Profitable Product Selection

The Situation

Lightning Wholesale is looking at changing its ski product line for 2014. It wants to carry only two brands of skis. It has received four offers from four different ski manufacturers. The details of the offers are in the first table. It will select the two brands that offer the highest total profit. The accounting department has analyzed 2013 sales and provided the income statement summarized in the second table, which specifies the percentage of each category that is attributed to the sporting goods department.

The Data

	Nordica	Fischer	Ogasaka	Atomic
List Price:	$799.95	$914.99	$829.95	$839.99
Discounts:				
Retail	40%	40%	40%	40%
Wholesale	5%	11%	6%	7%
Seasonal	3%	5%		
Sale	5%		5%	10%
Loyalty	3%		5%	
Quantity	3%	4%	5%	2%

Lightning Wholesale Income Statement

	Year (2013)	Allocation of Dollars to Sporting Goods
Sales Revenue:	**$57,77**	
	7	20%
Cost of Goods Sold:	**$50,44**	
	5	19%
Operating Expenses:		
Sales and Marketing	$3,234	18%
General and Administrative	$348	14%
Payroll	$1,416	19%
Total Operating Expenses:	**$4,998**	
Operating Income:	**$2,334**	

*All dollar figures are in thousands

Important Information

- All of Lightning Wholesale's retail customers plan to sell the skis at the list price.
- Lightning Wholesale prices all of its skis on the assumption that all of its retailers use the standard industry markup of 40% of the regular selling price.
- Skis fall into the sporting goods category for Lightning Wholesale.
- Expenses are assigned to products based on the percentage of cost method for each category.
- Forecasted sales for each brand (if carried by Lightning Wholesale) in 2014 are as follows:
  Nordica = 380 units
  Fischer = 270 units
  Ogasaka = 310 units
  Atomic = 300 units

Your Tasks

1. Based strictly on financial considerations, recommend which two brands Lightning Wholesale should carry in 2014.
   a. Using the appropriate table, calculate the net price (cost) of each brand of skis.
   b. To determine the expenses for each brand of skis:
   Using the appropriate table, calculate the dollar values assigned to sporting goods for each row by multiplying the company total by the allocation percentage.
   Total the dollar amount of the expenses.
   Convert the total expenses into a percentage of cost.
   Calculate the expenses for each brand using the percentage of cost.

c. Using the appropriate table, calculate the wholesale price (the amount at which Lightning Wholesale will sell the skis to a retailer).
d. For each brand, calculate the profit per unit.
Calculate the total profitability for each brand.

2. At the end of the year, if any inventories are left over, Lightning Wholesale clears out all ski products at break-even.
a. Determine the break-even prices for the two recommended brands.
b. Determine the markdown percentage that can be advertised for each recommended brand.

Answers for Exercise Questions [11.8]

Answers

Questions can be found at the end of section 11.8.

1. D$ = $411.60; N = $568.40
2. L = $800; D$ = $200
3. d = 42.625%; N = $1,133.16; D$ = $841.84
4. d = 26.7904%; L=$500; D$ =$133.95
5. $259.97
6. $24.32
7. 31.985%
8. $19.99
9. d = 43.972%; L = $51.76

Chapter 12: Place: Distribution Channels

Learning Objectives

- Why distribution channels matter
- Explain what channels of distribution are and why organizations use them
- Explain how channels affect the marketing of products and services
- Describe types of retailers and explain how they are used as a channel of distribution
- Explain how integrated supply chain management supports an effective distribution strategy

12.1 Why It Matters: Place: Distribution Channels

Why evaluate how to use distribution channels to market an organization's products and services effectively?

More Than Just Another P

Of the elements in the marketing mix, product and price are perhaps the easiest to understand. We see products all around us, and we understand that we need to pay a specific price to buy them. Promotion is sometimes a little more difficult to grasp, but if we begin with the concept of advertising and then develop a more complete view of promotion from that, promotion is also fairly easy to understand.

"Place," on the other hand, is not so straightforward. In fact, using the word "place" can be misleading. If I were to say, "We are going to talk about place related to groceries," you would likely think about where you buy your groceries—as in, which store and which location. In this module, though, we want to discuss the process of determining where you want to find particular groceries and how to get those groceries to that place in the way that best aligns with your preferences.

While it inconveniently begins with the letter *D* rather than *P*, *distribution* is a more accurate description of this function. Distribution brings the *products* that you want to the *place* where you want to buy them, at a cost that supports the customer and company *price* requirements.

How do your groceries get to the right place at the right cost? To explore this question, let's look at two high-end USA-based grocery stores that use very different methods to manage this process: Whole Foods and Trader Joe's.

Whole Foods' Approach to Distribution

The USA-based retail grocery chain, Whole Foods' motto—*Whole Foods, Whole People, Whole Planet*—emphasizes a vision that reaches beyond food retailing. The company has chosen a strategy of sourcing locally wherever possible. This, in turn, has driven the strategy of how Whole Foods fills its shelves—the distribution strategy. The video below explains how the company sources products.

> *One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=220#oembed-1*

You can view the transcript for "Forager Elly Truesdell Whole Foods Market" here (opens in new window).

In order to support local sourcing, store managers are empowered to make purchasing decisions for each store, independently of the regional offices. As a result, it is possible for Whole Foods to buy potatoes from a local farmer who would never dream of selling his produce to a large grocery chain. Essentially, Whole Foods is differentiated because all products are sourced locally. The stores operate under minimal governance and are given maximum freedom to source a product mix that is appropriate for their location. Whole Foods stores operate according to the premise that they need these freedoms to meet the unique buying needs of their local customers. The only governing rule put in place by the corporate office is that stores must not stock products with artificial flavors, preservatives, colours, sweeteners, or hydrogenated oils. A downside to this local purchasing policy is that consistency is compromised across the chain. Every retail location carries a variety of products that distinguishes it from other stores in the same chain.

Not surprisingly, it is difficult to achieve economies of scale with this model. Higher distribution costs lead to higher prices, which makes it important for Whole Foods to target customers with high incomes. To ensure ample access to their target consumer segments, Whole Foods opens stores in communities with a large number of college-educated residents with no fewer than two hundred thousand people within a twenty-minute drive.

Trader Joe's Approach to Distribution

Trader Joe's is another USA-based chain of grocery stores headquartered in Monrovia, California. The mission of Trader Joe's is to give customers the best food and beverage values they can find anywhere and to provide them with the information required to make informed buying decisions. The company strives to provide these with a dedication to the highest quality of customer satisfaction delivered with a sense of warmth, friendliness, fun, individual pride, and company spirit.

At the core of Trader Joe's "way" is a focus on cost control, simplicity, and fun. These company objectives are woven throughout each aspect of the business. Trader Joe's aims to create a truly unique customer experience, offering high-quality gourmet foods at a low cost in a fun environment that keeps customers coming back for more.

Trader Joe's manages its distribution networks by minimizing the number of hands that touch the product, thereby reducing costs and making products quickly available to their customers. The company orders directly from the manufacturer. The manufacturer, in turn, is responsible for bringing the product to a Trader Joe's distribution center. At the distribution center, trucks leave on daily resupply trips to local stores. Because the stores are relatively small, there is little room for excess inventory, and orders from distribution centers need to be incredibly precise.

This quick and efficient distribution process is directly responsible for helping the company identify where to locate new retail stores. Trader Joe's will only enter markets where the region has a distribution infrastructure that allows it to efficiently resupply products to stores. They have not opened stores in Florida or Texas—both large, lucrative markets—because the distribution networks are not yet strong enough to support their strategy.[1] [2]

Trader Joe's strategy of implementing a low-cost and efficient distribution network has contributed to

1. Lewis, Len. (2005). *The Trader Joe's Adventure: Turning a Unique Approach to Business to a Retail and Cultural Phenomenon.* Kaplan Publishing.
2. Trader Joe's. (n.d.) *About us* https://www.traderjoes.com/home/about-us

the democratization of gourmet foods by making them more readily available to customers at all income levels.

You can see that the distribution strategy for each company has an effect on where they open stores, how they price their products, which customers will buy, and who will have access to gourmet foods.

In this module, you’ll learn more about distribution strategies and their role in the marketing mix.

12.2 Using Channels of Distribution

Learning Objectives

- Explain what channels of distribution are and why organizations use them

Monster Energy drink is a dominant player in the growing market for drinks enhanced with stimulants to give consumers extra energy. Monster promises to deliver "a big, bad buzz." The company sponsors the X Games and a broad range of high-adrenaline sports. The company boasts that it puts all its marketing dollars into supporting the scenes that energy-drink buyers love. In 2014, the company found itself closing in on Red Bull, the market leader that launched the original energy drink in 1997.[1]

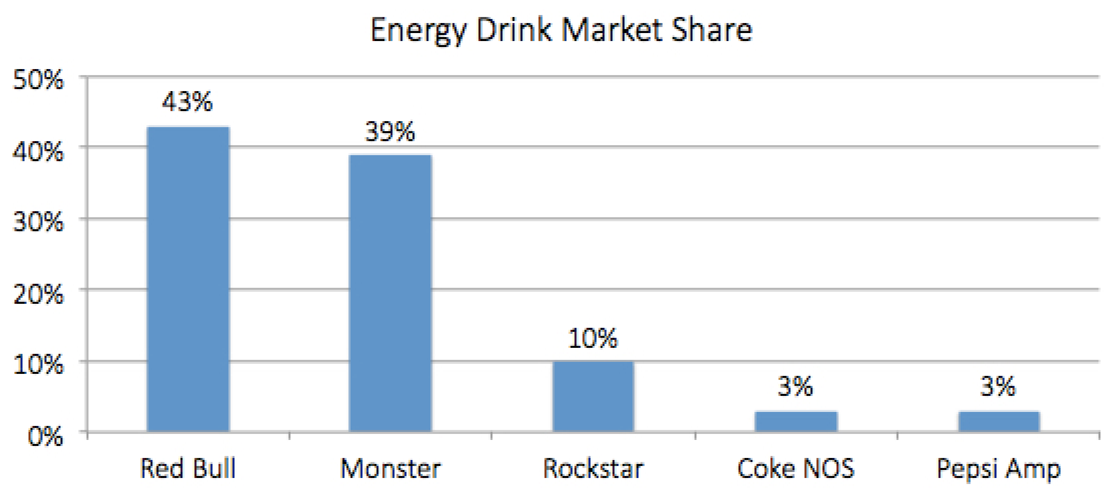


Figure 1. Energy Drink Market Share in 2014

In deciding how to best capture the top position in the market, Monster forged an important strategic partnership with Coca-Cola. The press release that announced this partnership stressed the benefit to Monster of Coca-Cola's global distribution network—the most powerful distribution network in the global beverage industry:

> The Coca-Cola Company and Monster Beverage Corporation announced today that they have entered into definitive agreements for a long-term strategic partnership that is expected to accelerate growth for both companies in the fast-growing, global energy-drink category. The new, innovative partnership leverages the respective strengths of the Coca-Cola Company and Monster to create compelling value for both companies and their share owners.

1. Mitchell, Dan. "Monster, Red Bull, Rockstar Ranked." Time. Time, May 11, 2015. https://time.com/3854658/these-are-the-top-5-energy-drinks/.

> Importantly, the partnership strategically aligns both companies for the long-term by combining the strength of the Coca-Cola Company's worldwide bottling system with Monster's dedicated focus and expertise as a leading energy player globally.[2]

The terms of the agreement also included Coca-Cola transferring all of its energy drinks to Monster, and Monster transferring all of its non-energy beverages to Coca-Cola, with Coca-Cola purchasing 16.7 percent of Monster Beverage Corporation.

Between June 2014 and December 2015, Monster Beverage Company's stock price rose by 115 percent. The company has clearly benefited from access to Coca-Cola's distribution infrastructure and will continue to do so. However, it still lags behind Red Bull, which has the largest market share.

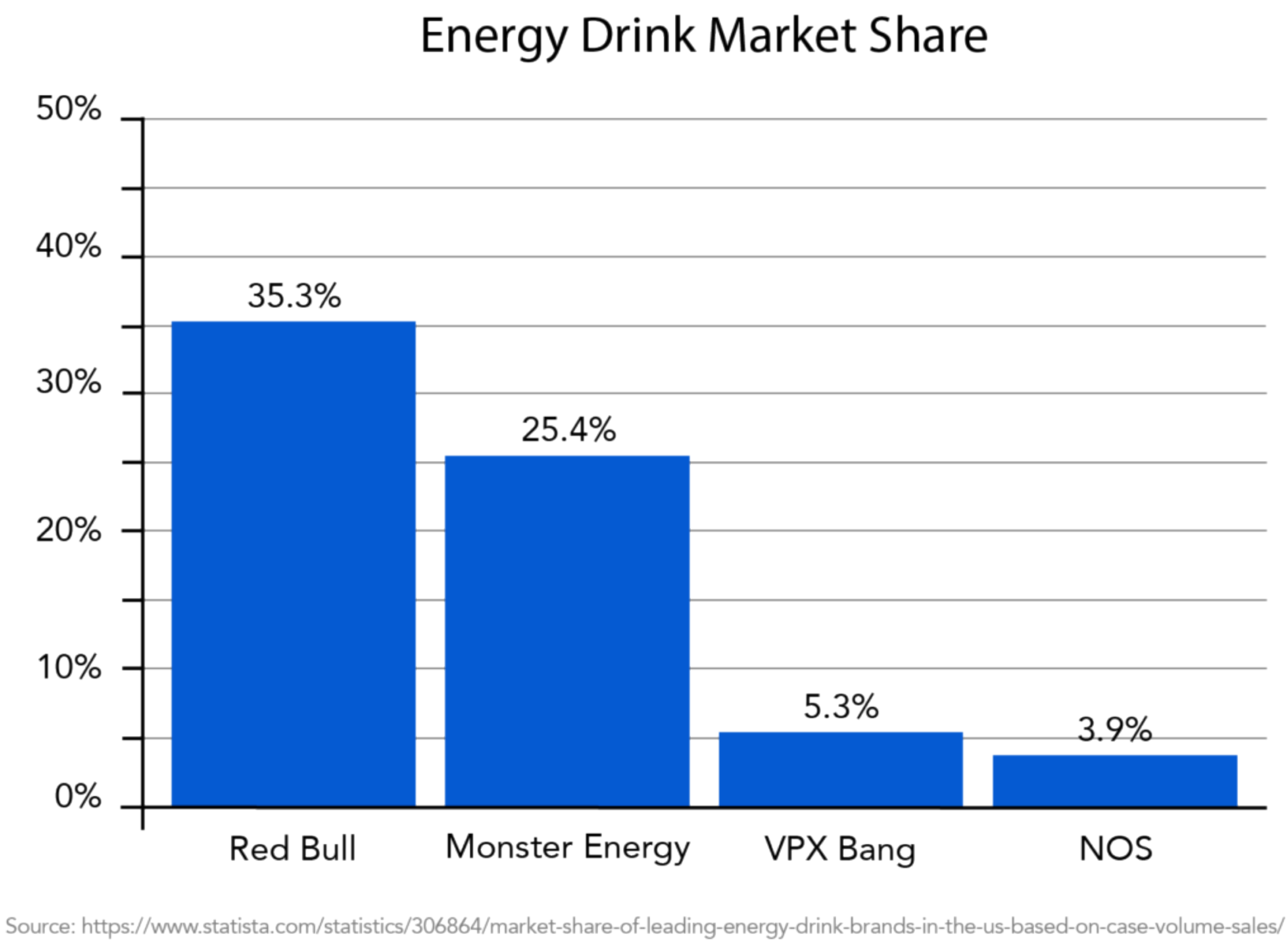


Figure 2. Energy Drink Market Share in 2019.

This example illustrates the power of *distribution channels*, which we've been calling "place" in the four Ps. Up next, you'll learn what these are and why companies use them.

2. The Coca-Cola Company. "The Coca-Cola Company and Monster Beverage Corporation Enter into Long-Term Strategic Partnership." The Coca-Cola Company, August 14, 2014. https://www.coca-colacompany.com/press-releases/coca-cola-and-monster-enter-into-long-term-partnership

Learning Activities

- Reading: Define Channels of Distribution
- Reading: Distribution Objectives
- Reading: Channel Structures
- Reading: The Role of Intermediaries
- Reading: Marketing Channels vs. Supply Chains
- Simulation: Distribution
- Self Check: Using Channels of Distribution

Reading: Define Channels of Distribution

Evolution of Channels of Distribution

As consumers, we take for granted that when we go to a supermarket the shelves will be filled with the products we want; when we are thirsty there will be a Coke machine or bar around the corner, and we count on being able to get online and find any product available for purchase and quick delivery. Of course, if we give it some thought, we realize that this magic is not a given and that hundreds of thousands of people plan, organize, and labor long hours to make this convenience available. It has not always been this way, and it is still not this way in many other parts of the world.

Looking back over time, the channel structure in primitive culture was virtually nonexistent. The family or tribal group was almost entirely self-sufficient. The group was composed of individuals who were both communal producers and consumers of whatever goods and services could be made available. As economies evolved, people began to specialize in some aspect of economic activity. They engaged in farming, hunting, or fishing, or some other basic craft. Eventually, this specialized skill produced excess products, which they exchanged or traded for needed goods that had been produced by others. This exchange process or barter marked the beginning of formal channels of distribution. These early channels involved a series of exchanges between two parties who were producers of one product and consumers of the other.

With the growth of specialization, particularly industrial specialization, and with improvements in methods of transportation and communication, channels of distribution have become longer and more complex. Thus, corn grown in Illinois may be processed into corn chips in West Texas, which are then distributed throughout the United States. Or, turkeys raised in Virginia are sent to New York so that they can be shipped to supermarkets in Virginia. Channels do not always make sense.

The channel mechanism also operates for service products. In the case of medical care, the channel mechanism may consist of a local physician, specialists, hospitals, ambulances, laboratories, insurance companies, physical therapists, home care professionals, and so on. All of these individuals are interdependent and could not operate successfully without the cooperation and capabilities of all the others.

Based on this relationship, we define a *channel of distribution*, also called a marketing channel, as sets of interdependent organizations involved in the process of making a product or service available for use or consumption, as well as providing a payment mechanism for the provider.

This definition implies several important characteristics of the channel. First, the channel consists of *organizations*, some under the control of the producer and some outside the producer's control. Yet all must be recognized, selected, and integrated into an efficient channel arrangement.

Second, the channel management *process* is continuous and requires continuous monitoring and reappraisal. The channel operates twenty-four hours a day and exists in an environment where change is the norm.

Finally, channels should have certain distribution objectives guiding their activities. The structure and management of the marketing channel is thus, in part, a function of a firm's distribution objective. It's also a part of the marketing objectives, especially the need to make an acceptable profit. Channels usually represent the largest costs in marketing a product.

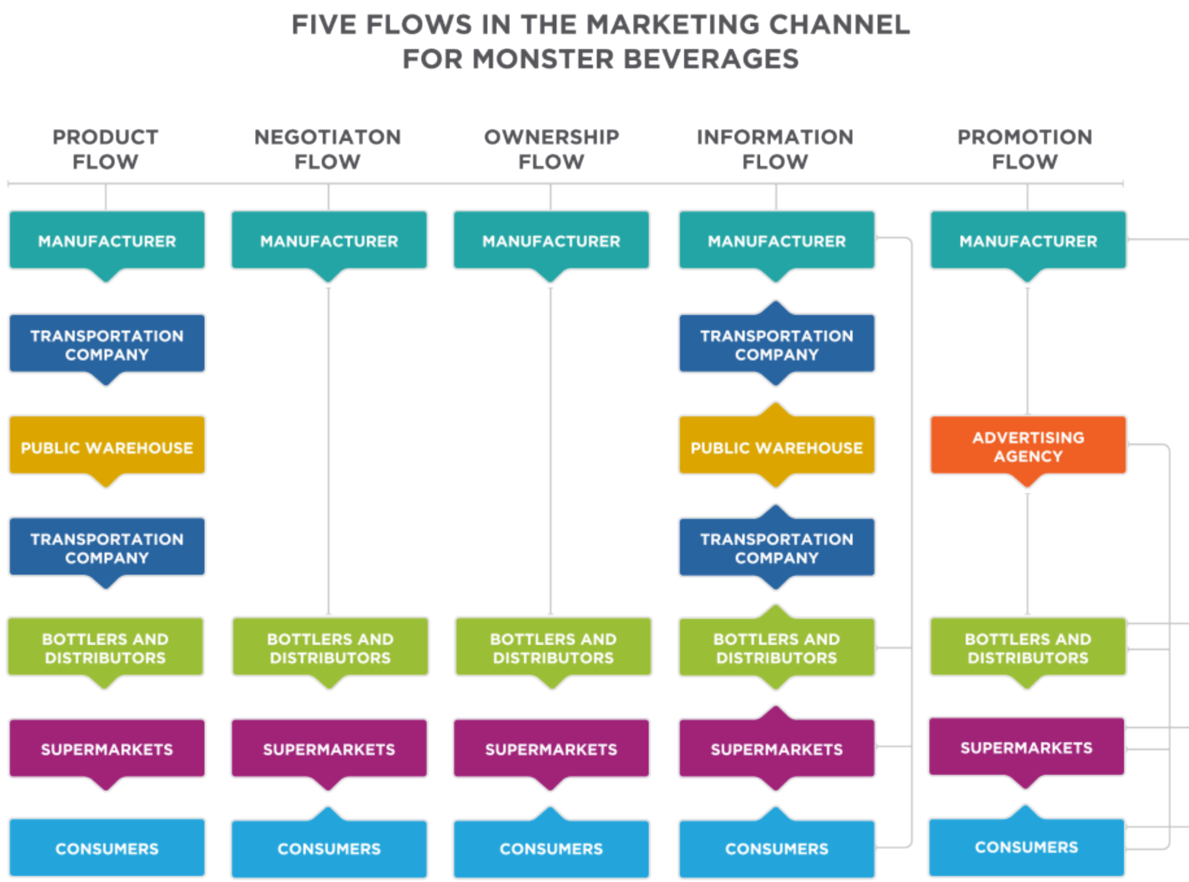
Channel Flows

One traditional framework that has been used to express the channel mechanism is the concept of flow. These flows reflect the many linkages that tie channel members and other agencies together in the distribution of goods and services. From the perspective of the channel manager, there are five important flows.

1. **Product flow**: the movement of the physical product from the manufacturer through all the parties who take physical possession of the product until it reaches the ultimate consumer
2. **Negotiation flow**: the institutions that are associated with the actual exchange processes
3. **Ownership flow**: the movement of title through the channel
4. **Information flow**: the individuals who participate in the flow of information either up or down the channel
5. **Promotion flow**: the flow of persuasive communication in the form of advertising, personal selling, sales promotion, and public relations

Monster Channel Flow

The figure below maps the channel flows for the Monster Energy drink (and many other energy drink brands). Why is Monster's relationship with Coca-Cola so valuable? Every single flow passes through bottlers and distributors in order to arrive in supermarkets where the product will be available to consumers.



Coca-Cola explains the importance of the bottlers in the distribution network:

> While many view our Company as simply "Coca-Cola," our system operates through multiple local channels. Our Company manufactures and sells concentrates, beverage bases and syrups to bottling operations, owns the brands and is responsible for consumer brand marketing initiatives. Our bottling partners manufacture, package, merchandise and distribute the final branded beverages to our customers and vending partners, who then sell our products to consumers.
>
> All bottling partners work closely with customers — grocery stores, restaurants, street vendors, convenience stores, movie theaters and amusement parks, among many others — to execute localized strategies developed in partnership with our Company. Customers then sell our products to consumers at a rate of more than 1.9 billion servings a day.[1]

Revisiting the channel flows we find that the bottlers and distributors play a role in each flow. Examples of the flows are listed below. Remember, while the consumer is the individual who eventually consumes the drink, the supermarkets, restaurants, and other outlets are Coca-Cola's customers.

- Product flow: the bottlers receive and process the bases and syrups
- Negotiation flow: the bottlers buy concentrate, sell product and collect revenue from customers

1. The Coca-Cola Company. (2020). *The Coca-Cola system*. https://www.coca-colacompany.com/company/coca-cola-system

- Ownership flow: distributors acquire the title of the syrups and own the product until it's sold to supermarkets
- Information flow: bottlers communicate product options to customers and communicate demand and needs to Coca-Cola
- Promotion flow: bottlers communicate benefits and provide promotional materials to customers

Reading: Distribution Objectives

Introduction

The distribution strategy supports company-level objectives, as well as marketing objectives. Typically, distribution approaches support company-level objectives related to growth, as in the example of Monster Energy, or profitability, since distribution can improve company efficiencies.

Think about your perspective as a buyer. When you need food, you most likely shop at a grocery store. You could purchase bread from a bakery, milk and eggs from a dairy, fruit and vegetables directly from a farm, but most people don't. They appreciate the convenience of purchasing many different types of items from a single store. We call this *contact efficiency*, because the buyer is able to make contact with many different product types in a more efficient way.

Distribution channels provide efficiencies in a number of areas: product form, time, place, and exchange. Remember the example of the Coca-Cola bottlers: The bottlers purchase a concentrate that is condensed and easy to distribute all around the world. Once the concentrate is mixed with carbonated water and bottled or canned, it's larger and heavier—and more difficult to distribute. For that reason, this process happens in the local markets, where final distribution to customers is easier. The bottlers provide efficiency in product form. Likewise, grocery retailers provide efficiency in time and place by offering many different products in a single shopping experience. Similarly, the groceries are purchased in a single cash or credit card transaction, even though they are coming from many different producers.

These efficiencies benefit both consumers and businesses. Early in this course we looked at the success of the Chobani yogurt company, which has grown through a national and now global distribution network. An effective distribution network enables the company to get its product in front of consumers far from its headquarters in Norwich, New York, and it means that a consumer in Norwalk, California, can buy Chobani's greek yogurt in a local supermarket without ever thinking about the time and effort it required to get it there.

The primary purpose of any channel of distribution is to efficiently bridge the gap between the producer of a product and the user of it, whether the parties are located in the same community or in different countries thousands of miles apart.

Channel Partners That Support Objectives

The channel is composed of different institutions that facilitate the transaction and the physical exchange. Institutions in channels fall into one of the following three categories:

1. The producer of the product: a craftsman, manufacturer, farmer, or other producer
2. The user of the product: an individual, household, business buyer, institution, or government
3. Middlemen at the wholesale and/or retail level

Not all channel members perform the same function. Channel partners perform the following three important functions:

1. **Transactional functions**: buying, selling, and risk assumption
2. **Logistical functions**: assembly, storage, sorting, and transportation
3. **Facilitating functions**: post-purchase service and maintenance, financing, information dissemination, and channel coordination or leadership

These functions are necessary for the effective flow of product and title to the customer and payment back to the producer. Certain characteristics are implied in every channel. First, although you can eliminate or substitute channel institutions, the functions performed by these institutions cannot be eliminated. Typically, if a wholesaler or a retailer is removed from the channel, the function they perform will either be shifted forward to a retailer or to the consumer, or shifted backward to a wholesaler or to the manufacturer. For example, a producer of custom hunting knives might decide to sell through direct mail instead of retail outlets. The producer absorbs the sorting, storage, and risk functions; the post office absorbs the transportation function; and the consumer assumes more risk in not being able to touch or try the product before purchase.

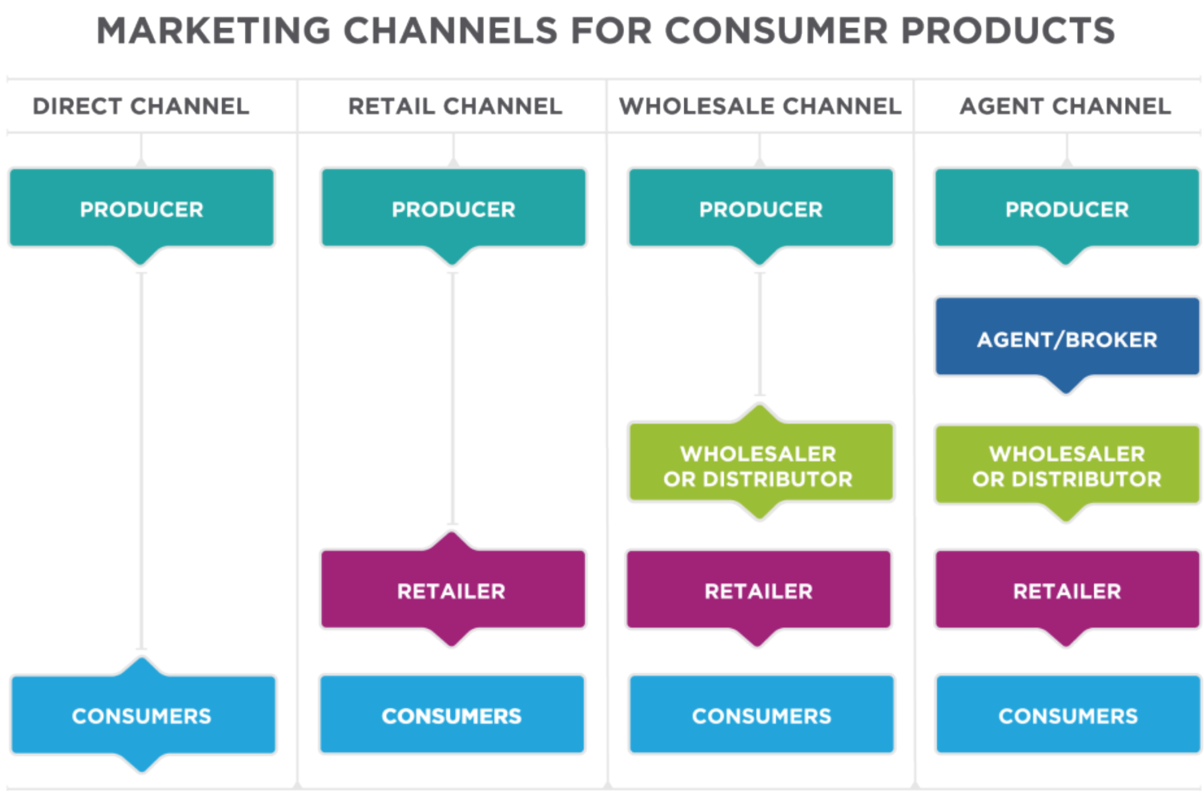
Second, all channel institution members are part of many channel transactions at any given point. As a result, the complexity may be quite overwhelming. Consider for the moment how many different products you purchase in a single year and the vast number of channel mechanisms you use.

Third, the fact that you are able to complete all these transactions to your satisfaction, as well as to the satisfaction of the other channel members, is due to the *routinization* benefits provided through the channel. Routinization means that the right products are most always found in the places where the consumer expects to find them, comparisons are possible, prices are marked, and methods of payment are available. Routinization aids the producer as well as the consumer, in that the producer knows what to make, when to make it, and how many units to make.

Fourth, there are instances when the best channel arrangement is direct—from the producer to the ultimate user. This is particularly true when the producer feels he can perform the tasks best or when no competent middlemen are available. It may be important for the producer to maintain direct contact with customers so that quick and accurate adjustments can be made. Direct-to-user channels are common in B2B settings where personal sales are a more common tactic. Indirect channels are more typical and prevalent, though, because producers are not able to perform the tasks provided by middlemen as efficiently or with as broad of a reach.

Reading: Channel Structures

While channels can be very complex, there is a common set of channel structures that can be identified in most transactions. Each channel structure includes different organizations. Generally, the organizations that collectively support the distribution channel are referred to as channel partners.



The **direct channel** is the simplest channel. In this case, the producer sells directly to the consumer. The most straightforward examples are producers who sell in small quantities. If you visit a farmer's market, you can purchase goods directly from the farmer or craftsman. There are also examples of very large corporations who use the direct channel effectively, especially for B2B transactions. Services may also be sold through direct channels, and the same principle applies: an individual buys a service directly from the provider who delivers the service.

Examples of the direct channel include:

- Etsy.com online marketplace
- Farmer's markets
- Oracle's personal sales team that sells software systems to businesses
- A bake sale

Retailers are companies in the channel that focuses on selling directly to consumers. You are likely to participate in the **retail channel** almost every day. The retail channel is different from the direct channel in that the retailer doesn't produce the product. The retailer markets and sells the goods on behalf of the producer. For consumers, retailers provide tremendous contact efficiency by creating one location where many products can be purchased. Retailers may sell products in a store, online, in a kiosk, or on your doorstep. The emphasis is not on the specific location but on selling directly to the consumer.

Examples of retailers include:

- Walmart discount stores
- Amazon online store
- Nordstrom department store
- Dairy Queen restaurant

From a consumer's perspective, the **wholesale channel** looks very similar to the retail channel, but it also involves a wholesaler. A wholesaler is primarily engaged in buying and usually storing and physically handling goods in large quantities, which are then resold (usually in smaller quantities) to retailers or to industrial or business users. The vast majority of goods produced in an advanced economy have wholesaling involved in their distribution. Wholesale channels also include manufacturers who operate sales offices to perform wholesale functions and retailers who operate warehouses or otherwise engage in wholesale activities.

Examples of wholesalers include:

- Christmas-tree wholesalers who buy from growers and sell to retail outlets

- Restaurant food suppliers
- Clothing wholesalers who sell to retailers

The agent or **broker channel** includes one additional intermediary. Agents and brokers are different from wholesalers in that they *do not take title* to the merchandise. In other words, they do not own the merchandise because they neither buy nor sell. Instead, brokers bring buyers and sellers together and negotiate the terms of the transaction: agents represent either the buyer or seller, usually on a permanent basis; brokers bring parties together on a temporary basis. Think about a real estate agent. They do not buy your home and sell it to someone else; they market and arrange the sale of the home. Agents and brokers match up buyers and sellers or add expertise to create a more efficient channel.

Examples of brokers include:

- An insurance broker, who sells insurance products from many companies to businesses and individuals
- A literary agent, who represents writers and their written works to publishers, theatrical producers, and film producers
- An export broker, who negotiates and manages transportation requirements, shipping, and customs clearance on behalf of a purchaser or producer

It's important to note that the larger and more complex the flow of materials from the initial design through purchase, the more likely it is that multiple channel partners may be involved because each channel partner will bring unique expertise that increases the efficiency of the process. If an intermediary is not adding value, they will likely be removed over time, because the cost of managing and coordinating with each intermediary is significant.

Reading: The Role of Intermediaries

Introduction

While the retail channel is most familiar to students, wholesalers play an important role as intermediaries. Intermediaries act as a link in the distribution process, but the roles they fill are broader than simply connecting the different channel partners. Wholesalers, often called "merchant wholesalers," help move goods between producers and retailers.

For example, McLane Company Inc. is among the largest wholesalers in the United States. The breadth of its operations is described on the company website:

> McLane Foodservice and wholly owned subsidiary, Meadowbrook Meat Company, Inc., operates 80 distribution centers across the U.S. and one of the nation's largest private fleets. The company buys, sells, and delivers more than 50,000 different consumer products to nearly 90,000 locations across the U.S. In addition, McLane provides alcoholic beverage distribution through its wholly owned subsidiary, Empire Distributors, Inc. McLane is a wholly owned unit of Berkshire Hathaway Inc. and employs more than 20,000 teammates.[1]

Let's look at each of the functions that a merchant wholesaler fulfills.

1. McLane (n.d.) About.https://www.mclaneco.com/content/mclaneco/en/about.html

Purchasing

Wholesalers purchase very large quantities of goods directly from producers or from other wholesalers. By purchasing large quantities or volumes, wholesalers are able to secure significantly lower prices.

Imagine a situation in which a farmer grows a very large crop of potatoes. If the farmer sells all of the potatoes to a single wholesaler, they will negotiate one price and make one sale. Because this is an efficient process that allows the farmer to focus on farming (rather than searching for additional buyers), they will likely be willing to negotiate a lower price. Even more important, because the wholesaler has such strong buying power, the wholesaler is able to force a lower price on every farmer who is selling potatoes.

The same is true for almost all mass-produced goods. When a producer creates a large quantity of goods, it is most efficient to sell all of them to one wholesaler, rather than negotiating prices and making sales with many retailers or an even larger number of consumers. Also, the bigger the wholesaler is, the more likely it will have significant power to set attractive prices.

Warehousing and Transportation

Once the wholesaler has purchased a mass quantity of goods, it needs to get them to a place where they can be purchased by consumers. This is a complex and expensive process. McLane has invested more than $1 billion in their national network of 24 modern distribution centers covering the entire U.S., and in maintaining a modern fleet of more than 3,000 multi-temperature trailers.[2] Having outfitted centers with state-of-the-art inventory tracking systems allows McLane to manage the diverse products that move through the center. It relies on its own vast trucking fleet to handle the transportation.

Grading and Packaging

Wholesalers buy a very large quantity of goods and then break that quantity down into smaller lots. The process of breaking large quantities into smaller lots that will be resold is called bulk breaking. Often this includes physically sorting, grading, and assembling the goods. Returning to our potato example, the wholesaler would determine which potatoes are of a size and quality to sell individually and which are to be packaged for sale in five-pound bags.[3]

Risk Bearing

Wholesalers either take title to the goods they purchase, or they *own* the goods they purchase. There are two primary consequences of this, both of which are both very important to the distribution channel. First, it means that the wholesaler finances the purchase of the goods and carries the cost of the goods in inventory until they are sold. Because this is a tremendous expense, it drives wholesalers to be accurate and efficient in their purchasing, warehousing, and transportation processes.

Second, wholesalers also bear the risk for the products until they are delivered. If goods are damaged

2. McLane (n.d.) Grocery supply chain solutions.https://www.mclaneco.com/content/mclaneco/en/solutions.html#grocery
3. http://unstats.un.org/unsd/cr/registry/regcs.asp?Cl=9&Lg=1&Co=6

in transport and cannot be sold, then the wholesaler is left with the goods and the cost. If there is a significant change in the value of the products between the time of the purchase from the producer and the sale to the retailer, the wholesaler will absorb that profit or loss.

Marketing

Often, the wholesaler will fill a role in the promotion of the products that it distributes. This might include creating displays for the wholesaler's products and providing the display to retailers to increase sales. The wholesaler may advertise its products that are carried by many retailers.

Wholesalers also influence which products the retailer offers. For example, McLane Company was a winner of the 2016 Convenience Store News Category Captains, in recognition of its innovations in providing the right products to its customers. McLane created unique packaging and products featuring movie themes, college football themes, and other special occasion branding that were designed to appeal to impulse buyers. They also shifted the transportation and delivery strategy to get the right products in front of consumers at the time they were most likely to buy. Its convenience store customers are seeing sales growth, as is the wholesaler. [4]

Distribution

As distribution channels have evolved, some retailers, such as Walmart and Target, have grown so large that they have taken over aspects of the wholesale function. Still, it is unlikely that wholesalers will ever go away. Most retailers rely on wholesalers to fulfill the functions that we have discussed, and they simply do not have the capability or expertise to manage the whole distribution process. Plus, many of the functions that wholesalers fill are performed most efficiently at scale. Wholesalers are able to focus on creating efficiencies for their retail channel partners that are very difficult to replicate on a small scale.

4. Durtschi Susan. (2016, February 02) *Why McLane Is 2016's General Merchandise Category Captain.* Convenience Store News http://www.csnews.com/industry-news-and-trends/special-features/why-mclane-2016s-general-merchandise-category-captain?nopaging=1

Reading: Marketing Channels vs. Supply Chains

What Is a Supply Chain?

We have discussed the channel partners, the roles they fill, and the structures they create. Marketers have long recognized the importance of managing distribution channel partners. As channels have become more complex and the flow of business has become more global, organizations have recognized that they need to manage more than just the channel partners. They need to manage the full chain of organizations and transactions from raw materials through final delivery to the customer— in other words, the **supply chain.**

The supply chain is a system of organizations, people, activities, information, and resources involved in moving a product or service from supplier to customer. Supply chain activities involve the transformation of natural resources, raw materials, and components into a finished product that is delivered to the end customer.[1]

The marketing channel generally focuses on how to increase value to the customer by having the right product in the right place at the right price at the moment the customer wants to buy. The emphasis is on providing value to the customer, and the marketing objectives usually focus on what is needed to deliver that value.

1. Nagurney, Anna (2006). *Supply Chain Network Economics: Dynamics of Prices, Flows, and Profits. Cheltenham*, UK: Edward Elgar.

Supply chain management takes a different approach. The Council of Supply Chain Management Professionals (CSCMP) defines supply chain management as follows:

> Supply Chain Management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party service providers, and customers. In essence, supply chain management integrates supply and demand management within and across companies. Supply Chain Management is an integrating function with primary responsibility for linking major business functions and business processes within and across companies into a cohesive and high-performing business model. It includes all of the logistics management activities noted above, as well as manufacturing operations, and it drives coordination of processes and activities with and across marketing, sales, product design, finance and information technology.[2]

Supply Chain and Marketing Channels

The supply chain and marketing channels can be differentiated in the following ways:

1. **The supply chain is broader than marketing channels.** It begins with raw materials and delves deeply into production processes and inventory management. Marketing channels are focused on bringing together the partners who can most efficiently deliver the right marketing mix to the customer in order to maximize value. Marketing channels provide a more narrow focus within the supply chain.
2. **Marketing channels are purely customer-facing.** Supply chain management seeks to optimize how products are supplied, which adds a number of financial and efficiency objectives that are more internally focused. Marketing channels emphasize a stronger market view of the customer expectations and competitive dynamics in the marketplace.
3. **Marketing channels are part of the marketing mix.** Supply chain professionals are specialists in the delivery of goods. Marketers view distribution as one element of the marketing mix, in conjunction with product, price, and promotion. Supply chain management is more likely to identify the most efficient delivery partner. A marketer is more likely to balance the merits of a channel partner against the value offered to the customer. For instance, it might make sense to keep a channel partner who is less efficient but provides important benefits in the promotional strategy.

Successful organizations develop effective, respectful partnerships between the marketing and supply chain teams. When the supply chain team understands the market dynamics and the points of flexibility in product and pricing, they are better able to optimize the distribution process. When marketing has the benefit of effective supply chain management—which is analyzing and optimizing distribution within and beyond the marketing channels—greater value is delivered to customers. If the supply chain team came to you (the marketer) and told you that, based on their analysis, you should add a lean warehousing, just-in-time inventory approach for your product, you should definitely listen.

2. Council of Supply Chain Management Professionals (CSCMP) (n.d.) Supply Chain Management Definitions and Glossary. https://cscmp.org/CSCMP/Educate/SCM_Definitions_and_Glossary_of_Terms.aspx

Simulation: Distribution

Try It

Play the simulation below multiple times to see how different choices lead to different outcomes. All simulations allow unlimited attempts so that you can gain experience applying the concepts.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=234

12.3 Managing Distribution Channels

Learning Objectives

Explain how channels affect the marketing of products and services

By March 2014, most Americans had noticed the Geico gecko; some had fallen in love with him. Regardless of buyers' feelings about the little lizard, by 2014 enough had purchased auto insurance from Geico through its online sales portal to change the landscape of the insurance industry. *Fortune* magazine reported on the company's success:

> It's official. After decades as the second-largest auto insurer in the U.S., Allstate Corp. now is No. 3.
>
> Geico, the online auto insurer owned by Warren Buffett's Berkshire Hathaway Inc., surpassed Allstate in 2013 in auto premiums collected. Berkshire Hathaway released its 2013 results today, finally laying out in black and white the the long-anticipated symbolic passing of that torch.
>
> State Farm Insurance Cos. remains the largest auto insurer in the U.S. by a large margin. But it's telling that the No. 2 player now is a company that sells mainly over the Internet rather than through an army of agents. Both State Farm and Allstate still largely depend on thousands of agents around the country to sell their product, but the online channel has grown much faster over the past decade and is expected to continue that trajectory.[1]

Geico chose to use a channel strategy that eliminates agents as intermediaries and provides a direct channel to consumers. What benefits does this offer consumers? In order to take full advantage of the channel, Geico had to clearly identify and communicate the benefits to its target customers. It did this largely by means of a clever advertising slogan: "Give us 15 minutes and we'll save you 15 percent on your car insurance." (Some credit for Geico's success is probably due to the lizard, too, which helped the company improve its brand visibility.)

While the message doesn't say anything overt about Geico's channel strategy, the message to customers is clear: Geico delivers good value ("save 15 percent") *fast* (it only takes 15 minutes). The company's ability to offer that value (savings and speed) really does come from its choice of channel strategy: direct to consumers (eliminating the intermediary) equals savings of time and money.

As you'll learn in this section, much of marketing's role in the distribution process is identifying the right channels, creating and managing effective channel partnerships, and ensuring that the channel performance provides value to customers.

Learning Activities

1. http://adage.com/article/cmo-strategy/geico-overtakes-allstate-2-auto-insurer/291947/

- Reading: Optimizing Channels
- Reading: Third-Party Sales
- Reading: Service Outputs
- Self Check: Managing Distribution Channels

Reading: Optimizing Channels

Introduction

Geico didn't simply find itself owning the online, direct channel. It analyzed its customer needs and competitors' positions and chose a strategy to accelerate sales growth: Geico defined and managed its channel strategy.

The Channel Management Process

The channel management process contains five steps.

1. Analyze the Consumer

We begin the process of channel management by answering two questions. First, to whom shall we sell this merchandise immediately? Second, who are our ultimate users and buyers? The immediate and ultimate customers may be identical or they may be quite separate. In both cases, certain basic questions apply: There is a need to know *what* the customer needs, *where* they buy, *when* they buy, *why* they buy from certain outlets, and *how* they buy.

It is best that we first identify the traits of the ultimate user since the results of that evaluation might determine the other channel institutions we would use to meet those needs. For example, the buying characteristics of the purchaser of a high-quality curved TV might be the following:

- purchased only from a well-established, reputable dealer
- purchased only after considerable research to compare prices and merchandise characteristics
- purchase may be postponed
- purchased only from a dealer equipped to provide prompt and reasonable product service

These buying specifications illustrate the kinds of requirements that the manufacturer must discover. In most cases, purchase specifications are fairly obvious and can be determined without great difficulty. In others, though, they can be difficult to determine. For example, some consumers will only dine at restaurants that serve menu items that meet particular dietary needs; others will only patronize supermarkets that demonstrate social responsibility in their sourcing and packaging. Still, through careful and imaginative research, most of the critical factors related to consumer buying specifications can be figured out.

Once the consumer's buying specifications are known, the channel planner can decide on the type or types of wholesaler or retailer through which a product should be sold. This means that a manufacturer contemplating distribution through particular types of retailers must become intimately familiar with the precise location and performance characteristics of those he is considering.

In much the same way that buying specifications of ultimate users are determined, the manufacturers must also discover buying specifications for resellers. Of particular importance is the question "from whom do my retail outlets prefer to buy?" The answer to this question determines the types of wholesalers (if any) that the manufacturer should use. Although many retailers prefer to buy directly from the manufacturers, this is not always the case. Often, the exchange requirements of manufacturers (e.g., infrequent visit, large order requirements, and stringent credit terms) are the opposite of those desired by retailers. Such retailers would rather buy from local distributors who have lenient credit terms and offer a wide assortment of merchandise.

2. Establish the Channel Objectives

Once customer needs are specified, the marketer can decide what the channel must achieve, which can be captured in the channel objectives. Channel objectives are based on customer requirements, the marketing strategy, and the company strategy and objectives. However, in cases where a company is just getting started, or an older company is trying to carve out a new market niche, the channel objectives may be the dominant objectives. For example, a small manufacturer wants to expand outside the local market. An immediate obstacle is the limited shelf space available to this manufacturer. The addition of a new product to the shelves generally means that space previously assigned to competitive products must be obtained. Without this exposure, the product is doomed.

As one would expect, there is a wide diversity of channel objectives. The following areas encompass the major categories:

- Growth in sales by reaching new markets and/or increasing sales in existing markets.
- Maintenance or improvement of market share

- Achieve a pattern of distribution by a certain time, place, and form
- Reduce costs or increase profits by creating an efficient channel

3. Specify Distribution Tasks

After the distribution objectives are set, it is appropriate to determine the specific distribution tasks (functions) to be performed in that channel system. The channel manager must be very specific in describing the tasks and also detail how these tasks will change depending upon the situation. For example, a manufacturer might delineate the following tasks as necessary to profitably reach the target market:

- Provide delivery within 48 hours after order placement
- Offer adequate storage space
- Provide credit to other intermediaries
- Facilitate a product return network
- Provide readily available inventory (quantity and type)

4. Evaluate and Select Among Channel Alternatives

Determining the specific channel tasks is a prerequisite of the evaluation and selection process. There are four considerations for channel alternatives: number of levels, intensity at the various levels, types of intermediaries at each level, and application of selection criteria to channel alternatives. In addition, it is important to decide who will be in charge of the selected channels.

Number of Levels

Channels can range in levels from two to several (five is typical). The two-level channel (producer to consumer) is a direct channel. The number of levels in a particular industry might be the same for all the companies simply because of tradition. In other industries, this dimension is more flexible and subject to rapid change.

Intensity at Each Level

Once the number of levels has been decided, the channel manager needs to determine the actual number of channel components involved at each level. How many retailers in a particular market should be included in the distribution network? How many wholesalers?

The intensity decision is extremely critical because it is an important part of the firm’s overall marketing strategy. Companies such as Starbucks and Hershey’s have achieved high levels of success through their intensive distribution strategy.

Types of Intermediaries and Application of Selection Criteria

As we discussed, there are several types of intermediaries that operate in a particular channel system. The objective is to identify several possible alternative channel structures and evaluate these alternatives with respect to some set of criteria such as company factors, environmental trends, the reputation of the reseller, and the experience of the reseller.

Who Should Lead?

Regardless of the channel framework selected, channels usually perform better if someone is in charge, providing some level of leadership. Essentially, the purpose of this leadership is to coordinate the goals and efforts of channel institutions. The level of leadership can range from very passive to quite active—verging on dictatorial. The style may range from very negative, based on fear and punishment, to very positive, based on encouragement and reward. In a given situation, any of these leadership styles may prove effective.

Under which conditions should the manufacturers lead? The wholesaler? The retailer? While the answer is contingent upon many factors, in general, the manufacturer should lead if control of the product (merchandising, repair) is critical and if the design and redesign of the channel is best done by the manufacturer. The wholesaler should lead where the manufacturers and retailers have remained small in size, large in number, relatively scattered geographically, are financially weak, and lack marketing expertise. The retailer should lead when product development and demand stimulation are relatively unimportant and when personal attention to the customer is important.

5. Evaluating Channel Member Performance

The need to evaluate the performance level of the channel members is just as important as the evaluation of the other marketing functions. Clearly, the marketing mix is quite interdependent, and the failure of one component can cause the failure of the whole. There is one important difference, though: the channel member is dealing with independent business firms, rather than employees and activities under its control, these firms may be reluctant to change their practices.

Sales is the most popular performance criterion used in channel evaluation. Other possible performance criteria are maintenance of adequate inventory, selling capabilities, attitudes of channel intermediaries toward the product, competition from other intermediaries and from other product lines carried by the manufacturer's own channel members.

Correcting or Modifying the Channel

As a result of the evaluation process, or because of other factors such as new competition, technology, or market potential, changes may need to be made in the channel structure. Because channel relationships tend to be long-term, and the channel decision has such a pervasive impact on the business, any change should be carefully evaluated. Later in this module, we will discuss service outputs and their role in measuring and modifying channel performance.

The Human Aspect of Distribution

By its very nature, a channel of distribution is made up of people. Ideally, a channel member should coordinate their efforts with other members in such a way that the performance of the total distribution system to which they belong to is enhanced. This is rarely the case, though. Part of this lack of cooperation is due to the organizational structure of many channels, which encourages a channel member to be concerned only with channel members immediately adjacent to them, from whom they buy and to whom they sell. A second reason is the tendency of channel members to exhibit their independence as separate business operations. It is difficult to gain cooperation under this arrangement. Four human dimensions have been incorporated into the study of channel behaviour: roles, communication, conflict, and power. It is assumed that an understanding of these behavioural characteristics will increase the effectiveness of the channel.

Role

Most channel members participate in several channels. Establishing the *role* of a channel member means defining what the behaviour of the channel member should be. For example, a basic role prescription of the manufacturer may be to maximize the sales of their particular brand of product. This suggests that the manufacturer is to actively compete for market share and aggressively promote its brand. The role prescriptions of independent wholesalers, however, are likely to be quite different. Since wholesalers may represent several competing manufacturers, their role would be to build sales with whatever brands are most heavily demanded by retailers. Therefore, a major issue in channel management is defining the role prescriptions of the various participants in order to achieve desired results. This is accomplished through a careful appraisal of the tasks to be performed by each channel member and clear communication of these roles to the members.

Communication

Channel communication is sending and receiving information that is relevant to the operation of the channel. It is critical for the channel member to foster an effective flow of information within the channel. Communication will take place only if the channel member is aware of the pitfalls that await. The channel manager should therefore try to detect any behavioural problems that inhibit the effective flow of information through the channel and try to solve these problems before the communication process in the channel becomes seriously distorted.

Conflict

Any time individuals or organizations must work together and rely on one another for personal success, conflict is inevitable. In a distribution channel, conflict usually arises in one of two forms: structural or behavioural.

Structural conflict occurs when the channel partners are expected to cooperate *and* compete. For example, imagine that you want to buy a new pair of Nike shoes and you have two choices. You can go to a local Foot Locker retailer and buy the shoes for $89, or you can go online to Nike.com and buy the shoes for $69. In effect, Nike is undercutting its retail channel while selling through a direct channel. It is likely that Foot Locker is unhappy about this. While a retailer expects to compete with other retailers who carry the same brands, it doesn't expect that the manufacturer will sell through the direct channel at deep discounts. This type of structural conflict is often the cause of behavioural conflict.

All organizations expect to manage some level of behavioural conflict in the channel. They do this by:

- Establishing a mechanism for detecting conflict
- Evaluating the effects of the conflict
- Resolving the conflict

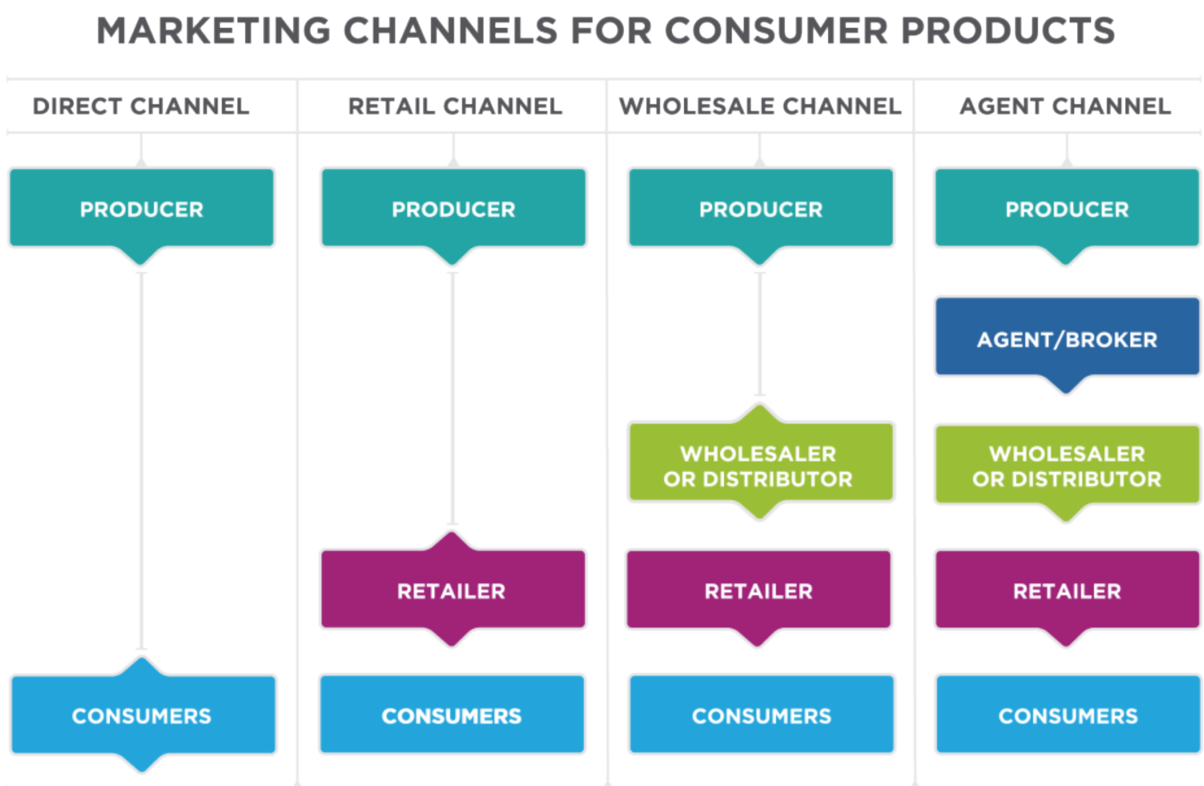
Given the distributed nature of the channel, it is often difficult to resolve conflict. Strategies such as the formation of a channel committee, joint goal setting, and bringing in arbitrators have all been used. In some cases, conflict becomes part of the ongoing channel dynamic—it's difficult but manageable. Eric Schmidt, chairman and CEO of Google Inc., notes: "From my experience, the most successful companies are the ones where there is enormous conflict. Conflict does not mean killing one another but instead means there is a process by which there is a disagreement. It is okay to have different points of view and disagree because tolerance of multiple opinions and people often leads to the right decision through some kind of process."

Power

Power is the capacity to use force in a relationship. It is often the means by which one party is able to control or influence the behaviour of another party. In the channel mechanism, power refers to the capacity of a particular channel member to control or influence the behaviour of another channel member. For instance, a large retailer may want the manufacturer to modify the design of the product or perhaps be required to carry less inventory. Both parties may attempt to exert their power in an attempt to influence the other's behaviour. The ability of either of the parties to achieve this outcome will depend on the amount of power that each can bring to bear.

Reading: Third-Party Sales

Introduction



Throughout the channel structure, there are a number of points where sales may occur.

The most straightforward of these is the direct channel, in which the producer sells directly to the consumer. In every other structure, multiple sales occur—from producer to wholesaler, from wholesaler to retailer, from retailer to buyer. In cases involving an intermediary, there is a third-party sale. Third-party sales are sales conducted by anyone other than the producer. Even when there are four or five parties involved, we refer to all of them as third parties.

Third-party sales are often vexing for marketers. When a company uses a direct sales approach, the marketer can devise a sales compensation structure that creates the right incentives for the sales team to sell the right products to the right customers at the right price. In a third-party sales situation, it is much more difficult to understand and influence the sales process. Let's look at a direct sales situation and a third-party sales situation to understand the differences.

Direct Sales Incentives

Nanette Lepore is a high-end clothing designer who has created a personal brand. Nanette sells direct to consumers both online and through her boutique stores across the U.S. Through the direct channel, Nanette's marketing team owns every aspect of the sales experience. When customers enter a store or land on her Web page, they see a complete outfit that is designed to sell the look that Nanette most wants them to buy. This includes clothing, shoes, and accessories all designed and sold by Nanette Lepore.

Nanette Lepore's blog and social media presence drive interest in the products that are available in stores and online, with an emphasis on those that are targeted for immediate sale.

When she completes drawings for next season's looks, Nanette provides digital copies of her drawings to her sales associates, who have been cultivating a list of their most fashion-forward customers. These customers can review drawings and preorder clothing before it is available to the public. These customers pay top dollar for Nanette Lepore's most current creations.

In the store, sales associates are not equally compensated for all sales. Once a line of clothing goes on sale, the price is reduced. From the perspective of a sales associate, instead of earning a 5 percent commission ($40) on an $800 dress, the associate will earn a 5 percent commission ($10) on a discounted $200 dress. The associate may earn no commission or a reduced commission on clearance items.

The sales staff is preparing customers in advance and in the moment to pay top dollar for Nanette Lepore's hottest fashions. They do this because there is an entire sales system and compensation structure that centers on Nanette Lepore. They also do this because they have become part of the Nanette Lepore brand and feel a commitment to Nanette Lepore and to the women for whom she is designing.

Third-Party Sales Incentives

Many retailers sell the Nanette Lepore line, including Hudson's Bay, Walmart, Nordstrom, Zappos, Gilt, Shopbop, and 6pm.com.

The Hudson's Bay (a Canadian department store) sales associate in the dress department is paid a flat commission regardless of the brand she sells. A strong sales associate will identify shoppers with an affinity for Nanette's designs and present them in the changing room or call to let them know that new Nanette Lepore designs have arrived. If a dress from Diane von Furstenberg or Kate Spade is more likely to make the sale, the dress by Nanette Lepore will not be suggested. The sales associate has incentives to make the largest possible sale—regardless of brand.

If the customer buys a Nanette Lepore dress and heads to the shoe department or accessory department to complete her outfit, she won't have Nanette Lepore brands as an option. Each department carries the most popular brands, and Nanette Lepore bags and shoes are a new, unproven brand.

In a more extreme example, 6pm.com is the online bargain outlet for Zappos (now owned by Amazon). There is no sales associate, and little effort is made to feature or present any particular brand or clothing. Customers come searching for rock-bottom pricing. Nanette Lepore's fashions sell at a discount of 60 percent to 70 percent off the manufacturers' suggested retail price.

If this example doesn't seem like something that you have experienced, walk into BestBuy and look for a phone, camera, or computer. Ask a sales associate to help you. You will quickly find that the store's sales compensation structure is driving what is available to you—and what is recommended.

What about something as simple as a breakfast cereal in a grocery store? Which products are at eye level? Which are difficult to find? Which are not available? Sales incentives are determining the answers to each of these questions.

Approaches to Support Third-Party Sales Success

If the marketer works for the producer—in our example, Nanette Lepore—they will lose significant control and influence in the third-party sale, while the Hudson's Bay marketing team will gain control or power. How can a marketer approach third-party sales most effectively? The following approaches can be used:

1. **Understand and align incentives.** A good marketer must understand why each channel partner buys and sells, how they are compensated, and what objectives they are hoping to achieve. In third-party sales, the marketer must optimize an existing structure rather than creating the structure.
2. **Provide exceptional sales support.** While the Nanette Lepore sales associates only needs to learn about her line, the Hudson's Bay sales associates must learn thirty or more. Make it very easy for the third-party sales team to become experts in your product.
3. **Create demand for your product.** Often marketers blame channel partners for a marketing mix that doesn't deliver value to the customer. While it is trite to say that a good product sells itself, it is true that the right product is easier to sell. When the distribution channel—"place," in the marketing mix—creates a lot of complexity, it is even more important to get the other three elements of the marketing mix just right.

Reading: Service Outputs

As with each element of the marketing mix, different segments of customers have different needs with regard to place, or distribution. Service outputs offer a way to focus on the unique needs of a target buyer and plan for those in the distribution strategy. Service outputs are the productive outputs of the marketing channel that consumers value and desire.

By identifying the service outputs for each segment of target buyers, the marketer can optimize the distribution strategy for each major segment. It is important to note that there are always trade-offs in the distribution strategy. A channel that provides a high level of customized services, such as a boutique store, will also usually add an additional cost. A channel that provides goods in very large quantities with a lower level of service, such as Costco, will generally offer them at a lower cost. Either might be the "right" solution depending on the customer segment.

Common Service Outputs

When considering the goals of channel management in meeting customer needs, there are a few broad service outputs that channels can address. The service outputs are explained from the perspective of the target customer, by identifying needs or preferences that a target customer might have:

1. **Spacial convenience**: Can I get the product at or near the location where I want it?
2. **Timing of availability**: Do I need the product immediately or am I willing to wait?
3. **Quantity**: Am I willing to buy in bulk or buy multiple items?
4. **Assortment and variety**: Do I have a very particular need or a flexible need? Am I looking for one or many options?
5. **Service**: Do I require assistance or support through the purchase process?
6. **Information**: Do I need information to make a purchase, or do I enter the buying process having already made a decision?

Again, service outputs generally involve trade-offs. For example, few customers would ever say, "Timing of availability has no impact on my purchase decision," but the timing of availability may be less important than the quantity or service needs. Customers generally have strong preferences in some areas and are more flexible in others.

Service Outputs in Practice

Imagine that a farmer is selling eggs and wants to meet the needs of her final consumers. Eggs are a fairly uniform product, a commodity, so most consumers are going to make decisions about which eggs they purchase based more on the distribution strategy than on a product or promotional strategy. Price is likely to be a factor, too.

Let's consider how two different customers might weigh the service outputs in two very different but simple egg-buying decisions.

Service Output	**Experience: I'm looking for a nice restaurant for brunch.**	**Service Output Level**	**Experience: I need eggs that I can cook for my family's breakfast.**	**Service Output Level**
Spatial Convenience	I'm willing to drive a little bit, especially to an interesting location with strong reviews.	Low	I want the most convenient location on my route where I can get in and out quickly.	High
Timing of Availability	I'm seeking an experience and am willing to spend some time to get it.	Low	I want the quickest purchase possible.	High
Quantity	I would like a nicely sized portion that seems like good value for the money.	Medium	I don't use eggs in bulk but need enough to feed my family.	Medium
Assortment and Variety	I would like to have a nice selection of preparations, and I prefer organic farm-fresh eggs.	High	I just need a dozen eggs of any brand.	Low
Service	I want a full-service experience from the wait staff and chef.	High	I want a quick, efficient check-out, but I don't require help selecting.	Low
Information	I would like to have information about my options and to understand the opinions of others who have eaten at this restaurant.	High	I already know everything I need to make a purchase.	Low

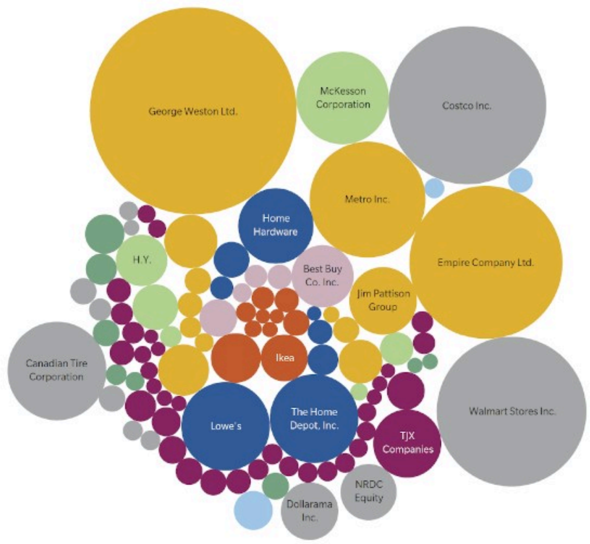
For the farmer, these different scenarios can inform the distribution strategy. If the farmer is looking to command a higher price, then they may want to focus on a strategy of selling through restaurant suppliers or directly to restaurants as a retail channel. If the farmer is looking to sell a larger quantity of eggs, then they likely need to sell to a wholesaler who can get as many of their eggs as possible into the right supermarkets that are located in neighborhoods of many, many consumers seeking spatial convenience in the purchase process. Or, they might want to pursue both strategies but do this with an awareness that they are serving two different target buyers with very different needs.

By understanding the service outputs of buyer segments, marketers can better match distribution options to buyer needs and provide the right trade-offs to each buyer.

12.4 Retailers As Channels of Distribution

What you'll learn to do: describe types of retailers and explain how they are used as a channel of distribution

Retailing is important for marketing students to understand for two main reasons. First, most channel structures end with a retailer. While products may pass through a wholesaler or involve a broker or agent, they also include a retailer. Second, retail offers an immense number of job opportunities. Today in the Canada, there are 1,167,260 [1] retail establishments that support 2 million jobs [2]. Retail also contributes $100 billion to the Canadian gross domestic product. [3]. Major retail employers are shown in the following graphic with a full report available from the Retail Council of Canada. [4]



Major Canadian retail employers. Read the full report from the Retail Council of Canada for more information.

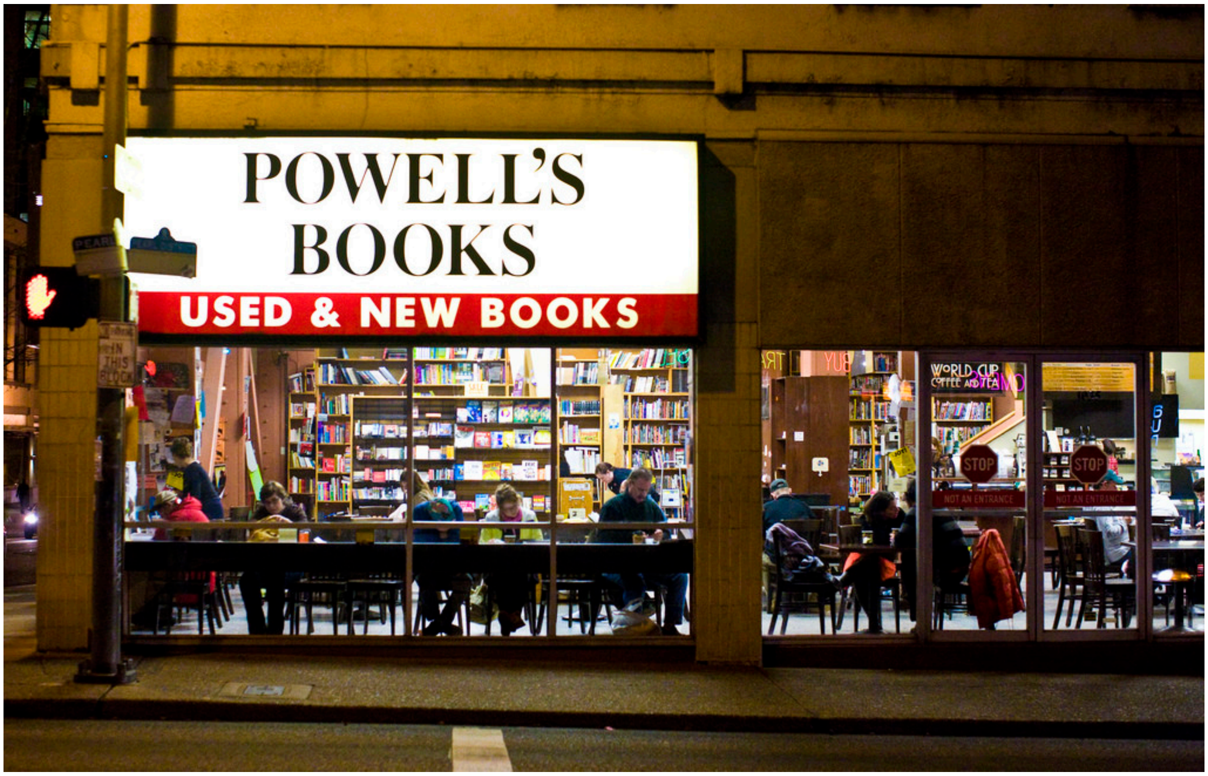
Learning Activities

- Reading: Define Retailing
- Reading: Types of Retailers

1. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3310008701
2. https://www12.statcan.gc.ca/nhs-enm/2011/as-sa/99-012-x/2011002/c-g/c-g02-eng.cfm
3. https://www.statista.com/statistics/858030/gdp-for-retail-trade-in-canada/
4. https://www.retailcouncil.org/community/store-operations/canadas-top-100-retailers/

- Reading: Retail Strategy
- Self Check: Retailers As Channels of Distribution

Reading: Define Retailing



Introduction

Retailing involves all activities required to market consumer goods and services to ultimate consumers who are purchasing for individual or family needs.

By definition, B2B purchases are not included in the retail channel since they are not made for individual or family needs. In practice, this can be confusing because many retail outlets do serve both consumers and business customers—like Home Depot, a home improvement retailer, which has a Pro Xtra program for selling directly to builders and contractors. Generally, retailers that have a significant B2B or wholesale business report these numbers separately in their financial statements, acknowledging that they are separate lines of business within the same company. Those with a pure retail emphasis do not seek to exclude business purchasers. They simply focus their offering to appeal to individual consumers, knowing that some businesses may also choose to purchase from them.

We typically think of a store when we think of a retail sale, even though retail sales occur in other places and settings. For instance, they can be made by a Pampered Chef salesperson in someone's home. Retail sales also happen online, through catalogs, automatic vending machines, and in hotels and restaurants. Nonetheless, despite tremendous growth in both nontraditional retail outlets and online sales, most retail sales still take place in brick-and-mortar stores.

The Retail Industry

The retail industry covers an enormous range of consumer needs. The Retail Council of Canada reports on retail sector statistics including the breadth of brands offered through retail chains as shown in the table below: [1].

The retail industry is designed to create contact efficiency—allowing shoppers to buy what they want efficiently with a smaller number of transactions. This design doesn't come from a master retail plan. It's driven by market forces. When a retailer sees an opportunity to expand its offering to increase purchases from customers in one location, it will expand its offering to meet the opportunity. When Barnes & Noble adds Starbucks coffee shops to its locations, customers visit more frequently and stay longer, increasing the chance of additional purchases. Costco recognized that busy holiday shoppers would rather buy a Christmas tree as part of a larger convenience purchase than have a focused (and less convenient) buying experience at a Christmas tree lot. Such opportunities cause retailers to expand their offerings, creating greater contact efficiency for consumers. Given this logic and opportunity, why doesn't every retailer become a Walmart Super Store filled with every possible product? Like all organizations that market effectively, retailers shape their offerings to a target buyer. Retailers must also consider the particular shopping experience a buyer is seeking in that moment or context. One experience isn't right for everyone at the same time; nor are all "experiences" compatible. For example, a buyer is expecting a different buying experience when they fill their car's gas tank and when they stay at a luxury resort. Retailers define their target buyer segments, identify the service outputs that those segments require, and match their offerings to provide value to each target segment.

1. Retail Council of Canada. (2020. March 4). *Canada's top 100 retailers*. https://www.retailcouncil.org/community/store-operations/canadas-top-100-retailers/

RANK	CAPITAL CONTROL	CONGLOMERATE	EXAMPLE BANNERS	RETAIL SALES	SPACE SQUARE FEET	NO OF STORES	NUMBER OF CHAINS	DOMINANT NAICS CODE
1	CAN	George Weston Ltd.	Shoppers Drug Mart, The Real Canadian Superstore, Loblaws	45,836	66,774	2,609	33	445 – Grocery
2	USA	Costco Inc.	Costco	26,689	14,477	100	2	452 – General Merchandise
3	CAN	Empire Company Ltd.	Sobeys, Safeway, IGA, Farm Boy	25,142	41,562	1,994	27	445 – Grocery
4	USA	Walmart Stores Inc.	Walmart Supercenters, Walmart	24,012	60,402	411	2	452 – General Merchandise
5	CAN	Metro Inc.	Metro, Food Basics, Jean Coutu Pharmacy	14,384	26,338	1,547	17	445 – Grocery
6	CAN	Canadian Tire Corporation	Canadian Tire, Mark's Work Wearhouse, Sport Chek	10,496	33,175	1,425	13	452 – General Merchandise
7	USA	McKesson Corporation	IDA Pharmacy, Uniprix, Rexall Drug Store	9,192	9,848	2,343	11	446 – Health and Personal Care
8	USA	Lowe's	Lowe's, Rona, Rona Home & Garden	8,418	24,671	649	9	444 – Home Improvement
9	USA	The Home Depot, Inc.	The Home Depot	8,409	19,110	182	1	444 – Home Improvement
10	CAN	Home Hardware Stores Limited	Home Hardware, Home Hardware Building Centre	6,100	12,305	1,076	4	444 – Home Improvement

Reading: Types of Retailers

Beyond the distinctions in the products they provide, there are structural differences among retailers that influence their strategies and results. One of the reasons the retail industry is so large and powerful is its diversity. For example, stores vary in size, in the kinds of services that are provided, in the assortment of merchandise they carry, and in their ownership and management structures.

As of December 2019, there were over 15,500 grocery stores in Canada. Micro grocery stores, which employ between one and four employees, were the most widespread type of grocery store in Canada. There were 5,648 micro grocery stores located across Canada at this time.[1]

A few stores are extremely large, having sales of $500,000 or more on a single day. In fact, on special sale days, some stores exceed $1 million in sales.

This diversity in size and earnings is reflected in the range of different ownership and management structures, discussed below.

Department Stores

Department stores are characterized by their very wide product mixes. That is, they carry many different types of merchandise, which may include hardware, clothing, and appliances. Each type of merchandise is typically displayed in a different section or department within the store. The depth of the product mix depends on the store, but department stores' primary distinction is the ability to provide a wide range of products within a single store. For example, people shopping at Hudson's Bay can buy clothing for a woman, a man, and children, as well as housewares, such as dishes and luggage.

Chain Stores

The 1920s saw the evolution of the chain store movement. Because chains were so large, they were able to buy a wide variety of merchandise at large quantity discounts. The discounts substantially lowered their cost compared to the costs of single-unit retailers. As a result, they could set retail prices that were lower than those of their small competitors and thereby increase their share of the market. Furthermore, chains were able to attract many customers because of their convenient locations, made possible by their financial resources and expertise in selecting locations.

1. Statista. (2022, March 07). *Number of grocery stores in Canada as of December 2021, by employment size*. https://www.statista.com/statistics/459536/number-of-grocery-stores-by-employment-size-canada/

Supermarkets

Supermarkets evolved in the 1920s and 1930s. For example, Piggly Wiggly Food Stores, founded by Clarence Saunders around 1920, introduced self-service and customer checkout counters. Supermarkets are large, self-service stores with central checkout facilities. They carry an extensive line of food items and often nonfood products. Supermarkets' entire approach to the distribution of food and household cleaning and maintenance products is to offer large assortments of these goods at each store at a minimal price.

Discount Retailers

Discount retailers, like Dollorama and Dollar Tree, are characterized by a focus on price as their main sales appeal. Merchandise assortments are generally broad and include both hard and soft goods, but assortments are typically limited to the most popular items, colours, and sizes. Traditional stores are usually large, self-service operations with long hours, free parking, and relatively simple fixtures. Online retailers such as Overstock.com have aggregated products and offered them at deep discounts. Generally, customers sacrifice having a reliable assortment of products to receive deep discounts on the available products.

Warehouse Retailers

Warehouse retailers provide a bare-bones shopping experience at very low prices. Costco is the dominant warehouse retailer, with $138.4 billion in sales in 2018.[2] Warehouse retailers streamline all operational aspects of their business and pass on the efficiency savings to customers. Costco generally uses a cost-plus pricing structure and provides goods in wholesale quantities.

Franchises

The franchise approach brings together national chains and local ownership. An owner purchases a franchise which gives her the right to use the firm's business model and brand for a set period of time. Often, the franchise agreement includes well-defined guidance for the owner, training, and ongoing

2. Costco Wholesale Corporation (2018, October 04) *Costco Wholesale Corporation Reports Fourth Quarter and Fiscal Year 2018 Operating Result* https://www.globenewswire.com/news-release/2018/10/04/1607991/0/en/Costco-Wholesale-Corporation-Reports-Fourth-Quarter-and-Fiscal-Year-2018-Operating-Results.html

support. The owner, or franchisee, builds and manages the local business. *Entrepreneur* magazine posts a list each year of the 500 top franchises according to an evaluation of financial strength and stability, growth rate, and size. The 2019 Top 500 Franchises list by Entrepreneur magazine is led by McDonald's, Dunkin' Donuts, Sonic Drive-In, Taco Bell, and the UPS Store.

Malls and Shopping Centers

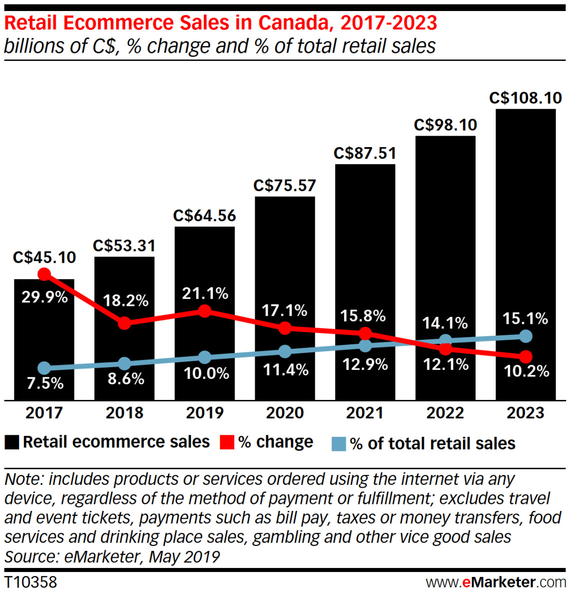
Malls and shopping centers are successful because they provide customers with a wide assortment of products across many stores. If you want to buy a suit or a dress, a mall provides many alternatives in one location. *Malls* are larger centers that typically have one or more department stores as major tenants. *Strip malls* are a common string of stores along major traffic routes, while isolated locations are freestanding sites not necessarily in heavy traffic areas. Stores in isolated locations must use promotion or some other aspect of their marketing mix to attract shoppers.

Online Retailing

Online retailing is unquestionably a dominant force in the retail industry, but today it accounts for only a small percentage of total retail sales. Companies like Amazon and Geico complete all or most of their sales online. Many other online sales result from online sales from traditional retailers, such as purchases made at thebay.com. Online marketing plays a significant role in preparing the buyers who shop in stores. In a similar integrated approach, catalogs that are mailed to customers' homes drive online orders. In a survey on its website, Land's End found that 75 percent of customers who were making purchases had reviewed the catalog first.[3]

eMarketer Graph[4]

3. Ruiz, Rebecca R. "Catalogs, After Years of Decline, Are Revamped for Changing Times." The New York Times. The New York Times, January 25, 2015. http://www.nytimes.com/2015/01/26/business/media/catalogs-after-years-of-decline-are-revamped-for-changing-times.html.
4. Briggs. P. (2019, June 27). *Canada e-commerce 2019. One in 10 retail dollars now transact digitally.* https://www.insiderintelligence.com/content/canada-ecommerce-2019



Canada e-commerce 2019. One in 10 retail dollars now transact digitally.

Catalog Retailing

Catalogs have long been used as a marketing device to drive phone and in-store sales. As online retailing began to grow, it had a significant impact on catalog sales. Many retailers who depended on catalog sales—LL Bean, The Hudson's Bay, and J.C. Penney, to name a few—suffered as online retailers and online sales from traditional retailers pulled convenience shoppers away from catalog sales. Catalog mailings peaked in 2009 and saw a significant decrease through 2012. In 2013, there was a small increase in catalog mailings. Industry experts note that catalogs are changing, as is their role in the retail marketing process. Despite significant declines, U.S. households still receive 11.9 billion catalogs each year.[5]

Nonstore Retailing

Beyond those mentioned in the categories above, there's a wide range of traditional and innovative retailing approaches. Vending machines and point-of-sale kiosks have long been popular retail devices. Today they are becoming more targeted, such as companies selling easily forgotten items—such as small electronic devices and makeup items—to travelers in airports.

5. Geller, Lois. "Why Are Printed Catalogs Still Around?" Forbes. Forbes Magazine, October 16, 2012. http://www.forbes.com/sites/loisgeller/2012/10/16/why-are-printed-catalogs-still-around/.

Each of these retailing approaches can be customized to meet the needs of the target buyer or combined to span a range of needs.

Reading: Retail Strategy

Just when we have finally mastered the marketing mix that includes the four Ps, we arrive at the retail strategy. The retail marketing strategy includes all of the elements of the traditional marketing mix:

- Retailers buy **product** from producers or wholesalers that will most appeal to their target market.
- Retailers set a **price** that delivers value for the product and the complete shopping experience.
- Retailers **promote** their offering, which includes the shopping experience, the products, the pricing, and broadly, the retail brand.
- Retailers create the right **place**, which is the point of purchase for the buyer.

In delivering the best retail experience through the right place, two additional Ps come into play: presentation and personnel.

Presentation

Think of a physical store where you enjoy shopping. What is it about the store that you like? You might like the way the store looks, feels, sounds, or smells. It might have products that draw you in and make you want to interact with them. You may just like the store because it's familiar and convenient—you know where to find the things you need. All of these descriptions fall into two categories. They refer either to the *atmosphere* of the store or the *layout* of the store.

Anthropologie stores have low density, emphasizing design elements that contribute to the creative-clothing and house-wares brand.

The atmosphere describes the feeling, tone, or mood of the store. Often, as a shopper, it is difficult to identify exactly what creates the atmosphere in a good shopping experience. (It is much easier in a bad shopping experience.) The store's decor plays a role in the atmosphere. Are the fixtures decorative or merely functional? Is the shopper invited to linger on a couch or inviting chair, or is he encouraged to simply purchase and leave?

One important element of the atmosphere is density. How has the retailer packed elements into the space? Retailers manage the density of employees, fixtures, and merchandise. The shopping experience requires more employees if there is a high need for service or information. High-end clothing sales generally provide a higher level of service, with sales associates available to advise on fit and fashion choices and to bring the shoppers different sizes and clothing options in the dressing room. A car purchase is not one that generally involves the same type or style of service, but there is a high need for information that translates to a higher density of sales employees to explain features, financing, and availability.

The density of merchandise and fixtures also has a significant impact on the atmosphere of the store. If the shopper's value service or the retail brand requires a high-end experience, then the retailer generally has less density of merchandise and fixtures. If the shopper most values service outputs of assortment and convenience, then the retailer will use a higher density of merchandise. For example, grocery shoppers may have different standards for the quality of fixtures they prefer relative to the price of the grocery items, but generally, they prefer a higher-density shopping experience. The shopper is trying to collect many different products from all areas of the store and would rather have shelves stacked than have to wander much farther through a store with more empty space. Convenience is the dominant factor driving the presentation of products.

The produce section is generally the first food area presented in a grocery store layout.

Finally, the layout, display, and positioning of the merchandise have a significant impact on sales behaviours. Grocers have conducted studies to optimize the layout of the store and the position of items on the shelves. Stores are designed in a logical pattern so that they are easy to navigate and optimize spending. Higher-margin items are placed at eye level, while those that are inexpensive and commonly purchased are at the bottom of the shelf. The produce section was once the entry point for every grocery store. Today, that spot is more likely to be occupied by high-end novelty items (expensive chocolates, clothing, paper items, floral arrangements). Still, the produce section continues to be the first food section that buyers are steered toward. This is intended to facilitate meal planning before the shopper arrives at the meat and dairy departments.

In a retail environment, the layout is designed to create comfort and convenience and, at the same time, drive sales.

Online Presentation

Moving the presentation to an online shopping experience can be even more difficult. Retail websites emphasize site design, navigation, information, and checkout experience. Amazon has set the standard for ease of purchase with its one-click checkout solution. Amazon is well known for providing thorough, accurate product photos that give a complete view of each product from every angle. Still, the online atmosphere is more difficult to differentiate from the traditional in-store experience.

Personnel

Retail employees are the face of the brand to the shopper. This is true of a sales associate who helps with a purchase decision, a waitperson in a restaurant, a hotel check-in clerk, or a checker in a grocery store who efficiently rings up purchases. Retail employees fill a weighty role in the brand for two reasons. First, they do work that has the potential to add immense value to the purchase process. When an employee is helpful and efficient with the selection and/or purchase of a product, it's an important and necessary aspect of the buyer's retail experience. The retail employees working directly with customers have a much more personal and profound impact on the brand experience of each shopper than the senior executives of the company or even store managers, who have less customer contact.

In order to support employees to be successful, effective retailers will:

- Demonstrate care in hiring to ensure that customer-facing employees will represent the retailer's brand values
- Train employees to be knowledgeable about the products and efficient in their jobs
- Carefully manage operations so that staffing levels match the desired retail experience
- Compensate employees in a way that rewards good service and effective sales

Sales employees are most likely to have some variable compensation or have some portion of their paycheck tied to their ability to drive sales. These incentives can be a direct commission on sales or a less direct financial or benefits bonus for the store meeting its goals.

The following video shares how one retail giant, Costco, understands the importance of treating its employees well in order to ensure good customer service and a positive shopping experience every time.

https://www.youtube.com/watch?v=P57mHjQzeKg&ab_channel=LumenLearning

You can view the transcript for "Success for CostCo" (opens in new window).

12.5 Integrated Supply Chain Management and the Distribution Strategy

Learning Objectives

- Identify the components of a supply chain
- Define integrated supply chain management
- Explain the impact of the supply chain on the distribution strategy

Earlier in this module, we discussed the definition of the supply chain and the difference between the supply chain and marketing channels. As a reminder, the supply chain is a system of organizations, people, activities, information, and resources involved in moving a product or service from supplier to customer. Supply chain activities involve the transformation of natural resources, raw materials, and components into a finished product that is delivered to the end customer.[1]

The marketing channel generally focuses on how to increase value to the customer by having the right product in the right place at the right price at the moment the customer wants to buy. The emphasis is on providing value to the customer, and the marketing objectives usually focus on what is needed to deliver that value.

The primary differences between the two are the following:

1. The supply chain is broader than marketing channels.
2. Marketing channels are purely customer-facing, while the supply chain encompasses internal objectives as well.
3. Marketing channels are one part of the marketing mix that must be balanced with product, price, and promotion.

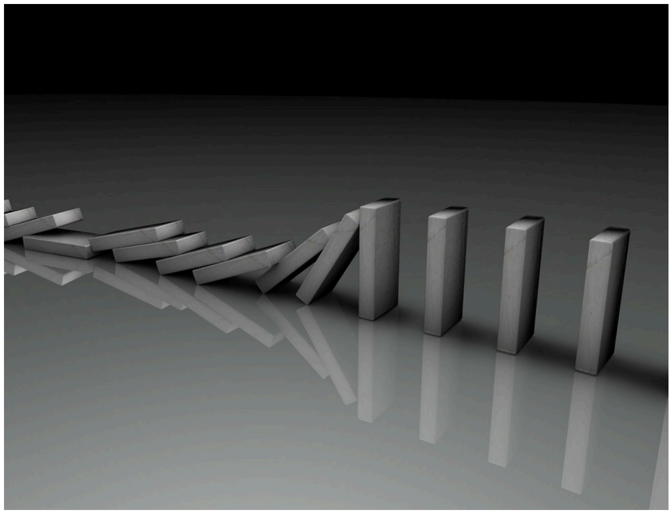
In this section, we are going to get into the supply chain in more detail. Our goal here is to understand the contributions of integrated supply chain management in order to be able to create a more effective distribution strategy.

Learning Activities

1. Nagurney, Anna (2006). *Supply Chain Network Economics: Dynamics of Prices, Flows, and Profits. Cheltenham,* UK: Edward Elgar. ISBN 1-84542-916-8.

- Reading: Components of a Supply Chain
- Reading: Integrated Supply Chain Management
- Reading: Supply Chain and Channel Strategy
- Self Check: Integrated Supply Chain Management and the Distribution Strategy

Reading: Components of a Supply Chain



The interconnected teams and organizations that comprise the supply chain provide a range of different functions. The supply chain for every organization is different. In fact, each product can have different supply chain needs and challenges, leading to different players. In general, the supply chain spans a fairly common set of functions that are accomplished in very different ways.

Sourcing and Procurement

Sourcing is the process of finding, evaluating, and engaging suppliers to provide goods and services to a business. *Procurement* is the process of purchasing the goods and services. In a B2B sale, the procurement function will usually manage *both* the sourcing and the procurement functions.

In the earliest days of the automobile, Henry Ford made a decision to own or control the full supply chain—from the mines that provided the ore to the factories that made the glass. Raw materials—iron ore, coal, and rubber, all from Ford-owned mines and plantations—came in through one set of gates at the plant while finished cars rolled out the other.[1] Today it is exceptionally rare for a company to try to own all the raw materials for a physical product. Even software products use preexisting software frameworks and code.

Businesses have shown success in managing external suppliers and have found that it is beneficial to source some materials and services in order to focus on particular areas of specialization. A business may choose to source raw materials that it does not own. It may also choose to outsource services that it could do itself but has found advantageous to source externally. Outsourcing is the process of contracting out a business process to another party.[2]

In sourcing a product or service, businesses will generally conduct a thorough analysis of their needs, evaluating the material requirements, the service requirements, and the financial requirements. Next, the company will research potential suppliers, understanding what offerings exist in the market and how well they seem to match with the company's requirements. Often companies select suppliers based on existing relationships or on the results of the analysis they have done. Other times the company may decide to go to a competitive bid and solicit proposals from a number of firms (Government entities are usually required to go to public bid).

1. National Science Foundation [NSF]. (n.d.) *Manufacturing: the forms of things unknown*. https://www.nsf.gov/about/history/nsf0050/pdf/manufacturing.pdf
2. Oxford English Dictionary (2005).Outsourcing in Oxford University Press (3rd ed.).

Whether it is through a formal bid process or through another market analysis, the supply chain team will analyze the capabilities of potential suppliers and craft a sourcing strategy. The company may prefer to build a deep relationship with a single supplier or work with a number of different suppliers to benefit from different capabilities or reduce the risk of dependency. Then the team will negotiate contracts with the suppliers that align with the business needs.

Hewlett Packard (HP) developed a framework for evaluating and managing suppliers called the TQRDC framework. Supplier contracts and evaluations addressed five factors: technology, quality, responsiveness, delivery, and cost. By negotiating supplier contracts with goals and commitments identified for each of the five areas, and evaluating performance over time, HP was able to engage more collaboratively with its suppliers to continuously improving processes, relationships, and results.[3]

Demand Planning, Order Fulfillment, and Inventory

Demand planning begins early in the new-product development process in order to develop the business case, but as the product goes to market, the accuracy of the demand forecast becomes much more important.

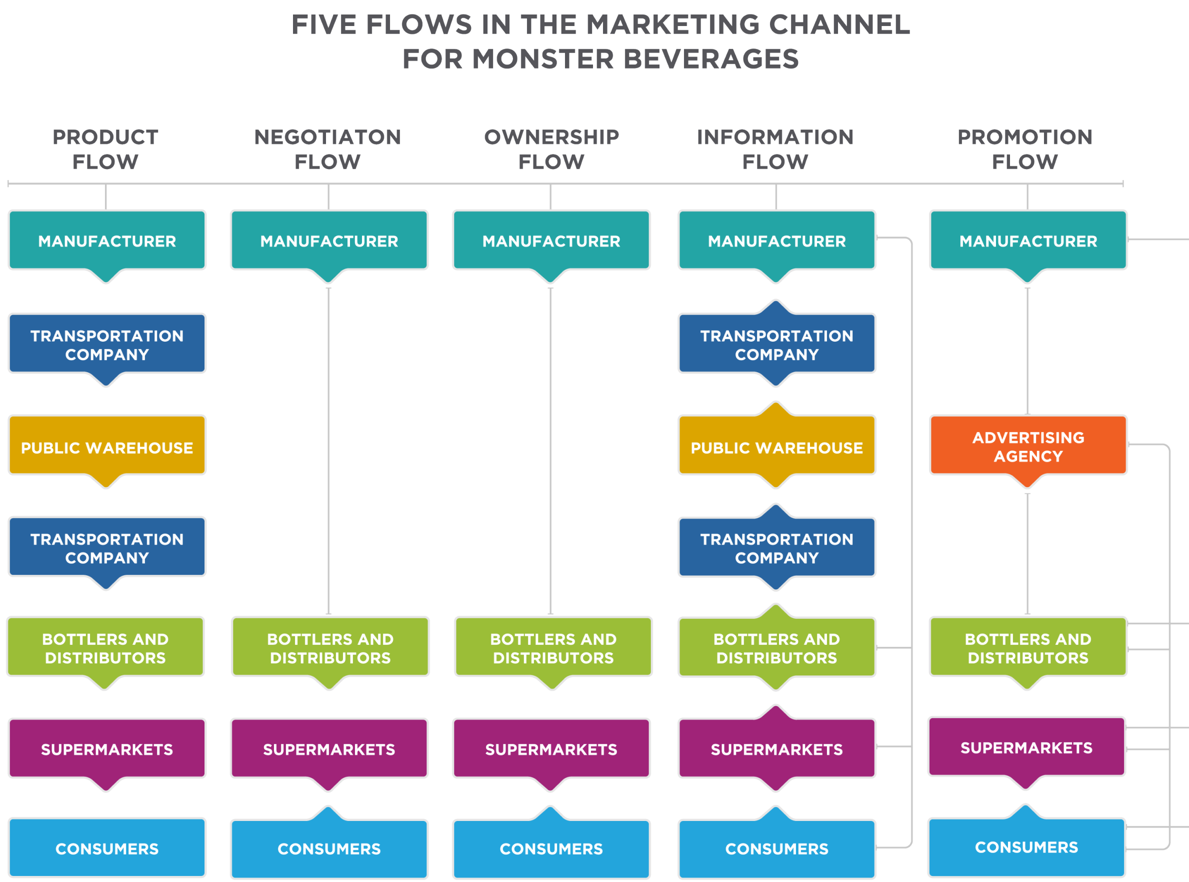
The supply chain organization contracts with suppliers to meet the projected demand. If the forecast is too high, the company not only loses revenue but may also incur costs for products that are never sold. If the marketer projects demand too low, then the company cannot fulfill orders, resulting in product shortages. This also results in lost revenue and negatively impacts the buyers' shopping experience. It's difficult to forecast demand and get it just right.

Supply chain management can help with the forecast and fulfillment process. If suppliers have visibility into the company's forecast and sales data, they can react immediately when demand is high or low. Otherwise, suppliers will continue to produce and deliver at a level that is not aligned with the latest sales data or the revised forecasts. They will either be building or depleting inventory.

Inventory is an asset that is intended to be sold in the ordinary course of business. Inventory may not be immediately ready for sale and can fall into one of the following three categories:

- Be held for sale in the ordinary course of business
- Be in the process of being produced for sale
- Be materials or supplies intended for consumption in the production process[4]

3. TMCNET News. (2006, September 28) How HP measures supplier performance and compliance. https://www.tmcnet.com/usubmit/2006/09/28/1939407.htm
4. http://www.accountingtools.com/dictionary-inventory



In managing the supply chain, many businesses prefer to use a just-in-time (JIT) inventory management approach. This means that the company will keep very little inventory on hand at each step in the supply chain. Let's revisit a real example to see why this might be a good idea.

In our Monster Beverage channel example, we can see the product flow in the column on the left. If the manufacturer produces enough concentrate for the production of 100,000 Monster Beverages each week and sends them off with the transportation company, then over time there will be 100,000 beverages each week available to consumers. What if consumers only demand 40,000 beverages each week? Initially, there will be an extra 60,000 beverages in supermarkets, but quickly the supermarkets will reduce their purchases to match demand. Next, the extra inventory is likely to build up with the bottlers, and lastly in the warehouse. The manufacturer could overproduce for several weeks or more before beginning to realize that there is too much product and inventory.

If Monster uses a JIT inventory process, then new orders from the manufacturer will only be generated as stock is pulled from the warehouse, because the bottler requires it to fulfill orders from the supermarket. Each of the organizations in the supply chain will know when demand is slowing or growing and will be able to react more quickly to changes in demand.

Warehousing and Transportation

In our global economy, it is a huge task to transport and store commercial products. The supply-chain and logistics firm MWPLV International completed a comprehensive analysis of Walmart's distribution network and found the following:

- Walmart and Sam's Club distribution centers total 124.2 million square feet. If airlifted to Manhattan they would cover nearly 19 percent of the total borough of Manhattan.
- Approximately 81 percent of the merchandise sold at Walmart is shipped through Walmart's distribution network. The balance is serviced through direct store delivery in which the manufacturer ships directly to the store.
- There are 42 regional distribution centers that are 1.0–1.5 million square feet. Each has a mechanized conveyor system that sorts products to the correct loading dock for shipment. Each regional center employs around 1,000 employees.
- The regional distribution centers are, on average, 124 miles from the Walmart stores that they serve.

A distribution center is a warehouse or storage facility where the emphasis is on processing and moving goods onto wholesalers, retailers, or consumers. As we see from the Walmart distribution network, warehouses are not only storage facilities. They are increasingly equipped with technology systems that support the efficient counting, management, and transportation of goods. In the warehousing and transportation process, the goal is to efficiently move the right product to the location where it will be purchased by a customer.

How are all of these products tracked? Each product has a unique identifier called a stock-keeping unit (SKU). The SKU is scanned and tracked at each step in the process from receiving, through storage, to retrieval and shipping. Once loaded on the truck, the entire order is sent between the warehouse, the shipper, and the receiving company using another data format called electronic data interchange (EDI). EDI allows the trucking company to know exactly what it is shipping, and it gives the sending and receiving companies detailed, real-time tracking and status reports.

Amazon's One-Day Delivery

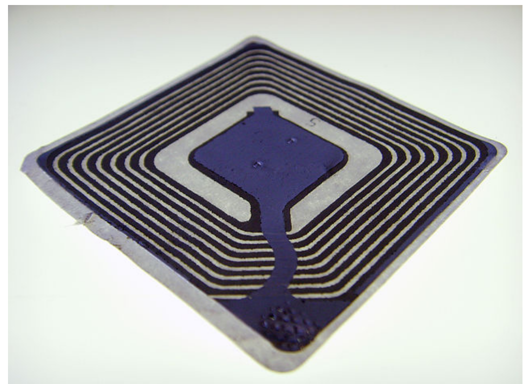
You can view Amazon's delivery process in the video below. Note that at 10:47, the video shifts to discuss the working conditions in Amazon's fulfillment warehouses.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=262#oembed-1

You can view the transcript for "How Amazon Delivers On One-Day Shipping" here (opens in new window).

Logistics and Information Management

The physical movement of goods is called logistics, and as you can guess, it is a staggeringly complex and important function. Imagine trying to keep track of all of this information—from the initial order forecast to production, warehousing, and transportation. It's obviously not a job that a human, or even a team of humans, could easily do on a large scale. As global supply chains have grown more complex, businesses have created systems to manage and optimize the supply chain. In 2019, the market for supply chain management software exceeded $15 billion. [5]. Put simply, companies are buying expensive systems to help manage the complexity of the supply chain.



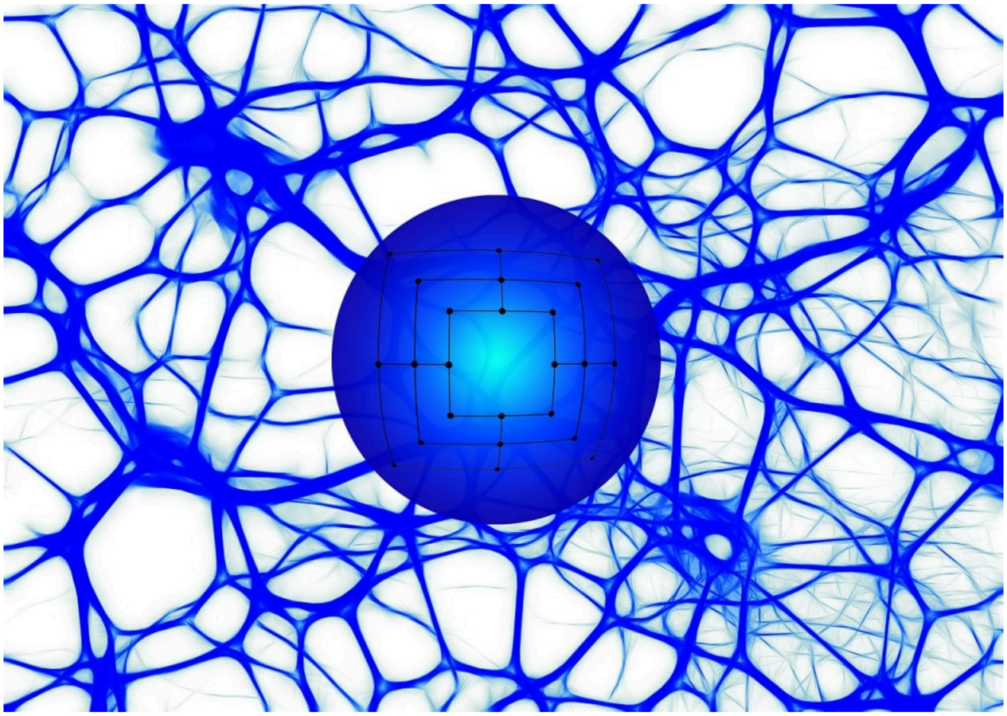
An RFID tag allows interested parties to track the location of packages in transit.

Have you ever tracked a package that you were sending or receiving and seen its progress through the supply chain? This is done using track-and-trace software that monitors the progress of physical goods through the supply chain process, often by means of a radio-frequency identification tag. Radio-frequency identification (RFID) uses electromagnetic fields to automatically identify and track tags attached to objects. The tags contain electronically stored information. Passive tags collect energy from a nearby RFID reader's interrogating radio waves. RFID tags are used in many industries—for example, an RFID tag attached to an automobile during production can be used to track its progress through the assembly line, and RFID-tagged pharmaceuticals can be tracked through warehouses in the supply chain process.

Information throughout the supply chain process is captured in systems that allow supply chain professionals to analyze results and identify improvements that will lead to more reliable, faster, and less expensive delivery to customers throughout the supply chain.

5. McCrea, B. (2020, September 4). *The Continuing Convergence of the Public Cloud and Supply Chain Management Software*. Supply Chain 247. https://www.supplychain247.com/article/the_continuing_convergence_of_the_cloud_and_supply_chain_software.

Reading: Integrated Supply Chain Management



As the importance of managing the supply chain well has increased, companies have acknowledged that they must manage the supply chain as a complete system and treat it as an integrated function. When an organization takes an integrated approach, it is recognizing that it cannot manage each part of the supply chain as an independent function, but instead needs to understand and manage the connections and interdependencies.

Within the supply chain organization, this means that sourcing, demand planning, inventory planning, warehousing, logistics, and order-fulfillment functions must work together. The rise of supply chain software tools that bring this data and information together in one place is just one indicator of an increasingly integrated focus. Also, many organizations previously had these functions spread between different organizations with little opportunity to interact. Today, most large organizations have an integrated supply chain function with a common management team and common objectives.

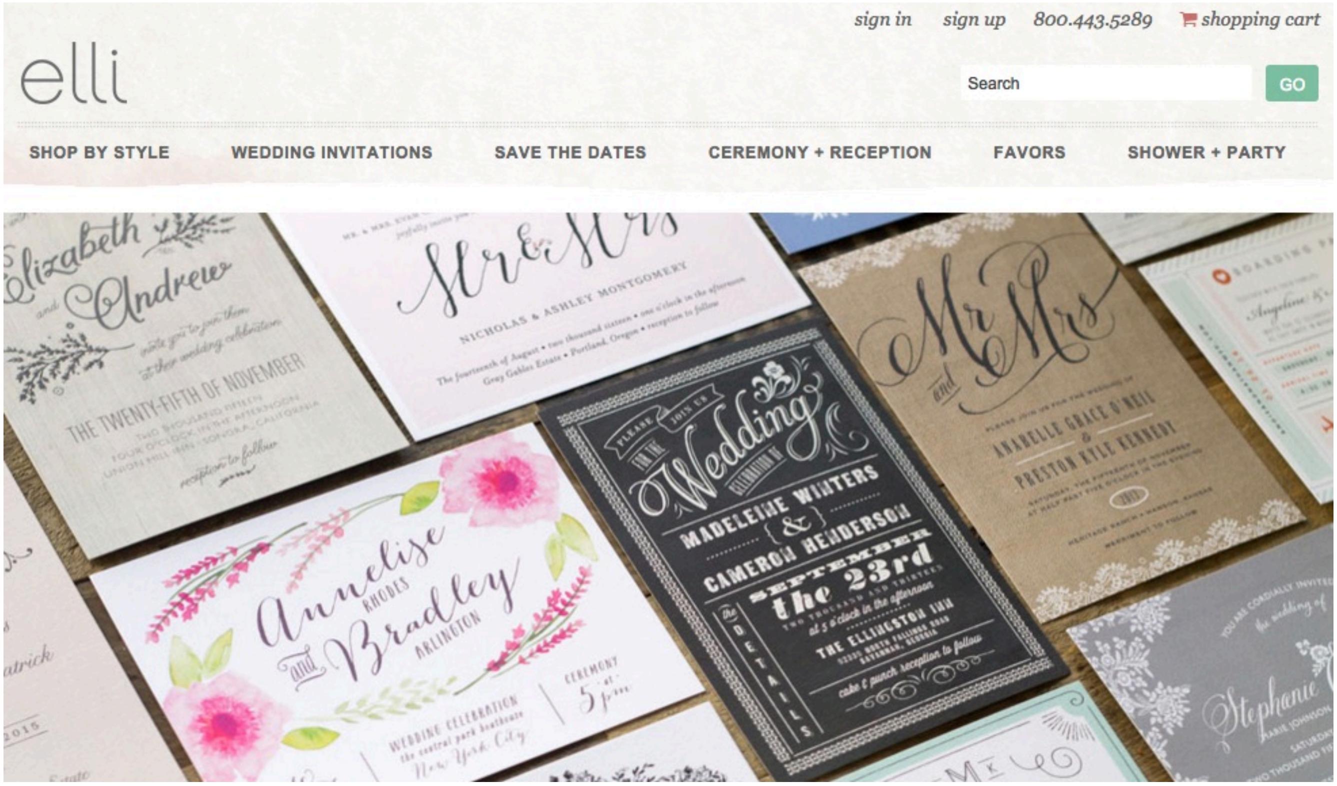
Beyond the work occurring within the supply chain organization, there are important connections to marketing, finance, and manufacturing. Marketing plays a direct role in creating the demand forecast and defining the product and delivery expectations for customers. These must be reviewed with the supply chain team so that everyone knows what needs to be achieved, and when that isn't possible, adjustments can be made and communicated to customers early. The integration with finance is necessary to ensure that investments are budgeted correctly and inventory is accounted for accurately. Manufacturing is often most heavily affected by decisions and requirements of the supply chain team, as they are counting on having an adequate supply and must meet delivery timelines to keep customer commitments.

As with many complex organizational challenges, this integration works best when there are clear objectives that are set across the organizations, a common view of the data (which identify opportunities for improved performance), and clear, frequent communication about potential issues and needs. This enables all of the organizations to focus on delivering value to customers and achieving the company mission.

Reading: Supply Chain and Channel Strategy

Let's look at an example in which the supply chain is key to a successful channel strategy that delivers the right value to customers.

Elli.com is an online retailer that sells customized wedding materials to brides. Elli specializes in paper products that are unique and beautifully designed, and it coordinates a complete look for a bride from her first wedding announcement to her final thank-you note.



In crafting its channel strategy, Elli focused on what it does best: providing a beautiful product to brides with an exceptional service experience. Elli is also a small company that did not want to use its funding to build capability in areas that others could do better and less expensively.

The table below shows the components of the channel strategy and the supply chain decisions the company made to provide unique value to its customers.

Components of Channel Strategy and Supply Chain Decision

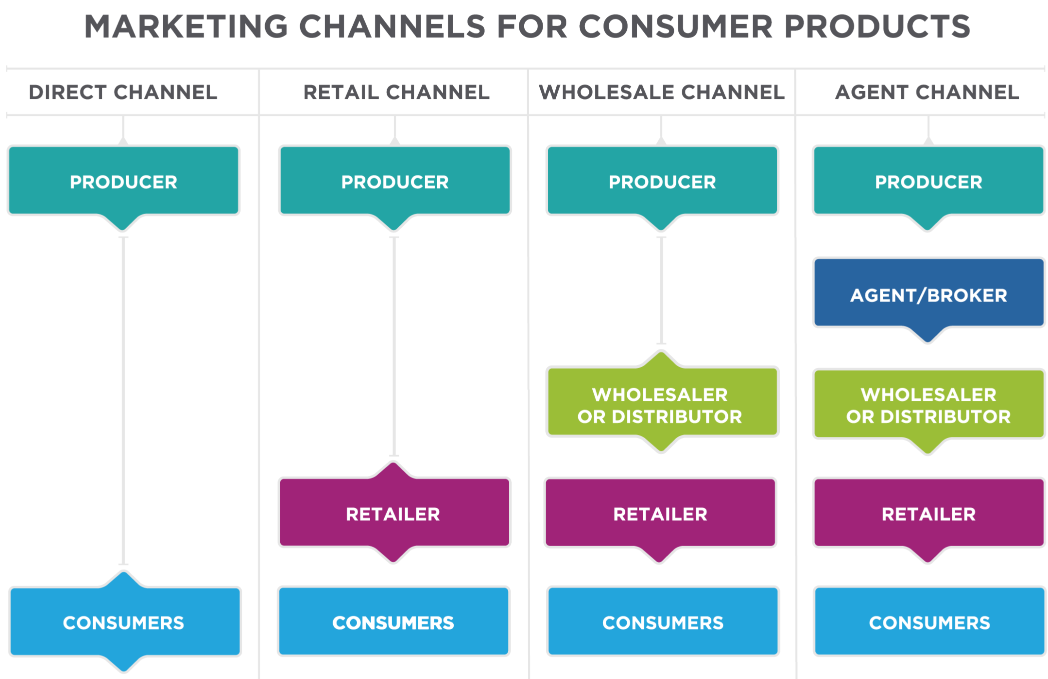
	Channel Strategy	Supply Chain Decision
Channel Structure	Sell direct to consumer. Brides are nervous about making every detail perfect. If Elli manages all interactions with the brides, the team can provide meticulous, reassuring service, reducing risk to customer relationships.	Do not engage wholesale or retail partners.
Sourcing	Elli does not create designs. The company works with a network of designers who submit design concepts. The Elli creative team reviews the designs and offers to resell those they believe Elli brides will love.	Outsource design work. The network of designe large enough to ensure a continual stream of de match Elli's quality standards. Designers provic Elli for marketing and fulfillment.
Order Fulfillment	Every Elli order is a custom product that is printed or created for an individual bride. When a bride places an order, an Elli staff member personally confirms that order and creates a digital proof of the print item for the bride's approval.	Elli does not outsource any communication wit
Manufacturing	Once the proof is approved, the staff member sends the order to an external print service that prints, packages, and ships the order to the bride. The Elli staff member monitors the timeline for printing and shipping and addresses questions from the printer.	Elli has contracted with a local printer. The prin carefully selected to ensure that the printing tim attention to detail matches Elli's expectations fo customers. By using a local provider, the compa regularly check the quality of orders.
Shipping	Elli determined that a national shipping partner could get the orders to brides most quickly and efficiently.	Elli uses a single national shipper. The shipping integrated into Elli's customer database to prov with real-time tracking information on each ord
Issue Resolution	Because Elli owns the relationships with brides, designers, printers, and shippers, the company can resolve all issues from a single point of contact.	Elli team members own different supply chain r The team regularly reviews the supply chain pe shares perspectives on how the partnerships and can be improved.

The Elli approach seems to be using a range of internal capabilities and external channel partners to create a customer experience that leaves brides happy. As you look at Elli's approach, where is there risk in the distribution strategy? In which areas might issues arise as Elli grows?

12.6 Putting It Together: Place: Distribution Channels

Let's return to our earlier example of Whole Foods' and Trader Joe's distribution strategies now that we understand much more about marketing channels and supply chains. Whole Foods and Trader Joe's use very different approaches to source their products, place stores, and get the products to the stores. Both companies have developed these strategies because of their missions and their focus on delivering value to target customers. Is one of the distribution strategies better than the other, or are they both using successful but different strategies?

Marketing Channels



Both companies use the retail channel and deal directly with suppliers.

In the case of fruits and vegetables, Whole Foods has buying relationships with local farmers (producers) who supply the store with seasonal produce. Thus, if one farmer is unable to produce a sufficient amount of yellow corn or heirloom tomatoes, the shortfall can be made up by another farmer. Although challenging to perfect, these short supply chains are agile and difficult for other big retailers to duplicate.

Trader Joe's also buys directly from producers. It offers manufacturers detailed specifications for new products along with the price it will pay, but then it leaves it up to the vendors to create innovative high-quality items. In return, Trader Joe's expects a high level of secrecy from its suppliers, even going so far as to force them to not publicly acknowledge their business relationship. Trader Joe's does this because it doesn't want other vendors, customers, or competitors to know where it gets its products. In most cases, vendors agree to this cloak of secrecy because they are typically producing a lower-cost version of a product for Trader Joe's than for their other customers, and they do not want to create pricing pressure with other customers by disclosing this.

Sourcing

Whole Foods emphasizes the quality of its products, requiring that stores must not stock products with artificial flavors, preservatives, colours, sweeteners, or hydrogenated oils.[1] Due to this focus on quality, customers pay a premium for Whole Foods' one-of-a-kind produce selection and quality. Because of its high prices, Whole Foods has been dubbed "Whole Paycheck." Nonetheless, loyal customers are happy to pay them. Whole Foods does not compete with other grocers on price and has no intention of ever competing in that arena. And since many of its products cannot be found anywhere else, Whole Foods exerts enormous leverage in terms of its pricing power. Furthermore, Whole Foods filters its product offerings and only carries pure, unadulterated foods. This is a strong differentiator, which adds value from the customer's perspective. Historically, Whole Foods has been able to sell this high-quality merchandise at a price that provides strong profits, in spite of the higher costs.

Trader Joe's manages its supply chain by relying on its successful private-label brands. Eighty percent of Trader Joe's products are developed either in-house or are created by suppliers exclusively for Trader Joe's; average stores carry only 16 percent local products. This strategy allows Trader Joe's to differentiate from its competitors and reduce its marketing costs, and selling its own in-house brands reduces the number of SKUs in its stores. This collapses the number of supplier relationships and leads to a more efficient and controllable supply chain.[2]

Distribution Networks and Inventory Management

As Whole Foods has increased the number of retail centers it operates, it has suffered growing pains in efficiently managing the distribution of products to its stores. The chain is growing at such a fast rate that it struggles to keep up with demand for products and keep shelves stocked. The single biggest reason for inefficiency is Whole Foods' almost completely decentralized back end. It has twelve geographic divisions, a national headquarters in Austin, regional distribution centers, bakery facilities, kitchens, seafood processing facilities, meat and produce procurement centers, and a specialty coffee/tea procurement operation.[3] Each geographic division has its own office, regional president, and oversees its own store network. Many outsiders scoff at its supply chain and consider it amateurish and lacking in professionalism. But with the ample margins that Whole Foods commands for its products, it doesn't face immediate pressure to improve efficiencies.

The stores operate under minimal governance and are given maximum freedom to source a product mix that is appropriate for their location. Whole Foods stores operate under the premise that they need these freedoms to meet the unique buying needs of its local customers. The only governing rule put in

1. "Quality Standards." Whole Foods Market. March 04, 2019. Accessed March 04, 2019. https://www.wholefoodsmarket.com/quality-standards.
2. Lutz, Ashley. "How Trader Joe's Sells Twice As Much As Whole Foods." Business Insider. October 07, 2014. Accessed March 04, 2019. http://www.businessinsider.com/trader-joes-sales-strategy-2014-10.
3. Whole Foods Market (2009) *Annual Report* https://www.annualreports.com/HostedData/AnnualReportArchive/w/NASDAQ_WFM_2009.pdf

place by the corporate office is that stores must not stock products with artificial flavors, preservatives, colours, sweeteners, or hydrogenated oils. A downside to this local purchasing policy is that consistency is compromised across the chain. Every retail location carries a variety of products that distinguishes it from other stores in the same chain. Not surprisingly, it is difficult to achieve economies of scale.

Trader Joe's manages its distribution networks by minimizing the number of hands that touch the product, thereby reducing costs and making products quickly available to their customers. You'll recall that Trader Joe's orders directly from the manufacturer. The manufacturer, in turn, is responsible for bringing the product to a Trader Joe's distribution center. At the distribution center, trucks leave on daily resupply trips to local stores. Because of the average store's small size, there is little room for excess inventory, and orders from distribution centers need to be incredibly accurate.

Trader Joe's primary success factor has been its inventory-sourcing and pricing model: it limits its stock to specialty products that it can sell at very low prices. This is accomplished by purchasing large quantities of specialty goods (that do not interest conventional supermarkets), thereby securing low prices. Customers are able to purchase unique products that guarantee value. This strategy also means that customers buy more because Trader Joe's sells twice as much per square foot compared to other supermarkets. It achieves these quantities by focusing on a smaller range of products—typically carrying around 2,000 SKUs, whereas the typical grocery store carries upwards of 30,000.[4] This small figure is likely exacerbated by the size of the store (one-third the square footage of an average supermarket) and cramped aisles.

The Results

Whole Foods' stock price has declined sharply since February 2015, while Trader Joe's continues to thrive. Lower-cost competitors like Walmart and Kroger's saw Whole Foods' high prices and margins and have been able to add high-quality organic products to their offerings at a lower price because of supply chain and distribution efficiencies. In other words, Whole Foods' sourcing strategy, once thought to be a sustainable competitive advantage, can in fact be replicated more efficiently by competitors. The press coverage of some of the challenges is highlighted below:

> Whole Foods Market Inc., which has long given its local managers and regional bosses broad discretion over everything from buying cheese to store design, is whittling away at some of that autonomy in an effort to reduce costs and boost its clout with suppliers.
>
> As stiffer competition erodes its profit growth, the natural and organic foods retailer is tweaking its management style by centralizing and streamlining some functions. The changes could be risky for the company as it tries to wring more efficiency from its stores without sacrificing the local flavor and specialty offerings that have been a cornerstone of its success.
>
> Whole Foods is shifting more responsibility for buying packaged foods, detergents, and other nonperishable items for the more than 430 stores to its Austin, Texas, headquarters. It is deploying software to simplify labor-intensive tasks like scheduling staff and replenishing shelves.[5]

4. Kowitt, Beth. (2010, August 3). *Inside the Secret World of Trader Joe's.* Fortune Magazine. https://archive.fortune.com/2010/08/20/news/companies/inside_trader_joes_full_version.fortune/index.htm
5. Brat, Ilan. "Whole Foods Works to Reduce Costs and Boost Clout with Suppliers." The Wall Street Journal. February 14, 2016. Accessed September 16, 2019. https://www.wsj.com/articles/whole-foods-works-to-reduce-costs-and-boost-clout-with-suppliers-1455445803

In the meantime, Trader Joe's continues to lead the industry in sales per square foot and has carefully accelerated the addition of new stores. The graph below shows sales per square foot and new store openings for both chains and their competitors.

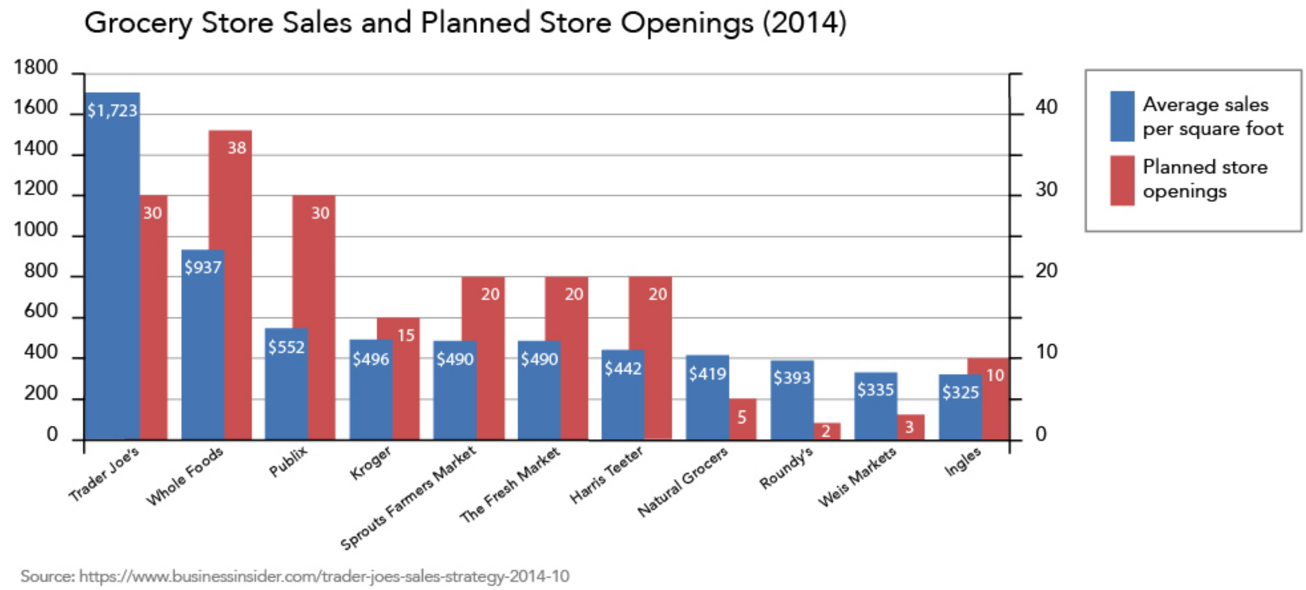
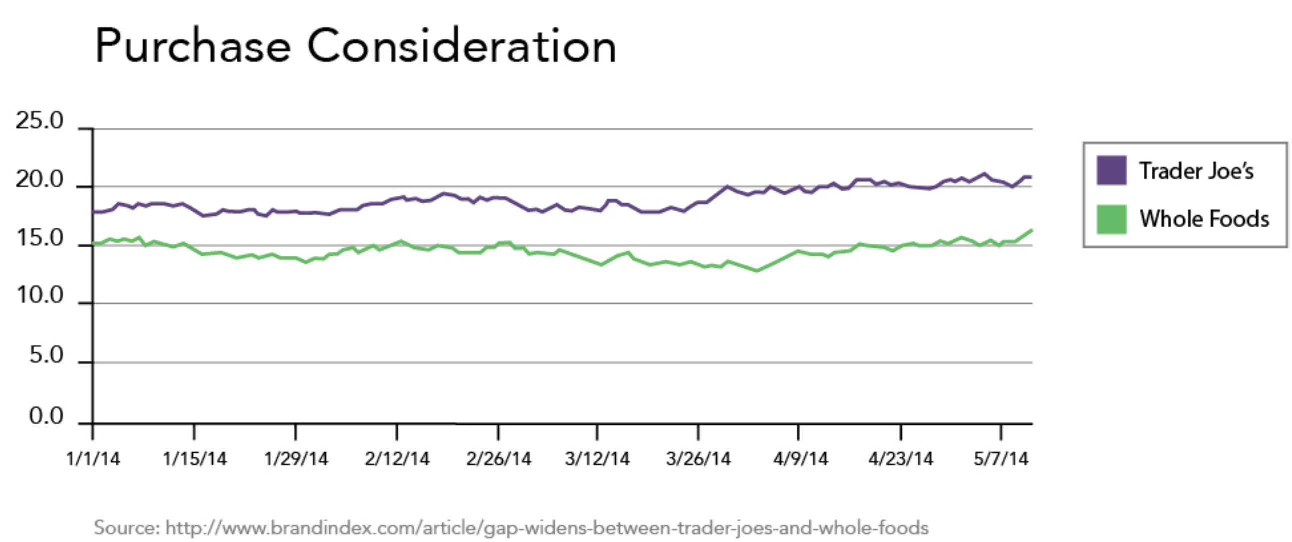


Figure 1. USA Grocery Store Sales and Planned Store Openings (2014)

Grocery Store Sales and Planned Store Openings (2014)

Grocery Store	**Average sales per square foot**	**Planned store openings**
Trader Joe's	$1,723	30
Whole Foods	$937	38
Publix	$552	30
Kroger	$496	15
Sprouts Farmers Market	$490	20
The Fresh Market	$490	20
Harris Teeter	$442	20
Natural Grocers	$419	5
Roundy's	$393	2
Weis Markets	$335	3
Ingles	$325	10

When consumers are asked, "When you are next in the market to purchase products in this specific category, from which of the following would you consider purchasing?" many more consumers turn to Trader Joe's than Whole Foods. The graph below charts consumer responses to this question.



Trader Joe's emphasis on sustained differentiation in its sourcing and a highly efficient supply chain and distribution network has proven to be the winning combination. Whole Foods is now trying to replicate that, but with intense competitive pressure and industry scrutiny.

12.7 Practice Quiz

Check Your Understanding

Answer the question(s) below to see how well you understand the topics covered in the previous section. This short quiz does **not** count toward your grade in the class, and you can retake it an unlimited number of times.

Use this quiz to check your understanding and decide whether to (1) study the previous section further or (2) move on to the next section.

An interactive H5P element has been excluded from this version of the text. You can view it online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=729#h5p-5

Chapter 13: Promotion: Integrated Marketing Communication (IMC)

Learning Objectives

- Why integrated marketing communication (IMC) matters
- Explain integrated marketing communication (IMC) and its connection to the organization's marketing strategy
- Discuss how to develop effective messaging for marketing communications
- Explain factors to consider when selecting marketing communication methods to execute the strategy
- Describe common methods of marketing communication, their advantages and disadvantages
- Explain how IMC tools support the sales process
- Describe the uses of Customer Relationship Management (CRM) systems for marketing communication purposes
- Explain common tools and approaches used to measure marketing communication effectiveness
- Create a marketing campaign and budget using multiple IMC tools to execute a marketing strategy

13.1 Why It Matters: Promotion: Integrated Marketing Communication (IMC)

Learning Objectives

Identify how organizations use integrated marketing communication (IMC) to support their marketing strategies?

The fourth P, *promotion*, focuses on communicating with target audiences about something: a product, service, organization, idea, or brand. Communication is how you let people know about your offering (product) and why it matters, how much it costs (price), and where to find it (place).

A very wide array of tools is available today to help marketers communicate with their target audiences. Selecting the right tools for the job and combining them into a successful marketing effort is a critically important task for modern marketers. In fact, it has a special name: **integrated marketing communication** (IMC).

The best way to start learning about IMC is to see it in action.

As you watch the following videos, consider the following questions:

1. Who is the target of this IMC effort?
2. What core message is being communicated?
3. How many and which communication tools are being used?
4. How does this IMC activity turn people into active participants instead of remaining passive audience members?
5. How is the whole impact of this marketing effort more than just the sum of the individual parts?

IMC Example #1: Small Business Saturday

In 2010, American Express teamed up with millions of small businesses to create a marketing event that quickly became a tradition during the holiday shopping season in the U.S.: Small Business Saturday. To make it successful, American Express and its small business network had to create something out of nothing and then convince consumers to show up.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=275#oembed-1

You can view the transcript for "38. AMERICAN EXPRESS OPEN "Small Business Gets An Official Day"" here (opens in new window).

IMC Example #2: Ariel Fashion Shoot

A jam-squirting robot. A busy mall. Designer clothes. Facebook. No, this isn't the plot of a sci-fi action movie targeting "tween" girls. It was, at the time in 2011, the largest and most interactive product demonstration ever undertaken, for a laundry detergent called Ariel Actilift. It grabbed attention across Scandinavia and induced thousands of people to participate by playing a silly remote-controlled game. In the process, it also proved the remarkable stain-fighting powers of the laundry detergent at the center of it all.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=275

You can view the transcript for "Ariel Fashion Shoot case study" here (opens in new window).

Understanding Integrated Marketing Communication (IMC)

Not every IMC effort is as elaborate or creative as these examples. The marketers responsible for them imagined and and brought into being something that never existed before. But they also help you begin to see what's possible when you combine creative ideas with the right set of communication tools focused on a common message and particular target segments.

What makes these marketing programs work? When you pull things apart, you see that each of these campaigns starts with clearly articulated goals and audiences. To make their big ideas happen, they use several different marketing tools and techniques that, together, have a larger impact than any of them could manage separately. Each of these marketing activities is also decidedly participatory. It wasn't enough to simply deliver a message. Each project invited members of the target audience to get involved in the marketing process, and they made the invitations so compelling that people actually did it!

As a marketer, how do you go about creating this type of promotional experience? What elements come together to make it possible?

That's what this module is about: how marketers design powerful opportunities to engage their target audiences and shape their perceptions and behaviours. The name of this game is IMC.

13.2 Integrated Marketing Communication (IMC) Definition

Learning Objectives

- Define integrated marketing communication (IMC)
- Explain how IMC strengthens the impact of marketing communication tools
- List the primary marketing communication methods marketers use as part of their IMC strategy
- Explain how marketers use IMC in their campaigns in order to execute marketing strategy

Promotion is a powerful part of the marketing mix because it determines what and how you communicate with target audiences. In today's world, promotion often has a fancy name: *integrated marketing communication* (IMC). Why the fancy name?

The number and variety of marketing communication tools have proliferated with the expansion of media, Internet, social, and mobile technologies. Marketers face the multipronged challenge of deciding which messages to communicate, which communication tools to use, and how to make the strongest impact with target segments.

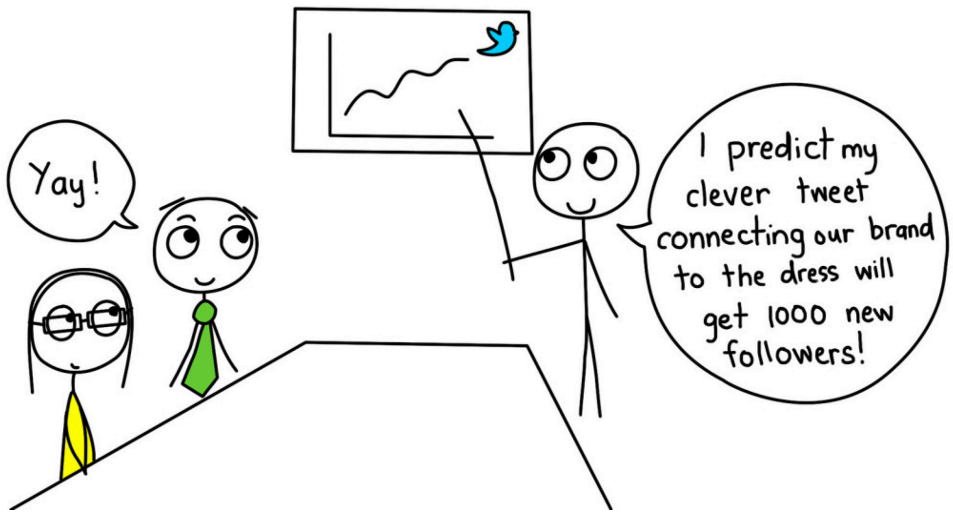
Integrated marketing communication encourages marketers to think about communication in a coordinated way. They ask: How can we orchestrate *all* the different means of reaching a target segment in order to maximize our impact?

The specific things you'll learn in this section include:

Learning Activities

- Reading: Integrated Marketing Communication (IMC) Definition
- Reading: Marketing Campaigns and IMC
- Self Check: Integrated Marketing Communication (IMC) Definition

Reading: Integrated Marketing Communication (IMC) Definition



IMC: Making an Impact with Marketing Communication

Having a great product available to your customers at a great price does absolutely nothing for you if your customers don't know about it. That's where promotion enters the picture: it does the job of connecting with your target audiences and communicating what you can offer them.

In today's marketing environment, promotion involves *integrated marketing communication* (IMC). In a nutshell, IMC involves bringing together a variety of different communication tools to deliver a common message and make a desired impact on customers' perceptions and behaviour. As an experienced consumer in the English-speaking world, you have almost certainly been the target of IMC activities. (Practically every time you "like" a TV show, article, or a meme on Twitter, you are participating in an IMC effort!)

The videos you viewed in this module's "Why It Matters" section provide ingenious and successful examples of integrated marketing communication, to give you a feel for what IMC is about. Not every IMC effort is that elaborate or creative, but from those examples, you can begin to see what's possible when you bring together the right combination of ideas and communication tools focused on a common message and target segments.

What Is Marketing Communication?

Defining marketing communication is tricky because, in a real sense, everything an organization does has communication potential. The price placed on a product communicates something very specific about the product. A company that chooses to distribute its products strictly through discount stores sends a distinct message to the market. Marketing communication refers to activities deliberately focused on promoting an offering among target audiences. The following definition helps to clarify this term:

> *Marketing communication includes all the messages, media, and activities used by an organization to communicate with the market and help persuade target audiences to accept its messages and take action accordingly.*

Integrated marketing communication is the process of coordinating all this activity across different communication methods. Note that a central theme of this definition is *persuasion*: persuading people to believe something, to desire something, and/or to do something. Effective marketing communication is goal-directed, and it is aligned with an organization's marketing strategy. It aims to deliver a particular message to a specific audience with a targeted purpose of altering perceptions and/or behaviour. Integrated marketing communication (IMC) makes this marketing activity more efficient and effective because it relies on multiple communication methods and customer touchpoints to deliver a consistent message in more ways and in more compelling ways.

The Promotion Mix: Marketing Communication Methods

The *promotion mix* refers to how marketers combine a range of marketing communication methods to execute their marketing activities. Different methods of marketing communication have distinct advantages and complexities, and it requires skill and experience to deploy them effectively. Not surprisingly, marketing communication methods evolve over time as new communication tools and capabilities become available to marketers and the people they target.

Seven common methods of marketing communication are described below:

- **Advertising:** Any paid form of presenting ideas, goods, or services by an identified sponsor. Historically, advertising messages have been tailored to a group and employ mass media such as radio, television, newspaper, and magazines. Advertising may also target individuals according to their profile characteristics or behaviour; examples are the weekly ads mailed by supermarkets to local residents or online banner ads targeted to individuals based on the sites they visit or their Internet search terms.

- **Public relations (PR):** The purpose of public relations is to create goodwill between an organization (or the things it promotes) and the "public" or target segments it is trying to reach. This happens through unpaid or earned promotional opportunities: articles, press and media coverage, winning awards, giving presentations at conferences and events, and otherwise getting favorable attention through vehicles not paid for by the sponsor. Although organizations earn rather than pay for the PR attention they receive, they may spend significant resources on the activities, events, and people who generate this attention.
- **Personal selling:** Personal selling uses people to develop relationships with target audiences for the purpose of selling products and services. Personal selling puts an emphasis on face-to-face interaction, understanding the customer's needs, and demonstrating how the product or service provides value.
- **Sales promotion:** Sales promotions are marketing activities that aim to temporarily boost sales of a product or service by adding to the basic value offered, such as "buy one get one free" offers to consumers or "buy twelve cases and get a 10 percent discount" to wholesalers, retailers, or distributors.
- **Direct marketing:** This method aims to sell products or services directly to consumers rather than going through retailer. Catalogs, telemarketing, mailed brochures, or promotional materials and television home shopping channels are all common traditional direct marketing tools. Email and mobile marketing are two next-generation direct marketing channels.
- **Digital marketing:** Digital marketing covers a lot of ground, from Web sites to search-engine, content, and social media marketing. Digital marketing tools and techniques evolve rapidly with technological advances, but this umbrella term covers all of the ways in which digital technologies are used to market and sell organizations, products, services, ideas, and experiences.
- **Guerrilla marketing:** This newer category of marketing communication involves unconventional, innovative, and usually low-cost marketing tactics to engage consumers in the marketing activity, generate attention and achieve maximum exposure for an organization, its products, and/or services. Generally guerrilla marketing is experiential: it creates a novel situation or memorable experience consumers connect to a product or brand.

Most marketing initiatives today incorporate multiple methods: hence the need for IMC. Each of these marketing communication methods will be discussed in further detail later in this module.

The Objectives of Marketing Communication

The basic objectives of all marketing communication methods are (1) to communicate, (2) to compete, and (3) to convince. In order to be effective, organizations should ensure that whatever information they communicate is clear, accurate, truthful, and useful to the stakeholders involved. In fact, being truthful and accurate in marketing communications is more than a matter of integrity; it's also a matter of legality, since fraudulent marketing communications can end in lawsuits and even the criminal justice system.

Marketing communication is key to competing effectively, particularly in markets where competitors sell essentially the same product at the same price in the same outlets. Only through marketing communications may an organization find ways to appeal to certain segments, differentiate its product, and create enduring brand loyalty. Remaining more appealing or convincing than competitors' messages is an ongoing challenge.

Ideally, marketing communication is convincing: it should present ideas, products, or services in such a compelling way that target segments are led to take a desired action. The ability to persuade and convince is essential to winning new business, but it may also be necessary to reconvince and retain many consumers and customers. Just because a customer buys a particular brand once or a dozen times, or even for a dozen years, there is no guarantee that the person will stick with the original product. That is why marketers want to make sure he or she is constantly reminded of the product's unique benefits.

Shifting from Mass Marketing to IMC

Prior to the emergence of integrated marketing communications in the 1990s, mass communications (also called mass marketing)—the practice of relaying information to large segments of the population through television, radio, and other media—dominated marketing. Marketing was a one-way feed. Advertisers broadcasted their offerings and value propositions with little regard for the diverse needs, tastes, and values of consumers.

Often, this "one size fits all" approach was costly and uninformative due to the lack of tools for measuring results (in terms of sales). But as methods for collecting and analyzing consumer data improved—for example, with store scanners and electronic data about consumer purchases—marketers were increasingly able to correlate promotional activities with consumer purchasing patterns. Companies also began to downsize their operations and expand marketing tasks within their organizations.

As these changes were underway, at the same time consumers were gaining access to more and different types of specialized "niche" media along with new ways of consuming media. Cable television, DVRs, and a plethora of digital media have contributed to significant fragmentation of the mass market. While expensive mass-media advertising is still an option, it has less and less of an impact every year. Instead, most organizations find that it's more cost-effective to reach target segments using other marketing communication strategies. As consumers turn to niche media, marketers' promotion strategies (and marketing communication) have focused more on individualized patterns of consumption and on segmentation based on consumer tastes and preferences.

Technology has also driven the shift toward integrated marketing communication. Increasingly, organizations use highly targeted, data-based marketing rather than general-focus mass communication and advertising. This approach generates more information that marketers can use for segmentation and targeting based on many different criteria. Virtually unlimited Internet access has increased the online availability of information, goods, services, and ideas. It has brought a proliferation of new and more interactive tools, including mobile technology, that can be used for marketing communication purposes. Broader transparency and access to market information have shifted power away from retailers and manufacturers and toward consumers and their ability to control or manipulate the market in their favor.

With these developments, marketing teams and advertising/creative agencies are expected to understand and provide all marketing communication functions—not just advertising—for their clients. Most organizations now allocate budgets toward a variety of marketing communication methods, not just mass media. Taking full advantage of marketing opportunities that exist in a more diverse and fragmented media landscape, marketing is now viewed as a two-way, interactive conversation between marketers and consumers. Marketing activities seek not only to expose consumers to a message, but to engage them actively in the marketing process. The days of one-way, broadcast-style marketing are over.

A proliferation of marketing communication tools and opportunities means marketers must 1) identify which tools are the best fit for the audience and marketing objectives and 2) deliver a unified message and coordinated approach across these tools. To help execute a marketing strategy, multiple marketing communication methods and tools should deliver a well-coordinated message to engage the right people at the right time, in the right place, and doing the right things. This is what we mean by “integrated” marketing communications.

Reading: Marketing Campaigns and IMC

The Marketing Campaign

Determining which marketing communication methods and tools to use and how best to combine them is a challenge for any marketer planning a promotional strategy. To aid the planning process, marketing managers often use a campaign approach. A **campaign** is a planned, coordinated series of marketing communication efforts built around a single theme or idea and designed to reach a particular goal. For years, the term "campaign" has been used in connection with advertising, and this term applies equally well to the entire IMC program.

Organizations may conduct many types of IMC campaigns, and several may be run concurrently. Geographically, a firm may have a local, regional, or national campaign, depending upon the available funds, objectives, and market scope. One campaign may be aimed at consumers and another at wholesalers and retailers. Different marketing campaigns might target different segments simultaneously, delivering messages and using communication tools tailored to each segment. Marketers use a marketing plan (sometimes called an IMC plan) to track and execute a set of campaigns over a given period of time.

A campaign revolves around a theme, a central idea, focal point, or purpose. This theme permeates all IMC efforts and works to unify the campaign. The theme may refer to the campaign's goals—for example, KCRW "Capital Campaign" launched by the popular Los Angeles-based public radio station KCRW to raise $48 million to build a new state-of-the-art media facility for its operations. The theme may also refer to the shift in customer attitudes or behaviour that a campaign focuses on—such as new-member campaigns launched by numerous member organizations, from professional associations to school parent-teacher organizations. A theme might take the form of a slogan, such as Coca-Cola's "Taste the Feeling" campaign or DeBeers' "A diamond is forever."

Clear Channel is a marketing company that specializes in outdoor advertising. For their latest advertising campaign in Switzerland, they created a slogan-based theme, "Where Brands Meet People," and asked their clients to participate in dramatizing it. Dozens of Swiss companies gave their logo to be used as individual "tiles" in three colorful mosaic portraits.[1] These mosaics appeared on the web and on the

1. *Clear Channel: Where brands meet people.* (n.d.). Behance. https://www.behance.net/gallery/29879405/Clear-Channel-Where-brands-meet-people

streets of Switzerland. Click here to see a high-resolution image of one mosaic and check out all the brands that make up the mosaics. Some of the billboards appeared in animated form, as below:

(Note that the following video has no narration. Access audio description using the widget below the video.)

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=281#oembed-1

You can view the text alternative for"Clear Channel: Where brands meet people" (opens in new window).

Marketing campaigns may also adopt themes that refer to a stage in the product life cycle, such as McDonald's 2015 "All-Day Breakfast" rollout campaign. Some organizations use the same theme for several campaigns; others develop a different theme for each new campaign.

In a successfully operated campaign, all activities will be well-coordinated to build on one another and increase the overall impact. For example, a single campaign might include:

- **Advertising:** A series of related, well-timed, carefully placed television ads coupled with print advertising in selected magazines and newspapers
- **Direct marketing:** Direct-to-consumer mail pieces sent to target segments in selected geographic areas, reinforcing the messages from the ads
- **Personal selling:** Preparation for customer sales representatives about the campaign to equip them to explain and demonstrate the product benefits stressed in advertising
- **Sales promotions:** In-store display materials reflecting the same messages and design as the ads, emphasizing point-of-sale impact
- **Digital marketing:** Promotional information on the organization's Web site that reflects the same messages, design, and offers reflected in the ads; ads themselves may be posted on the Website, YouTube, Facebook, and shared in other social media
- **Public relations:** A press release announcing something newsworthy in connection to the campaign focus, objectives, and target segment(s)

For each IMC campaign, new display materials must be prepared, all reflecting common objectives, messages, design, and other elements to maximize the campaign's impact.

People responsible for the physical delivery of the products or services must ensure that the distribution points are well stocked and equipped to deliver in all outlets prior to the start of the campaign. People managing public and media relations should be constantly kept aware of marketing planning, allowing them to identify and coordinate opportunities for earned media attention. Because public relations deals with media, conference/event organizers, and other stakeholders outside the organization, it is extremely important to give enough lead time for the public relations effort to take advantage of optimal timing in support of the overall campaign.

13.3 Defining the Message

Learning Objectives

- Explain the role of consistent messaging in strengthening the impact of marketing communications
- Outline a standard framework for developing messaging for marketing communications
- Explain the importance of including a clear call to action in marketing communications
- Discuss how to develop effective messaging for marketing communications

At the center of any successful marketing activity is a message. Without a solid, consistent message, your marketing efforts are like a compass without an arrow: there is nothing to point your target audiences in the direction you want them to go.

Good messaging takes time and attention to develop, but this effort pays a huge dividend down the road—when your marketing activities have their desired effect on the hearts, minds, and wallets of the people you want to reach.

Learning Activities

- Reading: Defining the Message
- Self Check: Defining the Message

Reading: Defining the Message

Why the Message Matters

A clear, consistent message can be the difference between a phenomenally successful marketing campaign and an utter waste of time and money. If you, as a marketer, have not defined your message clearly, how likely is it that your target audiences will get the message you want them to hear? Answer: Not very likely.

With IMC campaigns bringing together multiple communication tools and touchpoints, the impact of a consistent, effective message is compounded when it reaches the people you're targeting again and again through different channels. Conversely, in the absence of a clear message, a campaign results in miss after miss after miss in terms of getting your message to your target audience—and it means wasted effort and resources.

The Role of Messaging

In marketing, the term "messaging" refers to how an organization talks about itself and the value it provides. Related to positioning, messaging is an approved set of key points or messages an organization uses to communicate about something with a target audience. Messaging translates a positioning statement into a set of convincing "key message" statements. Marketers use these statements to develop materials for marketing communications such as ad slogans, advertising copy, social media posts, press releases, presentation scripts, and so forth. Messaging documents are a blueprint for what all the other materials–and people–should communicate.

Organizations may create messaging for different purposes. Corporate messaging communicates about the purpose and value a company provides to the market. Brand messaging focuses on how and what to communicate about a company, product, or service brand. Product messaging expresses key selling points about a product. Crisis messaging outlines talking points for how an organization communicates about an unfortunate development, such as a service interruption or a public scandal.

Messaging ensures that everyone in an organization who needs to communicate something with the market can do it with a common set of messages and a common understanding of what the market should hear from them. While messaging is usually created by the marketing team, it may be used by individuals and teams across a company, from executive leaders to product managers, sales representatives and other groups, in addition to the marketing team itself.

Messaging is an essential ingredient for a successful marketing campaign. A campaign may use existing messaging if its goal is tied to a topic for which messaging has already been developed. For example, existing brand messaging might be used to develop a brand awareness campaign. If no suitable messaging exists, marketers may need to develop key messages expressly for a campaign.

Developing Key Messages

The key messages that make up a messaging document should do the following:

- Express the main idea you want people to understand and remember about your offering
- Resonate with the audience you are targeting, such that they pay attention and feel what you are saying matters
- Articulate clearly and concisely what you need to communicate about: e.g., what you stand for, why you are different, what value you offer, what problems you solve, etc.

The message content, as well as the voice, tone, and style of the message, may vary widely, depending on the organization's identity and what it wants to accomplish with the communication. All of these elements factor into the key messages and the creation of marketing communication artifacts based on the messaging.

Start with the Basics: What, Who, Why?

Message development starts with doing your homework about what the organization needs to accomplish. Revisit the company goals, objectives, and the marketing strategy to confirm the outcomes that the messaging is designed to help achieve. Consult any related positioning statements the organization has developed, because positioning lays out the foundation for what the organization wants to communicate. As you develop messaging, it's also a good idea to review any brand-platform content, since that content can help reinforce the organization's identity, voice, and values.

Next, confirm the audience(s) for the messaging: who are the target segments and stakeholders you need to reach? Some messaging documents outline different sets of key messages for different audiences, depending on what points are most important or convincing for the audience. For example, when company leaders must communicate publicly about poor quarterly earnings, they develop one set of key messages for investors, another set of key messages for employees, and a third set for customers. All these messages are related to one another, but the most important messages for an investor to hear may be different from what employees need to hear.

Identify keywords and ideas you want to associate with your organization, product, service, or offering. These words and phrases may figure prominently in the messaging you develop, to help it stand out and differentiate your organization. Also, conduct a competitive messaging analysis to capture what key messages, words, and concepts other organizations are using. Your messaging should avoid sounding like everybody else.

Draft Message Statements

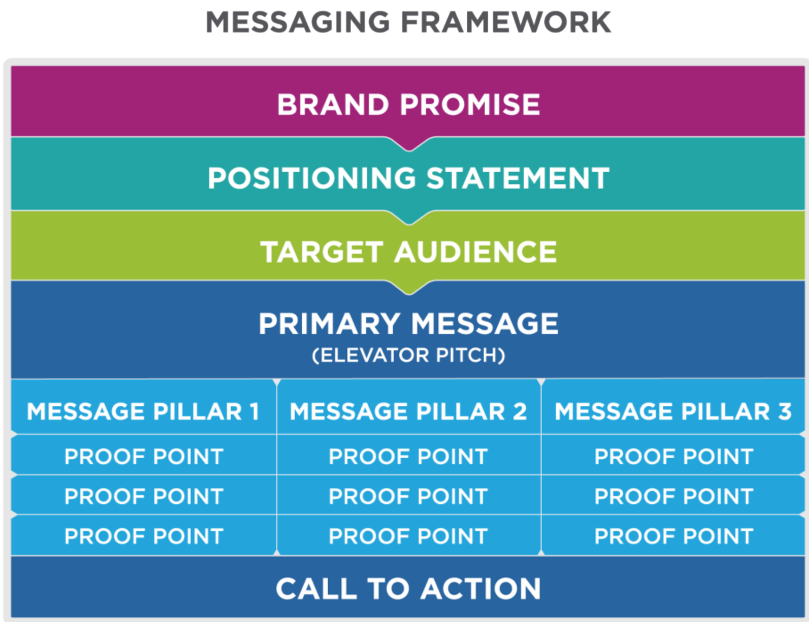
With your audience and objectives in mind, begin drafting key message statements. If you could make only a few key points to your target audience, what would those points be? As you write these message statements, keep the following criteria in mind. Key messages should be:

- **Concise:** Key message statements should be clear and concise, ideally just one sentence long–but not a long, run-on sentence.
- **Simple:** Key messages should use language that is easy for target audiences to understand. You should avoid acronyms, jargon, and flowery or bureaucratic-sounding language.
- **Strategic:** Key messages should differentiate your organization and what you stand for, while articulating the value proposition or key benefits you offer.
- **Convincing:** Messaging should include believable, meaningful information that creates a sense of urgency and stimulates action. Message wording should be decisive and active, rather than passive.
- **Relevant:** Key messages should matter to the audience; they should communicate useful, relevant information that the audience finds appealing not only on a logical or rational level but also on an emotional level.
- **Memorable:** Key messages should stick in the mind, so the impression they make is easy to recall.
- **Tailored:** Messaging must communicate effectively with intended target audiences. This means the messaging should reflect the target audience's unique needs, priorities, issues, terminology, relationship to the organization, and other distinguishing factors that might help the messaging better communicate with that audience.

A tip: Don't worry too much about word-smithing as you develop a first draft of key messages. Get your initial thinking down on paper quickly, and then go back to check against the criteria above as you refine the wording. Remember, you only need a handful of key messages—just one to three well-crafted statements—so don't slave over trying to fill an entire page.

Organize a Messaging Framework

Once you have drafted an initial set of key messages, it is helpful to prioritize and organize them into a framework that helps you tell a coherent story. Marketers use a variety of different frameworks for this purpose. A simple, standard messaging framework is illustrated in the figure below.



This framework includes key messaging components introduced elsewhere in this course: the brand promise, positioning statement, and target audience. By bringing these elements into the messaging document, it is easy to spot disconnects or confirm alignment between the day-to-day talking points (the primary message and message pillars), the audience, and what the organization stands for (as expressed in the brand promise and positioning statement).

The primary message is sometimes referred to as an **elevator pitch**. Think of it as the one to three sentences you would say to a member of your target audience if you had just thirty seconds with them in an elevator. In that short time, you need to get across the core ideas. As you review the initial key messages you drafted, identify the most important ideas. Refine them into a concise statement that expresses your primary message.

To support this primary message, identify one to three **message pillars** that further substantiate the primary message or elevator pitch. When the elevator pitch is expressing a value proposition, the message pillars are usually the key benefits delivered by the value proposition. When the elevator pitch is arguing a position, the message pillars are the key reasons the target audience should believe what is being argued. To identify your message pillars, review the initial messages you drafted. It is likely that your initial work captures some of those pillars or arguments that provide great support for your primary message.

For each message pillar, identify at least three convincing proof points, or reasons the target audience should believe what you tell them. Proof points may come from a variety of sources: actual statistics or data points from research or your customer base; product features and the benefits they deliver; customers' success stories; and so forth. Their purpose is to provide evidence and add credibility to the messages you want to communicate.

As marketers turn messaging into marketing communication artifacts, the proof points also provide ideas for marketing content: case studies, white papers, advertisement copy, and so forth. They help fill out details around the messaging story you are telling to your target segment(s).

Finally, add a **call to action**. A call to action is an instruction to the target audience about what you want them to do, once they have heard and digested your messages. Usually, it is an imperative verb: *Register now*. *Try this new product. Visit this place. Vote for this person.* Although each individual marketing communication piece you create for an IMC campaign might have its own specific call to action, it is helpful to decide on an overarching call to action that identifies the behavioural change you want to incite in your target audience. This call to action serves an important role of making sure that the messages do a good job of convincing the target audience to change their behaviour and do what you want them to do. If the messaging doesn't seem powerful enough to convince people to take action, you need to revisit the messaging and make it more compelling.

The primary purpose of message architecture is to help you make sure that everything you communicate ultimately ties back to the major points you want audiences to know and believe about you. As you finish filling out your message architecture, review it and check for alignment at each level. Each level of the architecture should provide consistency and support for the other levels. If you spot disconnects, work to refine the messaging so there is strong alignment.

Refine Your Work

After completing your message architecture, set it aside for a day or so. Then come back and go through the following checklist. Make revisions and refinements where needed.

- **Alignment:** Recheck your messaging for alignment. Make sure all levels of the messaging framework are consistent with one another.
- **Hearts and Minds:** Identify where your messaging is working at a rational level and where it's working at an emotional level. To be compelling enough to spark a change in behaviour, it must appeal to both.
- **Strategy:** Confirm that the messaging complements your organizational, marketing, and brand strategies. If it isn't getting you further along those paths, it isn't doing its job.
- **Differentiation:** Review your messaging with competitors in mind. Your messaging should set you apart and express messages only you can credibly own. It should be more than just "me, too" catch-up to the competition.
- **Tone:** When you read your messages out loud, your language should sound natural and conversational. Your messaging should ring true; it should sound like it genuinely comes from your organization and the people who represent you.
- **Clarity:** If parts of your messaging sound vague or unclear, look for ways to reword them to make them more concise and concrete. People hearing the message should easily understand exactly what you mean.
- **Inspiration:** Your messaging should motivate and inspire your target audiences to take action. If it isn't compelling enough to do that, you need to make it stronger.

Once you have completed your messaging framework, test the messages with colleagues and internal stakeholders, as well as with members of your target segment(s). You can do this formally using marketing research techniques, or you can test the messages informally by using them in conversations and gauging whether they produce the desired reaction. Testing helps you figure out quickly what's working and where there is room for improvement.

Once your messaging framework is complete, you can apply it immediately to marketing campaigns and IMC activity. You should revisit the messaging periodically to make sure it's still having an impact on your target audiences and helping you achieve your goals.

A Messaging Framework Example

The simple messaging framework shown in Figure 1, above, is easy to use for a variety of different messaging purposes. It can also easily be adapted to include other elements that marketers decide are important to the organization and alignment of messaging.

Highfive's Messaging

Let's take a look at the messaging framework for Highfive, a video conferencing company. The goal of this messaging is to convey the central value proposition of the company and its conferencing product, and it demonstrates good alignment across different components of the messaging.[1]

- **Brand Promise:** Video conferencing you can actually love
- **Positioning Statement:** Highfive is the first video conferencing product designed to connect every employee and every conference room in your entire company
- **Target Audience:** 1, C-level Executive (influencer); 2, Director of IT (buyer); and 3, End-user (user)
- **Mission:** Our mission is to make every conversation face-to-face
- **Tone of Voice:** Empowering, progressive, human, and cheeky
- **Elevator Pitch:** Highfive is video conferencing you can actually love. We believe teams work best face-to-face. That's why we designed the first video conferencing product designed to connect every person and room in an organization. Highfive provides an all-in-one video conferencing hardware device that plugs into any TV screen, turning any ordinary meeting room into a video room. Highfive also provides cloud apps, which allow employees and guests to simply click a link from any laptop or mobile device and instantly connect face-to-face with anyone, anywhere. The hardware device costs the same as a high-end iPad and the cloud apps are free. We think video shouldn't be a boardroom luxury. It should be available everywhere.
- **Brand Pillars**
    - Easy
        - **Headline benefits:** Highfive is beautifully simple video conferencing you can start or join with a single click.
        - **Supporting examples:** Join calls from your calendar, SMS, or email by clicking a URL, hand off video calls from your personal device to a

1. *How to create brand messaging that really resonates.* (2020, April 15). .Salesforce Pardot. https://www.pardot.com/blog/how-to-create-brand-messaging-that-really-resonates/.

meeting room TV with a swipe or click—no remote control needed. 5-minute plug and play setup.

- Everywhere
    - **Headline Benefits:** Twenty conference rooms for the price of one Cisco or Polycom system.
    - **Supporting Examples:** Comparable systems cost, about 15 thousand per room. At the price of an iPad, Highfive can be deployed in every room. Free apps let people stay connected at their desks or on the go.
- Enterprise
    - **Headline Benefits:** Built for businesses, not social networking.
    - **Supporting Examples:** Must sign up with work email address, domain-based security model, enterprise reliability and security built by the same people that built Google Apps for Business.

In this example, marketers have left out the call to action, but they have introduced other components around which they want strong alignment: the company mission and brand voice. The rather long elevator pitch is well supported by clear, compelling message pillars, and the messaging offers ample proof points in the form of product features that substantiate the messaging claims. The messaging itself offers both rational reasons to believe the message (e.g., “simple conferencing you can start or join with a single click”) and emotional benefits to inspire action (e.g., “video conferencing you can actually love . . .”). Finally, the overall tone of the messaging demonstrates strong alignment with the company’s brand identity.

13.4 Determining IMC Objectives and Approach

Learning Objectives

- Discuss the AIDA model and the role of marketing communications to help move contacts toward a purchasing decision.
- Describe push vs. pull marketing strategies
- Explain the S.M.A.R.T. model for developing IMC goals and objectives
- Discuss the process of selecting marketing communication methods and tactics to fit the target audience and marketing objectives
- Explain factors to consider when selecting marketing communication methods to execute the strategy

It's clear that with the growing proliferation of communication tools and methods, integrated marketing communications are the way of the future—and now. Seemingly every day brings a new social media tool or digital marketing technique to engage people in new ways. Traditional marketing communications methods and media are also stepping up their games, offering new ways to create value for companies trying to connect with their target audiences. For example, old-school conferences and trade shows now feature active mobile and social media elements that have been incorporated into their design. TV shows can sell ad space and sponsorship on air, online, and on social media feeds. Radio programs publish their podcast counterparts, complete with ads and sponsors.

For marketers, all this is great news: plenty of choices and ample opportunity to connect with customers in new ways.

But is it great news? The variety of marketing communication methods and tools can be overwhelming. How do you even get started designing an IMC program? And once you have picked an approach, how do you know you're on the right track?

These are big questions marketers ask themselves regularly. Because marketing is a constantly evolving field, the right answer on one day might be different six months later. However, there are time-tested models that can help you apply a systematic approach to defining what you want to accomplish with IMC and how to select an approach that is best suited to your objectives.

Learning Activities

- Reading: Determining IMC Objectives and Approach
- Video: Prioritizing Marketing Communications

Reading: Determining IMC Objectives and Approach

Laying the Foundation for Effective Marketing Campaigns

To use integrated marketing communication (IMC) effectively in marketing campaigns, marketers go through several planning steps to define precisely what they want to accomplish and with whom. Only with this information can they be sure they are identifying the right message and promotional mix to achieve their goals.

Standard marketing campaign planning steps include the following:

- Determine the target market
- Determine purpose and objectives for the IMC campaign
- Set S.M.A.R.T. goals
- Define the message
- Select marketing communications methods and tools
- Determine the promotional mix: which tools to use, when, and how much
- Execute the campaign
- Measure results and refine approach, as needed

Step 1: Determine Target Market

In the segmentation and targeting module, as well as in other sections of this course, we've discussed the critical importance of clearly identifying the target market or the set of market segments an organization plans to focus on. A marketing plan may include one or more campaigns focused on one or more target segments. Some campaigns may focus on achieving specific goals for a single segment. Other campaigns may focus on a common set of goals using a variety of IMC activities targeting different segments.

In any case, clearly defining the audience for IMC activities is an essential input. This is because different market segments use different types of media, and they may have other distinctive characteristics that impact the effectiveness of a marketing activity. For example, in 2020, Facebook reached 59 percent of the world's social networking population. Its usage is growing among older Americans: 52 percent of North Americans aged 55 and overused Facebook (compared with 20 percent in 2012). Meanwhile, 23.5 percent of Facebook users are under 25 (with an additional 32.4 percent of users aged 25–34)—for a total of 55.9 percent of users under 35.[1]

Your decision about whether to use Facebook in an IMC campaign should depend, in part, on what proportion of the target audience you can reach with this tool. Understanding your target segment(s) and their communication and media habits will make a huge difference in your ability to design IMC programs to reach the people you want to reach.

Step 2: Determine Marketing Campaign Objectives

Once the audience is defined, the next essential step for a successful marketing campaign is to define what the campaign will accomplish with its IMC efforts. Although many marketing campaigns may be oriented toward a single objective, it is possible for an IMC program to accomplish more than one objective at a time, so long as this doesn't create confusion for your target audiences.

The objectives should explain the following two items:

1. the impact of campaign activity on target audiences
2. the ultimate results or outcomes that align with the organization's marketing strategy and corporate goals

While the objective of a marketing campaign often involves increasing sales, this does not necessarily have to be an objective. An entire campaign might focus primarily on building awareness and persuading people to engage with a product or brand in some way, as a stepping-stone towards generating demand and increasing sales.

A good place to help with thinking through campaign objectives is to consider the cognitive stages a customer goes through as they become aware of and eventually decide to buy a brand, product, or service. Many marketers use the *AIDA model* to guide this thinking and help them pinpoint campaign objectives for a given audience.

Communicating with Target Segments: The AIDA Model

AIDA is an acronym marketers use to help them develop effective communication strategies and connect with customers in a way that better responds to their needs and desires. Credited to the American advertising and sales pioneer, Elias St. Elmo Lewis, the model originally applied mainly to advertising. AIDA describes a common list of events that occur when a consumer views an advertisement or other marketing communication. As marketing communication methods have evolved, the model has been used to encompass other marketing tools and channels as well.

The letters in the AIDA acronym stand for the following:

1. Newberry, C. *47 Facebook Stats That Matter to Marketers in 2021*. (2021, January 11). Hootsuite Social Media Management. https://blog.hootsuite.com/facebook-statistics/.

- ***A*** represents *attention* or *awareness*, and the ability to attract the attention of the consumers.
- ***I*** is *interest* and points to the ability to raise the interest of consumers by focusing on and demonstrating advantages and benefits (instead of focusing on features, as in traditional advertising).
- ***D*** represents *desire*. The advertisement convinces consumers that they want and desire the product or service because it will satisfy their needs.
- ***A*** is *action.* Consumers are led to take action by purchasing the product or service.

The system helps guide marketers to refine their objectives and clarify what they want to accomplish with a target segment. As campaign objectives become clearer, marketers gain insight into ways of refining their marketing messages and deciding which tools they can use to deliver these messages effectively.

The table, below, identifies typical campaign objectives associated with each stage of the AIDA model. Note that the largest group of prospective customers appears in the first stage of the model: Awareness. As the sales cycle progresses, a percentage of prospects is lost at each stage.

Let’s take a look at typical campaign objectives in each stage:

- **Awareness:** Build awareness to motivate further action
  - Develop brand awareness and recognition
  - Increase traffic to physical or virtual stores, Web sites, or other channels
  - Remind customers about a brand, product, service or category
- **Interest:** Generate interest by informing about benefits; shaping perceptions
  - Differentiate a product, stressing benefits and features not available from competitors
  - Provide more information about the product or the service because information may be correlated with greater likelihood of purchase
  - Increase demand for a specific product or a product category; generate enough interest to research further
- **Desire:** Create desire; move from “liking” to “wanting”
  - Build brand equity by increasing customer perceptions of quality, desirability, and other brand attributes
  - Stimulate trial, an important step in building new brands and rejuvenating stagnant brands
  - Change or influence customer beliefs and attitudes about a brand, product, or

category, ideally creating an emotional connection

- **Action:** Take action toward purchasing
    - Reduce purchase risk to make prospective customers feel more comfortable buying a new or unfamiliar product or brand
    - Encourage repeat purchases in the effort to increase usage and brand loyalty
    - Increase sales and/or market share, with the goal of broadening reach within a time period, product category, or segment

Mini and the AIDA Model

Car marketing is a prime example of using the AIDA model to narrow the target market and get results. Marketers in the automotive industry know their advertisements and other marketing communications must grab the attention of consumers, so they use colours, backgrounds, and themes that would appeal to them. Next, automotive marketers pique interest by showing the advantages of owning the car. In the case of the Mini, for instance, marketers imply that a small car can drive the consumer to open spaces and to fun.

Advertisers can target a precise market by using the AIDA model to identify a narrow subset of consumers that may be receptive to the product offering. Car advertisements are especially made to grab attention, pique interest, meet desires, and evoke action in consumers.

Third, automotive marketers speak to what their consumers desire. For Mini drivers, it's the "fun" of driving, while for Prius consumers it may be the fuel economy or the environmental friendliness. Only after evaluating consumer desires are marketers able to create effective campaigns. Lastly, marketers use advertising and other methods, such as sales promotions, to encourage consumers to take action by purchasing the product or service.

Push versus Pull Promotion Mix Strategies

Push and pull strategies are promotional strategies used to get the product to its target market. A **push strategy** places the product in front of the customer, to make sure the consumer is aware of the existence of the product. Push strategies also create incentives for retailers to stock products and put them in front of the customer. Examples of push tactics include:

- Point-of-sale displays that make a product highly visible to consumers
- Product demonstrations to show off a product's features to potential customers at trade shows and in showrooms
- Retailer incentives to stock and sell products, such as discounted bulk pricing
- Negotiations with a retailer to stock a specific item in limited store space, along with proof points the product will sell
- Creating a supply chain for distribution that ensures retailers can obtain the product in sufficient quantities

Push strategies work best when companies already have established relationships with users. For example, cell phone providers proactively send (i.e., push) advertisements via text messages to mobile customers regarding promotions and upgrades. This permission-based marketing can become particularly effective when push tactics and offers are personalized to the user based on individual preferences, usage, and buying behaviour.

A **pull strategy** stimulates demand and motivates customers to actively seek out a specific product. It is aimed primarily at the end-users, rather than retailers or other middle players in the value chain. Pull strategies can be particularly successful for strong, visible brands with which consumers already have some familiarity. Examples of pull tactics include:

- Mass-media advertising and promotion of a product
- Marketing communications with existing customers to make them aware of new products that will fill a specific need
- Referrals and word-of-mouth recommendations from existing customers
- Product reviews from opinion leaders
- Sales promotions and discounts

Using these strategies creates a demand for a specific product. With pull tactics stoking demand, retailers are then encouraged to seek out the product and stock it on their shelves. For instance, Apple successfully uses a combination of pull strategies to launch iPhones or iPads. The music industry has shifted strongly toward pull strategies due to digitization and the emergence of social networking Web sites. Music platforms such as iTunes, Grooveshark, and Spotify all reflect a power shift toward music consumers exploring and demanding music they want, rather than music producers controlling what is available to whet music lovers' appetites. Likewise, music retailers have adapted their strategies toward pulling in consumers to seek out products.

Most businesses use a combination of push and pull strategies in order to successfully market their products, services and brands. As marketers define the objectives they want marketing campaigns and IMC to accomplish, they can determine whether "push," "pull," or a combination of both will be most effective. This helps guide their choices around which marketing communication methods and tools to use.

Engagement Strategies

In the age of IMC, it is essential for marketers to think creatively about what they are trying to accomplish with target customers through the campaign. Beyond just "pushing" a product through channel partners or "pulling" a customer in through advertising and awareness-building, marketers should consider how the campaign will draw attention, make an impact, and invite target audiences to take action amidst a crowded marketplace. Exposure alone is no longer sufficient to create brand equity and loyalty; interaction is now the name of the game.

Marketers today have many different avenues for creating engagement opportunities focused on making a desired impact in the mind–and behaviour–of the customer. By thinking through campaign objectives at this level, marketers can better pinpoint not only a winning strategy for the campaign, but also the types of IMC tactics and tools to help them deliver the desired results. For example:

Engagement Strategies

Campaign Strategy	Well-suited IMC Tactics, Tools
Interact	Social media, events, guerrilla marketing efforts
Engage	Word-of-mouth recommendations, viral sharing, social media
Embrace	Brand community, social media, events, sales promotions, viral sharing
Influence	Public relations, thought leadership activities, personal selling
Convince	Case studies, testimonials, comparisons, free trials, samples
Educate	Advertising, thought leadership activities, public relations, website and other content marketing
Inspire	Testimonials, guerrilla marketing, events, advertising, case studies
Nurture	Email marketing, content marketing, personal selling

Step 3: Set S.M.A.R.T. Goals

After determining campaign objectives, marketers should set specific goals for their IMC programs using **S.M.A.R.T.** criteria aligned with the marketing strategy. S.M.A.R.T. is acronym organizations and managers use to set clear, measurable goals. Used in the business world inside and outside marketing, S.M.A.R.T. comes from the work of George T. Doran.[2] He proposed that each level of the organization should set goals that are:

- **S**pecific: target a specific area for improvement

2. Wikipedia: https://en.wikipedia.org/wiki/SMART_criteria

- **M**easurable: quantify or at least suggest an indicator of progress
- **A**ssignable: specify who will do it
- **R**ealistic: state what results can realistically be achieved, given available resources
- **T**ime-related: specify when the result(s) can be achieved

S.M.A.R.T. goals help ensure clarity about what will be accomplished with a marketing campaign or other activity. They also contribute to good communication between managers and employees, so that there are clear expectations on all sides about the focus of attention, resources, and results.

Making a SMART Goal

Consider the following example of a S.M.A.R.T. marketing campaign goal:

> The Atlantic Canada Campaign, implemented by the marketing team in conjunction with the Atlantic Canada sales lead, will use customer referrals, conference appearances, content marketing tactics, and personal selling to identify and develop five new medium-to-large businesses to pilot our new technology product by September 1, 2016.

This goal is:

- **S**pecific: It focuses on identifying new business opportunities to pilot a new product in Atlantic Canada
- **M**easurable: It specifies a goal of developing "five new medium-to-large businesses" to pilot the new product
- **A**ssignable: It designates the ownership of this goal between the marketing team and the Atlantic Canada sales lead
- **R**ealistic: It states the resources and techniques that will be used to achieve the goal, and the size of the goal appears to be well proportioned to the time and resources available
- **T**ime-related: The end date for achieving the results is clear: September 1, 2016

Using the S.M.A.R.T. format helps marketers map IMC activities directly to broader marketing goals and strategy. It also sets the stage for being able to monitor progress and adjust the campaign's approach and tactics midstream if the initial efforts are falling short or getting off track.

Step 4: Define the Message

With the marketing campaign's objectives determined and goals defined, marketers can revisit and refine campaign messaging to fit the approach they have selected. Refer to the "Defining the Message" section of this module for further guidance and recommendations around developing a messaging framework and getting the messaging right.

Part of the messaging is the call to action. As marketers hone in on the marketing communication methods and tools they will use, each touchpoint should include a call to action aligned with the campaign strategy and goals. The calls to action should be appropriate to the AIDA model stage, the audience, and the tool being used. For example, as a prospective customer progresses through the sales cycle, the following set of appropriate calls to action might be built into Web content:

- **A**wareness: Click on a paid search ad to visit a Web site and view a product description and comparative product review
- **I**nterest: Download a white paper outlining how a product offers a novel solution to a common business problem
- **D**esire: Request a product demonstration
- **A**ction Stage: Request a proposal and price quote

Step 5: Select Marketing Communication Methods

As marketers consider marketing communication methods, several factors shape their choices:

Budget

What is the budget for the marketing campaign, and what resources are available to execute it? A large budget can incorporate more expensive marketing communication techniques—such as mass-market advertising and sales promotions—a larger scale, a broader reach, and/or a longer time frame. A small-budget campaign might also be very ambitious, but it would rely primarily on in-house labor and existing tools, such as a company's Web site and content marketing, email marketing, and social media capabilities. It's important to figure out how to get the biggest impact from the available budget.

Timing

Some IMC methods and tactics require a longer lead time than others. For example, email and Web marketing activities can usually be executed rapidly, often with in-house resources. Conference presentations and events require significantly longer lead time to orchestrate. It's important to choose the tools that will make the biggest impact in the time available.

Audience

Effective IMC methods meet audiences where they are. As suggested above, the media habits and behaviours of the target segments should guide marketers' choices around marketing communication. For example, if you know your target audience subscribes to a particular magazine, visits a shortlist of Web sites to get information about your product category, and follows a particular set of bloggers, your IMC strategy should build a presence in these media. Alternatively, if you learn that 60 percent of your new business comes as a result of Yelp and FourSquare reviews, your marketing campaign might focus on social-media reputation building and mobile touchpoints.

Existing Assets and Organizational Strengths

When considering marketing communications and the promotional mix, marketers should always look for ways to build on and make the best use of existing assets. For example, if a company has a physical store or space, how is it being used to full effect to move prospective customers through the sales cycle? If a company has a well-respected founder or thought leader as an employee, how are marketers using this asset to generate interesting content, educate prospects, differentiate the company, and create a desire for their brand, products, or services? Does the organization have a Website and, if so, how does it support each stage of the AIDA model? Organizations should be aware of these strengths and design IMC programs that use them to best advantage. Often these strengths become competitive advantages that competitors cannot easily match or replicate.

Advantages of Various Marketing Communication Methods

Different marketing communication methods lend themselves to particular stages of the AIDA model, push vs. pull strategies, and ways of interacting with customers.

- **Advertising** is particularly well-suited to awareness-building
- **Public relations** activities often focus on generate interest, educating prospective customers and sharing stories that create desire for a product or brand. Similarly, experiential events can create memorable opportunities to interact with product, brands and people.
- **Personal selling** typically focuses at the later stages of the model, solidifying desire and stimulating action
- **Sales promotions,** depending on their design, can be focused at any step of the AIDA model. For consumer products, they often focus on point-of-sale touchpoints to induce buying.
- **Direct marketing** can also be focused at any step of the AIDA model, depending on the design. It is often used to generate interest, providing information or an offer that motivates prospective customers to dig a little deeper and learn more.
- **Digital marketing** offers a plethora of tools that can be deployed at any stage of the AIDA model. Paid digital ads, search optimization and social media word-of-mouth all support awareness-building and generating interest. Blogs, newsletters, digital case studies and customer testimonials can be powerful tools for stoking desire. How the website engages customers through the purchasing process is key to persuading prospects to become customers.
- **Guerrilla marketing**, like digital marketing, can be designed to impact any stage of the AIDA model. It is often used by newcomers for awareness-building, to make an impact in a new market. Marketers also use it frequently for engaging experiential activities that solidify desire and create an emotional bond with the consumer.

Marketers should think creatively about the methods available to them and how they can come together to deliver the overall message, experience, goals and objectives of the campaign. Fortunately, if marketers plan well, they also have the opportunity to evaluate effectiveness and revise the approach to improve outcomes.

Step 6: Determine the Promotional Mix

Once marketers have selected marketing communications methods, the next step is to decide which specific tools to employ, when, and how much. IMC programs are very powerful when they layer communication channels and methods upon one another—it's an approach that amplifies and reinforces the message. The next section of this module goes into much more detail about marketing communication methods, common tools associated with each method, and when/how to use these tools most effectively.

Step 7: Execute the Campaign

The final sections of this module provide recommendations for how to create effective communication and marketing plans that simplify execution and follow-through.

Step 8: Measure Results

Later in this chapter we will also discuss the process of identifying the best means of measuring the success of IMC efforts. Tracking and understanding results is how marketing teams and managers monitor progress and know when they need to adjust course.

As marketers design their IMC activities and marketing campaigns with an eye toward results, accountability, and outcomes, they will benefit from an approach that emphasizes alignment between organizational strategy, marketing strategy, and the day-to-day marketing tactics that execute this strategy.

Video: Prioritizing Marketing Communications

Given all the different marketing communication tools and opportunities out there, it can be hard to prioritize and choose where to focus your attention and marketing efforts. In this TEDx talk, Google's Nick Scarpino provides a common-sense framework to help you make the biggest impact with whatever marketing resources are available to you.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=295

You can view the transcript for "A Guide for Prioritizing Marketing Communications: Nick Scarpino at TEDxUofIChicago" here (opens in new window).

13.5 Marketing Communication Methods

Learning Objectives

- Explain Advertising
- Explain Public Relations
- Explain Sales Promotions
- Explain Personal Selling
- Explain Direct Marketing
- Explain Digital Marketing
- Explain Guerrilla Marketing
- Describe common methods of marketing communication, their advantages and disadvantages

A common challenge for people new to marketing is learning about the many marketing communication tools and methods now available and understanding how to use them effectively. Fortunately, most of us have first-hand experience of being on the receiving end of IMC—whether you like it or not, you are a consumer, and you've been the target of all kinds of marketing communication. You know the difference between an ad that gets your attention and one you just tune out, for example. You are familiar with the line between "persistent" and "annoying" when it comes to getting marketing-related emails or text messages. You recognize which buy-one-get-one-free offers are a great deal, and which ones seem like a racket.

All this experience will come in handy in this section and later in the course. You're getting closer to being on the other side of the wall, where you'll be tasked with using marketing communication methods and tools to devise your own marketing plan (in the last module of this course!). In this section, though, you'll get a chance to examine each of these marketing communication methods one by one. Fortunately, the underlying principles we've discussed up to this point apply to all of them: knowing your audience, defining strategy, setting objectives, crafting the message. Where paths diverge is in the tools themselves: how to design a great ad, how to produce a memorable event, how to get coverage for your organization in the news media, how to use email and social media skillfully for marketing purposes, and so on.

The next several readings provide a general overview of seven important marketing communication methods (shown in Figure 1, below) in common use today. This section will help you become familiar with each method, common tools associated with each method, how to use these methods effectively, and the advantages and disadvantages of each one. Some marketing professionals spend entire careers becoming specialists in one or more of these areas. Other marketers become generalists who are skilled at bringing together different tools–and experts–to execute effective IMC programs.

Figure 1. The Promotion Mix

Whether you think you're more of a generalist or a specialist, marketing offers great opportunities for creativity and experimentation. There will always be a new idea, strategy, tool, or combination of tactics that marketers can turn into IMC magic for their companies and their customers. As you learn about and gain experience with the basic tools and approaches, you'll see opportunities to try something new. And you should: in the marketing world, fresh is good!

Learning Activities

- Reading: Advertising
- Reading: Public Relations
- Reading: Sales Promotions
- Reading: Personal Selling
- Reading: Direct Marketing
- Reading: Digital Marketing
- Reading: Guerrilla Marketing
- Simulation: Integrated Marketing
- Self Check: Marketing Communication Methods

Reading: Advertising

Advertising: Pay to Play

A 1900 advertisement for Pears soap.

Advertising is any paid form of communication from an identified sponsor or source that draws attention to ideas, goods, services or the sponsor itself. Most advertising is directed toward groups rather than individuals, and advertising is usually delivered through media such as television, radio, newspapers and, increasingly, the Internet. Ads are often measured in **impressions** (the number of times a consumer is exposed to an advertisement).

Advertising is a very old form of promotion with roots that go back even to ancient times. In recent decades, the practices of advertising have changed enormously as new technology and media have allowed consumers to bypass traditional advertising venues. From the invention of the remote control, which allows people to ignore advertising on TV without leaving the couch, to recording devices that let people watch TV programs but skip the ads, conventional advertising is on the wane. Across the board, television viewership has fragmented, and ratings have fallen.

Print media are also in decline, with fewer people subscribing to newspapers and other print media and more people favoring digital sources for news and entertainment. Newspaper advertising revenue has declined steadily since 2000.[1] Advertising revenue in television is also soft, and it is split across a growing number of broadcast and cable networks. Clearly companies need to move beyond traditional advertising channels to reach consumers. Digital media outlets have happily stepped in to fill this gap. Despite this changing landscape, for many companies advertising remains at the forefront of how they deliver the proper message to customers and prospective customers.

The Purpose of Advertising

Advertising has three primary objectives: to inform, to persuade, and to remind.

- **Informative Advertising** creates awareness of brands, products, services, and ideas. It announces new products and programs and can educate people about the attributes and benefits of new or established products.
- **Persuasive Advertising** tries to convince customers that a company's services or products

1. Weissman, J. (2014, April 28). *The decline of newspapers hits a stunning milestone.* Slate. http://www.slate.com/blogs/moneybox/2014/04/28/decline_of_newspapers_hits_a_milestone_print_revenue_is_lowest_since_1950.html

are the best, and it works to alter perceptions and enhance the image of a company or product. Its goal is to influence consumers to take action and switch brands, try a new product, or remain loyal to a current brand.

- **Reminder Advertising** reminds people about the need for a product or service, or the features and benefits it will provide when they purchase promptly.

Left: *Informative Advertising* ***Right:*** *Persuasive Advertising*

Reminder Advertising

When people think of advertising, often **product-focused advertisements** are top of mind—i.e., ads that promote an organization's goods or services. **Institutional advertising** goes beyond products to promote organizations, issues, places, events, and political figures. **Public service announcements**

(PSAs) are a category of institutional advertising focused on social-welfare issues such as drunk driving, drug use, and practicing a healthy lifestyle. Usually PSAs are sponsored by nonprofit organizations and government agencies with a vested interest in the causes they promote.

Advantages and Disadvantages of Advertising

As a method of marketing communication, advertising has both advantages and disadvantages. In terms of advantages, advertising creates a sense of credibility or legitimacy when an organization invests in presenting itself and its products in a public forum. Ads can convey a sense of quality and permanence, the idea that a company isn't some fly-by-night venture. Advertising allows marketers to repeat a message at intervals selected strategically. Repetition makes it more likely that the target audience will see and recall a message, which improves awareness-building results. Advertising can generate drama and human interest by featuring people and situations that are exciting or engaging. It can introduce emotions, images, and symbols that stimulate desire, and it can show how a product or brand compares favorably to competitors. Finally, advertising is an excellent vehicle for brand building, as it can create rational and emotional connections with a company or offering that translate into goodwill. As advertising becomes more sophisticated with digital media, it is a powerful tool for tracking consumer behaviours, interests, and preferences, allowing advertisers to better tailor content and offers to individual consumers. Through the power of digital media, memorable or entertaining advertising can be shared between friends and go viral—and viewer impressions skyrocket.

The primary disadvantage of advertising is cost. Marketers question whether this communication method is really cost-effective at reaching large groups. Of course, costs vary depending on the medium, with television ads being very expensive to produce and place. In contrast, print and digital ads tend to be much less expensive. Along with cost is the question of how many people an advertisement actually reaches. Ads are easily tuned out in today's crowded media marketplace. Even ads that initially grab attention can grow stale over time. While digital ads are clickable and interactive, traditional advertising media are not. In the bricks-and-mortar world, it is difficult for marketers to measure the success of advertising and link it directly to changes in consumer perceptions or behaviour. Because advertising is a one-way medium, there is usually little direct opportunity for consumer feedback and interaction, particularly from consumers who often feel overwhelmed by competing market messages.

Developing Effective Ads: The Creative Strategy

Effective advertising starts with the same foundational components as any other IMC campaign: identifying the target audience and the objectives for the campaign. When advertising is part of a broader IMC effort, it is important to consider the strategic role advertising will play relative to other marketing communication tools. With clarity around the target audience, campaign strategy, and budget, the next step is to develop the **creative strategy** for developing compelling advertising. The creative strategy has two primary components: the *message* and the *appeal*.

The **message** comes from the messaging framework discussed earlier in this module: what message elements should the advertising convey to consumers? What should the key message be? What is the call to action? How should the brand promise be manifested in the ad? How will it position and differentiate the offering? With advertising, it's important to remember that the ad can communicate the message not only with words but also potentially with images, sound, tone, and style.

Effective wordless advertisement

Marketers also need to consider existing public perceptions and other advertising and messages the company has placed in the market. Has the prior marketing activity resonated well with target audiences? Should the next round of advertising reinforce what went before, or is it time for a fresh new message, look, or tone?

Along with message, the creative strategy also identifies the **appeal**, or how the advertising will attract attention and influence a person's perceptions or behaviour. Advertising appeals can take many forms, but they tend to fall into one of two categories: *informational* appeal and *emotional* appeal.

The **informational appeal** offers facts and information to help the target audience make a purchasing decision. It tries to generate attention using rational arguments and evidence to convince consumers to select a product, service, or brand. For example:

- More or better product or service features: Ajax "Stronger Than Dirt"
- Cost savings: Walmart "Always Low Prices"
- Quality: John Deere "Nothing runs like a Deere"
- Customer service: Holiday Inn "Pleasing people the world over"
- New, improved: Verizon "Can you hear me now? Good."

The following Black+Decker commercial relies on an informational appeal to promote its product. (Note: There is no speech in this video; only instrumental music.)

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=301#oembed-1

Text alternative for "Black and Decker 20V MAX" (opens in new window).

The **emotional appeal** targets consumers' emotional wants and needs rather than rational logic and facts.

It plays on conscious or subconscious desires, beliefs, fears, and insecurities to persuade consumers and influence their behaviour. The emotional appeal is linked to the features and benefits provided by the product, but it creates a connection with consumers at an emotional level rather than a rational level. Most marketers agree that emotional appeals are more powerful and differentiating than informational appeals. However, they must be executed well to seem authentic and credible to the the target audience. A poorly executed emotional appeal can come across as trite or manipulative. Examples of emotional appeals include:

- Self-esteem: L'Oreal "Because I'm worth it"
- Happiness: Coca-Cola "Open happiness"
- Anxiety and fear: World Health Organization "Smoking Kills"
- Achievement: Nike "Just Do It"
- Attitude: Apple "Think Different"
- Freedom: Southwest "You are now free to move about the country"
- Peace of Mind: Allstate "Are you in good hands?"
- Popularity: NBC "Must-see TV"
- Germophobia: Chlorox "For life's bleachable moments, there's Chlorox"

The following Heinz Ketchup commercial offers a humorous example of an ad based entirely on an emotional appeal:

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=301#oembed-2

Developing the Media Plan

The media plan is a document that outlines the strategy and approach for an advertising campaign, or for the advertising component in an IMC campaign. The media plan is developed simultaneously with the creative strategy. A standard media plan consists of four stages: (a) stating media objectives; (b) evaluating media; (c) selecting and implementing media choices; and (d) determining the media budget.

Media objectives are normally started in terms of three dimensions:

- *Reach:* number of different persons or households exposed to a particular media vehicle or media schedule at least once during a specified time period.
- *Frequency:* the number of times within a given time period that a consumer is exposed to a message.
- *Continuity:* the timing of media assertions (e.g. 10 per cent in September, 20 per cent in October, 20 per cent in November, 40 per cent in December and 10 per cent the rest of the

year).

The process of **evaluating media** involves considering each type of advertising available to a marketer, and the inherent strengths and weaknesses associated with each medium. The table below outlines key strengths and weaknesses of major types of advertising media. Television advertising is a powerful and highly visible medium, but it is expensive to produce and buy air time. Radio is quite flexible and inexpensive, but listenership is lower and it typically delivers fewer impressions and a less-targeted audience. Most newspapers and magazines have passed their advertising heydays and today struggle against declining subscriptions and readership. Yet they can be an excellent and cost-effective investment for reaching some audiences. Display ads offer a lot of flexibility and creative options, from wrapping busses in advertising to creating massive and elaborate 3-D billboards. Yet their reach is limited to their immediate geography. Online advertising such as banner ads, search engine ads, paid listings, pay-per-click links and similar techniques offers a wide selection of opportunities for marketers to attract and engage with target audiences online. Yet the internet is a very crowded place, and it is difficult for any individual company to stand out in the crowd.

The evaluation process requires research to assess options for reaching their target audience with each medium, and how well a particular message fits the audience in that medium. Many advertisers rely heavily on the research findings provided by the medium, by their own experience, and by subjective appraisal to determine the best media for a given campaign.

To illustrate, if a company is targeting young-to-middle-aged professional women to sell beauty products, the person or team responsible for the media plan should evaluate what options each type of media offers for reaching this audience. How reliably can television, radio, newspapers or magazines deliver this audience? Media organizations maintain carefully-researched information about the size, demographics and other characteristics of their viewership or readership.

Cable and broadcast TV networks know which shows are hits with this target demographic and therefore which advertising spots to sell to a company targeting professional women. Likewise newspapers know which sections attract the eyeballs of female audiences, and magazines publishers understand very well the market niches their publications fit. Online advertising becomes a particularly powerful tool for targeted advertising because of the information it captures and tracks about site visitors: who views and clicks on ads, where they visit and what they search for.

Not only does digital advertising provide the opportunity to advertise on sites that cater to a target audience of professional women, but it can identify which of these women are searching for beauty products, and it can help a company target these individuals more intensely and provide opportunities for follow-up interaction.The following video further explains how digital advertising targets and tracks individuals based on their expressed interests and behaviours.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=301#oembed-3

You can view the transcript for “Behavioral Targeting” here (opens in new window).

Selection and Implementation

The media planner must make decisions about the media mix and timing, both of which are restricted by the available budget. The media-mix decision involves choosing the best combination of advertising media to achieve the goals of the campaign. This is a difficult task, and it usually requires evaluating each medium quantitatively and qualitatively to select a mix that optimizes reach and budget. Unfortunately, there are few valid rules of thumb to guide this process, in part because it is difficult to compare audiences across different types of advertising media. For example, Nielsen ratings measure audiences based on TV viewer reports of the programs watched, while outdoor (billboard) audience-exposure estimates are based on counts of the number of automobiles that pass particular outdoor poster locations. The “timing of media” refers to the actual placement of advertisements during the time periods that are most appropriate, given the selected media objectives. It includes not only the scheduling of advertisements, but also the size and position of the advertisement.

There are three common patterns for advertising scheduling:

- **Continuous** advertising runs ads steadily at a given level indefinitely. This schedule works well products and services that are consumed on a steady basis throughout the year, and the purpose of advertising is to nudge consumers, remind them and keep a brand or product top-of-mind.
- **Flighting** involves heavy spurts of advertising, followed by periods with no advertising. This type of schedule makes sense for products or services that are seasonal in nature, like tax services, as well as one-time or occasional events.
- **Pulsing** mixes continuous scheduling with flighting, to create a constant drum-beat of ads, with periods of greater intensity. This approach matches products and services for which there is year-round appeal, but there may be some seasonality or periods of greater demand or intensity. Hotels and airlines, for example, might increase their advertising presence during the holiday season.

Budget

When considering advertising as a marketing communication method, companies need to balance the cost of advertising–both of producing the advertising pieces and buying placement—against the total budget for the IMC program. The selection and scheduling of media have a huge impact on budget: advertising that targets a mass audience is generally more expensive than advertising that targets a local or niche audience. It is important for marketers to consider the contribution advertising will make to the whole. Although advertising is generally one of the more expensive parts of the promotion mix, it may be a worthwhile investment if it contributes substantially to the reach and effectiveness of the whole program. Alternatively, some marketers spend very little on advertising because they find other methods are more productive and cost-effective for reaching their target segments.

Anatomy of an Advertisement

Advertisements use several common elements to deliver the message. The **visual** is the picture, image, or situation portrayed in the advertisement. The visual also considers the emotions, style, or look-and-feel to be conveyed: should the ad appear tender, businesslike, fresh, or supercool? All of these considerations can be conveyed by the visual, without using any words.

The **headline** is generally what the viewer reads first—i.e., the words in the largest typeface. The headline serves as a hook for the appeal: it should grab attention, pique interest, and cause the viewer to keep reading or paying attention. In a radio or television ad, the headline equivalent might be the voice-over of a narrator delivering the primary message, or it might be a visual headline, similar to a print ad.

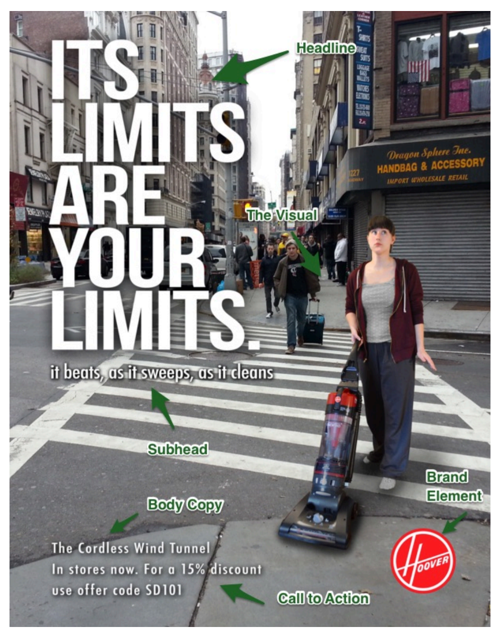
In print ads, a **subhead** is a smaller headline that continues the idea introduced in the headline or provides more information. It usually appears below the headline and in a smaller typeface.

The **body copy** provides supporting information. Generally it appears in a standard, readable font. The **call to action** may be part of the body copy, or it may appear elsewhere in a larger typeface or color treatment to draw attention to itself.

A variety of **brand elements** may also appear in an advertisement. These include the name of the advertiser or brand being advertised, the logo, a tagline, hashtag, Web site link, or other standard "branded" elements that convey brand identity. These elements are an important way of establishing continuity with other marketing communications used in the IMC campaign or developed by the company. For example, print ads for an IMC campaign might contain a campaign-specific tagline that also appears in television ads, Website content, and social media posts associated with the campaign.

Ad Testing and Measurement

When organizations are poised to make a large investment in any type of advertising, it is wise to conduct marketing research to test the advertisements with target audiences before spending lots of money on ads and messages that may not hit the mark. Ad testing may preview messages and preliminary ad concepts with members of a target segment to see which ones resonate best and get insight about how to fine-tune messages or other aspects of the ad to make them more effective. Organizations may conduct additional testing with near-final advertising pieces to do more fine-tuning of the messages and visuals before going public.



Hoover advertisement with ad elements shown.

To gauge the impact of advertising, organizations may conduct pre-tests and post-tests of their target audience to measure whether advertising has its intended effect. A pre-test assesses consumer attitudes, perceptions, and behaviour before the advertising campaign. A post-test measures the same things afterward to determine how the ads have influenced the target audience, if at all.

Companies may also measure sales before, during, and after advertising campaigns run in the geographies or targets where the advertising appeared. This provides information about the *return on investment* for the campaign, which is how much the advertising increased sales relative to how much money it cost to execute. Ideally advertising generates more revenue and, ultimately profits, than it costs to mount the advertising campaign.

Advertising Media Strengths and Weaknesses

Advertising Media Type	**Strengths**	**Weaknesses**
Television	Strong emotional impact· Mass coverage/small cost per impression Repeat message Creative flexibility Entertaining/prestigious	High costs High clutter (too many ads) Short-lived impression Programming quality Schedule inflexibility
Radio	Immediacy Low cost per impression Highly flexible	Limited national coverage High clutter Less easily perceived during drive time Fleeting message
Newspapers	Flexibility (size, timing, etc.) Community prestige Market coverage Offer merchandising services Reader involvement	Declining readership Short life Technical quality Clutter
Magazines	Highly segmented audiences High-profile audiences Reproduction quality	Inflexible Narrow audiences Waste circulation
Display Ads: Billboards, Posters, Flyers, etc.	Mass coverage/small cost per impression Repeat message Creative flexibility	High clutter Short-lived impression
Online Ads (including mobile): Banner ads, search ads, paid listings, pay-per-click links, etc.	Highly segmented audiences Highly measurable Low cost per impression Immediacy; link to interests, behaviour Click thru and code allow further interaction Timing flexibility	High clutter Short-lived impression Somewhat less flexibility in size, format

Reading: Public Relations

Public Relations: Getting Attention to Polish Your Image

Public relations (PR) is the process of maintaining a favorable image and building beneficial relationships between an organization and the public communities, groups, and people it serves. Unlike advertising, which tries to create favorable impressions through paid messages, public relations does not pay for attention and publicity. Instead, PR strives to earn a favorable image by drawing attention to newsworthy and attention-worthy activities of the organization and its customers. For this reason, PR is often referred to as "free advertising."

In fact, PR is not a costless form of promotion. It requires salaries to be paid to people who oversee and execute PR strategy. It also involves expenses associated with events, sponsorships and other PR-related activities.

The Purpose of Public Relations

Like advertising, public relations seeks to promote organizations, products, services, and brands. But PR activities also play an important role in identifying and building relationships with influential individuals and groups responsible for shaping market perceptions in the industry or product category where an organization operates. Public relations efforts strive to do the following:

- Build and maintain a positive image
- Inform target audiences about positive associations with a product, service, brand, or organization
- Maintain good relationships with *influencers*—the people who strongly influence the opinions of target audiences
- Generate goodwill among consumers, the media, and other target audiences by raising the organization's profile
- Stimulate demand for a product, service, idea, or organization
- Head off critical or unfavorable media coverage

When to Use Public Relations

Public relations offers an excellent toolset for generating attention whenever there is something newsworthy that marketers would like to share with customers, prospective customers, the local community, or other audiences. PR professionals maintain relationships with reporters and writers who routinely cover news about the company, product category, and industry, so they can alert media organizations when news happens. At times, PR actually creates activities that are newsworthy, such as establishing a scholarship program or hosting a science fair for local schools.

PR is involved in publishing general information about an organization, such as an annual report, a newsletter, an article, a white paper providing deeper information about a topic of interest, or an informational press kit for the media. PR is also responsible for identifying and building relationships with influencers who help shape opinions in the marketplace about a company and its products. When an organization finds itself facing a public emergency or crisis of some sort, PR professionals play an important role strategizing and managing communications with various stakeholder groups, to help the organization respond in effective, appropriate ways and to minimize damage to its public image.

To illustrate, PR techniques can help marketers turn the following types of events into opportunities for media attention, community relationship building, and improving the organization's public image:

- Your organization develops an innovative technology or approach that is different and better than anything else available.
- One of your products wins a "best in category" prize awarded by a trade group.
- You enter into a partnership with another organization to collaborate on providing broader and more complete services to a target market segment.
- You sponsor and help organize a 10K race to benefit a local charity.
- You merge with another company.
- You conduct research to better understand attitudes and behaviours among a target segment, and it yields insights your customers would find interesting and beneficial.
- A customer shares impressive and well-documented results about the cost savings they have realized from using your products or services.
- Your organization is hiring a new CEO or other significant executive appointment.
- A quality-assurance problem leads your company to issue a recall for one of your products.

It is wise to develop a PR strategy around strengthening relationships with any group that is important in shaping or maintaining a positive public image for your organization: reporters and media organizations; industry and professional associations; bloggers; market or industry analysts; governmental regulatory bodies; customers and especially leaders of customer groups, and so forth. It is also wise to maintain regular, periodic communications with these groups to keep them informed about your organization and its activities. This helps build a foundation of familiarity and trust, so these relationships are established and resilient through the ups and downs of day-to-day business.

The following video, about Tyson Foods' "Meals That Matter" program, shows how one company cooked up an idea that is equal parts public relations and corporate social responsibility (CSR). The video covers the Tyson disaster-relief team delivering food to the residents of Moore, Oklahoma, shortly after tornados struck the area on May 20, 2013. The company received favorable publicity following the inauguration of the program in 2012. (You can read one of the articles here: "Tyson Foods Unveils Disaster Relief Mobile Feeding Unit.")

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=303#oembed-1

You can view the transcript for "Tyson Foods Meals That Matter – Moore, Okla., June 2013" here (opens in new window).

Standard Public Relations Techniques

Public relations encompasses a variety of marketing tactics that all share a common focus: managing public perceptions. The most common PR tools are listed in the following table and discussed below.

Public Relations Techniques

Public Relations Technique	**Role and Description**	**Examples**
Media Relations	Generate positive news coverage about the organization, its products, services, people, and activities	Press release, press kit, and interview leading to a news article about a new product launch; press conference
Influencer/ Analyst Relations	Maintain strong, beneficial relationships with individuals who are thought leaders for a market or segment	Product review published by a renowned blogger; company profile by an industry analyst; celebrity endorsement
Publications and Thought Leadership	Provide information about the organization, showcase its expertise and competitive advantages	Organization's annual report; newsletters; white papers focused on research and development; video case study about a successful customer
Events	Engage with a community to present information and an interactive "live" experience with a product, service, organization or brand	User conference; presentation of a keynote address; day-of-community-service event
Sponsorships	Raise the profile of an organization by affiliating it with specific causes or activities	Co-sponsoring an industry conference; sponsoring a sports team; sponsoring a race to benefit a charity
Award Programs	Generate recognition for excellence within the organization and/or among customers	Winning an industry "product of the year" award; nominating customer for an outstanding achievement award
Crisis Management	Manage perceptions and contain concerns in the face of an emergency situation	Oversee customer communication during a service outage or a product recall; execute action plan associated with an environmental disaster

Media relations is the first thing that comes to mind when many people think of PR: public announcements about company news, talking to reporters, and articles about new developments at a company. But media relations is the tip of the iceberg. For many industries and product categories, there are influential bloggers and analysts writing about products and the industry. PR plays an important role in identifying and building relationships with these individuals. Offering periodic "company update" briefings, newsletters, or email updates helps keep these individuals informed about your organization, so you are top of mind.

The people responsible for PR are also involved in developing and distributing general information about an organization. This information may be in the form of an annual report, a "state of the company" briefing call, video pieces about the company or its customers, and other **publications** that convey the company's identity, vision, and goals. "Thought leadership" publications assert the company's expertise and position of leading thought, practice, or innovation in the field. These publications should always be mindful of the same messaging employed for other marketing activities to ensure that everything seems consistent and well aligned.

While some consider event marketing a marketing communication method of its own, others categorize it with public relations as we have done here. **Events**, such as industry conferences or user group meetings, offer opportunities to present the company's value proposition, products, and services to current and prospective customers. Themed events, such as a community service day or a healthy lifestyle day, raise awareness about causes or issues with the organization wants to be affiliated in the minds of its employees, customers, and other stakeholder groups. A well-designed and well-produced event also offers opportunities for an organization to provide memorable interaction and experiences with target audiences. An executive leader can offer a visionary speech to generate excitement about a company and the value it provides—now or in the future. Events can help cement brand loyalty by not only informing customers but also forging emotional connections and goodwill.

Sponsorships go hand-in-hand with events, as organizations affiliate themselves with events and organizations by signing on to co-sponsor something available to the community. Sponsorships cover the gamut: charitable events, athletes, sports teams, stadiums, trade shows and conferences, contests, scholarships, lectures, concerts, and so forth. Marketers should select sponsorships carefully to make sure that they are affiliating with activities and causes that are well managed and strategically aligned with the public image they are trying to cultivate.

Award programs are another common PR tool. Organizations can participate in established award programs managed by trade groups and media, or they can create award programs that target their customer community. Awards provide opportunities for public recognition of great work by employees and customers. They can also help organizations identify great targets for case studies and public announcements to draw attention to how customers are benefitting from an organization's products and services.

Innovation Award, sponsored by IBM and the United Nations Development Program, being given to given to Kenya's Information and Communication Technology Authority

Crisis management is an important PR toolset to have on hand whenever it may be needed. Few companies choose this as a promotional technique if other options are available. But when crises emerge, as inevitably they do, PR provides structure and discipline to help company leaders navigate the crisis with communications and actions that address the needs of all stakeholders. Messaging, communication, listening, and relationship building all come to the fore. When handled effectively, these incidents may help an organization emerge from the crisis stronger and more resilient than it was before. This is the power of good PR.

Advantages and Disadvantages of Public Relations

Because PR activity is earned rather than paid, it tends to carry more credibility and weight. For example, when a news story profiles a customer's successful experience with a company and its products, people tend to view this type of article as less biased (and therefore more credible) than a paid advertisement. The news story comes from an objective reporter who feels the story is worth telling. Meanwhile an advertisement on a similar topic would be viewed with skepticism because it is a paid placement from a biased source: the ad sponsor.

Advantages of Public Relations[1]

1. *How to Establish a Promotional Mix*. (n.d.). Edward Lowe Foundation.http://edwardlowe.org/digital-library/how-to-establish-a-promotional-mix/

1. **The opportunity to amplify key messages and milestones.** When PR activities are well-aligned with other marketing activities, organizations can use PR to amplify the things they are trying to communicate via other channels. A press release about a new product, for example, can be timed to support a marketing launch of the product and conference where the product is unveiled for the first time.
2. **Believable.** Because publicity is seen to be more objective, people tend to give it more weight and find it more credible. Paid advertisements, on the other hand, are seen with a certain amount of skepticism, since people that companies can make almost any kind of product claim they want.
3. **Employee pride.** Organizing and/or sponsoring charitable activities or community events can help with employee morale and pride (both of which get a boost from any related publicity, too). It can also be an opportunity for teamwork and collaboration.
4. **Engaging people who visit your Web site.** PR activities can generate interesting content that can be featured on your organization's Web site. Such information can be a means of engaging visitors to the site, and it can generate interest and traffic long after the PR event or moment has passed. Industry influencers may visit the site, too, to get updates on product developments, growth plans, or personnel news, etc.

Disadvantages of Public Relations[2]

1. **Cost.** Although publicity is usually less expensive to organize than advertising, it isn't "free." A public relations firm may need to be hired to develop campaigns, write press releases, and speak to journalists. Even if you have in-house expertise for this work, developing publicity materials can take employees away from their primary responsibilities and drain off needed resources.
2. **Lack of control.** There's no guarantee that a reporter or industry influencer will give your company or product a favorable review—it's the price you pay for "unbiased" coverage. You also don't have any control over the accuracy or thoroughness of the coverage. There's always a risk that the journalist will get some facts wrong or fail to include important details.
3. **Missing the mark.** Even if you do everything right—you pull off a worthy event and it gets written up by a local newspaper, say—your public relations effort can fall short and fail to reach enough or the right part of your target audience. It doesn't do any good if the reporter's write-up is very short or it appears in a section of the paper that no one reads. This is another consequence of not being able to fully control the authorship, content, and placement of PR.

PR and Integrated Marketing Communication

Public relations activities can provide significantly greater benefits to organizations when they happen in conjunction with a broader IMC effort, rather than on their own. Because PR focuses heavily on communication with key stakeholder groups, it stands to reason that other marketing communication tools should be used in conjunction with public relations. For example:

2. *How to Establish a Promotional Mix*. (n.d.). Edward Lowe Foundation. http://edwardlowe.org/digital-library/how-to-establish-a-promotional-mix/

- Press releases can be distributed to media contacts, customers, and other stakeholder groups via email marketing campaigns that might also include additional information or offers—such as an invitation to a webinar to learn more about the subject of the press release.
- Press releases are posted to the Web site to update content and provide a greater body of information for Web site visitors
- Event presentations and other activities should align with an organization's broader marketing strategy, goals, and messaging. Everything should be part of the same, consistent approach and theme—e.g., the topics of speeches, information available in trade show booths, interactions with event participants via email and social media, etc.
- Sponsorship activities often provide an opportunity to advertise at the event, as well. Naturally, it is important for there to be good alignment between these advertising opportunities, company messaging, and the audience for the sponsored activity.
- A thought-leadership piece, such as an article or a white paper authored by a company leader, can be published on the Web site and incorporated into an email marketing campaign that targets selected audiences

Smart marketers consider PR tools in concert with other marketing activity to determine how to make the greatest impact with their efforts. Because PR activities often involve working with many other people inside and outside the organization, they usually need a long lead time in order to come together in the desired time frame. Event planning happens months (and sometimes years) in advance of the actual event itself. Press releases and public announcements can be mapped out over several months to give marketers and other stakeholders plenty of time to prepare and execute effectively. PR is undoubtedly a powerful toolset to amplify other marketing efforts.

Reading: Sales Promotions

Sales promotion helps make personal selling and advertising more effective. Sales promotions are marketing events or sales efforts (not including traditional advertising, personal selling, and public relations) that stimulate buying. Sales promotion can be developed as part of the social media or e-commerce effort just as advertising can, but the methods and tactics are much different. Sales promotion is a $300 billion—and growing— industry. Sales promotion is usually targeted toward either of two distinctly different markets. Consumer sales promotion is targeted to the ultimate consumer market. Trade sales promotion is directed to members of the marketing channel, such as wholesalers and retailers.

The goal of many promotion tactics is immediate purchase. Therefore, it makes sense when planning a sales promotion campaign to target customers according to their general behaviour. For instance, is the consumer loyal to the marketer's product or to the competitor's? Does the consumer switch brands readily in favor of the best deal? Does the consumer buy only the least expensive product, no matter what? Does the consumer buy any products in your category at all?

Proctor & Gamble

Procter & Gamble believes shoppers make up their mind about a product in about the time it takes to read this paragraph.

This "first moment of truth," as P&G calls it, is the three to seven seconds when someone notices an item on a store shelf. Despite spending billions on traditional advertising, the consumer-products giant thinks this instant is one of its most important marketing opportunities. It recently created a position entitled Director of First Moment of Truth, or Director of FMOT (pronounced "EFF-mott"), to produce sharper, flashier in-store displays. There is a 15-person FMOT department at P&G headquarters in Cincinnati as well as 50 FMOT leaders stationed around the world.[1]

One of P&G's most prominent in-store promotions has been for a new line of Pampers. In the United States, P&G came up with what it calls a "shopper concept", a single promotional theme that allows it to pitch products in a novel way. The theme for Pampers was "Babies First." In stores, the company handed out information on childhood immunizations, car-seat safety, and healthy diets while promoting its diapers and wipes in other parts of the store. To market Pampers diapers in the United Kingdom, P&G persuaded retailers earlier this year to put fake doorknobs high up on restroom doors, to remind parents how much babies need to stretch.

Figure 1. Pet lovers want the best for their animals, and choosing a proper diet is an essential part of raising happy, healthy pets. That's why many dog food providers such as Purina and Blue Buffalo are creating specific size- and age-appropriate diets for dogs. (Credit: Ted Van Pelt/ Flickr/ Attribution 2.0 Generic (CC BY 2.0))

1. Tincher, J. (2016, August 30). *Your Moment of Truth*. Customer Think. https://customerthink.com/your-moment-of-truth/.

Sales Promotion Techniques

Figure 2. Free samples of Starbucks Mocha Toffee Latte

Most consumers are familiar with common sales promotion techniques including samples, coupons, point-of-purchase displays, premiums, contents, loyalty programs and rebates.

Do you like free samples? Most people do. A **sample** is a sales promotion in which a small amount of a product that is for sale is given to consumers to try. Samples encourage trial and an increased awareness of the product. You have probably purchased a product that included a small free sample with it, for example, a small amount of conditioner packaged with your shampoo. Have you ever gone to a store that provided free samples of different food items? The motivation behind giving away samples is to get people to buy a product. Although sampling is an expensive strategy, it is usually very effective for food products. People try the product, the person providing the sample tells consumers about it, and mentions any special pricing or offers for the product.

The objectives of promotion depend on the general behaviour of target consumers, as described in Table 1. For example, marketers who are targeting loyal users of their product don't want to change behaviour. Instead, they want to reinforce existing behaviour or increase product usage. Frequent-buyer programs that reward consumers for repeat purchases can be effective in strengthening brand loyalty. Other types of promotions are more effective with customers prone to brand switching or with those who are loyal to a competitor's product. Cents-off coupons, free samples, or an eye-catching display in a store will often entice shoppers to try a different brand.

The use of sales promotion for services products depends on the type of services. Consumer services, such as hairstyling, rely heavily on sales promotions (such as providing half off the price of a haircut for senior citizens on Mondays). Professional services, however, use very little sales promotion. Doctors, for example, do not often use coupons for performing an appendectomy, for example. In fact, service product companies must be careful not to utilize too many sales-promotion tactics because they can lower the credibility of the firm. Attorneys do not have a sale on providing services for divorce proceedings, for example.

Table 1. Types of Consumers and Sales Promotion Goals

Type of Behavior	Desired Results	Sales Promotion Examples
Loyal customers: People who buy your product most or all of the time	Reinforce behaviour, increase consumption, change purchase timing	Loyalty marketing programs, such as frequent-buyer cards and frequent-shopper clubsBonus packs that give loyal consumers an incentive to stock up or premiums offered in return for proof of purchase
Competitor's customers: People who buy a competitor's product most or all of the time	Break loyalty, persuade to switch to your brand	Sweepstakes, contests, or premiums that create interest in the product
Brand switchers: People who buy a variety of products in the category	Persuade to buy your brand more often	Sampling to introduce your product's superior qualities compared to their brand
Price buyers: People who consistently buy the least expensive brand	Appeal with low prices or supply added value that makes price less important	Trade deals that help make the product more readily available than competing productsCoupons, cents-off packages, refunds, or trade deals that reduce the price of the brand to match that of the brand that would have been purchased

Two growing areas of sales promotion are couponing and product placement. American consumers receive over $321 billion worth of coupons each year and redeem about $3 billion.[2] Almost 85 percent of all Americans redeem coupons. Sunday newspaper supplements remain the number one source, but there has been explosive growth of online or consumer-printed coupons. General Mills, Kimberly-Clark, and General Electric like online coupons because they have a higher redemption rate. Coupons are used most often for grocery shopping. Do they save you money? One study found that people using coupons at the grocery store spent eight percent more than those who didn't.[3]

Figure 3. Whether making a cameo appearance or starring in a major role, brands are top talent in the entertainment world. NASCAR drivers, racing cars, and tracks are speckled with corporate brands, and Coca-Cola sits at the judges' table on American Idol. Does product placement blur the lines between advertising and content, and should viewers be concerned? (Credit: roger blake/ Flickr/ Attribution 2.0 Generic (CC BY 2.0))

Product placement is paid inclusion of brands in mass media programming. This includes movies, TV, books, music videos, and video games. So when you see Ford vehicles in the latest James Bond movie or Tom Hanks putting on a pair on Nikes on-screen, that is product placement. Product placement has become a huge business. For example, companies paid more than $6 billion in a recent year to have their products placed prominently in a film or television program; that figure is expected to reach more than $11 billion by 2019.[4] It is easy to go overboard with this trend and be portrayed as a parody, however. The 2017 *Emoji Movie* is an example of failed product placements. The theme of the movie centered on various emojis caught in a smartphone as they are forced to play Candy Crush and say glowing things about such apps as Dropbox and Instagram as they make their way through the phone.[5] Also, some have suggested that product placement might doom the products and companies. For example, Atari products appeared in the classic 1982 film *Blade Runner*, but the original company went out of business shortly after the movie was released, while another product, the Cuisinart food processor, had to settle a price-fixing scandal after making an appearance in the film. This has not stopped companies such as Sony, Peugeot, and Coca-Cola from tempting fate by appearing in the recently released *Blade Runner 2049*.[6] Many large companies are cutting their advertising budgets to spend more on product placements. One area of product placement that continues to raise ethical issues is so-called "experts" being paid to mention brands on the air.

Contests and sweepstakes are also popular consumer sales promotions. **Contests** are games of skill offered by a company, that offer consumers the chance to win a prize. Cheerios' *Spoonfuls of Stories*

2. Carter B. (2017, November 15). *Coupon Statistics: The Ultimate Collection*. Access Development. https://blog.accessdevelopment.com/ultimate-collection-coupon-statistics
3. Drew Hendricks, "5 Ways to Enhance Your SEO Campaign with Online Coupons," *Forbes*, https://www.forbes.com
4. Muzellec, L. (2016, June 23). *James Bond, Dunder Mifflin, and the Future of Product Placement*. Harvard Business Review. https://hbr.org/2016/06/james-bond-dunder-mifflin-and-the-future-of-product-placement
5. Terry, J. (2017, July 31). *Unfunny 'Emoji Movie' is a sad echo of 2015's 'Inside Out'*. Deseret News. https://www.deseret.com/2017/7/31/20616700/unfunny-emoji-movie-is-a-sad-echo-of-2015-s-inside-out#gene-t-j-miller-and-hi-5-james-corden-in-the-emoji-movie
6. Steinberg, D. (2017, September 25). *Science Affliction: Are Companies Cursed by Cameos in Blade Runner?* The Wall Street Journal. https://www.wsj.com/articles/science-affliction-are-companies-cursed-by-cameos-in-blade-runner-1506356096

contest, for example, invited people to submit an original children's story and the chance to win money and the opportunity to have their story published. **Sweepstakes** are games of chance people enter for the opportunity to win money or prizes. Sweepstakes are often structured as some variation on a random drawing. The companies and organizations that conduct these activities hope consumers will not only enter their games, but also buy more of their products and ideally share their information for future marketing purposes. As the following video shows, marketers have become increasingly sophisticated in the way they approach this "gaming" aspect of sales promotions.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=305#oembed-1

You can view the transcript for "Gamification" (opens in new window).

Which Sales Promotions Work Best, and When?

Although different types of sales promotions work best for different organizations, rebates are very profitable for companies because, as you have learned, many consumers forget to send in their rebate forms. In a weak economy, consumers tend to use more coupons, but they also buy more store brands. Coupons available online or at the point of purchase are being used more often by consumers. Trade shows can be very successful, although the companies that participate in them need to follow-up on the leads generated at the shows.

Advantages and Disadvantages of Sales Promotions[7]

In addition to their primary purpose of boosting sales in the near term, companies can use consumer sales promotions to help them understand price sensitivity. Coupons and rebates provide useful information about how pricing influences consumers' buying behaviour. Sales promotions can also be a valuable (and sometimes sneaky) way to acquire contact information for current and prospective customers. Many of these offers require consumers to provide their names and other information in order to participate. Electronically-scanned coupons can be linked to other purchasing data, to inform organizations about buying habits. All this information can be used for future marketing research, campaigns and outreach.

Consumer sales promotions can generate loyalty and enthusiasm for a brand, product, or service. Frequent flyer programs, for example, motivate travelers to fly on a preferred airline even if the ticket prices are somewhat higher. If sales have slowed, a promotion such as a sweepstakes or contest can spur customer excitement and (re)new interest in the company's offering. Sales promotions are a good way of energizing and inspiring customer action.

Trade promotions offer distribution channel partners financial incentives that encourage them to support

7. *How to Establish a Promotional Mix.* (n.d.). Edward Lowe Foundation. http://edwardlowe.org/digital-library/how-to-establish-a-promotional-mix/

and promote a company's products. Offering incentives like prime shelf space at a retailer's store in exchange for discounts on products has the potential to build and enhance business relationships with important distributors or businesses. Improving these relationships can lead to higher sales, stocking of other product lines, preferred business terms and other benefits.

Sales promotions can be a two-edged sword: if a company is continually handing out product samples and coupons, it can risk tarnishing the company's brand. Offering too many freebies can signal to customers that they are not purchasing a prestigious or "limited" product. Another risk with too-frequent promotions is that savvy customers will hold off purchasing until the next promotion, thus depressing sales.

Often businesses rush to grow quickly by offering sales promotions, only to see these promotions fail to reach their sales goals and target customers. The temporary boost in short-term sales may be attributed to highly price-sensitive consumers looking for a deal, rather than the long-term loyal customers a company wants to cultivate. Sales promotions need to be thought through, designed and promoted carefully. They also need to align well with the company's larger business strategy. Failure to do so can be costly in terms of dollars, profitability and reputation.

If businesses become overly reliant on sales growth through promotions, they can get trapped in short-term marketing thinking and forget to focus on long-term goals. If, after each sales dip, a business offers another sales promotion, it can be damaging to the long-term value of its brand.

IMC Support for Sales Promotions

Sales promotions are delivered to targeted groups via marketing campaigns during a pre-set, limited amount of time. In order to broaden awareness, impact and participation, sales promotions are often combined with other marketing communication methods in the promotional mix. Examples of IMC support for sales promotions include:

- Weekly email messages to consumers informing them about the week's sales, special offers, and coupons
- Promotional information on a Web site informing consumers about the availability of a rebate or other special offer
- Posters and other promotional materials to enhance a point-of-purchase display
- Sweepstakes forms incorporated into a magazine advertisement
- Social media campaigns encouraging people to post about entering a sponsored contest on Twitter, Facebook, and Instagram

These types of activities create synergies between sales promotions and other marketing activities. IMC activities can amplify the message about the sales promotion and encourage active participation from target customers.

Finally, it is important to recognize that sales promotions cannot compensate for a poor product, a declining sales trend, ineffective advertising, or weak brand loyalty. If these fundamentals are not working, sales promotions can serve only as a temporary solution.

Reading: Personal Selling

People Power

Personal selling uses in-person interaction to sell products and services. This type of communication is carried out by sales representatives, who are the personal connection between a buyer and a company or a company's products or services. Salespeople not only inform potential customers about a company's product or services, they also use their power of persuasion and remind customers of product characteristics, service agreements, prices, deals, and much more. In addition to enhancing customer relationships, this type of marketing communications tool can be a powerful source of customer feedback, as well. Later we'll cover marketing alignment with the sales process in greater detail. This section focuses on personal selling as one possible tool in the promotional mix.

Effective personal selling addresses the buyer's needs and preferences without making him or her feel pressured. Good salespeople offer advice, information, and recommendations, and they can help buyers save money and time during the decision process. The seller should give honest responses to any questions or objections the buyer has and show that he cares more about meeting the buyer's needs than making the sale. Attending to these aspects of personal selling contributes to a strong, trusting relationship between buyer and seller.[1]

Common Personal Selling Techniques

Common personal selling tools and techniques include the following:

- **Sales presentations**: in-person or virtual presentations to inform prospective customers about a product, service, or organization
- **Conversations**: relationship-building dialogue with prospective buyers for the purposes of influencing or making sales
- **Demonstrations**: demonstrating how a product or service works and the benefits it offers, highlighting advantageous features and how the offering solves problems the customer encounters
- **Addressing objections**: identifying and addressing the concerns of prospective customers, to

1. Merchant, P. (n.d.). *Strategic Selling Techniques*. Small Business Chron. http://smallbusiness.chron.com/strategic-selling-techniques-15747.html

remove any perceived obstacles to making a purchase

- **Field selling**: sales calls by a sales representative to connect with target customers in person or via phone
- **Retail selling**: in-store assistance from a sales clerk to help customers find, select, and purchase products that meet their needs
- **Door-to-door selling**: offering products for sale by going door-to-door in a neighborhood
- **Consultative selling**: consultation with a prospective customer, where a sales representative (or consultant) learns about the problems the customer wants to solve and recommends solutions to the customer's particular problem
- **Reference selling**: using satisfied customers and their positive experiences to convince target customers to purchase a product or service

Personal selling minimizes wasted effort, promotes sales, and boosts word-of-mouth marketing. Also, personal selling measures marketing return on investment (ROI) better than most tools, and it can give insight into customers' habits and their responses to a particular marketing campaign or product offer.

When to Use Personal Selling

Not every product or service is a good fit for personal selling. It's an expensive technique because the proceeds of the person-to-person sales must cover the salary of the sales representative—on top of all the other costs of doing business. Whether or not a company uses personal selling as part of its marketing mix depends on its business model. Most often companies use personal selling when their products or services are highly technical, specialized, or costly—such as complex software systems, business consulting services, homes, and automobiles.

In addition, there are certain conditions that favor personal selling:[2]

- **Product situation**: Personal selling is relatively more effective and economical when a product is of a high unit value, when it is in the introductory stage of its life cycle, when it requires personal attention to match consumer needs, or when it requires product demonstration or after-sales services.
- **Market situation**: Personal selling is effective when a firm serves a small number of large-size buyers or a small/local market. Also, it can be used effectively when an indirect channel of distribution is used for selling to agents or middlemen.
- **Company situation**: Personal selling is best utilized when a firm is not in a good position to use impersonal communication media, or it cannot afford to have a large and regular advertising outlay.
- **Consumer behaviour situation**: Personal selling should be adopted by a company when purchases are valuable but infrequent, or when competition is at such a level that consumers require persuasion and follow-up.

2. Kakati, W. (2010, September 02). *Personal selling - when and how?* SME Times. http://www.smetimes.in/smetimes/in-depth/2010/Sep/02/personal-selling-when-and-how500001.html

It's important to keep in mind that personal selling is most effective when a company has established an effective sales-force management system together with a sales force of the right design, size, and structure. Recruitment, selection, training, supervision, and evaluation of the sales force also obviously play an important role in the effectiveness of this marketing communication method.[3]

Advantages and Disadvantages of Personal Selling

The most significant strength of personal selling is its flexibility. Salespeople can tailor their presentations to fit the needs, motives, and behaviour of individual customers. A salesperson can gauge the customer's reaction to a sales approach and immediately adjust the message to facilitate better understanding.

Personal selling also minimizes wasted effort. Advertisers can spend a lot of time and money on a mass-marketing message that reaches many people outside the target market (but doesn't result in additional sales). In personal selling, the sales force pinpoints the target market, makes a contact, and focuses effort that has a strong probability of leading to a sale.

As mentioned above, an additional strength of personal selling is that measuring marketing effectiveness and determining ROI are far more straightforward for personal selling than for other marketing communication tools—where recall or attitude change is often the only measurable effect.

Another advantage of personal selling is that a salesperson is in an excellent position to encourage the customer to act. The one-on-one interaction of personal selling means that a salesperson can effectively respond to and overcome objections—e.g., concerns or reservations about the product—so that the customer is more likely to buy. Salespeople can also offer many customized reasons that might spur a customer to buy, whereas an advertisement offers a limited set of reasons that may not persuade everyone in the target audience.

A final strength of personal selling is the multiple tasks that the sales force can perform. For example, in addition to selling, a salesperson can collect payments, service or repair products, return products, and collect product and marketing information. In fact, salespeople are often the best resources when it comes to disseminating positive word-of-mouth product information.

High cost is the primary disadvantage of personal selling. With increased competition, higher travel and lodging costs, and higher salaries, the cost per sales contract continues to rise. Many companies try to control sales costs by compensating sales representatives through commissions alone, thereby guaranteeing that salespeople are paid only if they generate sales. However, commission-only salespeople may become risk averse and only call on clients who have the highest potential return. These

3. Kakati, W. (2010, September 02). *Personal selling - when and how?* SME Times.http://www.smetimes.in/smetimes/in-depth/2010/Sep/02/personal-selling-when-and-how500001.html

salespeople, then, may miss opportunities to develop a broad base of potential customers that could generate higher sales revenues in the long run.

Companies can also reduce sales costs by using complementary techniques, such as telemarketing, direct mail, toll-free numbers for interested customers, and online communication with qualified prospects. Telemarketing and online communication can further reduce costs by serving as an actual selling vehicle. Both technologies can deliver sales messages, respond to questions, take payment, and follow up.

A second disadvantage of personal selling is the problem of finding and retaining high-quality people. Experienced salespeople sometimes realize that the only way their income can outpace their cost-of-living increase is to change jobs. Also, because of the push for profitability, businesses try to hire experienced salespeople away from competitors rather than hiring college graduates, who take three to five years to reach the level of productivity of more experienced salespeople. These two staffing issues have caused high turnover in many sales forces.

Another weakness of personal selling is message inconsistency. Many salespeople view themselves as independent from the organization, so they design their own sales techniques, use their own message strategies, and engage in questionable ploys to generate sales. (You'll recall our discussion in the ethics module about the unique challenges that B2B salespeople face.) As a result, it can be difficult to find a unified company or product message within a sales force or between the sales force and the rest of the marketing mix.

A final disadvantage of personal selling is that sales-force members have different levels of motivation. Salespeople may vary in their willingness to make the desired number of sales calls each day; to make service calls that do not lead directly to sales; or to take full advantage of the technologies available to them.

How IMC Supports Personal Selling[4]

As with any other marketing communication method, personal selling must be evaluated on the basis of its contribution to the overall marketing mix. The costs of personal selling can be high and carry risks, but the returns may be just as high. In addition, when personal selling is supported by other elements of a well-conceived IMC strategy, it can be very effective indeed.

Consider the following example of Audi, which set out to build a customer-relationship program:

> Audi's goal was to not have the relationship with the customer end after the sale was made. Operating on the assumption that the company's best potential customers were also its existing customers, the company initiated an online program to maintain contact, while allowing its sales force to concentrate on selling. Based on its television campaign for the new A4 model, Audi offered a downloadable screensaver that frequently broadcasted updated news and information automatically to the consumers' computers. After displaying the screensaver option on its Web site, Audi sent an email to owners and prospects offering them the opportunity to download it. More than 10,000 people took advantage of the offer. Audi then began to maintain a continuous dialog with the adopters by sending them newsletters and updates. Click-through rates ranged from 25 to 35

4. *How Companies Integrate Personal Selling into the IMC Program*. (2021, February 05). ZABANGA Marketing. http://www.zabanga.us/marketing-communications/how-companies-integrate-personal-selling-into-the-imc-program.html

percent on various parts of the site—well exceeding the standard rates—and car sales were 25 percent higher than they were the previous year, even in a down economy.[5]

As a result of several coordinated communication methods (TV advertising, email, downloadable screensaver, newsletters, and product information) and presumably a well-designed customer relationship management (CRM) system, Audi helped its sales force be more effective (by freeing it up to focus on sales and by connecting it with more prospective customers), which, turn, meant higher profits.

5. *How Companies Integrate Personal Selling into the IMC Program.* (2021, February 05). ZABANGA Marketing. http://www.zabanga.us/marketing-communications/how-companies-integrate-personal-selling-into-the-imc-program.html

Reading: Direct Marketing

Direct Marketing: Going Straight to the Customer

Direct marketing activities bypass any intermediaries and communicate directly with the individual consumer. Direct mail is personalized to the individual consumer, based on whatever a company knows about that person's needs, interests, behaviours, and preferences. Traditional direct marketing activities include mail, catalogs, and telemarketing. The thousands of "junk mail" offers from credit card companies, bankers, and charitable organizations that flood mailboxes every year are artifacts of direct marketing. Telemarketing contacts prospective customers via the telephone to pitch offers and collect information. Today, direct marketing overlaps heavily with digital marketing, as marketers rely on email and, increasingly, mobile communications to reach and interact with consumers.

The Purpose and Uses of Direct Marketing

The purpose of direct marketing is to reach and appeal directly to individual consumers and to use information about them to offer products, services and offers that are most relevant to them and their needs. Direct marketing can be designed to support any stage of the AIDA model, from building awareness to generating interest, desire, and action. Direct marketing, particularly email, also plays a strong role in post-purchase interaction. Email is commonly used to confirm orders, send receipts or warrantees, solicit feedback through surveys, ask customers to post a social media recommendation, and propose new offers.

Direct marketing is an optimal method for marketing communication in the following situations:

- A company's primary distribution channel is to sell products or services directly to customers
- A company's primary distribution method is through the mail or other shipping services to send directly to the customer
- A company relies heavily on sales promotions or discounts, and it is important to spread the word about these offers to consumers
- An advertisement cannot sufficiently convey the many benefits of a company's product or service, and so a longer marketing piece is required to express the value proposition effectively

- A company finds that standard advertising is not reaching its target segments, and so better-targeted marketing communications are required to reach the right individuals; for example, using direct mail to reach wealthier people according to their affluent zip code
- A company sells expensive products that require more information and interaction to make the sale
- A company has a known “universe” of potential customers and access to contact information and other data about these customers
- A company is heavily dependent on customer retention, reorders and/or repurchasing, making it worthwhile to maintain “permissioned” marketing interaction with known customers

Data: The Key to Effective Direct Marketing

The effectiveness of direct marketing activity depends on marketers using databases to capture the information of target customers and the use of this information to extend ever-more-personalized offers and information to consumers. Databases record an individual’s residence, geography, family status, and credit history. When a person moves or makes a significant purchase like a car or a home, these details become part of the criteria marketers use to identify who will be a good target for their products or services. With electronic media, the information flow about consumers opens the floodgates: marketing databases capture when a consumer opens an email message and clicks on a link. They track which links piqued consumers’ interests, what they view and visit, so that the next email offer is informed by what a person found interesting the last time around. These databases also collect credit card information, so marketers can link a person’s purchasing history to shopping patterns to further tailor communications and offers.

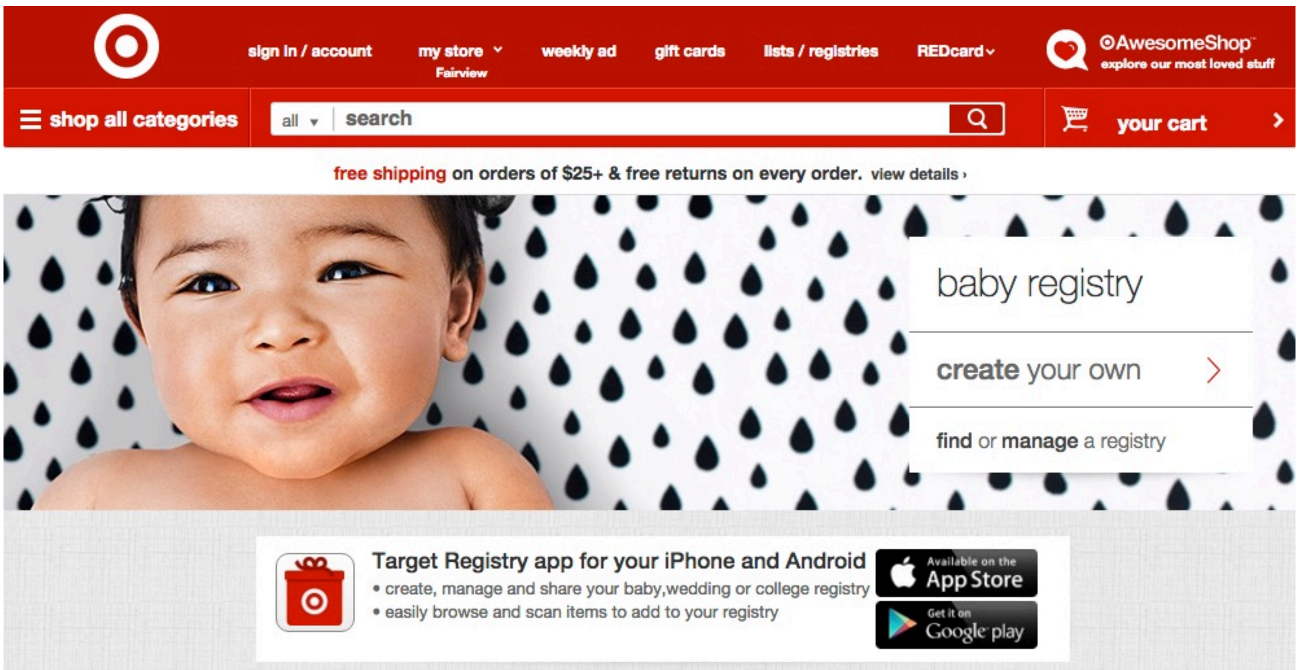
Mobile marketing adds another dimension of personalization in direct-to-consumer communications. It allows marketers to incorporate location-sensitive and even activity-specific information into marketing communications and offers. When marketers know you are playing a video game at a mall, thanks to your helpful smart phone, they can send you timing-, location- and activity-specific offers and messages.

Direct Marketing in Action

How does this work in practice? If you’ve ever paid off an auto loan, you may have noticed a torrent of mail offers from car dealerships right around the five-year mark. They know, from your credit history, that you’re nearly done paying off your car and you’ve had the vehicle for several years, so you might be interested in trading up for a newer model. Based on your geography and any voter registration information, you may be targeted during election season to participate via telephone in political polls and to receive “robocalls” from candidates and parties stomping for your vote.

Moving into the digital world, virtually any time you share an email address with an organization, it becomes part of a database to be used for future marketing. Although most organizations that engage in email marketing give the option of opting out, once you become a customer, it is easy for companies to justify continuing to contact you via email or text as part of the customer relationship you've established. As you continue to engage with the company, your behaviour and any other information you share becomes part of the database record the company uses to segment and target you with offers it thinks will interest you.

Similarly, marketers use SMS (text) for marketing purposes, and direct marketing activity takes place in mobile apps, games, and Web sites. All of these tools use the data-rich mobile environment to capture information about consumers and turn it into productive marketing opportunities. QR codes, another direct-to-consumer mobile marketing tool, enable consumers to scan an image with a mobile phone that takes them to a Web site where they receive special information or offers.



A great illustration of how companies use consumer information for direct marketing purposes comes from a *New York Times* article that interviewed Andrew Pole, who conducts marketing analytics for the retailer Target. The article discusses how Target uses behavioural data and purchasing history to anticipate customers' needs and make them offers based on this information:

> Target has a baby registry, and Pole started there, observing how shopping habits changed as a woman approached her due date, which women on the registry had willingly disclosed. He ran test after test, analyzing the data, and before long some useful patterns emerged. Lotions, for example. Lots of people buy lotion, but one of Pole's colleagues noticed that women on the baby registry were buying larger quantities of unscented lotion around the beginning of their second trimester. Another analyst noted that sometime in the first twenty weeks, pregnant women loaded up on supplements like calcium, magnesium, and zinc. Many shoppers purchase soap and cotton balls, but when someone suddenly starts buying lots of scent-free soap

> and extra-big bags of cotton balls, in addition to hand sanitizers and washcloths, it signals they could be getting close to their delivery date.
>
> As Pole's computers crawled through the data, he was able to identify about twenty-five products that, when analyzed together, allowed him to assign each shopper a "pregnancy prediction" score. More important, he could also estimate her due date to within a small window, so Target could send coupons timed to very specific stages of her pregnancy.
>
> One Target employee I spoke to provided a hypothetical example. Take a fictional Target shopper named Jenny Ward, who is twenty-three, lives in Atlanta, and in March bought cocoa-butter lotion, a purse large enough to double as a diaper bag, zinc and magnesium supplements, and a bright blue rug. There's, say, an 87 percent chance that she's pregnant and that her delivery date is sometime in late August. What's more, because of the data attached to her Guest ID number, Target knows how to trigger Jenny's habits. They know that if she receives a coupon via e-mail, it will most likely cue her to buy online. They know that if she receives an ad in the mail on Friday, she frequently uses it on a weekend trip to the store.[1]

The article goes on to tell the well-documented story of an outraged father who went into his local Target to complain about the mailer his teenage daughter received from Target featuring coupons for infant clothing and baby furniture. He accused Target of encouraging is daughter to get pregnant. The customer-service employee he spoke with was apologetic but knew nothing about the mailer. When this employee phoned the father a few days later to apologize again, it emerged that the girl was, in fact, pregnant, and Target's marketing analytics had figured it out before her father did.

Advantages and Disadvantages of Direct Marketing

All this data-driven direct marketing might seem a little creepy or even nefarious, and certainly it can be when marketers are insensitive or unethical in their use of consumer data. However, direct marketing also offers significant value to consumers by tailoring their experience in the market to things that most align with their needs and interests. If you're going to have a baby (and you don't mind people knowing about it), wouldn't you rather have Target send you special offers on baby products than on men's shoes or home improvement goods?

As suggested in the *New York Times* excerpt, above, direct marketing can be a powerful tool for anticipating and predicting customer needs and behaviours. Over time, as companies use consumer data to understand their target audiences and market dynamics, they can develop more effective campaigns and offers. Organizations can create offers that are more personalized to consumer needs and preferences, and they can reach these consumers more efficiently through direct contact. Because it is so data-intensive, it is relatively easy to measure the effectiveness of direct marketing by linking it to outcomes: did a customer request additional information or use the coupons sent? Did he open the email message containing the discount offer? How many items were purchased and when? And so forth. Although the cost of database and information infrastructure is not insignificant, mobile and email marketing tend to be inexpensive to produce once the underlying infrastructure is in place. As a rule, direct marketing tactics can be designed to fit marketing budgets.

1. Duhigg, C. (2012, February 16). *How companies learn your secret*s. The New York Times Magazine. http://www.nytimes.com/2012/02/19/magazine/shopping-habits.html

Among the leading disadvantages of direct marketing are, not surprisingly, concerns about privacy and information security. Target's massive data breach in 2013 took a hefty toll on customer confidence, company revenue, and profitability at the time. Direct marketing also takes place in a crowded, saturated market in which people are only too willing to toss junk mail and unsolicited email into trash bins without a second glance. Electronic spam filters screen out many email messages, so people may never even see email messages from many of the organizations that send them. Heavy reliance on data also leads to the challenge of keeping databases and contact information up to date and complete, a perennial problem for many organizations. Finally, direct marketing implies a direct-to-customer business model that inevitably requires companies to provide an acceptable level of customer service and interaction to win new customers and retain their business.

Direct Marketing in the IMC Process

Direct marketing, and email marketing in particular, plays a critical role in many IMC campaigns because it is a primary means of communicating with any named-and-known target audiences. It is a common vehicle for spreading the word about sales promotions and public relations activities. Direct marketing pieces can reuse and reinforce messages and images developed for advertisements, offering another touchpoint for reaching target segments. QR codes and other mobile marketing tactics may be used at the point of sale to engage customers and persuade them to purchase. Email marketing messages commonly include links to social media, inviting consumers to share experiences, opinions, marketing messages, and offers with their social networks.

Direct marketing can also be a useful tool in personal selling, as it helps marketers and sales representatives efficiently maintain ongoing relationships with customers and prospects as they are nurtured through the sales process. The rich data behind direct marketing also provides insight for sales representatives to help them segment prospective customers and develop offers and sales approaches personalized to their needs and interests.

Reading: Digital Marketing

Digital Marketing: Inform, Entice, Engage

Digital marketing is an umbrella term for using a digital tools to promote and market products, services, organizations and brands. As consumers and businesses become more reliant on digital communications, the power and importance of digital marketing have increased. The direct marketing section of this module already discussed two digital tools: email and mobile marketing, which fit into both categories. This section will discuss other essential tools in the digital marketing tool kit: websites, content marketing and *search-engine optimization* (SEO), and social media marketing.

What Makes Digital Marketing Tools Unique

In part, digital marketing is critically important because people use digital technologies frequently, and marketing needs to happen where people are. But digital marketing tools also have other unique capabilities that set them apart from traditional (predigital) marketing communication tools. These capabilities make them uniquely suited to the goals of marketing. Digital marketing tools are:

- **Interactive:** A primary focus of many digital marketing tools and efforts is to interact with target audiences, so they become actively engaged in the process, ideally at multiple points along the way. This may happen by navigating a website, playing a game, responding to a survey, sharing a link, submitting an email address, publishing a review, or even "liking" a post. Asking consumers to passively view an advertisement is no longer enough: now marketers look for ways to interact.
- **Mobile and portable:** Today's digital technologies are more mobile and portable than ever before. This means digital marketing tools are also mobile and portable: consumers can access them–and they can access consumers–virtually anytime and anywhere through digital devices. Digital marketing can reach people in places and ways that simply were not possible in the past. A tired mother stuck in traffic might encourage her child to play a game on her smartphone, exposing both child and mother to marketing messages in the process. A text message sent to a remote location can remind an adventurer to renew a subscription or confirm an order. Many physical limitations fall away in the digital world.
- **Highly measurable and data driven.** Digital technologies produce mountains of data about who is doing what, when, how, and with whom. Likewise, digital marketing tools enable marketers to determine very precisely whom they want to reach, how to reach them, and what happens when people begin the process of becoming a customer. By tracking and analyzing these data, marketers can also identify which channels are most productive for bringing people into the site and what types of interactions are most efficient at turning them to customers.
- **Sharable:** Because digital marketing tools are digital, it is easy to share them at low or no cost–a benefit for marketers and for consumers who find content they want to share virally.

People routinely share videos, games, websites, articles, images, and brands—any number of overt or covert marketing artifacts. In fact, the degree to which something is shared has become a key metric to confirm how successful it is as a marketing vehicle. Sharing has always been a primary means of spreading ideas. Digital marketing tools now facilitate extremely rapid, efficient, global sharing.

- **Synergistic with other marketing activities:** Digital marketing tools offer quick, easy, and inexpensive ways to repurpose marketing messages and content from other marketing communication methods. They help amplify and reinforce the messages targeting consumers through other media. For example, uploading a TV ad to YouTube creates a piece of digital marketing content that can be posted to Facebook, tweeted on Twitter, embedded in a website page, and shared via an email from a sales representative engaged in personal selling to a target customer.

Dove #ShowUs

Let's take a look at this commercial from Dove. What did they do to take advantage of digital marketing tools?

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=311#oembed-3

Not only did Dove produce a video on a relevant topic, but they invited people to join the conversation. At the end of the commercial, they invited viewers to share the message by using the hashtag #ShowUs.

The Imperative to Use Digital Marketing

For virtually every organization that wants to do business in the world today, having some level of digital marketing presence is a requirement. A website is quite literally an organization's digital address and calling card. People of all ages routinely use Web searches for information that shapes their purchasing decisions; using the Web helps them decide where to look, what to buy, where to find it, and how much to pay. Marketers must develop useful Web content and engage in **search engine optimization** (SEO) strategies in order to make sure their websites will be found when people come looking.

Social media marketing helps organizations tap into the power of word-of-mouth sharing, so that people hear about a company, product, or brand from trusted sources. Social media allow marketers to foster communities and listen in on timely conversations about their brands and products, providing insight into what's working or not working with their marketing or the customer experiences they provide. Email and mobile marketing reflect the dominant communication patterns in the developed world as well as in many developing countries. Communicating with prospects and customers effectively requires marketers to use these common, everyday tools.

Digital marketing tools are an integral part of most IMC campaigns, as they provide digital communication support to target and reinforce campaign messages and activities in other media. Examples of digital marketing tools supporting broader IMC activity include the following:

- Media companies host and monitor forums for fans to live-tweet during broadcast and cable TV programs, such as *The Walking Dead* and *Empire*, including commentary on the programming, advertising, the entertainment "brand," and nature of the fan community.
- Companies routinely upload television ads to YouTube and then work to create "buzz" by promoting this content through their websites, blogs, Facebook, Twitter, and other social media platforms.
- Well-designed Web content such as research reports, articles, and e-books are used as informational giveaways to generate interest and cultivate leads during trade shows, conferences, and personal selling activities.

Website Marketing

Websites represent an all-in-one storefront, a display counter, and a megaphone for organizations to communicate in the digital world. For digital and bricks-and-mortar businesses, Websites are a primary channel for communicating with current and prospective customers as well as other audiences. A good website provides evidence that an organization is real, credible, and legitimate.

The variety of online website-building services now available make setting up a basic website relatively simple and inexpensive. Once the website is established, it can continue to be fairly easy and inexpensive to maintain if the organization uses cost-effective and user-friendly tools. On the other hand, sophisticated websites can be massively expensive to build and maintain, and populating them with fresh, compelling content can devour time and money. But organizations can adjust the scope, scale, and resources required for their websites in proportion to their business objectives and the value they want their websites to deliver.

Websites As Marketing Tools

Websites are very flexible, allowing organizations to build the kinds of features and capabilities they need to conduct business effectively. Common marketing objectives and website functions include the following:

- **Providing general information** about an organization such as the value proposition, products and services, and contact information
- **Expressing the brand** of an organization through design, look and feel, personality, and voice
- **Demonstrating products, services, and expertise**, including the customer experience, features, benefits, and value they provide
- **Proof points** about the value a company offers, using evidence in the form of case studies, product reviews, testimonials, return on investment data, etc.
- **Lead generation,** capturing information about website visitors to use in ongoing sales and marketing activity

- **Communities and forums** for target audiences to share information and ask/answer questions
- **Publishing value-adding content** and tools for informational or entertainment purposes to bring people in and draw them back to the website
- **Communication** about company news, views, culture, developments, and vision through an electronic newsroom or a company blog, for example
- **Shopping,** providing tools for customers to research, find, and select products or services in the digital environment
- **Recommendations** that direct customers to information, products, services, and companies that meet their interests and needs
- **Sales**, the ability to conduct sales and transact business online
- **Capturing customer feedback** about the organization, its products, services, content, and the website experience itself

Before starting to build a website, the marketing manager should meet with other company leaders to lay out a common vision for what the Website should accomplish and the business functions it should provide. For example, if a business does not plan to handle sales online, there is no need to build a "shopping cart" function or an e-commerce engine. If cultivating lively dialogue with an active customer community is an important business objective, this capability should be incorporated into the website strategy and design decisions from the outset. The website strategy must be effective at achieving the organization's goals to inform, engage, entertain, explore, support, etc.

Top Tips for Effective Websites

Many factors go into building an effective website. The following table serves as a checklist for key considerations.

Website Elements Tips and Recommendations

Website Element	Tips and Recommendations
Domain name	The domain name is your digital address. Secure a name that is memorable and functional for your business.
Look and feel	A site's look and feel conveys a lot about a company. Make sure your site makes positive impressions about credibility, product quality, the customer experience, etc.
Messaging	Messaging and how it is presented can draw people in or turn them off immediately. Find concise, compelling ways to tell your story.
Design	Website design is about usability as well as aesthetics. Make conscious choices about how design expresses your brand personality as well as its role in making the user experience intuitive and effective.
Structure	Structure the website and organize information so that it is easy for visitors to navigate the site and find what they want.
Content quality	To a large degree, the quality of content is what brings traffic into a website (more on this soon). Produce content and organize it so it can drive traffic, move customers through the sales cycle, and generate business.
Content variety	Use a mix of professional-quality text, images, video, and other visual content to make your website interesting and readable.
Language	Typos and grammatical errors are an immediate website turnoff. Proofread everything with fresh eyes before you publish.
Accessibility	Follow basic principles of website accessibility to ensure that people can use your site effectively regardless of device or disability.
Call to action	Provide cues for your website visitors about what to do next. Give each page a clear call to action and a path that invites people to keep exploring and moving closer to a purchasing decision.
Analytics	Track website traffic and usage patterns using a tool like Google Analytics. Monitor which website pages get attention and which ones flop. Use what you learn to improve how well your website meets your objectives.

Advantages and Disadvantages of Website Marketing

Websites have so many advantages that there is almost no excuse for a business not to have one. Effective website marketing declares to the world that an organization exists, what value it offers, and how to do business. Websites can be an engine for generating customer data and new business leads. An electronic storefront is often dramatically less expensive than a physical storefront, and it can serve customers virtually anywhere in the world with internet access. Websites are very flexible and easy to alter. Organizations can try out new strategies, content and tactics at relatively low cost to see what works and where the changes pay off.

At the same time, websites carry costs and risks. They do require some investment of time and money to set up and maintain. For many organizations, especially small organizations without a dedicated website team, keeping website content fresh and up-to-date is a continual challenge. Organizations should make wise, well-researched decisions about information infrastructure and website hosting, to ensure their sites remain operational with good performance and uptime. Companies that capture and maintain customer data through their websites must be vigilant about information security to prevent hackers from stealing sensitive customer data. Some company websites suffer from other types of information security challenges, such as electronic vandalism, trolling (offensive or provocative online posts), and denial-of-service attacks mounted by hackers to take websites out of commission.

Search-Engine Optimization and Content Marketing

Search engine optimization (SEO) is the process of using Internet search engines, such as Google, Bing, and Yahoo, to gain notice, visibility, and traffic from people conducting searches using these tools. SEO works in lockstep with content marketing, which takes a strategic approach to developing and distributing valuable content targeted to the interests of a defined audience, with the goal of driving sales or another profitable customer action. In other words, content marketers create worthwhile Internet content aimed at their target audiences. Then organizations use SEO tactics to get this content noticed and to generate new traffic and sales leads.

Together, SEO and content marketing can help boost awareness and brand perceptions about the value a company provides. Content marketing can help an organization gain visibility as an expert or leader in its competitive set. Together these marketing communications tools help organizations get noticed and stay top of mind among individuals seeking the types of products or services they offer.

How SEO Works

The basic premise behind search-engine optimization is this: People conduct Internet searches. The search terms they use bring up a given set of results. When someone is searching for the types of things your organization offers, as a marketer you want your results to be at the top. You can boost your search rankings by identifying and applying SEO and content marketing strategies to the search terms people use when they are looking for products or services like yours. It may even be worth paying to get their attention, because people searching for the things you offer are likely to be better-qualified prospective customers.

Because the supply of Internet content on any given topic is continually expanding, and because search-engine companies regularly fine-tune their search algorithms to deliver ever more helpful results, SEO is not a one-time task. It's an ongoing process that companies should incorporate into their entire approach to digital marketing.

In the world of SEO, there are two types of search results: 1) organic (or unpaid) search results, and 2) inorganic (or paid) search results.

Organic search results are the unpaid listings that appear solely because of their relevance to the search terms entered when you conduct an Internet search. These are unpaid listings, and they earn their place because the search engine determines they are most relevant and valuable based on a variety of factors including the content itself and the popularity of that content with other Internet users.

Inorganic, or paid search results, appear because companies have paid the search engine for a high-ranking placement based on the search terms used. Organizations bid for this placement and typically pay per click when someone clicks through to a website. Most search engines mark the paid results as ads, so that Internet users can distinguish between organic and paid search results. In Figure 1, below, the results preceded by the word *Ad* in yellow indicate paid search results from a Google search of "cats for sale."

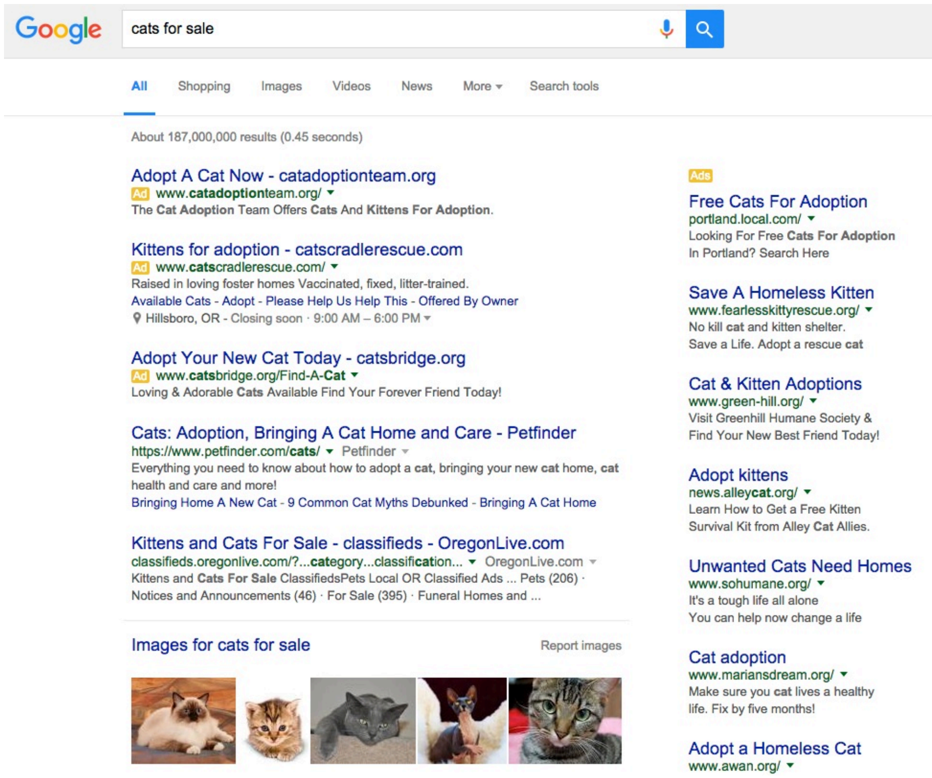


Figure 1. Google Search results for the search "cats for sale"

The following short video explains what makes Google AdWords so powerful.

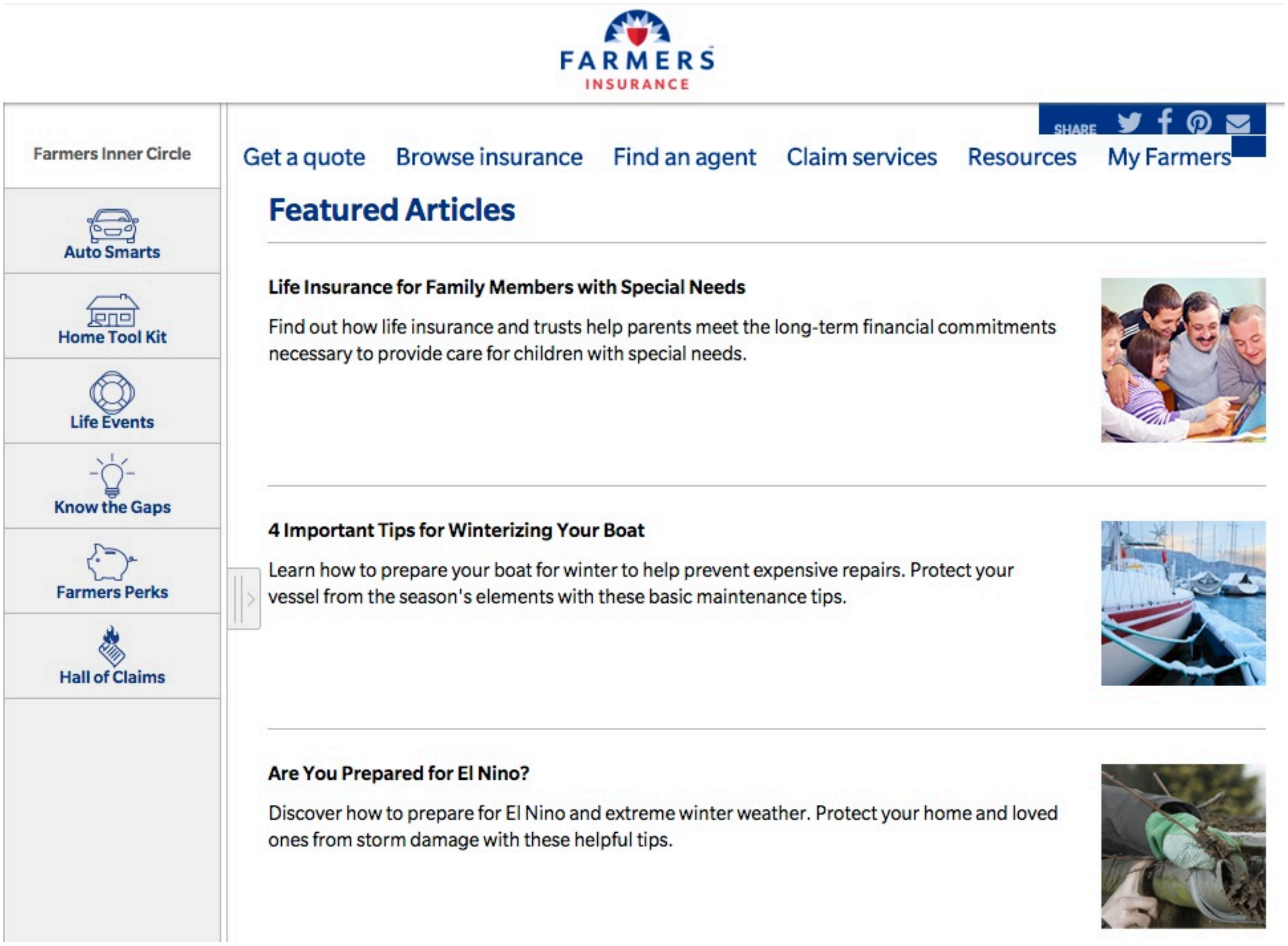
> *One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=311#oembed-1*

You can view the transcript for "Google AdWords" here (opens in new window).

Marketers use keyword research to guide their efforts to improve their rankings for both organic and inorganic searches. Keyword research helps marketers identify the search terms people are most likely to use when looking for the types of products, services, or information their website offers. Tools such as freely available Google AdWords Keyword Planner and Google Trends help marketers identify and compare popular search terms. Armed with optimal search keywords, they can buy high-ranking placement in inorganic, paid search results for their search terms of choice. They can improve their organic (unpaid) search rankings by applying content marketing strategies.

How Content Marketing Works

There is a popular saying among digital marketers: "Content is king." Good content attracts eyeballs, while poor content does not. Content marketing is based on the premise that marketers can use web content as a strategic asset to attract attention and drive traffic of target audiences. As a marketer, part of your job is to help the organization publish substantive web content–articles, videos, e-books, podcasts, images, infographics, case studies, games, calculators, etc.–that will be interesting for your target segments. When you do this, you should incorporate your optimal search terms into the content, so that it's more likely to show up in organic search results. You should also look for ways to link to that content from other web pages, so that search engine "bots" (or computer programs) responsible for cataloging websites will think your content is popular and well regarded by the Internet-user community. As your content appears in search results, it will rank higher as more and more people click through to your content and link to it from other locations on the Internet.



Articles and tips on Farmers Insurance website.

Top Tips for SEO and Content Marketing

You can use the following simple recommendations to realize the benefits of SEO and content marketing. When the two work together, they can support your organization's success raising its profile, improving search rankings, and generating traffic and new business.

SEO/Content Element Tips and Recommendations

SEO/Content Element	Tips and Recommendations
Content quality	Make website content substantive, and showcase your expertise. Create material that makes people want to stay on your site to keep reading, interacting, and exploring.
Key-word research	Conduct key-word research to learn what actual search terms people are using that relate to your goods, products, services, and brand.
Incorporate key words	Make sure your content matches the search terms you want to be associated with. Be sure to use actual, real-world search terms in order to get the bump to higher rankings.
Content freshness	Search-engine algorithms like new content, as well as content where there is a flurry of activity. Create and promote fresh new content regularly to get the "freshness boost" in search results.
Evergreen content	Be sure to develop some Web content that won't age and become outdated quickly, such as news releases. Persistently useful, interesting content generates more visits, more external links from other sites, and higher search rankings.
Internal links	Create internal links between content pages on your website. This points users to additional material that may interest them. It also helps search engines crawl through your site to reach and discover all of your content. And more sites that link to a page help boost that page's search rankings.
Headlines	Create great headlines for your Web content that grab attention while also helpfully indicating what the content will provide. Also, make sure your content delivers on the headline.
Call to action	Include a clear call to action on each Web page or content element, whether that involves sharing information, registering for a webinar, downloading an e-book, or linking to another Web page. Use content and calls to action to move people through the AIDA model toward purchasing decisions.
Promoting content	Once content is published, use other marketing communication tools to promote it. Write posts about it on Twitter, Facebook, LinkedIn, Google+, or other social networks of choice. Send email messages to active sales opportunities. Link to it from the Website home page. Create a flurry to help give it an SEO boost.

Advantages and Disadvantages of SEO and Content Marketing

Internet search is a fact of life in the modern world. It is a critical tool for customer decision-making in B2B and B2C markets. Practicing the basic tenets of SEO helps an organization get into the search-engine fray. When marketers do it skillfully, they can easily track the results, see what works, and adjust course to improve outcomes. When organizations generate high-quality content, it can be relatively inexpensive to achieve great SEO results, particularly as search engines themselves increasingly reward the "real deal": good information and true substance targeted to a specific audience.

While SEO and content marketing are powerful tools, they are also rather like puppies that need ongoing feeding and care. Both require regular monitoring to check whether they are effective and need refreshing. The Internet is a crowded and competitive place, where organizations from around the globe can compete with one another for attention and customer loyalty. It takes persistence and hard work to get on top of the Internet content world and stay there.

Social Media Marketing

Social media marketing is the use of online applications, networks, blogs, wikis, and other collaborative media for communicating brand messaging, conducting marketing, public relations, and lead generation. Social media are distinctive for their networking capabilities: they allow people to reach and interact with one another through interconnected networks. This "social" phenomenon changes the power dynamic in marketing: no longer is the marketer the central gatekeeper for all communication about a product, service, brand, or organization. Social media allows for organic dialogue and activity to happen directly between individuals, unmediated by a company. Companies can (and should) listen, learn, and find ways to participate authentically.

Social media marketing focuses on three primary objectives:

1. **Creating buzz:** Developing and publishing messages (in a variety of formats–e.g., text, video, and images) that is disseminated via user-to-user contact
2. **Fostering community:** Building ways for fans to engage with one another about a shared interest in a brand, product, or service
3. **Facilitating two-way communication:** Online conversations are not controlled by the organizations. Instead, social media promotes and encourages user participation, feedback, and dialogue

How Social Media Marketing Works

Organizations have opportunities to engage in social media for marketing purposes in several ways: paid, earned, and owned social media activity.

- **Paid:** Paid social media activity includes advertisements on social media (placed in various locations), sponsored posts or content, and retargeting advertisements that target ads based on a consumer's previous actions. This type of social media activity is best suited for sales, lead generation, event participation, and incorporation into IMC campaigns.
- **Earned:** Earned social media activity involves news organizations, thought leaders, or other individuals who create content about an organization. It is particularly suited to supporting public relations efforts.
- **Owned:** Owned social media activity happens through social media accounts that an organization owns (e.g., Facebook page, Twitter handle, Instagram name, etc.). This activity is ideal for brand awareness, lead generation, and goals around engaging target audiences.

Effective use of social media to reach your target audience requires more effort by an organization than the traditional marketing methods. Not only must an organization create unique content and messaging, but it must be prepared to engage in two-way communication regarding the content that it produces and shares on social media. To be effective at using social media to reach target audiences, an organization must:

- **Create unique content, often.** Social media, unlike traditional methods, cannot rely on static content. An organization must regularly publish new, unique content to stay relevant on any social media platform.

- **Ask questions.** To foster engagement, an organization must solicit feedback from users, customers, and prospects. This is critical to creating conversation, insight, and discussion on social media platforms.
- **Create short-form media.** Most social media platforms have character limits per post. Users on social media expect to be able to scan their feed. Long posts (even within character limits) tend to underperform. The more succinct an organization can be, the better.
- **Try different formats.** Most social media platforms provide users with the option to add images and video to text. Social media is becoming an increasingly visual medium, where content that performs the best usually includes an image or video. Try to convert messages into images and video when possible for maximum reach.
- **Use a clear, immediate call to action.** Social media works best for achieving marketing goals with a clear call to action that a user can do immediately from their computer or mobile device. Examples include 1) Web traffic (click-through), 2) downloads of content (e.g., white papers, articles, etc.), 3) online purchases, and 4) engagement (comment, like, share, view, read).

Common Social Media Marketing Tools

What's hot in social media is a moving target, but the following table provides a listing and description of primary social media platforms.

Social Media Marketing Tools

Tool	Description
Blogs	Long- or short-form medium for communicating with audiences
YouTube	Video-hosting social media site
Twitter	Short-form (140 character) “microblogging” medium that is intended for text and image sharing
Facebook	Long-form (up to 2,000 characters per post) medium for sharing text, images, videos, and other multimedia content
Instagram	Image-based social network that is intended as a visual medium. Does not have capabilities to drive click-through rate (CTR) because posts offer no link option
Google+	Long-form medium for sharing text, images, videos, and other multimedia content
Pinterest	Medium for sharing photos and visual content categorized by theme
LinkedIn	Long- or short-form medium for sharing text, images, videos, and other multimedia content targeted to the business community

Top Tips for Social Media Marketing

The following tips help break down the process of mounting a successful social media marketing strategy.

Top Tips for Social Media Marketing

Activity	Tips and Recommendations
Start with SWOT	Start by conducting a SWOT analysis of your social media activity. Evaluate how your organization is currently using social media, as well as the competition (platforms, messaging, tactics, and campaigns).
Establish a baseline	Establish a baseline. Take measurements for current reach and engagement before starting to use social media for marketing. This will help you gauge the impact and improve as you pursue a social media strategy.
Set goals	Set specific goals for your social media campaign. Make them S.M.A.R.T. goals that align with your broader marketing strategy.
Target audience	Understand how your target audience is using social media (and what platforms).
Platforms	Identify which social media platforms you will use and what you want to accomplish in each.
Ownership	Identify who within the organization will "own" and share responsibility for social media participation. Work out plans for how to coordinate activity and messaging if there are multiple owners.
Testing	A/B test your content using the targeting features of the social media platform. Figure out which types of posts, messages, content, and topics generate better response.
Measurement	Regularly take measurements for how much engagement your efforts are producing. Compare them to the benchmark and assess progress toward goals.
Monitor	Monitor social media activity regularly and be sure to respond to customers, prospects, and other users.

Advantages and Disadvantages of Social Media Marketing

The advantages and benefits of social media marketing focus heavily on the two-way and even multidirectional communication between customers, prospects, and advocates for your company or brand. By listening and engaging in social media, organizations are better equipped to understand and respond to market sentiment. Social media helps organizations identify and cultivate advocates for their products, services, and brand, including the emergence of customers who can become highly credible, trusted voices to help you sell. Unlike many other forms of marketing, social media are very measurable, allowing marketers to track online customer behaviour and how target audiences respond to content created by the organization. Social media offers a virtually unlimited audience for communicating and sharing key messages in the market. It also offers marketers the ability to relatively easily target and test the effectiveness of content using the various targeting capabilities of social media for location, interests, income, title, industry, and other sociographic differentiators.

Social media also carry a number of inherent challenges. Social media are dynamic environments that require significant effort to monitor and stay current on. It is also difficult to continually create "share-worthy" content. The variety of social media tools makes it a challenge to understand which platforms to use for which target audiences and calls to action. Crisis communications can be difficult, too, particularly in the public environment of social media, in which it is difficult to contain or control communication. This means it can be difficult to mitigate the impact of a crisis on the brand.

One of the biggest challenges facing organizations is determining who in the organization should "own" the social media platforms for the organization. Too few hands to help means the burden of content creation is high on a single individual. However, too many people often results in duplication of efforts or conflicting content.

Expert Insight on Using Social Media: JetBlue

Airline carrier JetBlue has received attention and accolades for its effective use of social media to foster two-way communication with customers. In this video, JetBlue's head of social media strategy, Morgan Johnston, explains the company's approach to social media and how it complements other corporate and marketing communication activity. He also shares insights about how the company used social media to manage crisis communications and respond to customers during Hurricane Sandy, when extreme weather conditions hit the company's northeastern U.S. travel routes hard.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=311#oembed-2

You can view the transcript for "Social Fresh interview with Morgan Johnston of jetBlue" here (opens in new window).

Reading: Guerrilla Marketing

Guerrilla Marketing: Thinking Outside the Box

Guerrilla marketing is a relatively new marketing strategy that relies on unconventional, often low-cost tactics to create awareness of and goodwill toward a brand, product, service, or even a company. The term "guerrilla marketing" itself comes from Jay Conrad Levinson, who coined the term in his 1984 book *Guerrilla Advertising*. Though "guerrilla" has military connotations (the word means "little war), guerrilla promotion strategies often combine elements of wit, humor, and spectacle to capture people's attention and engage them in the marketing act. Guerrilla marketing is memorable. And, like the renegade militias it was presumably named for, unexpected.

Practitioners of guerrilla marketing today have used other words to describe it: *disruptive, anti-establishment, newsworthy*, and *a state of mind.* By its nature, guerrilla marketing defies precise description, so it may be worthwhile to view an example before going further.

Classic Guerrilla: Nike Livestrong at the Tour de France

Although this campaign was a full-blown IMC effort, at its core it was really a memorable guerrilla marketing stunt: the spectacle of painting the streets of France during the world-famous Tour de France bicycle race. It ran in 2008 when Lance Armstrong was still one of the most revered athletes of his generation. Designed to generate awareness for Nike, the nonprofit Livestrong Foundation, and the cause of fighting cancer, marketers succeeded in sharing inspiring messages of hope with their target audiences: athletes, sports enthusiasts and people affected by cancer, particularly young people.

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You can view the transcript for "Nike Livestrong Chalkbot Web Film" (opens in new window).

Telltale Signs of Guerrilla Marketing

Guerrilla marketing campaigns can be very diverse in their approach and tactics. So what do they have in common? Guerrilla marketing often has the following characteristics:

- It's imaginative and surprising, but in a very hip or antiestablishment way
- Doesn't resemble a traditional marketing initiative, such as a straightforward print or TV advertising campaign
- Uses combinations of different marketing communications tactics, in creative ways
- Is experiential, drawing in the target audience to participate
- Takes risks in what it aspires to accomplish, even if it might ruffle some feathers
- Is not 100 percent approved by the establishment (i.e. the city, the event planners, the powers that be)

When to Use Guerrilla Marketing

This edgy marketing approach focuses on two goals: 1) get media attention, and 2) make a positive and memorable connection with your target audience. Many noteworthy guerrilla campaigns, like Nike Livestrong, focus on creating an experience that embodies the spirit of the brand. Often these projects invite people who encounter the campaign to become co-conspirators in achieving the campaign's vision and reach.

Guerrilla marketing experts assert that this technique can work for virtually any brand or organization, so long as the organization doesn't mind taking some risks, and so long as the project is true to who you are and what you represent. The right concept for the guerrilla marketing effort should capture your organization's authentic voice and express what is unique about your brand identity. At some point you may be asked to stand up for your actions if you're called onto the carpet, so you need to believe in what you are doing. Guerrilla marketing is particularly suited to small, imaginative organizations that may not have much money but have a burning desire to do something memorable—to make an entrance or a splash. Severe budget constraints can encourage creative teams to be very inventive and original.[1]

Because it is inherently *spectacle*, guerrilla marketing tactics work very well for building brands and generating awareness and interest in an organization, product, service, or idea. They aim to put a company on the map–the mind-share map. It's interesting that guerrilla marketing often calls on the audience to engage or take action, but turning participants into a paying customers may not be the goal. However, successful guerrilla marketing can make audiences undergo a kind of "conversion" experience: if the impact is powerful enough, it can move consumers further along the path towards brand loyalty.

1. Business Insider. (2010, April 19). *How to Pull Off a Guerilla Marketing Campaign*. Entrepreneur. http://www.entrepreneur.com/article/206202

Volkswagen: Take the Slide!

Take a look at the following guerrilla marketing spectacle organized by Volkswagen. Notice how the event capitalizes on a unique combination of emotional appeal and surprise. (Note: there is no narration to the video; just background music.)

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You can access the text alternative for Speed Up Your Life, Take the Slide (opens in new window).

Guerrilla Marketing Tactics: The Usual Suspects

As you saw in the example of the lamppost transformed into a McDonald's coffeepot, all kinds of spaces and urban environments present opportunities for the guerrilla marketer. In fact, guerrilla marketing initiatives can be executed offline or online. Some companies feel that an edgy, unexpected online campaign with creative guerrilla elements is a little safer than executing a project in the bricks-and-mortar world.

It goes against the very notion of guerrilla marketing to establish a set of tactics or practices that are "conventional" or "typical." However, the following list describes some examples of guerrilla marketing tactics from noteworthy campaigns, which will give you an idea of what's been used in the past.[2]

2. Marrs, M. (2020, July 21). *20+ Jaw-Dropping Guerrilla Marketing Examples*. WordStream.http://www.wordstream.com/blog/ws/2014/09/22/guerrilla-marketing-examples

Guerrilla Tactics

Guerrilla Tactic	**Description**
Graffiti	Graffiti marketing, a subset of guerrilla marketing, turns walls, alleys, and streets into larger-than-life canvases for marketing activity.
Stencil graffiti	Use of stencils to create repeated works of graffiti, with the stencils enabling the project team to rapidly recreate the same work in multiple locations. Stencils tend to be smaller-scale and simpler than classic graffiti art.
Undercover, or stealth marketing	Use of marketers or paid actors to go "undercover" among peers to engage unsuspecting people in a marketing activity of some sort. For example, attractive actors are paid to strike up conversations, rave about a new mobile device, and then ask people to take a photo using the device, so that they get hands-on experience with the product in question.
Stickers	Inventive use of stickers as a temporary medium for creating an image, posing an illusion, or conveying a message
Flash mobs	A group of people organized to perform an action at a predetermined place and time; usually they blend in with bystanders initially and then join the "mob" activity at the designated moment, as in the Do Re Mi video, above.
Publicity stunts	Extraordinary feats to attract the attention of the general public, as well as media
Treasure hunts	Placing a series of online and offline "treasure hunt" clues in an urban environment and inviting target audiences to participate in the hunt to win prizes and glory
Sham events	Staging an activity or event that appears real, but in fact is a fake, for the purposes of drawing attention and making a statement

Despite the irreverent, antiestablishment spirit of guerrilla marketing, marketers should use good judgment about seeking permission from building owners, city managers, event planners, or others in a position of authority, to avoid unpleasant or unnecessary complications. Some coordination, or even a heads-up that something is happening, can go far toward earning goodwill and a cooperative spirit in the face of an unexpected spectacle.

How NOT to Guerrilla Market

When three guerrilla marketing veterans spoke with *Entrepreneur* about their work, they gave their top advice about what NOT to do with these projects:[3]

- Adam Salacuse of ALT TERRAIN: "Never aim to upset, scare, or provoke people in a negative way. The goal should be to implement something that people will embrace, enjoy, and share with friends."
- Brett Zaccardi of Street Attack: "Don't be contrived or too bland. Don't try to be something you're not."
- Drew Neisser of Renegade Marketing: "Try not to annoy your target. [It] is generally not a good idea to do something that will cause someone on the team to go to jail."

3. Business Insider. (2010, April 19). *How to Pull Off a Guerilla Marketing Campaign*. Entrepreneur. http://www.entrepreneur.com/article/206202

Advantages and Disadvantages of Guerrilla Marketing

Guerrilla marketing has several notable advantages. It can be inexpensive to execute—it's often much cheaper than traditional advertising when you consider the number of impressions and amount of attention generated. It encourages creativity and inventiveness, since the goal is to create something novel and original. Guerrilla marketing is about buzz: it is designed for viral sharing, and it taps into powerful word-of-mouth marketing as people share their memorable guerrilla-inspired impressions and experiences with friends and acquaintances. A guerrilla marketing phenomenon can take on a life of its own and live in the memories of the people it affected long after the actual event is over. Finally, when executed effectively, guerrilla tactics are designed with media and publicity in mind. Media attention can snowball and generate a larger-than-expected "bounce" as local or even national outlets choose to cover these events.

As suggested above, guerrilla marketing also carries some disadvantages and risks. When an (apparently) spontaneous activity springs up in a public space, property owners, the police, and other authorities may object and try to interfere or stop the event. Unexpected obstacles can arise, which even the best-laid plans may have missed: weather, traffic, current events, timing, etc. Some audiences or bystanders may misinterpret what is happening, or even take offense at provocative actions or messages. When guerrilla projects are cloaked in secrecy or mystery, people may become uncomfortable or fearful, or the aura of mystery may cause them to interpret the message and goals incorrectly. Similarly, if people feel they have been duped by a guerrilla marketing activity, they may come away with negative impressions. If some people disapprove of a given guerrilla marketing activity or campaign, there's a risk of backlash, anger, and frustration.

Compared to traditional marketing, guerrilla tactics are definitely riskier. Then again, the rewards can be brilliant, when things go as planned.

The Role of IMC in Guerrilla Marketing

As noted above, one telltale sign of guerrilla marketing is the way it blends multiple tactics to create maximum exposure and impact. Most guerrilla marketing campaigns incorporate multiple marketing communication methods and tools to carry out the full vision. This makes them more than IMC compatible—they are really IMC *dependent*. For example, organizers of guerrilla stunts and feats frequently film their activities and post them online to generate (hopefully) viral videos and other content. Real-world guerrilla messages and promotional pieces often include information to access company Web sites, where custom-designed landing pages welcome visitors to the online counterpart of the guerrilla experience.

Social media is a staple of guerrilla marketing. Organizing, publicizing, and sharing a campaign's outcomes and impact may all take place through social channels. Social media also helps generate the buzz that drives guerrilla content to become viral. As guerrilla activities draw media attention, they intersect with PR and media relations.

Simulation: IMC Hero

Try It

Congratulations: you've been learning a lot about IMC, and if the length of this module is any indicator, there's a lot to learn!

Are you sick of just *reading about* integrated marketing communications and ready to actually *try* it?

You're in luck. These simulations give you the opportunity to start up your marketing engine and see what you can do with IMC. Play the simulations below multiple times to see how different choices lead to different outcomes. In this simulation environment, you don't have to shy away from choices that seem a little off: you can learn as much from the wrong choices as the right ones. All simulations allow unlimited attempts so that you can gain experience applying the concepts.

Have fun!

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13.6 Using IMC in the Sales Process

Learning Objectives

- Describe the sales process
- Provide examples of how IMC tools can support various stages of the sales process
- Explain how IMC tools support the sales process

As you know very well by now, in every successful transaction, there's a buyer and a seller.

The consumer behaviour module of this course describes the decision process consumers go through when they decide to buy something. From the seller's perspective, there is a parallel sales process that companies use to clarify the things they must do to successfully move buyers through their decision process.

In this section of the course, we will examine this sales process and the role of integrated marketing communication in supporting it.

Learning Activities

- Reading: Using IMC in the Sales Process
- Self Check: Using IMC in the Sales Process

Reading: Using IMC in the Sales Process

Through the Looking Glass: Understanding the Sales Process

Up to this point, we've emphasized the importance of getting into the minds of customers in order to market to them effectively. The consumer decision-making process outlines key stages people go through when they make purchasing decisions. Now we're going to step through the proverbial looking glass to examine that same process from the seller's point of view.

Why is this helpful? For a sale to occur, the buyer needs to move through the decision-making process successfully. To help the buyer do that, the seller needs to provide information and assistance along the way. For some products and services, such as those that employ personal selling, the seller's role is very hands-on. For other product and services, particularly ones in low-involvement decisions, the seller's role may be fairly hands-off. In either case, though, it's helpful for marketers to understand the sales process that happens alongside the consumer decision-making process.

The role of marketing is to work in the middle ground between these processes, providing tools that facilitate the customer's movement through the decision-making process **and** tools that help people responsible for sales *close deals*. When marketers take an IMC approach to this challenge, they can develop timely, well-coordinated marketing tools that effectively support both processes.

The Seller's Viewpoint

The sales process starts with determining where to focus attention and then turns to relationship building and information sharing to help prospective customers reach a buying decision. The figure below lists the five stages of the sales process that correspond to the five stages of the consumer decision-making process.

Stage 1: Generate and Qualify Leads

The first step in the sales process is to find sales leads. A *lead* is a person who expresses some interest in learning more about a product or service. But just being interested isn't enough to warrant the full attention of the seller. Leads must also be qualified. In other words the seller needs to confirm that the lead actually has a recognized need for the offering and the ability to pay for it. Once a prospect meets these criteria, the goal from both the marketing and sales point of view is to move the person successfully through the decision process.

Stage 2: Build Relationship and Discover Needs

At the same time consumers are searching for information about how to address their needs, sellers are searching for information about the consumers and what they looking for. At this stage a true buyer-seller relationship starts to form: the seller reaches out and probes in order to understand buyer needs. The seller also begins to position herself as a trusted resource to help address these needs. The buyer begins to understand that the seller may indeed be able to provide what he is looking for.

Stage 3: Present Solution and Resolve Concerns

Once a seller understands the needs of a qualified lead, she can effectively present the product or service as a solution to those needs. She has insight into the buyer and understands which features and benefits are most important. She can position the offering accordingly. It is important to present the solution at the same time the consumer is formulating and evaluating alternatives. Inevitably this evaluation process will raise potential concerns and reservations about the solution. The seller surfaces these issues and provides additional information to resolve them.

Stage 4: Close the Sale

At this late stage of the sales process, the buyer is engaged in getting the best deal he can, while finally confirming that this decision is the best one. The seller is taking final steps to ensure that her solution is selected and that the purchase is completed. This may involve offering some final, crowning piece of information to instill confidence in the choice and move it over the finish line. It may also involve negotiating final deal terms, pricing, or providing incentives to finalize the decision.

Stage 5: Monitor and Follow Up

This final stage recognizes that closing the sale is a gateway into a new and deeper relationship: the active customer relationship. If the seller wants to retain this customer and potentially sell to him again in the future, it is important to invest in the relationship and make sure he is satisfied with his decision. The buyer hopes to quickly start enjoying the benefits of the new solution. The seller now takes responsibility for effectively delivering the solution. At this stage, if the seller is using personal selling techniques, there is often a personnel shift, and a colleague from customer service, solution delivery, or another team takes over for the seller. What doesn't change is the seller's vested interest in monitoring how the customer is doing, with an eye toward lifetime customer value.

Alignment between the Sales and Marketing Functions

The marketing and sales functions have common goals in helping to move prospective customers through the purchasing process successfully. Although the *sales process* is labeled with the term, "sales," in fact the sales and marketing teams collaborate to make the process effective. It is very common for the marketing team to be responsible for the first stage of the sales process, lead generation and qualification. Marketing may also be instrumental in initiating relationships with qualified leads, beginning to identify their needs and issues, and sharing useful information as buyers begin to seek solutions to their problems.

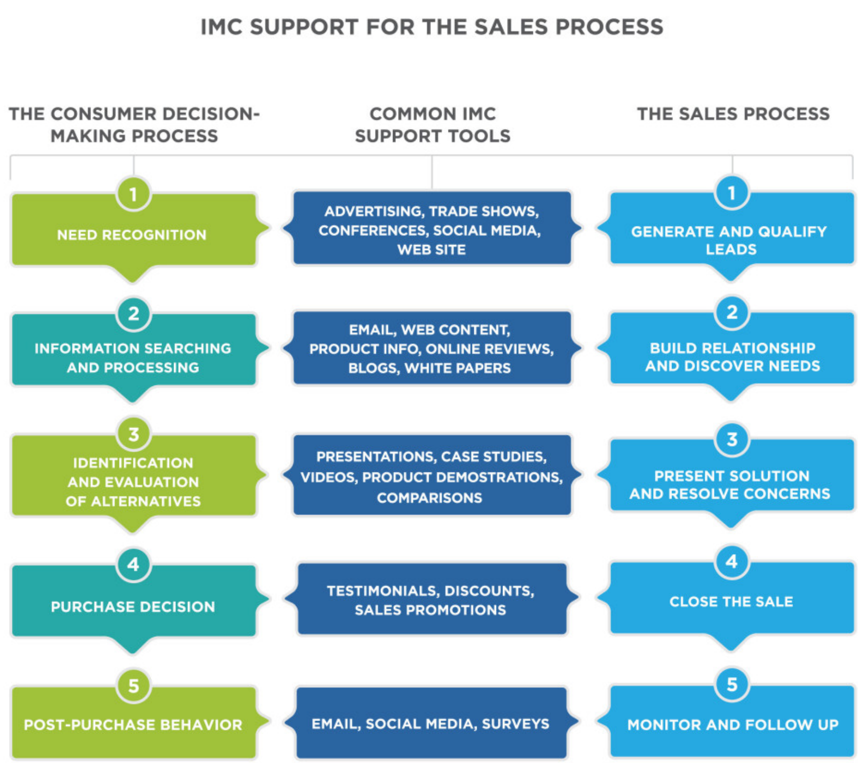
Often the marketing team collaborates with the sales organization to develop appropriate tools for the later stages of the sales process, too. Solution presentations, product demonstrations, and other informational tools are all marketing communications artifacts. Marketers can ensure consistent positioning, messaging, and brand alignment when they work with sales team members to develop tools to support these stages of the process.

When no personal selling is involved, organizations may rely heavily on Web-based tools and interactions to support these stages of the buying process. Tools like videos, self-running product demonstrations, free product trials, case studies, and product comparisons might provide sufficient coverage to eliminate the need for dedicated salespeople. But here again, marketing plays a central role in developing and improving these tools, and in managing the process of connecting buyers to the information they need. Marketing automation tools can add significant power to organizational Web sites to assist with this process.

Fitting IMC into the Sales Process

So where does IMC fit in the sales process? Marketing communication tools serve as the fabric woven between the consumer decision-making process and the sales process. A common set of IMC tools is responsible for helping both processes function smoothly. Taking an IMC approach to supporting the sales process helps marketers think holistically about what's happening on the part of the buyer as well as the seller; a coordinated approach can make these parallel processes happen more effectively.

Various marketing communication tools lend themselves to each stage of the sales process, depending on the nature of the interaction between the seller and the buyer. Although a marketer could conceivably design any IMC tool to support any stage of the process, there are general patterns around the types of marketing communication tactics that work best at each stage, as illustrated in the figure below.



Stage 1: Early in the sales process, optimal IMC tools are those that cast a wide net to build awareness about both the problem an organization's products and services address and its proposed solution(s). This stage is the widest in the so-called sales funnel. Ideally, organizations take a coordinated IMC approach to lead-generating activities, so that advertising, the Web site, conferences, trade shows, and social media activity all reinforce one another by using common messaging to share the value proposition.

Stage 2: With qualified leads in hand, the opportunity is ripe for IMC campaigns that target leads based on what they are looking for and their progression through the decision-making process. Electronic direct mail is often an essential tool at this stage. Web-site content should be carefully designed to support prospective customers' "information search" processes effectively. By monitoring contacts' progression, the organization can provide additional materials as needed to keep people interested and engaged.

Stage 3: When a contact recognizes that he wants to give serious consideration to the company's products or services, a very solution-focused set of IMC tools come to the fore. Tools such as presentations, case studies, videos, product comparisons, demonstrations, and free trial offers are all designed to help prospective customers understand the product features and benefits they will enjoy. These tools and the process for accessing them can be built into a coherent campaign that moves people easily from stage to stage as they learn more.

Stage 4: When the buyer and the seller home in on the final selection process and specific terms for sale, another set of IMC tools can be particularly useful. Testimonials and references from satisfied, successful customers can play a powerful role in pushing a decision across the finish line. At times, offering sales promotions and discounts can make the difference between signing now vs. months from now. By applying an IMC approach to supporting the entire sales process, this stage can feel like a crowning validation of the chosen path, with all the other touchpoints leading to this point.

Stage 5: As the prospective customer becomes an actual customer, IMC tools like email and social media can help deepen and individualize the relationship. A new-customer-orientation IMC campaign, for example, might provide the kickstart a customer needs to move ahead successfully. Online surveys and other feedback tools can engage new customers to monitor how they are doing and confirm that they are experiencing the value they expect.

Case Study: IMC and Zombie Apocalypse Supporting the Sales Process

In 2013, it was the height of America's fixation with zombies. The hit TV show *The Walking Dead* was a popular obsession, and the highly anticipated summer blockbuster was the zombie-filled action-horror film *World War Z.* At the time, Christine Nurnberger was a new-to-the-job vice president of marketing. She had been challenged by her boss to breathe excitement into the ho-hum reputation of SunGard Availability Services (SunGard AS), a B2B company that helps organizations improve their IT infrastructure to avoid service outages and plan for disaster recovery.

Tapping into the zeitgeist, Nurnberger hit on an almost crazy idea for an integrated marketing campaign: "What better way to convey our message around the importance of having a resilient business infrastructure than to test it by seeing if you could survive a zombie apocalypse."[1]

Almost crazy, but not quite. Nurnberger set her team to designing a pilot to test the concept with a small number of corporate chief information officers who were in later stages of the buying process. This first phase of the IMC campaign used direct mail. Marketers sent a flash drive to the CIOs, informing them of the imminent zombie apocalypse and telling them to stay tuned for a backpack of survival materials, which arrived a few days later. Sales representatives followed up with sales calls, and they

1. *Multichannel Marketing: IT company's zombie-themed campaign increases CTO 3% at president, owner level.* (2013, November 20). Marketing Sherpa. http://www.marketingsherpa.com/article/case-study/zombie-themed-campaign-sungard

were elated to find their CIO sales leads enthusiastic about the creative zombie campaign and open to talking business, as well. The campaign gave sales reps the perfect opportunity to discuss the company's offerings and innovation and address concerns about the perception of SunGard AS as a stodgy "dinosaur" in the IT world.

The first wave went so well that the marketing team expanded the campaign to additional audiences in ways that impacted multiple stages of the sales funnel:

- **All stages:** A version of the campaign targeting industry analysts and influencers with a message about the company's recent updates and innovation. This effort resulted in positive social media posts from analysts about SunGard AS and the campaign. This helped bolster the SunGard AS brand and generate further interest at each stage of the sales process.
- **Stage 1:** A social media campaign and zombie-apocalypse backpack giveaway were initiated to build awareness and generate new leads.
- **Stages 1 and 2:** A targeted campaign to generate, qualify, and educate new leads among IT decision-makers was developed using email, direct mail, and Website content.
- **Stages 2 and 3:** A second targeted campaign focused on recontacting promising sales leads who had stalled during the sales process to restart conversations with SunGard AS. Coordinated IMC elements in this campaign included email, direct mail, personal selling, website content, and social media.

In the following video, Christine Nurnberger explains the approach behind the IMC campaign (including the zombie apocalypse backpack), how her team executed different phases, and the results of the campaign.

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You can view the transcript for "How Zombies Helped Deliver the Right Message to the Right Audience at the Right Time" here (opens in new window).

13.7 Customer Relationship Management (CRM) Systems and IMC

Learning Objectives

- Discuss how organizations use CRM systems for targeted marketing communication
- Describe the uses of customer relationship management (CRM) systems for marketing communication purposes

An important tool for sales and marketing activities is the customer relationship management system (CRM). At their core, CRM systems are software systems used to collect and manage information about customers and prospects, making them a valuable source of internal data. CRM system providers have also built a set of technology tools around this core to help marketers analyze customer information and use it to create smarter, better targeted, and more effective marketing communication.

In the next section, you'll learn about the role of CRM systems in helping marketers deliver the right types of marketing campaigns and interaction opportunities to the right people at the right time.

Learning Activities

- Reading: Customer Relationship Management (CRM) Systems and IMC
- Self Check: Customer Relationship Management (CRM) Systems and IMC

Reading: Customer Relationship Management (CRM) Systems and IMC

Using CRM to Support Marketing Communication

Earlier in this course we introduced customer relationship management (CRM) systems, which serve key functions for marketing, sales, and account management. These systems capture data about customers as well as an organization's interactions with these customers. They also provide tools to help marketers and salespeople better manage customer relationships and meet their customers' needs. CRM systems generally capture and maintain information about prospective as well as current customers, making them very useful to both marketing and sales processes.

The overall business goals of CRM systems are to help organizations 1) capture new leads and move them through the sales process; 2) support and manage relationships with current customers to maximize their lifetime value to the company; and 3) boost productivity and lower the overall costs of marketing, sales, and account management.

CRM systems can be complicated to implement because they are intended to support a complex set of processes and business functions. At times, the systems themselves are so sophisticated that organizations never fully use all their capabilities. However, a wide selection of CRM systems are now available at different levels of pricing and complexity. As managers refine their understanding of how CRM systems can help them achieve their business and marketing objectives, they can identify suitable systems and implementation approaches to fit their needs.

CRM Uses in Sales and Marketing

CRM systems are transformational for marketing communication because they allow marketers to use customer data to personalize their interactions to fit the unique needs of individuals. When marketers or salespeople know more about the customer–thanks to information the CRM telling them who the customer is, how she found the company, what information she has requested, and so forth–they can anticipate that person's needs and tailor the next set of interactions to help her progress through the decision-making process.

Information gained through CRM initiatives can support the development of sales and marketing strategy by developing the organization's knowledge in key areas: identifying customer segments, improving customer retention, improving product offerings (by better understanding customer needs), improving the customer experience, and identifying the organization's most profitable customers.

In the following video, Amazon CEO Jeff Bezos explains how his company captures data about what products customers buy to tailor the shopping experience every time someone visits the Amazon Web site. The customer data, captured in Amazon's CRM system, feeds a "recommendation engine" to suggest products Amazon thinks customers will want, based on their prior purchases and the purchase histories of other customers who buy the same types of things they do.

https://youtube.com/watch?v=I952kdcpE3Y

You can view the transcript for “Personalize Recommendations Online” here (opens in new window).

Marketing and IMC

CRM systems for marketing help an organization identify and target potential clients and generate leads. A key marketing capability is tracking and measuring the effectiveness of multichannel campaigns, including email, search, social media, telephone, direct mail, and other channels. The CRM system can monitor which individuals click, respond, and participate in any call to action. It also reports overall campaign metrics such as clicks, responses, leads generated, deals closed, and revenue. Many CRM systems are capable of tracking customer interactions and nurturing relationships from first contact through the closed sale and beyond, providing a 360-degree view of the customer relationship.

Marketing automation uses data from a CRM system to help marketers coordinate and manage marketing interaction across multiple digital-marketing channels—email, Web sites, social media, etc. Marketers use marketing automation systems to design and execute marketing campaigns targeted to specific segments based on various criteria. Campaigns might target individuals in the CRM system by job title, industry, or geography, for example, or some combination of individual traits. Campaigns may also be designed around the stage of the sales process, so that everyone at a certain stage receives a weekly email or other touch points to provide further information and help nudge the contact toward the buying decision.

Marketing automation is particularly good for automating repetitive tasks, so that marketers can maintain interaction and build relationships with a large number of contacts simultaneously. But because CRM data tracks what each prospective customer is looking for and where they are in the decision process, marketers can orchestrate an appropriate set of automated interactions to keep the relationship “warm” and eventually move them toward a sale.

Based on the characteristics and behaviour of the prospective customers captured in the CRM system, marketers can also direct the system to conduct “lead scoring.” Lead scoring involves assigning points to marketing or sales leads to help marketers prioritize who is most ready to buy and move them toward a buying decision. For instance, B2B marketers could define lead scoring as follows:

- 8 points to every contact that resides within a targeted geography
- 7 points for sharing an email address
- 8 points for sharing job title
- 15 points to any contact who holds a position as vice president or higher in their organization
- 3 points each time a contact visits the company’s Web site
- 5 points each time a contact downloads a document or views a video on the Web site

The system calculates the total score for each lead, indicating which contacts are the best-prepared targets for making a sale. Marketing and sales team members then target appropriate marketing campaigns and outreach opportunities designed to help leads continue progressing through the sales process.

Sales Force Automation

Salesforce automation (SFA) is another function of many CRM systems. It involves using software to streamline all phases of the sales process, minimizing the time that sales representatives need to spend on each phase. This enables a business to use fewer sales representatives to manage their clients. At the core of SFA is a contact management system for tracking and recording every stage in the sales process for each prospective client, from initial contact to final disposition. Many SFA applications also provide reporting and analytical tools to give salespeople and managers insights into specific sales opportunities, territories, and forecasting future sales. Some also offer workflow automation tools to help streamline sales-related processes and improve both the quality and efficiency of sales teams' interactions with prospective customers.

As with marketing automation, sales force automation can help salespeople streamline the task of communicating with prospective customers during the sales process. A salesperson can set up automated triggers to send specific communications to sales leads at various points in the process. For example, when an individual requests a product demonstration, a sales automation system might automatically send a set of communications to set up a virtual meeting for the demo. The system could then check whether that lead has downloaded a marketing piece comparing product features versus competitors'. If not, the system would automatically send that informational piece in a follow-up email message.

CRM and Marketing Automation in Action

The following video explains how a Precor, a B2B gym equipment company, uses its CRM system with marketing automation to better understand and anticipate customer needs. It translates the information from the CRM system to more efficient marketing, better customer service, and increased sales. This video was produced by Salesforce.com, the CRM company that provides the two systems Precor uses: Sales Cloud (CRM) and Pardot (marketing automation system). Notice that the video not only trumpets the value of these systems, but the video itself is a polished piece of marketing communication (promoting Salesforce.com).

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=327#oembed-1

13.8 Measuring Marketing Communication Effectiveness

Learning Objectives

- Discuss the importance of measuring marketing communication effectiveness
- Identify key performance indicators (KPIs) that are useful for measuring the effectiveness of marketing communications
- Explain common tools used to measure marketing communication effectiveness

After all the creativity, work, blood, sweat, and tears that go into a successful marketing campaign, your work is not done until you have measured the campaign's impact to learn where it succeeded and where it didn't. Every campaign represents a significant investment of resources, so if you don't take the time to learn from your campaign before moving on, you are losing a substantial part of that investment. Also, an effective campaign may contain tactics that you can use again—but you'll want to know which ones worked. Think about it: every campaign you run can make you smarter!

Learning Activities

- Reading: Measuring Marketing Communication Effectiveness
- Self Check: Measuring Marketing Communication Effectiveness

Reading: Measuring Marketing Communication Effectiveness

Why Measure?

Measurement is an important aspect of marketing campaigns and other marketing activity. Measurement makes some people very nervous because it brings accountability into marketing activity. In fact, this step can be one of a marketer's best friends. If you don't measure the impact of your marketing efforts, you'll have no idea whether what you are doing is effective or not. On the other hand, if you do measure the impact, it will help you understand what is working, and where and how to improve your efforts. By nature, marketing is a dynamic field because markets change and people change. What works beautifully this year may be a complete flop next year, and vice versa.

Measurement–and the results or "metrics" this process collects–are like a compass that helps marketers adjust course so they can reach their goals more quickly and effectively.

Deciding What to Measure

Measuring just for the sake of having numbers misses the whole point. It's actually essential to determine the right things to measure first, if you want to get a relevant picture of what's happening. To do this, marketers typically go through a process of identifying **key performance indicators** (often called KPIs). A KPI is something measurable that indicates the progress an organization is making toward its business objectives. The KPI is not the same as the actual company goal or objective; instead it is something measurable that helps managers understand how well they are progressing toward the goal.

To understand the importance of KPIs, let's say you are a track coach who wants to capture data about the sprinters on your team. You could measure all sorts of things about the athletes: their shoe size, how many cups of sweat they produce during a typical workout, how fast their hearts beat during a race, and so on. Would all those measurements be key performance indicators? Maybe not. You might decide that the key performance indicators for sprinters are their best running times and their average running times (or something else).

In a company, KPIs can be determined for many different levels of the organization. These are described below:

- **Company-level KPIs** indicate the overall company performance on company-wide goals, in terms of total revenue, profitability, customer satisfaction rating, market share, or percentage of growth in the customer base.

- **Department-level KPIs** track performance at the department level. For the marketing department, it might be brand awareness, the number of qualified new leads generated, cost per lead generated, or the *conversion rate*: the percentage of leads who are converted into customers.
- **Team-level KPIs** track the impact and effectiveness of a team's activities. A team focused on digital marketing, for example, might track KPIs such as email-marketing click rates, the number of website visits, or SEO sales conversion rate: the percentage of individuals who come to the Web site via a search engine and result in a sale.
- **Campaign-level KPIs** track the impact of individual campaigns. By tracking similar metrics across multiple campaigns, it is easy to see which ones are most effective with target audiences and then use this information to refine tactics and replicate successful approaches. Campaign-level KPIs are somewhat dependent on the campaign design; for example, campaigns typically track the "open" rate: i.e., how many people open an email message once it is delivered. If a campaign doesn't use email, the open rate doesn't exist. However, there are some "common denominator" campaign metrics marketers can track across IMC activities to determine impact and progress. Cost per impression, impressions per campaign, and conversion rate are metrics that can be tracked for virtually any campaign.
- **Marketing tactic-level KPIs** track the effectiveness of individual marketing tactics and tools. For example, content-marketing KPIs track the effectiveness of individual content pieces used on a Web site and in IMC campaigns. These metrics, such as page views per article and number of social media shares provide insight for marketers about which types of content are most popular with target customers and which content pieces get little interest.

Different companies select different sets of KPIs, depending on what they are trying to accomplish and the strategies they are pursuing to reach their goals. At any given level, it is important to limit the total number of KPIs to those that are most essential and indicative of progress. If too many things are measured, managers have trouble prioritizing and homing in on what is most important. In addition to KPIs–which represent key, strategic indicators of progress–a company may also track a variety of other metrics to inform its operations.

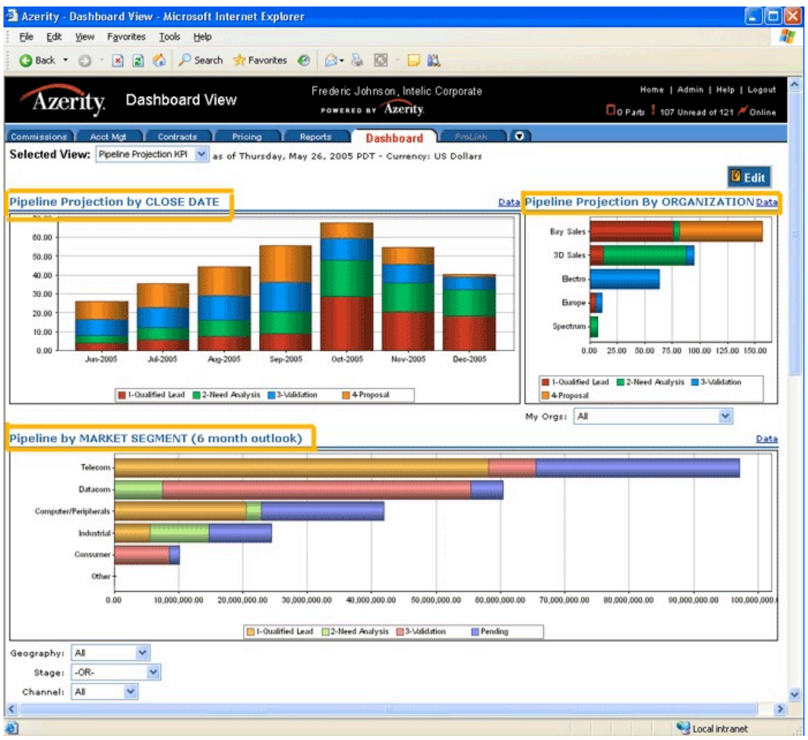
Alignment with Goals and Objectives

Figuring out what to measure starts with considering the organization's overall goals and objectives, as well as the marketing team's goals and objectives. The highest-level KPIs should tell managers about how well marketing is doing at meeting its goals as a team, and how the team is contributing to the organization's overall performance. KPIs may reflect absolute figures, such as total market share. Or they may track progress toward a target, such as progress toward achieving 1,500 new customers over the course of a year. KPIs should provide information to guide managers in their decision-making about what is working and where to adjust course.

It is helpful for an organization to define a standard set of KPIs for measuring the effectiveness of marketing campaigns and for the contributions made by different functions within the marketing organization: public relations, advertising, social media marketing, etc. When marketers define

S.M.A.R.T. goals at the outset of a campaign, these goals may incorporate KPIs to confirm what the campaign aspires to achieve and how well it does at achieving these goals. KPIs for awareness-building campaigns, for example, should be focused on campaign reach, such as number of impressions or post-campaign brand awareness.

Managers should be attentive to how many KPIs they are tracking to ensure that measurement remains a useful activity rather than a burden that cuts into the productivity and effectiveness of the broader team. Fortunately, as marketing becomes more data-rich and technology-driven, many KPI-type metrics are calculated automatically by systems that support the marketing function, making them readily available. Tools are also available that create dashboards for marketing managers and team members to help them easily monitor KPIs on an ongoing basis.



Defining the Metric

Every marketing metric or KPI requires some type of measurement, and it should be based on legitimate data. When marketers define a KPI, they should also define what data will be used to calculate the KPI, as well as the source of that data. At times, different people or teams might have different assumptions about how to calculate the metric, so it is wise to clarify this during the definitional stage.

It isn't uncommon for people to identify KPIs and then discover that they don't have ready access to the information needed for measurement. This can be a good motivator for defining a process to obtain that information. Or it can be a cue that perhaps a different KPI based on more readily available information would be a better option.

When to Measure

When to measure depends on what is readily available for marketers and managers to track and maintain. If it takes a lot of manual effort to generate a KPI report, or managers are spending hours per day or week compiling and reporting metrics, it could significantly cut into productive work time—and it might be wise to investigate alternatives. Fortunately, CRM and other systems that build KPI dashboard reports into their regular, day-to-day functions are readily available. In these cases, systems automatically calculate KPIs, which makes them easy to monitor over time and adjust course as needed. Typically managers should monitor KPIs at least once per quarter, in order to gauge progress and learn what's working and how to improve.

Video: Defining KPIs

The following video provides an overview of different types of key performance indicators and the process of defining them.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=333#oembed-1

You can view the transcript for "The Problem With Key Performance Indicators (KPIs)?" here (opens in new window).

Examples of Key Performance Indicators

Different types of KPIs focus on measuring progress and effectiveness in different areas related to marketing. In fact, hundreds of possible KPIs exist, so marketing managers should figure out which ones matter most for achieving their goals and focus attention accordingly. The section and table below lists a variety of KPIs that apply to different aspects of marketing communications and the marketing function generally.

Marketing-Related Business Objectives Sample KPIs

Sales/Revenue Generation Sample KPIs

- Total sales/revenue
- New/incremental sales revenue
- Profitability

- Average revenue per customer
- New customer acquisition
- Number of customers
- Customer retention
- Number of registrations/sign-ups

Market Share Sample KPIs

- Market share in category
- Relative market share (share relative to largest competitor).

Lead Generation Sample KPIs

- Number of qualified leads
- Cost per lead (by source/platform)
- Traffic source breakdown.

Build Brand Sample KPIs

- Brand awareness
- Brand equity
- Price premium
- Brand valuation
- Share of voice: mentions of your brand/mentions of others
- Brand community membership.

Foster Dialogue Sample KPIs

- Audience engagement
- Share of voice: mentions of your brand/mentions of others
- Conversion reach.

Develop Customer Advocates Sample KPIs

- Active advocates
- Advocate influence
- Advocacy impact
- Online review ratings.

Customer Support Sample KPIs

- Resolution rate
- Resolution time
- Satisfaction score
- Net Promoter Score (NPS).

Innovation Sample KPIs

- Topic Trends
- Sentiment Ratio
- Idea Impact.

Marketing-Related Business Objectives and Sample KPIs

Business Objective	KPI Examples
Sales/Revenue Generation	Total sales/revenue New/incremental sales revenue Profitability Average revenue per customer New customer acquisition Number of customers Customer retention Number of registrations/sign-ups
Market Share	Market share in category Relative market share (share relative to largest competitor)
Lead Generation	Number of qualified leads Cost per lead (by source/platform)Traffic source breakdown
Build Brand	Brand awareness Brand equity Price premium Brand valuation Share of voice: mentions of your brand/mentions of others Brand community membership
Foster Dialogue	Audience engagement Share of voice: mentions of your brand/mentions of others Conversion reach
Develop Customer Advocates	Active advocates Advocate influence Advocacy impact Online review ratings
Customer Support	Resolution rate Resolution time Satisfaction score Net Promoter Score (NPS)
Innovation	Topic Trends Sentiment Ratio Idea Impact

Marketing Communications Activity Sample KPIs

Reach: Campaigns, Owned Media, Earned Media, Social Media, Marketing Content

Sample KPIs

- Impressions

- Potential Reach: Followers, Fans, Subscribers
- Confirmed Reach: Views, Post/Page Views, Video Views
- Hits/visits/views
- Repeat Visits
- Conversion rates (from visitor or buyer)
- Buzz indicators (web mentions)
- Net Promoter Score (NPS)
- Customer acquisition cost

Engagement: Owned Media, Earned Media, Social Media, Marketing Content

Sample KPIs

- Likes/Stars/Hearts
- Comments
- Shares
- Retweets/Reposts
- Positive/negative sentiment
- Impressions
- Cost per click (CPC)
- Cost per impression (CPM)
- Click-thru-rate (CTR)
- Customer Retention Cost
- Profits per customer
- Customer acquisition cost

Paid Media: Advertising Sample KPIs

- Impressions
- Cost per click (CPC)
- Cost per impression (CPM)
- Click-thru-rate (CTR)
- Customer Retention Cost
- Profits per customer
- Customer acquisition cost

SEO/Web Site Sample KPIs

- SEO keyword ranking
- SEO sales conversion rate
- Number of unique visitors
- Total sessions/visits
- Average time on site/page

Email Marketing Sample KPIs

- Open rate
- Click-thru-rate (CTR)
- Bounce rate
- Unsubscribe rate

Public Relations Sample KPIs

- Advertising value equivalency
- Clip/article counting
- Brand mentions

Marketing Communications Activity Sample KPIs

Marketing Activity/Tool	KPI Examples
Reach: Campaigns, Owned Media, Earned Media, Social Media, Marketing Content	Impressions Potential Reach: Followers, Fans, Subscribers Confirmed Reach: Views, Post/Page Views, Video Views Hits/visits/views Repeat Visits Conversion rates (from visitor or buyer) Buzz indicators (web mentions) Net Promoter Score (NPS) Customer acquisition cost
Engagement: Owned Media, Earned Media, Social Media, Marketing Content	Likes/Stars/HeartsComments Shares Retweets/Reposts Positive/negative sentiment
Paid Media (advertising)	Impressions Cost per click (CPC) Cost per impression (CPM) Click-thru-rate (CTR) Customer Retention Cost Profits per customer Customer acquisition cost
SEO/Web site	SEO keyword ranking SEO sales conversion rate Number of unique visitors Total sessions/visits Average time on site/page
Email Marketing	Open rate Click-thru-rate (CTR)Bounce rate Unsubscribe rate
Public Relations	Advertising value equivalency Clip/article counting Brand mentions

Campaign Metrics Case Study: Citizen Watch

Citizen, one of the world's largest makers of wristwatches, embarked on a digital marketing strategy to build its brand using social media, with a specific focus on expanding its presence on Facebook. The marketing team's goal for the first year was to gain 100,000 followers on Facebook. Their campaign strategy focused on offering engagement opportunities that pushed people to Facebook to interact with the brand. It incorporated a combination of tactics that included offline and online elements, such as a series of register-to-win contests like a "Win Your Mum a Watch" giveaway. It also offered related online engagement opportunities, like interactive photo galleries on the company Web site for people to browse, with new products to view and share on social media.

To help gauge their progress and understand how well different dimensions of the campaign were working, they tracked a variety of metrics, with one KPI being the number of Facebook followers. Over the course of the campaign, they had impressive results. In addition to blowing through their goal of getting 100,000 followers, Citizen saw the following results from consumers who participated in campaign activities:

- 76 percent lead-submission rate
- 82 percent app-completion rate
- 26 percent social-share rate

By tracking these metrics across different offers and campaigns, Citizen was able to gauge which activities were the best received and use this information to improve the effectiveness of future campaigns. The company has used these insights to expand promotional activities to other forms of social media and other types of engagement activities.[1]

1. *Citizen Watch Drives Social Engagement With Interactive Content.* (n.d.). SnapApp.http://cdn.snapapp.com/site/images/resources/SnapApp-CaseStudy-CitizenWatch.pdf

13.9 Developing a Marketing Campaign and Budget

Learning Objectives

- Identify key elements of an integrated marketing communications plan, including promotional mix, tactics, timing, ownership, measurement, resources and budget requirements
- Discuss how to create a budget for an integrated marketing communications plan
- Explain why it is important to consider potential risks to the business associated with an IMC plan
- Create a marketing campaign and budget using multiple IMC tools to execute a marketing strategy

Marketing campaigns can be challenging to execute because they have so many complex, moving parts. That's why it's essential to plan. Planning a marketing campaign helps crystallize what you are going to accomplish and how it will happen. It helps you identify gaps in your thinking and fill them before it's too late. Planning helps you stay on budget, and it helps ensure that you and your manager are on the same page about what is happening and who is involved.

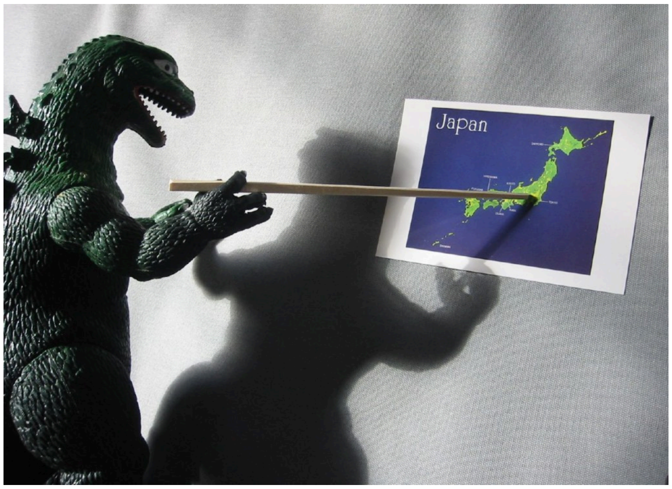
In the world of marketing, planning is your friend.

Learning Activities

- Reading: Developing a Marketing Campaign and Budget
- Self Check: Developing a Marketing Campaign and Budget

Reading: Developing a Marketing Campaign and Budget

Planning for Action



As you can appreciate at this point—especially after learning about all the available IMC methods and tools—IMC is complicated and often elaborate. Even simple marketing plans require multiple steps to execute effectively. For this reason, marketers routinely create campaign plans (also called IMC plans), which carefully list each step required to complete an IMC project. These "action plans" fit into a broader marketing plan and are used to document the actual steps that need to happen, when, and who is responsible for them.

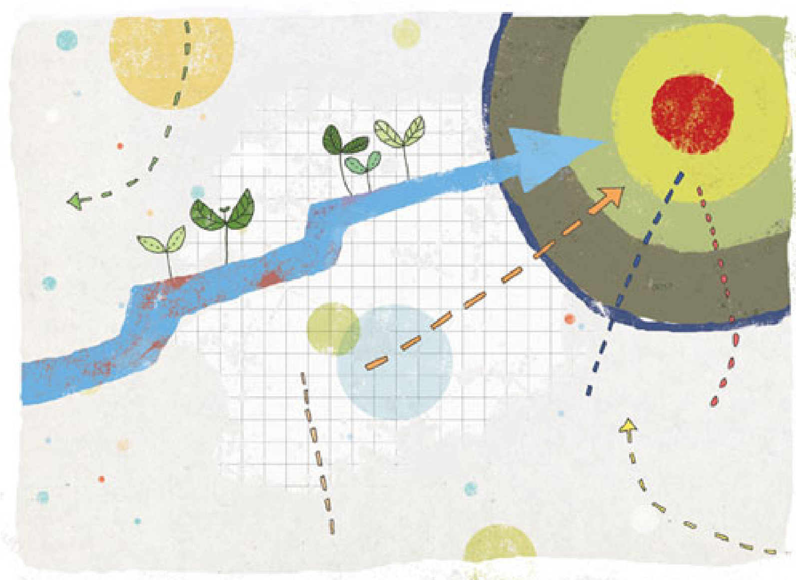
Campaign plans help marketers to think ahead about how they will execute the promotional mix. The campaign plan ensures that the entire marketing team has a common vision for what they are working toward and what role each person will play in achieving it. By thinking through exactly which marketing communications tools will be needed and how they will be used, managers can ensure that the plan fits within budget and that they have sufficient resources to pull it off. Campaign plans provide the critical element of timing by specifying each step in the process and when it must take place, so that the whole effort is well coordinated.

In IMC projects, different touchpoints are designed to support and build on one another; the campaign plan helps ensure that each piece is in place when it's needed. For example, suppose social media posts about a new product announcement include a link to a product information page on a company's Web site. The campaign plan helps remind marketers that they must build the new product information page before the social media posts can go out.

Campaign plans are intended to coordinate a set of related activities focused on a common goal–the campaign objectives. If a marketing team is executing more than one campaign at the same time, generally it works best to create a separate plan for each one. If it's helpful during the execution phase, team members can merge individual campaign plans into a single master plan.

Once a marketing team is focused on executing an IMC campaign, the campaign plan is the tool everyone works from. If an adjustment is needed, it's simple for managers to make changes in the centralized plan and move forward. Everyone stays on the same page.

Campaign Plan Components



Effective marketing campaign plans require several elements that, together, paint a complete picture of what the marketing team will execute with their IMC tools. These include the following:

- **promotional mix:** identify the marketing communication methods to be used
- **resource and budget requirements:** outline the funding and other resources needed to execute the plan and explain how the plan will use the available budget
- **tactics:** identify the specific marketing communication tools and tactics to be used, as well as the target audience for each
- **timing:** clarify when each tactical step needs to take place, in order to meet the campaign objectives
- **ownership:** identify which team or team member is responsible for executing each step
- **measurement:** select the metrics to be tracked in order to gauge the campaign's impact, and explain how the data will be captured

Different organizations use different formats for compiling all of this information into a campaign plan. The sample frameworks below provide useful examples of the types of planning frameworks used by marketing departments.

Campaign Budget Plan Framework

The first step in developing a campaign budget plan is to start with the total budget available to spend on a campaign. This budget figure works as a guardrail or constraint to keep your plans in line with the available resources. Next, think about the promotion mix you have in mind. Will there be advertising? Digital or direct marketing? Any public relations activities? And so forth. List the different methods and key tools you plan to use, and then determine how much of your budget you plan to spend on each.

Example: Promotional-Mix Budget Template

The promotional mix and budget allocation for a local chain of ice-cream shops might be as follows:

Promotional Mix and Budget Allocation

Promotional Mix Elements	**Budget Allocated**
10%: Direct marketing: email campaigns	$500
10%: Digital marketing: Website messaging update; contest pages, social media	$500
25%: Advertising: sidewalk sandwich boards, localized digital ads on Facebook	$1,250
45% Sales promotion: coupons, create-a-flavor contest, sidewalk samples, in-store posters	$2,250
10%: Public relations: press releases	$500
Total	**$5,000**

Once you've outlined the promotional mix and how you plan to allocate your budget across different marketing communication methods, it's a good idea to put together a detailed budget listing the specific elements that require out-of-pocket spending and how much they cost. In preparing the detailed budget, marketers should conduct research by contacting suppliers or comparison shopping online to confirm that they are accurately estimating the ballpark costs for each item. In the detailed budget, it is also useful to list employee labor and the time needed to execute the plan. This gives the managers of the organization better visibility into the total cost of executing the campaign. The following is a useful framework for developing a detailed budget.

Example: Budget-Detail Template

The detailed budget template for the same local ice-cream shop campaign might be as follows:

As you go through this detailed budgeting process, you may find you need to scale certain elements of the budget up or down in order to fit within the total project budget. This exercise helps marketers think realistically about the trade-offs and how to ensure the project makes the greatest impact possible with the available resources.

Estimating Campaign Impact

Before you have conducted marketing campaign among a target audience, it can be difficult to estimate what its expected impact will be, because you are working in the realm of the unknown. However, once you have begun conducting campaigns, you have a better sense of their scope and scale and how many people you will reach. In the absence of that information, marketers can use a few different factors to estimate campaign impact:

- What are your marketing campaign goals? Marketers may simply use campaign goals to estimate the impact. This may be because they plan to adjust tactics as they go in order to meet these goals. Or it may be because once they meet the goals, the campaign will have done its job and it can be ended.

- How many people will you reach with your planned IMC activities, and what proportion of them do you expect to respond? Marketers can use a variety of figures to estimate how many people they will reach with a campaign, such as the size of an email list, a local population size, the number of social media followers, the average number of store visitors, advertising impressions purchased, etc. Based on these “reach” figures, marketers can estimate what percentage of people who are exposed to the campaign will participate and what their impact will be: new customers, increased sales, site visits, donations received, etc.

For some types of campaigns the estimated impact may be more difficult to quantify and express as a number. For example, awareness of a public health issue or having a positive/negative perception of a candidate or brand might be an important result. Even in these situations, marketers should identify some way to estimate and measure their impact, so that they have some indicator about whether their efforts have made a difference. Survey research, social media mentions, website visits, or other metrics might be appropriate proxies for estimating impact, depending on the issue and target audience.

Campaign Action Plan Framework

Once you’ve got the promotional mix and detailed budget in place, the next step is to map out key steps and milestones for executing the campaign, as well as who will execute each step. This is the campaign action plan. For instance: If your campaign coincides with a new product launch planned for a specific date, then you need to add tactics prior to that date to support the new product launch—e.g., a Website update, a press release, an email campaign, etc. If your campaign involves attending a trade show, think through and list all the things that need to be in place to make that event successful: fliers, signage for an exhibitor booth, a product demonstration script, how to capture leads from the event, and how you will follow up with them, etc. In the campaign action plan template below, note how the plan captures not only the steps that need to happen and when, but also the audience and internal owner for each step. This information helps marketers maintain a clear understanding of each campaign element, whom it will reach, and who is responsible for executing it.

Example: Campaign Action Plan Template

A partial action plan template for a local ice-cream shop campaign might look like this:

Budget Detail Template Example

Ice-cream Shop Budget

Item	**Purpose**	**Cost Estimate**
Email-campaign template	Direct marketing: professional design for standard email template for use in multiple campaigns	$500
Web-site contest pages, internal ads	Digital marketing: professional design for Web pages and forms for create-a-flavor contest, sidewalk tasting events, internal site “ads” for contest	$500
Ad design work	Advertising: designer work for sandwich boards, online ads	$250
Facebook ads	Facebook ads targeting local areas	$650
Sandwich boards	Advertising: three sandwich boards for display outside shops	$350
Coupons, contest fliers, in-store posters	Sales promotion: design and production to match other campaign-related materials	$400
Coupon value	Sales promotion: estimated cost of redeemed coupons	$350
Sidewalk sample cost-of-goods	Sales promotion: cost of ingredients, materials, extra labor for executing sidewalk tasting events	$1,500
Press releases	PR firm assistance with press release writing, local distribution	$500
Internal labor	Employee labor to execute campaign: email campaign, social media, web updates, ad purchases, contest management, local placement of coupons, fliers, overall project management	25% time of one employee over duration of campaign
Total	All costs excluding employee labor	**$5,000**

Campaign Action Template Example

Ice-cream Shop Campaign

Timing	**Activity Type**	**Brief Description**	**Audience**	**Owner**
3 March	Designer creative brief	Draft a creative brief outlining all campaign elements we want designer to complete	Designer	Martina Hagen
28 March	Design work complete	Approve email template, Web-site updates, digital ads, sandwich boards, posters, coupons, fliers	Local public, families, foodies	Designer with Martina
5 April	Production of print materials	Complete production of posters, sandwich boards, coupons, fliers	Local public, families, foodies	Martina Hagen
6 April	Employee briefing	Conduct campaign-information sessions with employees; share campaign materials, go through frequently asked questions	Employees	Martina Hagen with store managers
7 April	Campaign launch: in-store	Prepare in-store display for campaign: posters, fliers, coupons, contest information	Store customer	Store managers
7 April	Campaign launch: digital	Activate and test website updates and campaign pages/forms; send targeted campaign email messages about contest and sidewalk tasting events	Store "friends" email list; purchased residential email list	Martina Hagen
8 April	Campaign launch:sSocial media	Initiate social media activity: Facebook ads, daily social media posts from store, employees, friends	Local public, families, foodies	Martina Hagen
16 April	Sidewalk tasting event #1	Hold sidewalk tasting event at downtown store, 12:30–4:30 pm	Walk-up traffic, local customers, and friends	Designated store employees with Martina
Etc.	Etc.	Etc.	Etc	Etc.

Internal communication is a common shortcoming in integrated marketing campaigns, when marketers do not take the time to bring their fellow employees up to speed on what's happening and how a campaign may affect them. Be sure to include steps in the plan for communicating internally about the campaign with fellow employees and teams who need to know about it and who may help execute the campaign, directly or indirectly. For example, all employees involved in sales should be aware of any sales promotions, so they know what to expect, understand the rules for applying them, and know-how to answer customer questions. As you prepare the campaign plan, lookout for ways to integrate your marketing activities, so they build on one another to amplify your message and impact. For example, use advertising to announce a sales promotion, and reinforce both with social media posts that link to your website. Think of this plan as your blueprint for using all the tools available to you to get your message

out. Anticipate risks and complications once a campaign is defined and the action plan is in place. It's helpful to identify any noteworthy risks or dependencies that might put your campaign in jeopardy. For example, if the campaign relies on one person to make everything happen and that person gets sick or decides to take a new job, then that's a risk that managers should know about. Below are a few more:

- **people:** being able to count on key individuals having the capacity, availability, and skills to execute the campaign effectively
- **technology:** knowing that the technology works effectively to execute the plan and achieve the goals of the campaign
- **funding:** having enough money and resources available to support the campaign; managing the campaign to fit the budget; ability to control cost overruns
- **innovation:** anything new and untested represents risk, such as tools, ideas, people, technologies, products, delivery methods
- **competition:** competitors' activities that may gain advantages over, attack, undermine your business
- **economy:** economic downturns create uncertainty and instability, make consumers less inclined to spend money
- **communication:** communicating sufficiently to make sure all stakeholders are informed, messaging is well received, and various aspects of the campaign are well coordinated
- **"acts of God":** weather, natural disasters, and other catastrophic events represent unforeseen risks and complications. Although there is always some low-level, persistent risk associated with these factors for everybody everywhere, some marketing activities might be more susceptible. For example, the success of an outdoor event may be highly dependent on favorable weather conditions.

Weaknesses from an organization's SWOT analysis are also worth considering as part of this step. Once marketers have identified potential risk factors and complications, they can determine which ones are a significant threat and how to create contingency plans for anything that is of particular concern. By anticipating and planning for anything of major concern, marketers increase their likelihood of success for a campaign to meet its objectives, on time and on budget.

13.10 Putting It Together: Promotion: Integrated Marketing Communication (IMC)

The readings in this module pulled apart the different pieces of integrated marketing communication to help you understand the role each one plays in creating and executing an effective marketing campaign. From small-scale and simple promotional programs to massive and complex undertakings, the same basic building blocks are required: target audience, message, strategy, promotional mix, budget, action plan, measurement. That's the IMC recipe.

Now that you've spent time learning more about that recipe, let's go back to where we started with IMC. In the "Why It Matters" section introducing this module, we asked you to watch videos about two very different and successful IMC campaigns. Before we wrap up our discussion of IMC, take a moment to watch the American Express video again. This time, see if you can pick out the ingredients in the recipe:

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=343

You can view the transcript for "38. AMERICAN EXPRESS OPEN "Small Business Gets An Official Day"" here (opens in new window).

Video Take Two: American Express Small Business Shopping Day Campaign

The Recipe

- **Goal:** Generate more customers for small businesses by establishing "Small Business Saturday" (SBS) as a fixture in the annual U.S. holiday shopping season
- **Target Audience:** 1) small business owners, 2) American consumers and 3) public officials
- **Message:** Make "Small Business Saturday" a part of your holiday tradition. Shop small!
- **Strategy:** Put American Express's small business customers at the center of a marketing campaign. Use a three-prong approach, mobilizing three different stakeholder groups needed to make the idea a reality: 1) get small businesses to participate by providing promotional tools and publicity; 2) get public officials to endorse SBS and speak about it publicly; 3) get consumers to participate by shopping at small businesses on SBS (year

over year).

- **Promotional Mix:** Advertising, digital marketing (including Web, social media, content), public relations, sales promotion, including interactive elements with each target audience. Marketing activity for small business owners centered on a digital toolkit for them to promote SBS locally: badge-style logo, posters, social media marketing tools, a video ad-making tool, a Facebook page-builder tool, and an offer to launch online deals through FourSquare. Outreach to public officials was a full-scale public relations effort, contacting local, statewide, and national public officials to inform them about SBS and ask them to lend public support to the effort. A U.S. Senate resolution made Small Business Saturday an officially recognized day, and all this PR generated lots of news stories. To reach consumers, American Express used advertising on social media, as well as paid media placement for SBS on social channels such as Facebook, Twitter, FourSquare. It invested in consumer-focused social media and Web campaigns, inviting people to join an online "pledge" to shop make a purchase at a small business on Small Business Saturday.
- **Budget:** American Express has not disclosed how much it spent on the campaign, but its continued support for SBS in subsequent years suggests it was a worthwhile investment.
- **Action Plan:** Detailed action plans for each element of the campaign aren't available, but the video did clarify the careful sequencing of the campaign's outreach to each target audience: 1) get businesses on board, 2) get public officials on board, 3) get consumers on board. With each step it made Small Business Saturday more real.
- **Measurement:** More than 500,000 small business owners participated, and many owners reported higher traffic and sales. More than 100 million Americans shopped in small businesses across the country. Communities in a majority of U.S. states supported the effort. On the day of the first Small Business Saturday, it was a top-10 trending topic on Twitter, and by the second year it had garnered 2.7 million "likes" on Facebook, more than double the first year. For American Express, card transactions were up 23 percent on Small Business Saturday 2011.[1]

With this campaign, American Express used IMC tools to not only reach its target audiences with a great message but also to get them to take action. In fact, stimulating action was essential. If any target audience–the small business owners, public officials, or consumers–failed to act, Small Business Saturday would have flopped! Recognizing how essential "action" was to this campaign, American Express marketers make expert use of interactive digital and social media to engage each of its target audiences and help the campaign take off.

Using IMC to Inspire and Provoke

Small Business Saturday and other IMC campaigns discussed in this module provide a variety of great and creative examples for how to promote products, services, events, and organizations. You should recognize that IMC can also be a powerful tool for promoting ideas. This final video features a campaign by Amnesty International, a nonprofit organization, aiming to "wake up" the inner human rights activist

1. Neisser, D. (2012, November 20). Myth busting with small business Saturday. Marketing Daily. http://www.mediapost.com/publications/article/187192/myth-busting-with-small-business-saturday.html

inside each of us by creating provocative situations that cause people to step up and defend human rights, even in an economically stable, democratic society.

As you watch this video, look for the IMC recipe it follows to achieve its goals.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=343

You can view the transcript for "Amnesty: Wake up, humans!" here (opens in new window).

13.11 Focus on Digital Media Marketing

Learning Objectives

- Understand the role digital media play in marketing.
- Identify the types of digital media.

What is Digital Media?

The next segment of this chapter will address social media, however, to have a firm understanding of what social media marketing is, you must first understand what digital media in general is so you can relate the two effectively.

Digital Media is simply a combination of technology and content.

Any tool or electronic device that is used to distribute information and communicate digitally to more people at once than we could with our own voice and body can be classified as digital media.

In the context of business and specifically marketing, the core relevance of today's digital media, hinges on two key elements: i**nteractivity and group formation.**

- **Interactivity**: This has been made possible by the combination of computers, software, and networks. Unlike traditional or regular media, the digital media was developed to be bi-directional and interactive. Assuming I place an advert about a product or service in the newspaper or on radio, I will only be distributing information about the brand which makes mode of communication one-directional. However, if I place the same ad on a digital platform e.g. YouTube I am likely to have instant feedback from likes and comments thus making my communication mode bi-directional.
- **Group Formation**: Today's digital media harnesses the power of complex software designs together with its networking features enabling users to form groups. Individuals can use these digital media to create social networks which becomes valuable markets for brand promotion.

Society and business are now able to take advantage of the benefits and capabilities related to interactivity and group formation offered by the power of digital media to effectively promote their agenda.

The Three Types of Digital Media

To gain understanding of the social media landscape, it's important to be aware of the different forms of digital media. Digital media can be divided into three main categories:

1. earned
2. owned
3. paid.

This quick video **The Difference Between Paid, Owned and Earned Media**, provides an overview of the three types of media.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=347

- **PAID** media, as the name suggests, is **media that you pay for**. The goal of this media is to drive traffic to your owned media.
- **OWNED** media, again as the name suggests, is **media that you control**. This refers to your website, social media channels, and any other place where you are directly responsible for the message.
- **EARNED** media, which is considered to be **the best type of media**. This is media that **your fans or followers are generating on your behalf**. It could be as simple as liking, sharing or retweeting a post, or as impactful as drafting a post about your brand using their own channels.

13.12 Focus on Social Media Marketing

Learning Objectives

- Understand the fundamental concepts behind social media
- Understand the rules of engagement in social media and what the benefits are.

Introduction

The term Social Media Marketing (SMM) refers to Internet marketing that utilizes social networking sites also known as channels *(Facebook, Twitter YouTube etc.)* as marketing tools by companies to expose their products and services and interact with both their current and potential customers.

Social media is sometimes referred to as consumer-generated media (CGM), participatory media, and new media. In fact, comparing social media to traditional media is probably the most useful way of defining what exactly this means.

Most simply put, social media are media *(from written to visual to audio to audiovisual)* that are designed to be shared. Sharing means that it is easy to comment on, that it is easy to send, and that there are no high costs associated with viewing the media. Because of the connected nature of the Internet, it means that sharing, commenting, and viewing can all be tracked and measured.

Traditional Media	Social Media
Fixed, unchangeable	Instantly updatable
Commentary limited and not real time	Unlimited real-time commentary
Limited, time-delayed bestseller list	Instant popularity gauge
Archives poorly accessible	Archives accessible
Limited media mix	All media can be mixed
Committee publishers	Individual publishers
Finite	Infinite
Sharing not encouraged	Sharing and participation encouraged
Control	Freedom

The land of social media is about collaborating, generating content, sharing, and most of all, connecting.

Social Networking

The term Social networking refers to the forming of online social networks for communities of people. The communities are people who share interests and activities or are interested in exploring the interests and activities of others.

Social networking sites also known as social media channels are dominated by the big boys of the industry, Facebook, Twitter, Instagram, YouTube. These social networks or channels together is what is also known as social media.

Social Media as a Marketing Tool

Social networks are free for their members but tend to rely on advertising for their revenue. Because of demographic information collected by the social networks, advertisers are able to target their advertisements to a particular audience.

Social media have changed the world we market in and can be used as an integral part of an online marketing campaign. Social media are all about the ways that we create, connect, and share online.

Companies must however note that simply because it is a social network does not mean it is the right place for every company to be marketing in. As a good marketer, you must first determine if your target market is using the social network, and then determine if it is the right place to be marketing to them.

Marketers can use social networks to identify how users are perceiving or interacting with their brand and open up new avenues of communication with them. For example, if you are marketing a bar, look to see how many people are using a social network to organize events at your bar. Find a way of rewarding those who are bringing you extra customers.

Social networks are also an avenue for members to voice frustrations and annoyances, and these should be closely watched by marketers to gauge sentiments.

Social Media and Marketing: Rules of Engagement

Social media imply a democratization of information and require authenticity and openness from those who would deliberately use them for marketing. Relying on the Internet, this means that good stories as well as bad stories spread and stick around.

Although they are engaging publicly with a wide audience, marketers need to remember that they are communicating with individuals. While marketers should engage in the conversation and can lead it, they cannot control it.

1. Marketing to Content Consumers

Social media allow anyone to have a say, and the same tools that are available to individuals are available to companies. Company blogs allow a brand to build a personality and to interact with its target market. Entertainment created and spread via social media increases brand touchpoints. Using the same channels that are available to your consumer aids in understanding the consumer and evens the plane of conversation.

When using social media to reach out to content consumers, go to where your consumers are. The media used are dictated by your users.

For example, a nightclub for students can create a Facebook group to advertise its weekly specials and interact with fans, while Land Rover enthusiasts would probably be more comfortable with a forum.

With all interactions, marketing messages need to be labeled as marketing messages, with a disclaimer added if necessary. Trying to hide them as something else will only decrease authenticity.

2. Marketing to Content Sharers

Content sharers are content consumers who also pass your message on, whether by using chat or e-mail, by sharing a link on a blog, or by submitting your content to a bookmarking or aggregating service. They are a crucial link in the chain that passes your message around. Make it as easy as possible for sharers to share by using chicklets and unique and easy-to-read URLs.

3. Advertising on Social Media Platforms

While marketers can use the tools of social media to convey their message, the user characteristics that define a social media Web site are also important. Social media allow users to express themselves, and this means that demographic information can be compiled to allow for more useful and targeted advertising. This presents many opportunities for targeting advertising and for finding creative ways to reach an advertisement-fatigued demographic.

The Benefits of Social Media to Marketers

There are many benefits to companies and marketers for taking advantage of the services that social media sites offer. The following are just some of these benefits:

1. People are finding it easier to switch off or ignore traditional advertising, particularly through traditional media environments such as television or radio. Social media give brands the opportunity to interact with customers through targeted communications that customers can choose to engage with on their terms. For example, a consumer may visit a branded YouTube channel as opposed to deliberately ignoring advertisement breaks on television.
2. Social media's potential to go viral is one of its greatest benefits; if users like the content, then they will share it with their communities.
3. Social media allow you to create an online community for your brand and its supporters.
4. Social media can tie in nicely with any of your other online marketing tactics; a holistic e-marketing strategy is always the best strategy.
5. Social media allow you to engage with an online community and allow you to connect your brand to the appropriate audience.
6. Social media have created a forum for brand evangelists. Companies should embrace as well

as monitor this, as users with negative opinions of your brand have access to the same forum.

7. The various platforms allow you to access a community with similar interests to your own, that is, networking without borders.
8. The numerous interactions allow you to garner feedback from your communities.
9. Feedback from social media sites helps drive both future business as well as marketing strategies.
10. The range of media enables you to learn more about your audience's likes, dislikes, behavior, and so on. Never before has this much information been available to marketers; market research just got a whole lot cheaper.
11. Niche targeting just got a whole lot easier.

There are huge risks as well as opportunities. Social media facilitate a two-way conversation between customer and company. This necessitates that the company shifts approach from "deploy and watch" to one of constant involvement with the audience.

Social Media and the Changing Media Landscape

To keep up with their audiences, traditional media have had to adapt. This has changed the way that they publish, both online and off, as well as how they can sell advertising.

For example, many newspapers now publish their content online as well as in their print publications. Online, they can allow for instant commentary on their articles. It allows an instant snapshot of what their readers think, which can then be used to make editorial decisions. Print stories can be supplemented online with video, and this has been embraced by many news organizations.

As mentioned, television advertisements can be placed online for free via channels such as YouTube. This opens advertisements to a new audience and allows for advertisements that can be created without the restrictions of television. Advertisements can be extended, and now additional footage can become as important as the original. Quality advertisements are voluntarily and deliberately viewed, as opposed to deliberately ignored.

Check out the Links Below to Learn About Some Canadian Companies Using Social Media

1. Canadian social media usage on statcounter.com
2. 5 Canadian Companies That Excel at Social Media Marketing (2019) By QuickBooks on Intuit.

13.13 Practice Quiz

Check Your Understanding

Answer the question(s) below to see how well you understand the topics covered in the previous section. This short quiz does **not** count toward your grade in the class, and you can retake it an unlimited number of times.

Use this quiz to check your understanding and decide whether to (1) study the previous section further or (2) move on to the next section.

An interactive H5P element has been excluded from this version of the text. You can view it online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingparttwo2e/?p=731#h5p-6

Chapter 14: Marketing Globally

Learning Objectives

- Why marketing globally matters
- Describe globalization and the major benefits and challenges it poses for multinational organizations penetrating global markets
- Describe common approaches used by organizations to compete successfully on a global scale
- Explain the importance of understanding how demographic, cultural and institutional factors shape the global marketing environment

14.1 Why It Matters: Marketing Globally

Why identify issues that organizations face and approaches they use when marketing to different countries and cultures?

Suppose you are in the marketing department of Nova Scotia's highly successful, global food company Clearwater Seafood. You're in a brainstorming meeting about expanding into China, and the discussion is starting to get heated. Should you lead with your company's best-selling cooked lobster to take China by storm? Or would it be better to start out with developing a retail prepared dish such as lobster sandwiches or clam chowder instead, because it's so quintessentially Nova Scotian and it'd be a great way to introduce the Chinese to the tastes Atlantic Canadians love?

Or would something else be a better fit?

Each culture has favourite flavours that will impact the success of any food product. With China being one of the world's largest consumer AND producer of seafood the decision has many risks. Here are China's top seafood dishes.

It's time to vote: your manager wants everyone on the team to name their favourite dish or product for China they want to lead with. What are you going to choose?

Watch this short but very interesting video on how even "snacks" from recognizable brands have very different products.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=357#oembed-1

You can view the transcript for "Chinese Flavours for American Snacks" (opens in new window)

So . . . how did you do? How close did you come to favourite flavours in the video? Were you in the ballpark? Are you ready for a career developing foods for global markets?

If you're like most North Americans, your recommendation probably wasn't very close to the mark, and you're probably thinking that many of the flavours that are delicious to Chinese consumers sound a bit odd to you. Well, now you know how a lot of Chinese consumers probably feel when presented with Lobster Parmesan or Lobster Mac and Cheese. A little queasy.

Hopefully, this scenario helps highlight some of the challenges of global marketing, as companies start selling products in other countries. How should you enter a new market? Are you offering products that consumers in other countries will want to buy? What should you do to make sure your product–and the rest of your marketing mix–is a good fit for the global customers you want to attract?

Global marketing is a complex and fascinating business. In this module, we can't cover everything about global marketing–not by a long shot. But we will introduce key challenges, opportunities, and factors to consider when marketing to target audiences outside your home country.

14.2 Globalization Benefits and Challenges

Learning Objectives

- Define globalization
- Explain key benefits and challenges of globalization
- Describe globalization and the major benefits and challenges it poses for multinational organizations penetrating global markets

We live in an increasingly globalized, interconnected world. There is a strong likelihood that the clothes you're wearing now, some of the food you've eaten today, and the device you're using to read this page are all products of globalization: they come to you via other countries where they were produced and prepared for your consumption. Globalization is the growing level of interconnection between people, businesses, and countries around the world. And, where businesses and people exist, there is marketing.

This next reading introduces the concept of globalization, the great benefits it can offer, as well as some of the challenges that businesses face when doing business in multiple countries.

Learning Activities

- Reading: Globalization Benefits and Challenges
- Self Check: Globalization Benefits and Challenges

Reading: Globalization Benefits and Challenges

Defining Globalization

Globalization is a term used to describe how countries, people, and businesses around the world are becoming more interconnected, as forces like technology, transportation, media, and global finance make it easier for goods, services, ideas, and people to cross traditional borders and boundaries. Globalization offers both benefits and challenges. It can provide tremendous opportunities for economic growth to improve the quality of life for many people. It can also lead to challenges with the welfare of workers, economies, and the environment as businesses globalize and shift their operations between countries to take advantage of lower costs of doing business in other world regions.

Watch the following short video for an overview of globalization and its impacts.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=361#oembed-1

You can view the transcript for “Globalization explained” here (opens in new window).

Globalization, Economic Growth, and Market Opportunity

Globalization creates opportunities for many countries to experience economic growth. Economic growth is the increase in the number of goods and services produced by an economy over time. It is conventionally measured as a percentage change in the Gross Domestic Product (GDP) or Gross National Product (GNP). These two measures, which are calculated slightly differently, total the amounts paid for the goods and services that a country produced. As an example of measuring economic growth, a country that creates $9,000,000 in goods and services in 2019 and then creates $9,090,000 in 2020 has a nominal economic growth rate of 1 percent for 2020.

A way of classifying the economic growth of countries is to divide them into three groups: (a) industrialized, (b) developing, and (c) less-developed nations.

- **Industrialized nations** have economies characterized by a healthy climate for private enterprise (business) and a consumer orientation, meaning the business climate focuses on meeting consumers’ long-term wants and needs. These nations have high literacy rates, modem technology, and higher per capita incomes. Historically, industrialized nations include United States, Canada, Japan, South Korea, Australia, New Zealand, and most Western European nations. Newly industrialized countries include Russia and most other eastern European countries, Turkey, South Africa, China, India, and Brazil, among others.

The

- **Less-developed nations,** also known as least-developed countries (LDCs) have extensive poverty, low per capita income and standards of living, low literacy rates, and very limited technology. Often these nations lack strong government, financial, and economic systems to support a healthy business community. Their economies tend to be focused on agriculture and the production of raw materials (such as the mining and timber industries). There are many less-developed nations in the world, with most located in Africa and Asia.
- **Developing nations** are those that are making the transition from economies based on agricultural and raw-materials production to industrialized economies. They exhibit rising levels of education, technology, and per capita incomes. Governments in these nations typically have made strong progress to improve the climate for business in order to attract business and economic investment. There is a growing list of developing nations, including many countries in Latin America and Asia.

Usually, the most significant marketing opportunities exist among the industrialized nations, as they have higher levels of income, one of the necessary ingredients for the formation of markets. However, market saturation for many products already exists in these nations.

The developing countries, on the other hand, have growing population bases, and although most import a limited number of goods and services from other countries, longer-term growth potential exists in these nations. Often, marketers in developing nations must be educators, using marketing techniques to educate populations about unfamiliar, new products and services and the benefits they provide. As the degree of economic development increases, so does the sophistication of the marketing effort focused on a country.

Figure 1, below, illustrates nations and regions according to their economic growth prospects. Darker green areas indicate where the strongest growth opportunities existed as of 2017.

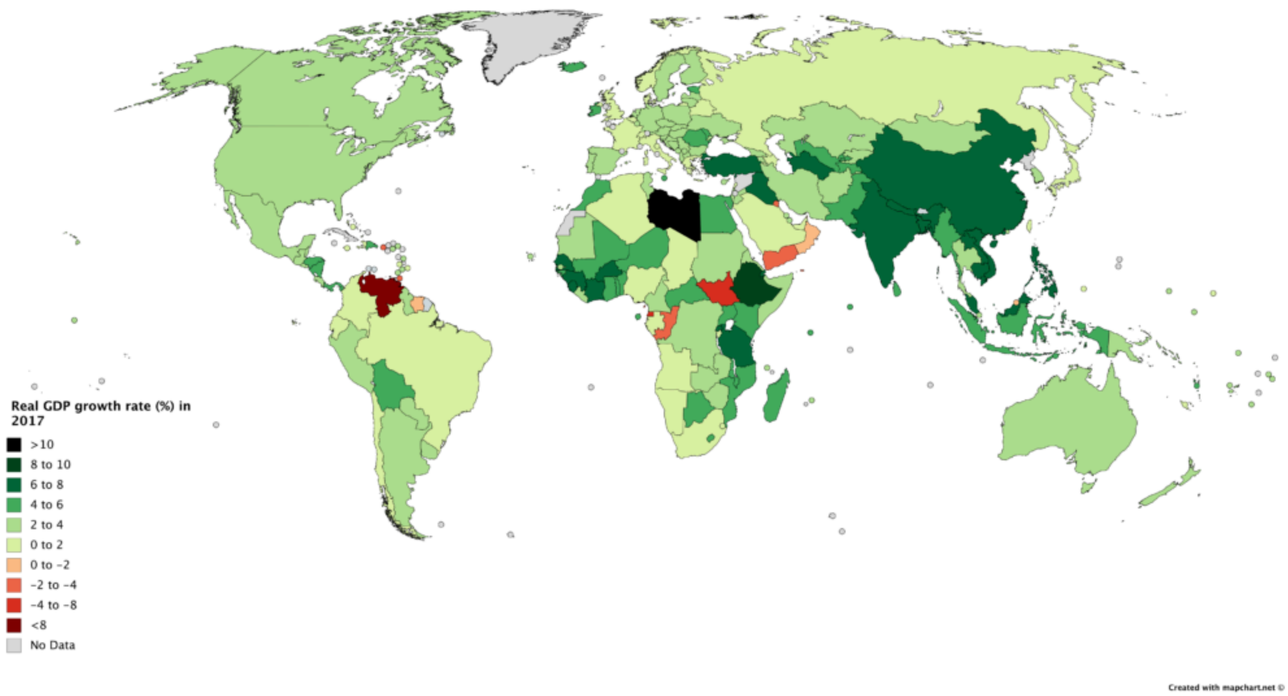


Figure 1: GDP growth rate by country: Shading indicates real rate of economic growth in 2017. (Source: IMF.org)

Some key points from the map above include the following:

- Most countries, including Canada, fall in the 2-to-4% growth stage.
- A few countries, including China and India, are growing at 8 to 10%, and Libya is growing at over 10%.
- A few countries, including Venezuela, South Sudan, and Yemen are at a negative growth.
- In 2017, Real Global GDP Growth was 3.4% and
- With COVID-19 striking in 2020, the International Monetary Fund (IMF) projects (negative) -4.9% and 5.4% in 2021

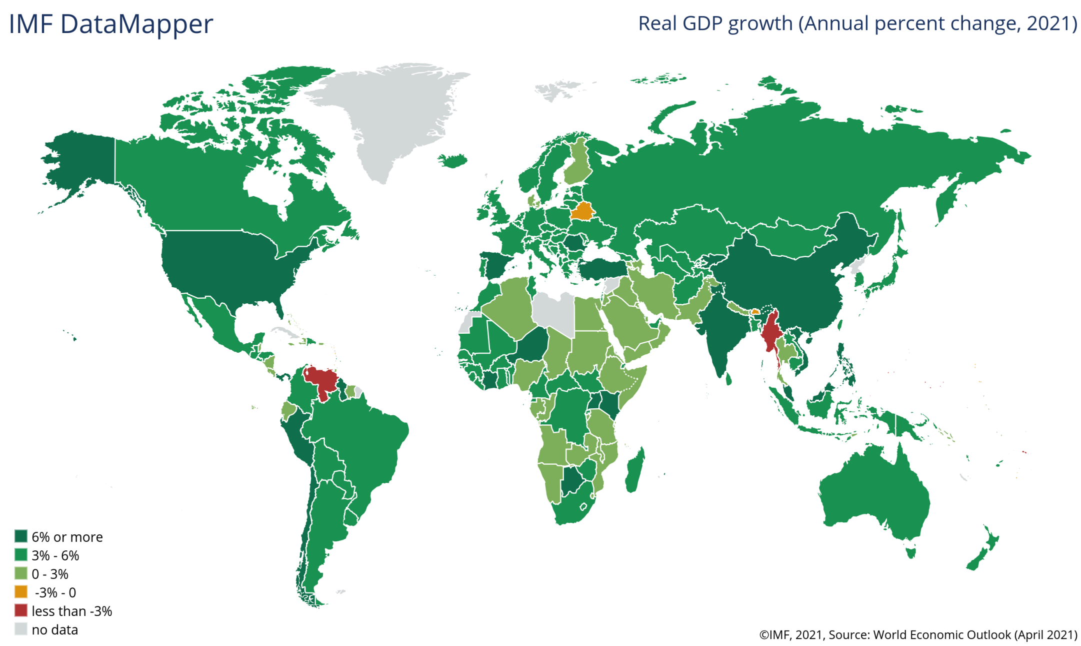


Figure 1: GDP growth rate by country: Shading indicates the real rate of economic growth in 2021. Visit the IMF page for more information.

Some key points from the map above include the following:

- Most countries, including Canada, fall in the 3-to-6% growth stage.
- A few countries, including China and India, are growing at 8 to 12%, and Guyana is growing at over 16%.
- A few countries, including Belarus, Myanmar, and Venezuela are at a negative growth.
- With COVID-19 in 2020, Real Global GDP Growth was -3.3% and
- In 2021, it grew to 6%.

Benefits of Globalism for Business

Those in favour of globalization theorize that a wider array of products, services, technologies, medicines, and knowledge will become available and that these developments will have the potential to reach significantly larger customer bases. This means larger volumes of sales and exchange, larger growth rates in GDP, and more empowerment of individuals and political systems through the acquisition of additional resources and capital. These benefits of globalization are viewed as utilitarian, providing the best possible benefits for the largest number of people.

For global companies, often referred to as multinational corporations (MNCs), common benefits of expanding into developing markets include unsaturated demand for new products, lower labor costs, less expensive natural resources, and other inputs to products. Technological developments have made doing business internationally much more convenient than in the past. MNCs seek to benefit from globalism by selling goods in multiple countries, as well as sourcing production in areas that can produce goods more profitably. In other words, organizations choose to operate internationally either because they can achieve higher levels of revenue or because they can achieve a lower cost structure within their operations.

MNCs look for opportunities to realize economies of scale by mass-producing goods in markets that have substantially cheaper costs for labor or other inputs. Or they may look for economies of scope, through horizontal expansion into new geographic markets. If successful, both of these strategies lead to business growth, with stronger margins and/or larger revenues. There is a particularly strong opportunity for business growth in markets where strong economic growth is also projected. In these areas, incomes are rising. In many cases, local populations can now afford goods and services that were previously out-of-reach, including many goods produced in industrialized countries. Global companies stand to capture stronger growth and profitability if they can make headway into these markets.

At the same time, international operations contain innate risk in developing new opportunities in foreign countries.

Challenges of Globalism for Business

Along with arguments supporting the benefits of a more globally connected economy, critics question the ethics and long-term feasibility of profits captured through global expansion. Some argue that the expansion of global trade creates unfair exchanges between larger and smaller economies. They argue that MNCs and industrialized economies capture significantly more value because they have more financial leverage and can dictate advantageous terms of exchange, which end up victimizing developing nations. Critics also raise concerns about damage to the environment, decreased food safety, unethical labor practices in sweatshops, increased consumerism, and the weakening of traditional cultural values.
As MNCs do business in new global markets, they may encounter several significant challenges:

- **Ethical Business Practices:** Arguably the most substantial of the challenges faced by MNCs, ethical business practices in areas such as labor, product safety, environmental stewardship, corruption, and regulatory compliance have historically played a dramatic role in the success or failure of global players. For example, Nike's brand image was hugely damaged by reports that it utilized sweatshops and low-wage workers in developing countries. In some nations, particularly those without a strong rule of law, bribing public officials (e.g., paying them off with gifts or money) is relatively common by those seeking favorable business terms. Although national and international laws exist to crack down on bribery and corruption, some business people and organizations are pressured to go along with locally accepted practices. Maintaining the highest ethical standards while operating in any nation is an important consideration for all MNCs.
- **Organizational Structure:** Another significant hurdle is the ability to efficiently and effectively incorporate new regions within the value chain and corporate structure. International expansion requires enormous capital investments in many cases, along with the development of a specific strategic business unit (SBU) in order to manage these accounts and operations. Finding a way to capture value despite this fixed organizational investment is an important initiative for global corporations.
- **Public Relations:** Public image and branding are critical components of most businesses. Building this public relations potential in a new geographic region is an enormous challenge,

both in effectively localizing the message and in the capital expenditures necessary to create momentum.

- **Leadership:** It can be difficult for businesses to find effective organizational leadership with the appropriate knowledge and skills to approach a given geographic market successfully. For every geography worldwide, unique sets of strategies and approaches apply to language, culture, business networks, management style, and so forth. Attracting talented managers with high intercultural competence is a critical step in developing an effective global strategy.
- **Legal and Regulatory Structure:** Every nation has unique laws and regulations governing business. MNCs need access to legal expertise to help them understand in-country laws and comply with applicable regulations. It is important for businesses to understand the legal and regulatory climate for their industry and type of organization before entering a new market so that this information can be factored into the business case and strategic decisions about where and how to expand globally, as well as strategic and operational planning, to ensure profitability.

For organizations operating in developing and less-developed countries, additional challenges can arise, particularly in the following areas:

Potholes in Poland: Poor road infrastructure can be difficult for businesses that rely on road transportation.

- **Infrastructure:** Infrastructure includes the basic physical and organizational structures needed for a society to operate and for an economy to function. It can be generally defined as the set of interconnected structural elements that provide a framework supporting an entire structure of development, such as roads, bridges, water supply, sewers, electrical grids, telecommunications, and so forth. It also includes organizational structures such as a stable government, property rights, judicial system, banking and financial systems, and basic social services such as schools and hospitals. A country's infrastructure will help determine the ease of doing business within that nation. For example, a country with poor road conditions and intense traffic may not be the best place to conduct business that requires goods to be transported from city to city by land. Poor infrastructure makes it difficult for businesses to operate effectively because they have to shoulder additional costs and risks to make up for what the country's society does not provide.
- **Technology:** The level of technological development of a nation affects the attractiveness of doing business there, as well as the type of operations that are possible. Companies may

encounter a variety of technological challenges doing business in foreign countries, such as training workers on unfamiliar equipment; poor transportation systems that increase production and distribution costs; poor communication facilities and infrastructure; challenges with technology literacy; lack of reliable access to broadband Internet and related technologies that facilitate business planning, implementation, and control.

All of these factors–both benefits and challenges–should go into decisions about whether and how to expand globally. Marketing, along with other business functions, can be affected for better or for worse by the advantages and disadvantages posed by global business. Organizational leaders must consider carefully how to balance costs and risks against the potential for gain and growth.

14.3 Approaches to Global Competition

Learning Objectives

- Discuss common strategies businesses use to enter global markets
- Explain the pros and cons of global standardization theory with regard to product marketing and marketing communications
- Explain how the basic principles of marketing apply to global marketing
- Describe common approaches used by organizations to compete successfully on a global scale

Most of the basic principles for effective marketing apply equally well to domestic and global marketing activity. However, globalization introduces a number of challenges that are unique to operating simultaneously in different countries and global markets. What is the best way to enter a global market? When should you adjust a product's features to customize it to consumer needs in a different global market? How do you manage the costs and complexities of product promotion when it must take place in different locations, with different languages, cultural sensitivities, and consumer expectations? What considerations should go into product pricing, when a good is offered in different markets using different currencies and exchange rates?

While this next section doesn't attempt to answer all of these questions definitively, it explains common strategies and approaches used by multinational corporations and their marketing teams to navigate these and many other challenges posed by global marketing.

Learning Activities

- Reading: Entry Strategies in Global Markets
- Reading: Approaches to Global Competition
- Video: McDonald's "Glocalization"
- Reading: Applying Marketing Principles in the Global Environment
- Self Check: Approaches to Global Competition

Reading: Entry Strategies in Global Markets

Choosing a Global Entry Strategy

Firms typically approach international marketing cautiously. They must analyze the market opportunity as well as their internal capabilities to determine which approach will be the best fit. Often businesses start with a lower-risk strategy and progress to other strategies involving additional investment and risk and additional opportunity after they have proven initial success. The most common market entry strategies are outlined below.

Exporting

> Canada exports approximately one-third of its goods and services.
> Read: Canada Trade Statistics: Exports, Imports, Products, Tariffs, GDP and related Development Indicator published by the World Integrated Trade Solution.

Exporting means sending goods produced in one country to sell them in another country. Exporting is a low-risk strategy that businesses find attractive for several reasons. First, mature products in a domestic market might find new growth opportunities overseas. Second, some firms find it less risky and more profitable to export existing products, instead of developing new ones. Third, firms that face seasonal domestic demand might choose to market their offerings abroad to balance out seasonal demand in their revenue streams. Finally, some firms might export because there is less competition overseas. Smaller firms often choose to export over other strategies because it offers a degree of control over risk, cost, and resource commitment. Smaller firms often only export in response to an unsolicited overseas order, which is also perceived as low risk. Canada exports approximately one-third of its goods and services.

Licensing and Franchising

Holiday Inn, London

Under a licensing agreement, a firm (licensor) provides a product to a foreign firm (licensee) by granting that firm the right to use the licensor's manufacturing process, brand name, patents, or sales knowledge, in return for payment. Since its debut in the late 1970s, *Star Wars* remains the most lucrative source of licensing in the entertainment business and has generated more than $42 billion from the sale of licensed merchandise. The licensee obtains a competitive advantage in this arrangement, while the licensor obtains inexpensive access to a new market. Scarce capital, import restrictions, or government restrictions often make this the only way a firm can market internationally. This method does contain some risks. It's typically the least profitable method for entering a foreign market, and it entails a long-term commitment. Furthermore, if a licensee fails to successfully reproduce a licensed product, or if the licensee markets licensed products ineffectively, it could tarnish the original product's brand image.

> Canada has started successful global franchises
> Read: The 10 Largest Franchises that Originated in Canada by Paige Watts (April 28, 2017) in Franchise Direct.

A longer-term and more comprehensive way to access the global market is through franchising. Under the terms of a franchise agreement, a party (franchisee) acquires access to the knowledge, processes, and trademarks of a business (the franchisor) in order to sell a product or service under the business's (franchise's) name. In exchange for the franchise, the franchisee usually pays the franchisor both initial and annual fees. Holiday Inn, Hertz Car Rental, and McDonald's have all expanded into foreign markets through franchising. Canada has started successful global franchises that have been acquired by U.S. companies including Tim Horton's and Pita Pit.

Joint Ventures

> Read: Air Canada and Air China sign long-awaited joint venture deal by Alicja Siekierska in The *Financial Post* / June 06, 2018

A joint venture is a partnership between a domestic and foreign firm. Both partners invest money, share ownership, and share control of the venture. Typically the foreign partner provides expertise about the new market, business connections and networks, and access to other in-country elements of business like real-estate and regulatory compliance. Joint ventures require a greater commitment from firms than other methods, because they are riskier and less flexible. Joint ventures may afford tax advantages in many countries, particularly where foreign-owned businesses are taxed at higher rates than locally owned businesses. Some countries require all business ventures to be at least partially owned by domestic business partners. Joint ventures may also span multiple countries. This is most common when business partners team up to conduct business in a world region. An example of a Canadian joint venture is between Air Canada and Air China. This joint venture took over four years to develop.[1]

Direct Investment

Multinational organizations may choose to engage in full-scale production and marketing abroad by directly investing in wholly-owned subsidiaries. For example, Clearwater Seafood has a wholly-owned Scottish subsidiary Macduff. As opposed to the previously mentioned methods of entry, this type of entry results in a company directly owning manufacturing or marketing subsidiaries overseas. This enables firms to compete more aggressively abroad, because they are literally "in" the marketplace. However, because the subsidiary is responsible for all the marketing activities in a foreign country, this method requires a much larger investment. It's also a risky strategy because it requires a complete understanding of business conditions and customs in a foreign country.

Commercial Centres and Crown Corporations

These centres provide resources to promote the export of Canadian goods and services abroad. They are typically a government body that works with private businesses. An example of a Nova Scotia Crown Corporation is Nova Scotia Business Inc. It is a provincial organization. A federal resource is the Business Development Bank of Canada (BDC.ca) or the Canadian Trade Federal Trade Commissioner. Watch the quick video on how these resources can help.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=368#oembed-1

These centres do this by familiarizing firms with industries, markets, and customs in other countries. These centres provide the following services: business facilities; translation and clerical services; a commercial library with legal information; and assistance with contracts and export/import arrangements. They also facilitate contacts between buyers, sellers, bankers, distributors, and other provincial and federal governmental officials. These resources represent a low-risk way to gain information and familiarity about new overseas markets.

1. Siekierska, A. (2018, June 06). *Air Canada and Air China sign long-awaited joint venture deal*. Financial Post https://financialpost.com/transportation/airlines/air-canada-air-china-sign-joint-venture-deal-in-state-airlines-first-deal-with-north-american-carrier

BDC offers firms consultation services on how to plan to export their goods or services.

Product and Trade Intermediaries

If a company lacks the resources or expertise to enter a foreign market, it can hire or engage trade intermediaries, who possess the necessary contacts and relationships in those markets. There are several types of middlemen: agents, representatives, trading houses, and distributors.

- Agents and representatives aren't exactly the same. An *agent* secures orders from foreign customers in exchange for a commission.
- A *representative* specializes in sales within a specific geographic area. Both types of intermediaries may be authorized and commissioned to enter into contractual sales agreements with foreign customers on your behalf.
- *Trading houses* are domestic intermediaries that market your goods or services abroad.
- Unlike agents, *distributors* actually purchase your product or service and resell it to local customers.

Do you know what Nova Scotia's major export are?

You can found out from Statistics Canada:
Nova Scotia Report using Statistics Canada Data for 2017-18

Example: Toyota's Progression into Global Business

Toyota Motors started out as a domestic marketer in Japan. Eventually, it began exporting its cars to a few regional markets. As it saw greater success, Toyota became adept as a multinational marketer, and today is a true global marketer. Today Toyota operates manufacturing plants in foreign countries with local labor, using local ad agencies, and pursing marketing strategies that appeal to each country's market segments and consumer needs. As Toyota progressed through each stage of global expansion, it revised its attitudes and approach to marketing and its underlying philosophy of business.

Reading: Approaches to Global Competition

International Coca-Cola: Like many product companies, Coke has used a mix of standardization and localized marketing. For instance, the classic red and white colours remain the same globally while the flavour profile is adjusted slightly based on the region of distribution.

Global Marketing Strategies

Firms choose to engage in international marketing for many reasons, the most attractive of which are market expansion and new profit opportunities. When a firm chooses to market internationally, it must decide whether to adjust its domestic marketing program—depending on how much centralized control a firm wishes to maintain over its marketing. If an organization wants to maintain strong centralized control and uniformity in its products and marketing activities, it is choosing a strategy called *standardization*. If an organization wants to adjust products, messaging, and marketing activities to fit the needs and preferences of local markets around the world, it is choosing a *localization* strategy. You'll recall our earlier discussion of the unique flavours of Oreo cookies developed for the Chinese market: that's an example of a localization strategy.

Global Standardization: The Argument for Standardized Marketing

To the extent that global consumers desire standardized products, companies can pursue a global standardization strategy. Using this approach, a product and the way in which it is marketed are largely uniform across the world, with little variation in the marketing mix from country to country. Advocates of standardization strategy argue that companies can achieve competitive advantage by offering the optimal combination of price, quality, and reliability with products that are identical in design and function throughout the world; they also claim that consumers will prefer this standardized product to a highly localized product that is also more expensive.

Standardization can translate into lower operating costs because there aren't extra costs associated with developing and marketing unique products tailored to local market needs. It also expands the customer base receptive to a common global product. There is no need to adjust product features, naming, or other attributes for each new market, and marketing materials themselves can be repurposed across different world regions. Below are the primary benefits of a global standardization strategy:

- Marketers can use the same approach for developing, promoting, and delivering products and services worldwide, creating lower operating costs and economies of scale in product development and marketing
- The ability to develop and invest in a unified brand and/or company identity throughout the world, along with the opportunity to develop brand awareness and brand equity that gives a competitive advantage
- Product lines that consist of a small number of global brands rather than a plethora of localized product brands and extensions, along with cost savings and improved efficiencies associated with managing a smaller total number of brands

Companies that pursue this approach assume that consumer needs are relatively homogenous around the world and that the same basic marketing mix will work across global markets. These organizations typically have a centralized approach to the marketing function and try to minimize the need for developing localized marketing strategies.

The case for a standardization strategy was made by Harvard marketing professor Theodore Levitt in his 1983 article "The Globalization of Markets" but the concept can be found to discussed as early as 1968. He argued that technology and worldwide communications have helped trigger the emergence of global consumer markets that are receptive to single, standardized global products. According to Levitt, adopting a standardized global strategy provides a competitive advantage in cost and effectiveness. More recently, there are many business cases that offer illustrations of the failures of this strategy such as Best Buy and the successes such as Marvel.

Localization: The Argument for Localized Marketing

On the other end of the spectrum is localization strategy, in which firms adjust their products and marketing mix for each target market. Advocates of localization argue that, in reality, global standardization doesn't work, and in fact, nearly all exported products require one or more adaptations to be successful. In work by Kotler, one study found that 80 percent of U.S. exports require one or more adaptations, and the average product requires at least four to five adaptations out of eleven different elements: labeling, packaging, materials, colours, name, product features, advertising themes, media, execution, price, and sales promotion.

Localization strategy recognizes that diversity exists in global markets and that marketers need to understand and respond to this diversity in the goods they offer and the way they market to consumers in these markets. Language, culture, customs, the physical environment, the degree of economic development, societal institutions, and other factors all contribute to how well a product fits a local market's needs. Localization may involve: 1) altering existing products to fit the needs of the local target market, or 2) creating completely new products to fit the needs of the local target market.

Although localization does increase the cost and complexity associated with developing and marketing tailored products, its supporters argue that it results in products and marketing strategies that are a better fit for local market needs and ultimately a greater sales success.

Standardization is often responsible for marketing misfires like offensive marketing images, catastrophic naming, and product-design glitches. Its critics argue that standardization strategy overestimates how well any single, uniform product and marketing approach will succeed in markets all over the world.

The Middle Ground: Blending Standardization and Localization

In reality, global marketing is not an either/or proposition requiring either full standardization or completely localized control of product and marketing. In fact, a successful global approach can fall anywhere on a spectrum–from tight worldwide coordination on marketing program details to loose agreements on product ideas. Most organizations find that flexibility is essential in order to allow organizations to capitalize on global opportunities available to them. The right answer for each business depends on organizational structure, leadership, and operations; the product category; the markets in question; and other factors. Both strategies offer attractive benefits as well as costs and risks. Most organizations find ways to balance the options available to them with a focus on how to maximize success in their target markets.

Global Segmentation Strategies

Closely related to the issue of standardization vs. localization is the question of global segmentation strategy. How marketers segment and market to consumers in global markets is inextricably tied to whether products and marketing are uniform across multiple world regions or whether they are localized to individual countries, regions, or markets.

Global marketers use the same principles and processes outlined in the Segmentation and Targeting module to evaluate where there is greater potential and market opportunity for their products and services. They work to answer the same set of fundamental questions that domestic marketers do, using the broader world as their frame of reference:

1. To whom should I be marketing?
2. Why *them*?
3. How can I reach them most effectively?

To develop a segmentation and targeting strategy, global marketers may use the common segmentation approaches employed by domestic marketers but with an eye on how these characteristics shape consumers within and beyond national boundaries and world regions. These characteristics include the following:

- **Demographics:** Gender, age distribution, ethnicity, income, socioeconomic status, family size
- **Geography:** Geographic location, world region, climate, urban/suburban/rural orientation
- **Psychographics:** Lifestyle, attitudes, social class
- **Behavioural:** Purchasing occasions, user status, brand loyalty, readiness to buy, and other behavioural patterns that drive consumer decisions
- **Decision maker:** Who makes buying decisions for which types of goods and services? Who influences these decisions?

Additionally, global marketers also consider the following factors in segmentation and targeting:

- **Culture:** The interplay between language, religion, education, values, identity, history, and traditions
- **Economic status:** Stage of economic development, wealthy vs. poor nations, employment, GDP
- **Social environment:** Conditions and operational stability for business, government, politics, the legal system, health care, education, and other societal support structures

A naive view of global marketing assumes that all consumers within a country or world region are homogenous and can be reached effectively through a uniform approach targeting the entire geographic area. While they have some things in common, they also have different characteristics, needs, and preferences that drive their purchasing decisions. It is important to recognize these differences and evaluate what they represent in terms of potential market segments and growth opportunities. With the global dissemination of information, is segmentation even possible? Tom Friedman, Nobel economist, argues the internet has flattened the world for marketers as information is shared instantaneously.

When considering global marketing opportunities, it's also important for marketers to look for characteristics, interests, needs, and buying behaviours they can use to define segments that transcend national boundaries. For example, some marketing targets a "global youth" segment comprised of young people from around the world who are educated, technologically connected, follow global trends in music and culture, and seek opportunities for travel and cultural exchange.

Because global marketing and expansion carry inherent risk, global segmentation and targeting decisions should also reflect the following factors:

- **Market size and growth potential:** What is the customer base and revenue potential today? How might this change in the future?
- **Competition:** What competitors and alternatives exist in the market? How crowded is the competitive field? Who are the current players, what is their market position, and what would

it take to displace them?

- **Compatibility:** Are the new market and target segments well aligned with the organization's goals, plans, and strategies? How much of a stretch is it to capture this new market? Does the potential gain justify the added risk, cost, and complexity?

Video: McDonald’s “Globalization”

Few would disagree that fast-food chain McDonald’s is a master of global marketing. McDonald’s has blended elements of a global standardization strategy with a localization strategy to penetrate global markets and offer products that align perfectly with local appetites and preferences.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=372#oembed-1

Reading: Applying Marketing Principles in the Global Environment

The Marketing Mix in Global Marketing

The same marketing principles that lead to marketing success in domestic marketing can also apply to global marketing. With the rapidly growing force of globalization, the distinction between marketing within an organization's home country and marketing within external markets is disappearing very quickly. With this in mind, organizations are modifying their marketing strategies to meet the challenges of the global marketplace while trying to sustain their competitiveness within home markets. These changes have also prompted brands to customize their global marketing mix for different markets, based on local languages, needs, wants, and values.

The four Ps of marketing—product, price, placement, and promotion—are all affected as a company moves through the different phases to become and maintain dominance as a global company.

Global Marketing Mix: Product Plus Promotion

For multinational corporations (MNCs), the interplay between product and promotion is important because it can enable a company to make minor adjustments to a single product and its promotion strategy rather than totally revamping the product and promotion for different markets. Coca-Cola is a strong example of this principle. The beverage brand uses two formulas (one with sugar and one with corn syrup) for all markets. The product packaging in every country incorporates Coca-Cola's contour bottle design and signature ribbon in some shape or form. However, the bottle can also include the country's native language and appear in identical sizes as other beverage bottles or cans in that country's market.

Before launching promotional programs, global companies must first define their target markets and determine the products that will resonate most with those consumers and businesses. This research can help inform marketing leaders about what course to take—localization versus standardization strategy—as they learn more about the target market's receptivity to their goods and services. In addition to pinpointing which price point and distribution channels would best serve a country's markets, global marketers must decide whether and how to customize their products. Product introductions are also important. Promotional tactics for global audiences can range from television commercials to social-media marketing on Facebook or YouTube. It is the job of global marketers to create and place promotional efforts in settings where local consumers will be most receptive to receiving and acting on those messages. Consumers in each target market have different media habits and preferences, and understanding these behaviours is important for selecting the right promotional mix.

After product research, development, and creation, promotion is generally the largest line item in a global company's marketing budget. Using integrated marketing communications can significantly increase efficiency and reduce promotional costs, as messages across multiple channels reinforce and amplify one another. For organizations that pursue a standardized approach to promoting products and building brands, promotion is the crucial component of the mix that enables a global company to send the same message worldwide using relevant, engaging, and cost-effective techniques.

While a standardized global promotion strategy enables global brands to engage in uniform marketing practices and promote a consistent brand and image, marketers must also be prepared for the challenge of responding to differences in consumer response to marketing mix elements. Marketers must also fend off the full spectrum of local and global competitors, using promotional strategies, branding, and product development to full competitive effect.

Global Marketing Mix: Promotion

Before a company decides to become global, it must consider social, cultural, economic, political, competitive, and other factors relative to the global expansion it is considering. Creating a worldwide marketing plan is no simple task. It is virtually impossible for a company to communicate one identical message in a unified voice to global markets unless a company holds the same position against its competition in all markets (e.g., market leader, low cost, etc.). This is rarely the case, so most global companies must be open to some level of localization and be nimble enough to adapt to changing local market trends, tastes, and needs.

Global marketers must balance four potentially competing business objectives when developing worldwide advertising:

1) building a brand while speaking with one voice

2) developing economies of scale in the creative process

3) maximizing local effectiveness of advertisements

4) increasing the company's speed of implementation

Global promotion: Language is usually one element that is customized in a global promotional mix.

Global marketers can use several approaches when executing global promotional programs: exporting executions, producing local executions, and importing ideas that travel.

To successfully implement these approaches, marketers must ensure that their promotional campaigns take into account how consumer behaviour is shaped by internal conditions (e.g., demographics, knowledge, attitude, beliefs) and external influences (e.g., culture, ethnicity, family, lifestyle) in local markets. Areas for attention include:

- **Language:** Language differences are crucial in global marketing. There are nearly 3,000 languages in the world. Language differences have caused many problems for marketers in designing advertising campaigns and product labels. As discussed in this course's discussion on naming, language can be problematic in the global naming process, with numerous examples of brand names that work well in some languages but have offensive or unfortunate meanings in other languages. Even countries that use the same language have words with different meanings. Consider the British terms "flat" (*apartment* in U.S. English), "pants" (*underwear* in U.S. English), and "lift" (*elevator* in U.S. English). Canadian English primarily follows language follows the British spelling. Canada has two official languages, French and English and within them many dialects. As Canada becomes more diverse our top five languages have changed. Marketing messaging and materials could easily go wrong if they are not adjusted to fit in-country dialect and usage. Language becomes even more significant if a country's population speaks several languages. An additional language consideration for marketers is literacy rates. Depending on the target audience and market, literacy may be a significant issue. Some countries, primarily less-developed countries, still have low literacy rates, such as Afghanistan with just 38 percent adult literacy in 2015, and Haiti with 61 percent. India, with its burgeoning economy, reported a literacy rate of 72 percent in 2015. In many countries, literacy rates can differ widely between men and women in many countries, too.
- **Colours:** Colours may have different meanings in different cultures. This highlights the importance of careful testing of packaging and other visual elements intended for global audiences. For example, green is a sacred colour in the Muslim faith, and it is not considered appropriate for packaging and branding purposes in Middle Eastern countries. In Japan, black and white are colours of mourning and should be avoided on product packaging. Purple is associated with death in some Hispanic nations.
- **Values:** An individual's values arise from their education, moral or religious beliefs and are learned through experiences. For example, as a consumer market, Americans place a very high value on material well-being and are much more likely to purchase status symbols than people in India. Chinese consumers highly value the sense of honor, dignity, and pride, and in some situations, they will pay price premiums to "save face" by spending what is perceived to be an appropriate amount to preserve their honour. In Canada, our values, based on the UWaterloo's Well-Being Index include:
    - fairness
    - inclusion
    - safety
    - sustainability
    - diversity
- This translates into consumer behaviours where about 40% of consumers consider themselves non-loyal with their brands and half of consumers are willing to buy an unfamiliar brand if the price is right. Only 19% buy the same brand for each purchase. About 80% of consumers like to try new products, especially if it is a product from a familiar brand. Canadians are increasingly concerned about sustainable consumption, and

the purchases of local, ethical or organic products are on the rise, especially for food and clothing. (Source: StatsCan 2017)

- **Business norms:** The norms of conducting business also vary from one country to the next. In France, for example, wholesalers do not like to promote products. They are mainly interested in supplying retailers with the products they need.
- **Religious beliefs and holidays:** In addition to affecting their values, a person's religious beliefs can affect shopping patterns and products purchased. In the United States and other Christian nations, the Christmas holiday season is a major sales period. In China, the Chinese New Year brings out the shoppers. In India, a string of Hindu festivals, including Dussehra and Diwali, marks a holiday season that extends over multiple months.

Many other factors, including a country's political or legal environment, economic status, and technological environment, can impact a brand's promotional mix. Companies should monitor dynamics in their target markets and be ready to quickly respond and adapt to consumer needs and preferences.

Recommendations for Adjusting the Promotional Mix

When launching global advertising, public relations, or sales campaigns, global companies test promotional ideas using marketing research systems that provide results comparable across countries. These systems help marketers achieve economies of scale in marketing communications since they reveal which messaging or creative elements contribute to a product's market success. Marketing-research measures of nonverbal factors such as flow of attention, flow of emotion, and branding moments can provide insight into what is working in an advertisement or other marketing communication piece across multiple countries and languages.

The same recommendations about how to research and understand a target market in domestic settings apply to global settings. Marketing research is essential for marketers to build their understanding of which promotional tactics will be successful in any country or region. Informed experimentation and trial and error are also good teachers. Once marketers and brand managers discover what works (and what doesn't) in the promotional mix, they can import this knowledge to infuse creative ideas into other markets. Likewise, companies can use this intelligence to modify various elements in their promotional mix that are receiving minimal or unfavorable responses from global audiences.

Global Marketing Mix: Price

Pricing is the process of determining what a company will receive in exchange for its products. Many pricing considerations in global marketing are similar to domestic marketing. As marketers develop pricing strategy, they should keep the following goals in mind:

- Achieving the financial goals of the company and generating profits
- Matching the realities of the marketplace and consumer buying trends
- Supporting the designated positioning for a product, making it consistent with other elements of the marketing mix, product, promotion, and placement

Walmart: Placement, product, and promotion work in concert with pricing in the global marketing mix.

Similar to domestic marketing, in the global marketing mix, factors that affect pricing include manufacturing cost, distribution channels, marketplace, competition, market conditions, and quality of product. For instance, if the distribution is exclusive to one channel partner, then prices are likely to be higher. High prices are required to cover high costs of manufacturing, shipping, extensive advertising, and promotional campaigns. If manufacturing costs go up due to the rise in the price of some raw material, then prices will need to rise as well.

Global Pricing Considerations

Pricing considerations become more complicated in the global context when it comes to factors affecting global trade. Multinational companies must operate with different currencies, exchange rates, and interest rates. Pricing needs to account for risk associated with fluctuations in the relative value of different currencies in the markets where businesses operate. When the dollar is strong against a foreign currency, for example, imported American goods are more expensive relative to the local competition, so local sales may decrease. When a weak dollar makes product imports more expensive, the final good must carry a higher price tag to cover production costs.

Pricing can be affected by the cost of production (locally or internationally), natural resources (product ingredients or components), and the cost of delivery (e.g., the availability of fuel). For instance, if a country imposes a minimum wage law that forces the company to pay more to its workers, the price of the product is likely to rise to cover some of that cost. Natural resources, such as oil, may also fluctuate in price, changing the price of the final good. Pricing may be affected by government policy, such as trade tariffs and taxes, or costs associated with regulatory compliance and adherence to administrative or legal criteria of specific jurisdictions.

Global marketers must be also prepared to deal with other localized factors affecting pricing. Cultural expectations may dictate what consumers are willing to pay for some products and brands. A product's positioning in relation to the local competition influences the brand's ultimate profit margin. Global marketers must carefully consider how to position their products in global markets and decide whether their products are considered high-end, economical, or something in between according to cultural norms.

Global Marketing Mix: Place (Distribution)

Although other elements of the marketing mix are often more visible during the marketing process, place, or distribution, is essential in getting the product distributed to customers. Placement determines the channels used to distribute a product across different countries, taking in factors such as competition and the way similar brands are being offered to the target market. Regardless of its size or visibility, a global brand must adjust its country strategies to take into account placement and distribution in the marketing mix.

Global marketing presents more challenges around distribution, compared to domestic or local marketing. Consequently, brands competing in the global marketplace often conduct extensive research to accurately define the market, as well as the environments where consumers will find, buy, and use the product. A country's transportation and economic infrastructure, customs, marketplace conditions, and competitive landscape can all factor into strategic decisions around distribution. For example, not all cultures use or have access to vending machines to distribute beverages. In Canada, beverages are sold by the pallet via warehouse stores. But warehouse stores do not exist in all markets.

Placement decisions must also consider the product's positioning in the marketplace. A global luxury brand would not want to be distributed via a discount chain in Canada. Buying a Gucci scarf at the Dollar Store is unlikely. Conversely, low-end shoemakers would likely be ignored by shoppers browsing in an Italian boutique store. Global marketers must also consider how their products will be distributed across the different shopping venues unique to a particular country or market. Customizing these placement strategies for national and local markets while retaining a strong and consistent brand image can help companies gain significant competitive advantages.

14.4 Factors Shaping the Global Marketing Environment

Learning Objectives

- Explain the importance of evaluating the demographic profile of a country to determine product demand and acceptance
- Describe how different cultural environments can affect the global marketplace and the marketing mix
- Explain how governmental regulation and available supporting institutions can impact marketing in specific countries or regions
- Explain the importance of understanding how demographic, cultural, and institutional factors shape the global marketing environment

While the same basic domestic marketing principles apply to global marketing, there are additional layers of complexity for marketers to consider when working across markets in different countries and world regions. Much of this complexity centers on the need to develop a keen understanding of the consumer and the target market—a task essential for effective marketing, whether global or domestic. But in the global environment, there are additional questions to ask and issues to consider in order to fully appreciate the consumer and the marketing opportunities in a target market.

Additional complexity resides in the business environment created by government, regulatory bodies, and other societal institutions that shape the behaviours of individuals and institutions. This business environment is somewhat unique to every country and target market. Understanding these dynamics can help marketers work more effectively to achieve their organizations' business objectives.

Learning Activities

- Reading: Demographic Factors Shaping the Global Marketing Environment
- Reading: Cultural Factors Shaping the Global Marketing Environment
- Reading: Institutional Factors Shaping the Global Marketing Environment
- Self Check: Factors Shaping the Global Marketing Environment

Reading: Demographic Factors Shaping the Global Marketing Environment

Using Demographics to Guide Global Marketing Strategy

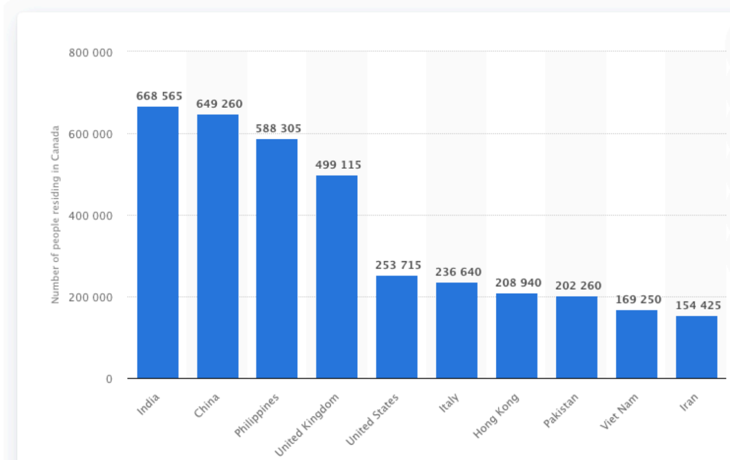
Whether marketing to domestic or international markets, demographic information can provide important insights about a target market and how to address consumer needs. As discussed during our discussion of consumer behaviour, demographics refer to statistical information about the characteristics of a population.

Marketers typically combine several variables to create a demographic profile of a target market. A demographic profile (often shortened to a “demographic”) is a term used in marketing and broadcasting to describe a demographic grouping or a market segment. Common demographic variables to consider for global and domestic marketing purposes include the following:

- **Age:** Age bands, such as 18–24, 25–34, etc., are great predictors of interest in some types of products. For example, few teenagers wish to purchase denture cream.
- **Social class:** Social-class bands such as wealthy, middle, and lower classes. The rich, for instance, may want different products than middle and lower classes, and may be willing to pay more.
- **Gender:** Males and females have different physical attributes that require different hygiene and clothing products. They also tend to have distinctive male/female mindsets and roles in the family and household decision-making.
- **Religious affiliations:** Religion is linked to individual values as well as holiday celebrations, often tied to consumer preferences and spending patterns.
- **Income brackets:** Indicating level of wealth, disposable income, and quality of life.
- **Education:** The level of education is often tied to consumer preferences, as well as income.
- **Geography:** Area of residence, urban vs. rural, and population density can all be important inputs into marketing strategy and decisions about where and how to target advertising and other elements of the promotion mix.

Demographic research may include a variety of other characteristics used to separate a country’s population into groups that fit a company’s target customer profile. A demographic profile also provides enough information about the typical member of this group to create a mental picture of this hypothetical aggregate. For example, a marketer might speak of the single, female, middle-class, aged 18–24, college-educated demographic.

Researchers examining demographics typically have two objectives in mind: first, to segment the market by determining which subgroups exist in the overall population; and second, to create a clear and complete picture of the characteristics displayed by typical members of each segment. Once these profiles are constructed, marketers can use them to develop the targeting strategy and accompanying marketing strategy and marketing plan.



Top 10 Countries of Birth for Foreign Born People In Canada in 2016 indicates India, China and Philippines are the top 3. [footnote]https://www.statista.com/statistics/556078/top-10-countries-of-birth-for-foreign-born-canadian-citizens/[/footnote]

With demographic profiles about target segments in hand, marketers evaluate the marketing mix. They make recommendations about whether to change, decrease, or increase the goods or services offered. Based on demographic data, marketers may adjust product features, distribution strategy, or other factors in order to reach a market segment that has the most potential.A demographic profile can be very useful in determining the promotional mix and how to achieve maximum results. Advertising is usually part of the promotional mix, especially when businesses are still in the early stages of entering a global market and launching products that are new to that market. Advertisers want to get the most results for their money, and so in global markets as in domestic markets, careful media research is conducted to match the demographic profile of the target market to the demographic profile of the advertising medium.

Cautions About Demographic Profiling in Global Markets

Demographic profiling is essentially an exercise in making generalizations about groups of people. As with all such generalizations, many individuals within these groups will not conform to the profile. Demographic information is aggregate and offers probabilistic data about groups—not specific individuals. Critics of demographic profiling argue that such broad-brush generalizations can only offer limited insight.

Marketers must also be careful to avoid interpreting demographic information using the mindset of their own “home” cultures. For example, the generalizations that apply to “tweens” (8–12-year-olds) in Canada may not apply at all to children in this same age range in other geographies. Similarly, assumptions about how social class affects consumer preferences may be very different in a socially mobile society versus one with very rigid separation between groups from different social classes. Marketing research should seek to understand a complete picture of how demographic characteristics tend to influence consumer behaviour in a given market, rather than simply applying stereotypes from elsewhere.

Reading: Cultural Factors Shaping the Global Marketing Environment

The Immense Impact of Culture in Global Marketing

Culture refers to the influence of religious, family, educational, and social systems on people, how they live their lives, and the choices they make. Marketing always exists in an environment shaped by culture. Organizations that intend to market products in different countries must be sensitive to the cultural factors at work in their target markets. Even cultural differences between different countries–or between different regions in the same country–seem small, marketers who ignore them risk failure in implementing their programs.

Culture is complex, and fully appreciating its influence takes significant time, effort, and expertise. Various features of culture can create an illusion of similarity, but marketers need to dig deeper to make sure they truly understand the people and environments in which they work. Even a common language does not guarantee similarity of interpretation. For example, in Canada, we purchase "cans" of various grocery products, but the British purchase "tins." In India, where English is one of a number of officially recognized languages, "matrimonial" is used as a noun in casual conversation, referring to personal ads in newspapers seeking marriage partners.

Several dimensions of culture that require particular attention from global marketers are listed below.

Language

As suggested above, the importance of language differences cannot be overemphasized, and there are nearly three thousand languages in the world. Language differences can be a challenge for marketers designing IMC campaigns, product labels, brand and product names, tag lines, and so on. Finding a single brand name that works universally in terms of pronunciation, meaning, and "ownability" is a monumental challenge. Of course, correct and grammatical use of language in marketing communication is essential for a product, brand, or company to be viewed as credible, trustworthy, and of high-quality.

Language gains complexity when a country has more than one officially recognized language. To illustrate, in Canada, national law requires that labels include both English and French. In India and China, more than two hundred different dialects are spoken. India has more than twenty officially recognized languages. Mainland China's official spoken language is Standard Mandarin, and several autonomous regions have designated other additional official languages. Meanwhile in Hong Kong and Macau, Cantonese Chinese, English, and Portuguese are the official languages. Clearly, language can become a very complicated issue for marketers very quickly!

Finally, marketers should be attuned to what they communicate when they choose which languages to use–or not use. In Eastern Europe, for example, the long history of Soviet occupation during the Cold War has left many inhabitants with a negative perception of the Russian language. Products that carry Russian labeling may suffer accordingly.

Customs and Taboos

All cultures have their own unique sets of customs and taboos. It is important for marketers to learn about these customs and taboos so that they will know what is acceptable and unacceptable for their marketing programs. For example, in Japan, the number four is considered unlucky, and product packages containing four items are avoided by many consumers. In Middle Eastern countries where Islamic law is strictly observed, images displaying the uncovered arms or legs of the female body are considered offensive. Meanwhile in Egypt, where many women wear the headscarf or hijab in public, an increasing number of younger women are in work and educational settings where gender segregation does not exist. Marketers struggle with whether to portray women with or without the hijab, knowing that they risk offending some of their target audience with either choice. Marketers should seek guidance from native experts familiar with local culture and customers. Marketing research can also help marketers understand and navigate these complex issues.

Values

The role of values in society is to dictate what is acceptable or unacceptable. Values are part of the societal fabric of a culture, and they can also be expressed individually, arising from the influence of family, education, moral, and religious beliefs. Values are also learned through experiences. Not surprisingly, values can influence consumer perceptions and purchasing behaviour. For example, consumers in some countries, such as the United States, tend to be individualistic and make many purchasing decisions based on their own personal preferences. In other countries, such as Japan, the well-being of the group is more highly valued, and buying decisions are more influenced by the well-being of the group, such as the family. Based on these differences in values, it is not surprising that ads featuring individuals tend to do better in countries where individualism is an important value, and ads featuring groups do better in countries where the group's well-being is a higher value.

Time and Punctuality

Different cultures have different sensitivities around time and punctuality. In some countries, being slightly late to a meeting is acceptable, whereas in other countries it is very insulting. For cultures that highly value punctuality, being on time is a sign of good planning, organization, and respect. In cultures where precise punctuality is less important, there is often a greater emphasis on relationships. The fact that a meeting happens is more important than when it happens.

While there are cultural stereotypes about time management (such as the laid-back "island time" many residents of island nations refer to), the best rule of thumb in business is to be punctual and meet deadlines as promised. You will not insult people by following this rule. Also, it is wise not to apply popular stereotypes to individual people for whom the cultural stereotype may or may not be true. You should let a person's behaviour speak for itself, and always treat others with the same level of courtesy you would expect from them.

Business Norms

Business norms vary from one country to the next and may present challenges to foreigners not used to operating according to the particular norms of the host country. In business meetings in Japan, for example, it is expected that the most senior person representing an organization will lead the discussion, and more junior-level colleagues may not speak at all. The role of alcohol in business meetings varies widely by culture: in Middle Eastern cultures where alcohol is forbidden, it may be insulting to serve or even offer an alcoholic beverage. In China, many rounds of toasts are customary as part of formal dinner meetings.

President Barack Obama clasps his hands in the traditional "namaste" greeting in India

Likewise, business norms around greetings and physical contact also vary. American-style handshakes have become accepted as a business norm in many cultures, but this custom is not universal. In Japan and some other Asian cultures, a respectful bow is the traditional business greeting, although the handshake is becoming more common. In Islamic cultures, contact between men and women is a sensitive issue, even in business settings. In those regions and cultures, it is best to shake hands with a woman only if she extends her hand first. Similarly, Western women may avoid causing embarrassment by shaking hands only if a hand is extended to her. In India, the *namaste* (a slight bow with hands brought together on the chest) remains a respectful, if traditional business greeting particularly when interacting with women and older people.

Prime Minister Trudeau on his trip to India in 2018 was criticized for his lack of cultural sensitivity.

Always seek guidance from a trusted colleague or friend who has experience in the local customs and can offer coaching on proper etiquette.

Religious Beliefs and Celebrations

As discussed earlier in this module, religious beliefs and practices can strongly influence what consumers buy (or don't buy), when they shop, and how they conduct business. It is important for marketers to understand the influence of religion on consumer culture in the markets where they operate so that their marketing activities can be appropriately sensitive. Failing to respect religious beliefs or cultures can seriously undermine the reputation of a company or brand. At the same time, marketers who are attuned to the impact of religion on local culture can find a great advantage in aligning marketing messages and promotional opportunities to religious practice.

For example, all the major world religions observe holidays that include feasting and gift-giving. These festival seasons tend to be prime shopping seasons as well, such as the Christmas season in Western cultures, or Ramadan in Muslim cultures. Religious beliefs lead to sensitivities about certain products: in the Hindu religion, cows are considered sacred and people refrain from eating beef. Observant Jews and Muslims consider pork unclean, and they consume only kosher or halal meats, respectively. Many religions eschew alcohol: for example, devout Sikhs, Muslims, Mormons, Buddhists, and Southern Baptists all refrain from drinking.

Religious beliefs may cause sensitivities around revealing images or sexually suggestive material. Religious beliefs associated with the symbolism of different colours may create either preferences for or rejection of certain products and marketing materials. The link between religious practice and gender roles may affect which members of the family influence which types of buying decisions. It is important, however, for marketers not to oversimplify how decision-making happens in these settings. Even if a woman, for example, is not the primary buyer, she may exercise a strong influence on many consumer decisions.

Here, as in other areas of cultural impact, is it crucial for marketers to educate themselves about the people and cultures they are targeting for marketing and business in order to use cultural knowledge to their advantage.

Reading: Institutional Factors Shaping the Global Marketing Environment

The Influence of Government and Regulations on Global Marketing

Political Stability

Business activity tends to grow and thrive when a nation is politically stable. When a nation is politically unstable, multinational firms can still conduct business profitably, but there are higher risks and often higher costs associated with business operations. Political instability makes a country less attractive from a business investment perspective, so foreign and domestic companies doing business there frequently must pay higher interest rates on business loans, higher insurance rates, and often higher costs to protect the security of their employees and operations. Alternatively, in countries with stable political environments, the behaviour of consumers and markets is more predictable, and organizations can rely on governments enforcing the rule of law, meaning that governments do not exercise power arbitrarily. Instead, they adhere to established, recognized, and well-defined laws.

The Haitian National Palace (Presidential Palace) in Port-au-Prince, Haiti, heavily damaged after the earthquake of January 12, 2010. Besides struggling to rebuild the country after the earthquake, Haiti has had to cope with decades of political conflict and instability.

Domestic and Global Business Law

Governments around the world maintain laws that regulate business practices. In some nations, these laws are more heavy-handed, and in other countries, the environment for business is more freewheeling or self-regulating. As we reviewed in Chapter 5, there are many legal and ethical considerations from a marketers perspective. There are even laws and regulations that affect what marketers are allowed to include in marketing communications, although these are far more strict in some countries than in others.

Marketers should become familiar with the political and regulatory environments in the countries and world regions where they operate, and specifically the laws, regulations, and legal processes that may affect business and marketing operations. For example, it is common for countries to maintain laws and regulations in the following areas:

- **Contract law** governing agreements about the supply and delivery of goods and services
- **Trademark** registration and enforcement for brand names, logos, tag lines, and so forth

- **Labeling** for the purposes of consumer safety, protection, and transparency
- **Patents** to enforce intellectual property rights and business rights associated with unique inventions and "ownable" business ideas
- **Decency, censorship, and freedom-of-expression** laws to which marketing communications are subject
- **Price floors, ceilings, and other regulations** regarding the prices organizations can charge for some types of goods and services
- **Product safety**, testing, and quality control
- **Environmental protection**, conservation, and the use of permits and other regulatory tools to encourage acceptable and responsible business practices
- **Privacy**, including laws governing data collection, storage, use, and permissions associated with consumers and their digital identities
- **Financial reporting** and disclosure to ensure that organizations provide transparency around using sound business and financial practices

In some cases, international laws and regulations also seek to govern these issues, looking out for ways to manage the friction that can surface between national governments, as well as ways to serve the common interests of regional allies and economic partners.

Free Trade and Protectionism

Free trade refers to the free exchange of goods and services across international borders without governmental restrictions such as *quotas* (which limit amounts of goods that can be traded), *tariffs* (which are taxes charged for imported or exported goods), and other restrictions. Many nations encourage free trade by inviting foreign firms to invest in and conduct business without severe disadvantages or restrictions compared to domestic businesses. Often these same governments encourage domestic firms to engage in overseas business. When governments have a strong free-trade orientation, they typically prefer not to enact regulations that strictly limit imports and discriminate against foreign firms–at least not in most product and service categories. When countries enact *free trade agreements* (FTA) with one another, they agree to allow advantageous terms for the flow of goods and services between designated countries. Regional trading blocs represent a group of nations that join together and formally agree to reduce trade barriers among themselves. Trading relationships across the world have changed dramatically since 2016.

A new trading agreement was struck to update the 20-year-old North American Free Trade Agreement (NAFTA). The Canada-United States-Mexico Agreement CUSMA enacted in 2019 boosts export sales between these countries by enabling companies to sell goods at lower prices because tariffs are reduced or eliminated.

Watch the Government of Canada video CUSMA – Prosperity Through Trade.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=389#oembed-1

Canada's largest trading partners are[1]:

Value of Canadian Export Goods in 2019 by Partner

Country	**Export Value ($B)**
United States	$443 billion
European Union	$50 billion
China	$24 billion
Japan	$13 billion
Mexico	$8.4 billion

The European Union (EU) Single Market attempts to guarantee free trade between the twenty-eight member states of the European Union. In 2016, U.K. citizens voted by referendum to exit from the EU — well known as Brexit. This has destabilized the EU. Britain voted to exit the EU in 2019. One-third of all EU trade was with the US and China.

Largest trading partner of each European country (source: nerdymaps)

The Association of Southeast Asian Nations (ASEAN) is an example of a regional trading block. This agreement allows for the free exchange of trade, service, labor, and capital across the ten independent

1. Global Affairs Canada. (2020). Canada's State of Trade 2020. https://www.international.gc.ca/gac-amc/publications/economist-economiste/state-of-trade-commerce-international-2020.aspx?lang=eng

member nations, including Canada. In addition, ASEAN promotes the regional integration of transportation and energy infrastructure.

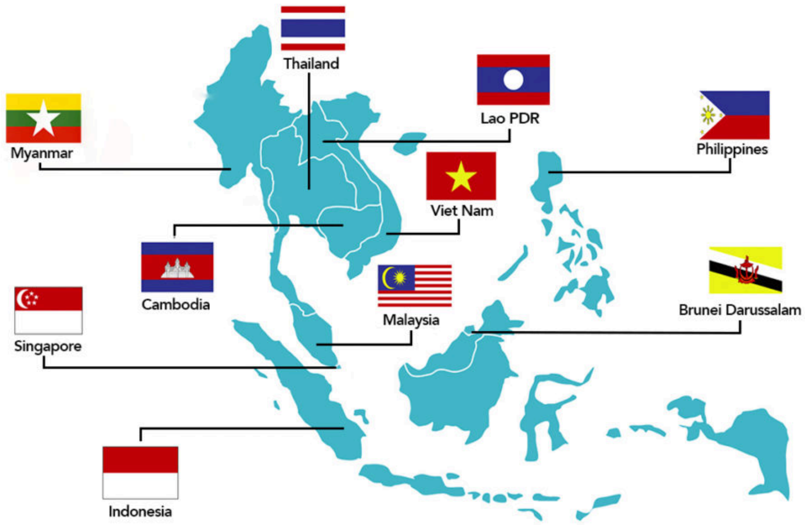


Figure 1. The Association of Southeast Asian Nations (ASEAN)

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (*CPTPP*) is a free trade agreement between Canada and 10 other countries in the Asia-Pacific region: Australia, Brunei, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. The CPTPP strategically sets the terms of trade in the Asia-Pacific region. CPTPP Agreement, along with CUSMA and free trade agreements with the Canada- European Union, Comprehensive Economic and Trade Agreement (CETA) and South Korea, makes Canada the only Group of 7 (G7) nation with free trade access to the Americas, Europe and the Asia-Pacific region.

Almost all the countries in the Western hemisphere have entered into one or more regional trade agreements. Such agreements are designed to facilitate trade through the establishment of a free-trade area, customs union, or customs market.

The CPTPP Markets for trade.

Governments engage in *protectionism* when they enact policies that privilege domestic industries and businesses over those based in foreign countries. Protectionist policies may enact quotas that strictly limit the numbers of imported or exported goods allowed. Quotas are designed to prevent foreign imports from meeting all the demand for a product; instead, they carve out room for domestic suppliers to meet some of this demand. Another common protectionist policy is to levy tariffs that restrict trade by placing taxes on imported goods to make them more expensive in the domestic market. Protective tariffs are frequently established to protect domestic manufacturers against competitors by raising the prices of imported goods. For example, in June 2018, the United States imposed import tariffs of 25% on

Canadian steel products and 10% on Canadian aluminum products. In June 2019, the first month after tariffs were lifted, exports of steel products to the United States grew by 15.8%[2]

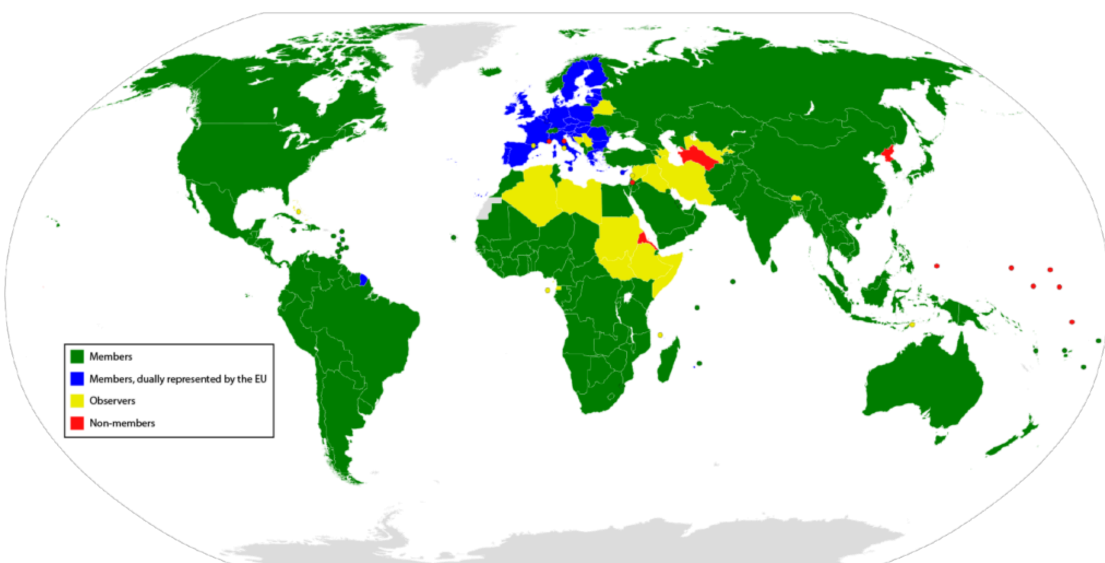
Expropriation

All multinational firms face the risk of expropriation. Expropriation takes place when a government takes ownership of property or business operations such as real estate, manufacturing plants, or other assets, sometimes without compensating the owners. In many expropriations of foreign business property by domestic governments, there have been payments, and it is often equitable. Because of the risk of expropriation, multinational firms are at the mercy of foreign governments, which are sometimes unstable and can change the laws they enforce at any point to meet their needs.

Trade Policy and the World Trade Organization

Countries engage in international trade for two basic reasons, each of which contributes to the country's gain from trade. First, countries trade because they are different from one another. Nations can benefit from their differences by reaching agreements in which each party contributes its strengths and focuses on producing goods efficiently. Second, countries trade to achieve economies of scale in production. While international trade has been present throughout much of history, its economic, social, and political importance have increased in recent centuries, mainly because of industrialization, advanced transportation, globalization, multinational corporations, and outsourcing.

The World Trade Organization (WTO) was formed to supervise and liberalize international trade on January 1, 1995, under the Marrakech Agreement. The organization deals with the regulation of trade between participating countries. It provides a framework for negotiating and formalizing trade agreements and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements.



World Trade Organization participation: The WTO was founded in 1995 with 123 member countries. By 2019 it included 164 member states.

2. Statistics Canada. (2019, August 2). Impact of recent tariffs on Canada's merchandise trade. The Daily. https://www150.statcan.gc.ca/n1/daily-quotidien/190802/dq190802b-eng.htm

Trade Sanctions and Barriers

Trade sanctions are penalties imposed on one country by one or more other countries. Allied countries may impose sanctions on their enemies. On occasion, the WTO authorizes trade sanctions against a specific country in order to punish that country for some action.

Although there are usually few trade restrictions within countries, international trade is usually regulated by governmental quotas and restrictions and often taxed by tariffs. Tariffs are usually on imports, but sometimes countries may impose export tariffs or subsidies. All of these are called trade barriers, which are established by a government that implements a protectionist policy. If a government removes all trade barriers, a condition of free trade exists. The WTO helps arbitrate and settle disputes about trade barriers between different countries.

Fair Trade

The fair trade movement promotes the use of labor, environmental, and social standards for the production of commodities, particularly those exported from developing countries to industrialized nations. Importing firms voluntarily adhere to fair trade standards, or governments may enforce them through a combination of employment and commercial law. Proposed and practiced fair trade policies vary widely, ranging from the common prohibition of goods made using slave labor to minimum-price support schemes such as those for coffee in the 1980s, to industry-focused marketing schemes to boost consumer demand for fair trade products. Nongovernmental organizations (NGOs) also play a role in promoting fair trade standards by serving as independent monitors of compliance with fair trade labeling requirements. Today fair trade certification processes inspect grower and manufacturer facilities to confirm that ethical practices are in place, and participating organizations are authorized to market their products using an increasingly visible "Fairtrade" certification mark.

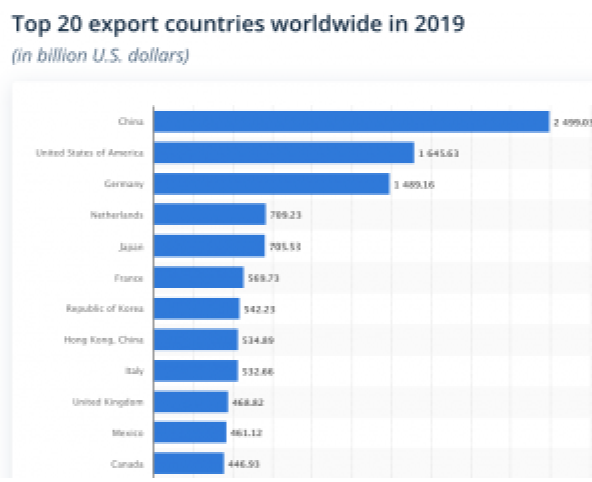
International Fairtrade Certification Mark

A Case in Point: China

China offers an interesting and current example of the effects of political, regulatory, and trade policy on economic growth and the business environment. Beginning around 1978, the People's Republic of China (PRC) began an experiment in economic reform. In contrast to the previous Soviet-style, centrally planned economy, the new measures progressively relaxed restrictions on farming, agricultural distribution, and, several years later, urban enterprises and labor.

China's more market-oriented approach reduced inefficiencies and stimulated private investment, particularly by farmers, which led to increased productivity and output. The reforms proved successful in terms of increased output, variety, quality, price, and demand. In real terms, the economy doubled in size between 1978 and 1986. By 2008, the economy was 16.7 times the size it was in 1978, and 12.1 times its previous per capita levels. Since 2010, China's economy has grown an exceptional minimum of 6% or greater per capital to 2019.

International trade progressed even more rapidly, doubling every 4.5 years on average. In 1991, the PRC joined the Asia-Pacific Economic Cooperation group, a trade-promotion forum. Total two-way trade in January 1998 exceeded that for all of 1978. In 2001, China joined the World Trade Organization. In 2007, China surpassed the U.S. in exports, and in 2009, China surpassed Germany to become the world's leading exporter.[3] Today, Canadian companies must compete with Chinese imports as a reality of doing business, but also have easier access to China's labor force and natural resources as an option in sourcing. For many companies manufacturing relationships with China and sales opportunities in China have led to efficiencies and new market opportunities.



China, the U.S. and Germany are the top three global exporters. Source: statistica.com

3. World Trade Organization. (2016). International Trade Statistics 2015. https://www.wto.org/english/res_e/statis_e/its2015_e.pdf

14.5 Putting It Together: Marketing Globally

Global marketing is a demanding field because of the many different factors involved in the success or failure of a business venture in foreign markets. It can be fascinating because of the windows it opens into different peoples, cultures, and places around the world. It can also be fraught with difficulty. Even some of the smartest companies on the planet have a tough time making it work.

To close the discussion about global marketing, we offer two examples that illustrate how things can go very wrong in global marketing, as well as how things can go very right.

Google: Stumbling in China

Take technology giant Google, which has made many smart moves in its growth to become a successful multinational company. But for all its technology and business brilliance, it has struggled in mainland China. The Chinese government is heavy-handed when it comes to censoring the types of information its citizens can find and access–even via the Internet–and it continually monitors the online activities of its citizens for any behaviours it deems inappropriate. China's government requires technology and media companies to comply with demands to censor search results and block sites that discuss sensitive subjects. Despite back-bending efforts to find solutions that would satisfy government demands as well as Google's internal policies around free speech, privacy, and freedom of information, on several occasions Google found its mainland China sites completely blocked to users by cyberattacks backed, in all likelihood, by the Chinese government.

In 2010, Google finally pulled its search engine and related services from the Chinese market. It faced a seemingly insurmountable problem around how to make its products fit not only consumer needs and preferences in China, but also the rigorous regulatory environment around digital information. Google is not alone in facing this challenge. According to a 2016 article in *The Atlantic*,

> Google's move to pull the plug in China is an extreme example of the kinds of decisions Internet companies operating abroad are often up against: If they want to do business, they have to abide by local laws, which can include restrictions on speech. And since the United States has some of the most permissive freedom-of-speech laws in the world, American companies must adapt in order to do business even in parts of the world that are culturally very similar to the U.S.[1]

After sitting out of mainland China for several years, in 2015 Google signaled its intentions to possibly reenter the market. The question was how. The following video discusses Google's dilemma and the directions its product strategy may take to gain a new foothold.

1. Waddell, K. (2016, January 19). *Why Google Quit China - and Why It's Heading Back.* The Atlantic. http://www.theatlantic.com/technology/archive/2016/01/why-google-quit-china-and-why-its-heading-back/424482/

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You can view the transcript for "Tech giant Google may return to China" here (opens in new window).

How Google might localize its products for Chinese users and the regulatory environment (again) remains a big question. And Google is not alone. Every day, global marketers in companies around the world face questions of where to do business, what to offer, and how to function in the local business environment. The Googleplex is the corporate headquarters complex of Google and its parent company Alphabet Inc. It is located in Mountain View, California. It must comply with U.S. laws but adapt its operations in the countries it operates in. In August 2018, the investigative journalism website The Intercept reported that the company was working on a secret prototype of a new, censored Chinese search engine, called Project Dragonfly. Amid a furor from human rights activists and some Google employees, U.S. Vice President Mike Pence called on the company to kill Dragonfly. Today, Alibaba is China's largest search engine.

L'Oreal: Success with the Ladies

Tackling a very different set of global marketing challenges is L'Oreal, the world's largest beauty and cosmetics company. Based in France, it operates globally with a keen focus on understanding what "beauty" means in different nations and cultures and how to serve the beauty needs of women (and increasingly men) around the world. To provide the "inside scoop" on beauty in different world regions, the company has established research and development centers on five continents. Each one is focused on understanding cultural differences in the beauty market, formulating innovative products to fit localized needs, and helping the company adapt its products and marketing activities to what its target customers want.

For example, to address the preferences of women in India for heavy eye makeup, L'Oreal developed an eyeliner "crayon" that holds up for 6+ hours in India's extreme humidity and heat. It also introduced low-cost, single-use shampoo packaging for distribution in local, traditional shops serving the many consumers in India who, due to economic constraints, purchase products according to their day-to-day needs.

L'Oreal's nuanced understanding of the global beauty market is apparent in the words of Jean-Paul Agon, the company's CEO:

> For a Brazilian women, hair and body are most important, for a Chinese woman facial skin is the priority, for an Indian woman it's make-up. Our approach is the "universalisation" of beauty, i.e. globalization without uniformisation.[2]

Applying this deep and localized customer knowledge about its global markets, L'Oreal's marketing team members are actively involved in generating ideas about what's next. Engaging with consumers,

2. http://www.womenology.com/sectors/beauty-toiletries/loreal-a-success-story-in-international-marketing-to-women/

beauty industry bloggers, and influencers in social media is a big part of the company's marketing strategy and promotion mix because it gives them opportunities to listen and learn, as well as promote. It gives them insight into trends and needs in each global market. Successful localized products may be introduced in other regions where marketers see the strong potential. At every step, marketers are keenly aware of each aspect of the marketing mix—product, pricing, distribution, and promotion—and how to match offerings to fit what their target audiences (primarily women) want.

In this video, produced by L'Oreal, the Chief Digital Officer describes what it's like to work at Station F, where L'Oreal partners with beauty start-ups. She also discusses their shift to digital-first marketing strategies that allow for a global brand.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=393#oembed-2

You can view the transcript for "Interview with Lumbomira Rochet, Chief Digital Officer at L'Oreal" (opens in new window).

14.6 Practice Quiz

Check Your Understanding

Answer the question(s) below to see how well you understand the topics covered in the previous section. This short quiz does **not** count toward your grade in the class, and you can retake it an unlimited number of times.

Use this quiz to check your understanding and decide whether to (1) study the previous section further or (2) move on to the next section.

An interactive H5P element has been excluded from this version of the text. You can view it online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=733#h5p-7

Chapter 15: Marketing Plan

Learning Objectives

- Why a marketing plan matters
- Identify the key elements of the marketing plan
- Present a marketing plan
- Explain how the marketing plan is used by marketing and the overall organization

15.1 Why It Matters: Marketing Plan

Why develop a marketing plan?

In a very real way, the marketing plan is the culmination of everything you have been learning in this course. Marketing plans are designed to capture the most essential information, analysis, and insights that lead to the development of a marketing strategy. But they don't stop there. Marketing plans go on to outline exactly how the marketing team will execute that strategy to achieve the specified goals. Even if you are a team of one and you work for a small company, or you're just trying to help out your uncle who owns a bookstore, the success of your marketing vision will depend on having a well-conceived, detailed plan. This is nothing new: by now you know that not having a solid marketing plan is like being in Truro and heading into a rainstorm on a bike in the dark (without your smartphone) while you're trying to find New Brunswick.

So, developing a good marketing plan is very, very important, and it accounts for the lion's share of the work you must do. There are two other critical steps you must take, though, if you really want to get the most out of all your hard work: presenting your plan effectively to others and using the plan to adjust course once the marketing activities are in full swing. You'll learn about these steps here.

15.2 Elements of the Marketing Plan

Learning Objectives

- Describe the purpose of a marketing plan
- Explain why each key element of the marketing plan is important to the marketing team's successful implementation of the overall plan
- Identify the key elements of the marketing plan

A lot of work goes into developing a marketing plan. But once it's completed, it provides a detailed roadmap of not only where you're heading, but also why and how to get there. By

putting in significant effort up front to create a good plan, you'll find that the "doing" part is much simpler, better focused, better organized. Of course, a good plan also increases your likelihood of marketing success.

Success? Well, that makes *you* look good.

Learning Activities

- Reading: Elements of the Marketing Plan
- Self Check: Elements of the Marketing Plan

Reading: Elements of the Marketing Plan

Charting the Course Ahead: The Marketing Plan

Marketing exists in order to support an organization in achieving its strategic goals for growth, profitability, revenue, influence, and so on. As explained at the beginning of this course, the role of marketing is *to identify, satisfy, and retain customers*. You have learned about many different tools marketers use to fill this role. The **marketing plan** is the guiding document used by marketing managers and teams to lay out the objectives that marketing efforts will focus on and the actions they will take to achieve these objectives.

A comprehensive marketing plan paints the big picture of what is happening with an organization internally and externally. After analyzing the marketing environment, the plan then recommends strategies and tactics aimed at helping the organization take full advantage of available opportunities and resources to accomplish its goals. When a marketing plan is completed thoughtfully and skillfully, it helps marketers not only present the case for what they recommend doing, but it also creates a common vision within the organization about what's happening and how people and resources will come together to achieve that vision.

What's in a Marketing Plan?

You may already be familiar with marketing plans from your job experience or from your prior work in this course. Different marketers may use a variety of different formats to create a marketing plan, but most marketing plans include common elements that answer basic marketing questions such as the following:

- What are our goals and strategy?
- Who are we trying to reach, and how will we reach them?
- What are we trying to communicate?
- What marketing strategies and tactics will we use to achieve our goals?

The key elements of a marketing plan are described in the table below.

Note that these marketing plan elements correspond to a sample marketing plan template provided for use in this course. Because it is a template, or pattern, you can adapt and use it again, perhaps at a future job. This particular marketing plan template was designed to align well with the structure and content of this course. The table also provides a reference to the course module where each marketing plan element was introduced and explained in greater detail.

Download a copy of the Marketing Plan Template.

Marketing Plan: Key Elements

1. Executive Summary
    - **What is the plan about?**
    - Summary of key points from the marketing plan and what it will accomplish. It's an at-a-glance overview for a manager who may not have time to look over the whole thing.
2. Company Profile
    - **What organization are you marketing?**
    - Basic information about the organization, its offerings, and competitive set.
3. Market Segmentation and Targeting
    - **Who is your target audience?**
    - Description of the market for the product or service in question, segments in this market, and targeting strategy the marketing plan will address.
    - Course Module Reference: Segmentation and Targeting
4. Situation and Company Analysis
    - **What is your strategy, and why is it the right approach?**
    - SWOT analysis of the external marketing environment and the internal company environment, and marketing goals aligned with the company mission and objectives.
    - Course Module Reference: Marketing Strategy
5. Ethics and Social Responsibility
    - **How will you demonstrate good corporate citizenship?**
    - Recommendations for how to address any issues around ethics, social responsibility, and sustainability.
    - Course Module Reference: Ethics and Social Responsibility
6. Marketing Information and Research
    - **What information do you need to be successful, and how will you get it?**
    - Discussion of key questions that need to be answered, the information needed, and recommendations for how marketing research can provide answers.
    - Course Module Reference: Marketing Information and Research
7. Customer Decision-Making Profile

- **Who is your target customer, and what influences their buying decisions?**
- Profile of the primary buyer(s) targeted in the marketing plan and factors that impact their choices.
- Course Module Reference: Consumer Behavior

8. Positioning and Differentiation
    - **What do you want to be known for?**
    - List of competitive advantages, positioning recommendations, and how to convince the market you are different and better.
    - Course Module Reference: Positioning
9. Branding
    - **What is the brand that you're building?**
    - Brand platform describing the brand: promise, voice, personality, positioning, and strategic recommendations for building the brand.
    - Course Module Reference: Branding
10. Marketing Mix (Four Ps)
    - **How will your impact your target market?**
    - This question is addressed by the strategic recommendations around each of the four Ps below.
    - Course Module Reference: Marketing Function
        1. Product Strategy
            - **What are you offering to your target market?**
            - Description of the product or service being marketed and recommended improvements to fit the needs of target segments.
            - Course Module Reference: Product Marketing
        2. Pricing Strategy
            - **How are you pricing the offering?**
            - Recommendations on pricing strategy and why this approach makes sense.
            - Course Module Reference: Pricing Strategies
        3. Place: Distribution Strategy
            - **How are you distributing the offering?**

- Recommendations on distribution strategy and channel partners to improve the availability of your offering, and explanations of why this approach makes sense.
- Course Module Reference: Place: Distribution Channels

4. Promotion: IMC Strategy

   - **What marketing campaign(s) are your running?**
   - Overview of marketing strategy, objectives, messaging, and tactical approach for marketing campaign(s) to reach your target audiences.
   - Course Module Reference: Promotion: IMC Strategy

11. Measurement and KPIs

    - **How will you measure the impact you're making?**
    - Identification of key performance indicators (KPIs) and other metrics to monitor effectiveness of marketing campaign activities and provide clues about when to adjust course.
    - Course Module Reference: Promotion: IMC Strategy

12. Budget

    - **How much will this cost?**
    - List of resources required to execute the marketing plan, how much they will cost, and how to stay within the allocated budget.
    - Course Module Reference: Promotion: IMC Strategy

13. Action Plan

    - **What will it take to make this happen?**
    - A detailed, step-by-step plan about what needs to happen, when, and who's responsible for each step to execute the marketing campaign.
    - Course Module Reference: Promotion: IMC Strategy

14. Risk Factors

    - **What are the risks of this approach?**
    - Discussion of any significant risks or threats associated with this plan and contingency plans for addressing them.
    - Course Module Reference: Promotion: IMC Strategy

After this course, as you have the opportunity to develop a marketing strategy and plans in the future, you may choose to use this template in its entirety or adapt it to specific project needs.

Focusing Purpose, Guiding Activity

Marketing plans can be developed to focus in a variety of areas. A corporate marketing plan can be developed to promote the organization as a whole. Marketing plans may also focus on specific brands, products, services, market segments, and even to cover a set period of time, such as a quarterly marketing plan. To illustrate:

Company A might develop and execute three distinct marketing plans that share some common elements, such as the situation and company analysis and the market segmentation. When it comes to specific target audiences, positioning, campaign objectives, and planning, the three marketing plans diverge to focus on different dimensions of the business:

1. A corporate marketing plan to direct marketing communications focused on the company as a whole and building its corporate brand
2. A marketing plan focused on the launch and rollout of a new product line
3. A marketing plan for expanding the customer base and revenue of an established product line

On the other hand, Company B might develop and execute a single marketing plan that incorporates several different campaigns targeting the market segments served by its product and service portfolio. In this case, some sections of the plan are expanded to provide information, strategy, and planning focused on each target segment. This includes segment-specific customer profiles, positioning, IMC campaigns, and so forth.

Either of these approaches could be exactly right for the organization, depending on its goals and objectives. What’s most important is for the marketing plans to do a good job guiding marketing teams to formulate and execute marketing activities that are well aligned what the organization is trying to achieve. If multiple marketing plans are being developed and used, it is essential for marketing managers to make sure internal communication and sharing are happening between the marketing team members executing the plans. By sharing information about goals, messaging, timing, audience touchpoints, and other elements, marketers can avoid stepping on one another’s toes or creating confusion in the market. Ideally, teams can learn from one another’s successes and experiences so that the entire marketing effort becomes smarter and more efficient over time.

15.3 Presenting the Marketing Plan

Learning Objectives

- Identify appropriate media and format for presenting a marketing plan
- Apply recommended practices about how to organize content in an informational presentation
- Apply recommended practices for writing and developing presentation visuals (slides) that communicate effectively
- Apply recommended practices for delivering a presentation in a business setting

What you'll learn to do: present a marketing plan

This marketing course was designed with the idea that everything you learn along the way will prepare you for the grand finale: creating and presenting a marketing plan of your own. Now that you're in the final stretch of the course—perhaps putting the finishing touches on your marketing plan—it's time to focus on the presentation.

Learning Activities

- Reading: Presenting the Marketing Plan
- Reading: Business Presentations
- Self Check: Presenting the Marketing Plan

Reading: Presenting the Marketing Plan

Getting Started: Your Target Audience

When you were developing your own marketing plan, consider how much time and thought you put into identifying and reaching your target audience. As you know, it's a crucial step in the development of any successful marketing plan. The same is true of effective presentations: the key is to have a firm grasp of the needs of your audience. As the presenter, your main goal is to convey a message to your audience. That message is your marketing plan. You should imagine that the audience of your marketing plan is very interested in and somewhat familiar with your product and/or service. We'll say that the demographic is "your instructor and classmates"—all bright, educated listeners who want to hear what you have to say! It's important to keep in mind that they may not interpret the information exactly as you have. It's your job as a marketing-plan presenter to explain your ideas using specific details, succinct and clear wording (avoid jargon), vivid descriptions, and meaningful images. As you organize your presentation, keeping this imaginary audience in mind can help you gauge how much background information and context to provide.

Content

If you feel unsure about what to present, read your executive summary, which should give you a nice outline for your presentation. Begin by presenting the key elements there. Then ask yourself, "If I'm going to explain why this positioning and these marketing objectives really make sense, what additional information does my audience need?" Your goal with the presentation is not to present all of the details in the marketing plan but just to call out the important areas that help everyone understand why it is a good, thoughtful plan.

Choosing Media and Format

Perhaps you've heard the phrase "Death by PowerPoint" to explain that all-too-familiar feeling of being slowly bored to death by a thoughtless presenter who's droning on and on about boring slide after boring slide. If you'd like to know what the experience is about, and you have time for a laugh, watch the following video, starring stand-up comedian Don McMillan. McMillan pokes fun at bad presentations, but he has some very sound advice about what *not to do*. (Also, he gets in a nice dig at marketers.)

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=410#oembed-1

You can view the transcript for "Life After Death by PowerPoint (Corporate Comedy Video)" here (opens in new window).

You may be considering using PowerPoint for your marketing-plan presentation, and that's perfectly fine. PowerPoint can be a very effective tool with the right organization, layout, and design. Below is a list of five common pitfalls that you can and should avoid, and doing so will go a long way toward making your PowerPoint presentation successful:

1. **Choosing a font that is too small**. The person in the very back of the room should be able to see the same thing as the person in the front of the room.
2. **Putting too many words on a slide**. Remember it's called PowerPoint, not PowerParagraph! Keep your bullet points clear and succinct.
3. **Having spelling errors**. Have somebody proofread your slides. Any typos will detract from your marketing plan.
4. **Choosing distracting colours that make it hard to read the information**. PowerPoint gives you a lot of color choices in their design templates. The ideas in your brilliant marketing plan will be lost if your audience is struggling to read the content.
5. **Selecting images or visuals that do not clearly align with the content**. For instance, a cute photo of your cat may look lovely up on the screen, but if it doesn't connect to your marketing plan, it's just fluff that detracts from your message. Every slide counts, so make sure the visuals support your message.

I have the coolest whiskers in the room, and I am way more important than marketing, and dogs.

Two Ideas Beyond PowerPoint

The top priority for your marketing plan presentation is to make sure that it's well focused. The software/technology is less important, just use what you're most comfortable with. That said, if you'd like to explore other options besides PowerPoint, two alternatives are described below. Either would work well for this assignment.

Prezi

Prezi gives students free access to a visual-aid tool that can be effective, fun, and engaging. You'll need to sign up with your student email address. Once again, the content of your marketing plan is most important, but if you're bored with PowerPoint, you could give Prezi a try.

Three Prezi Tips:

1. Keep in mind that the movement of the screen can make some audience members feel seasick, so be sure to review your transitions between your slides. Too much movement will detract from your message.
2. If it's your first time trying Prezi and you're learning how to use it, start by using one of the templates. You want to focus on your marketing plan, not the technology.
3. Remember that a fancy Prezi will not hide a poor marketing plan. Having all the elements of the marketing plan should be your first concern; then focus on making it pretty.

Google Sites

Google Sites gives users the ability to create free basic Web sites. Google has easy-to-follow tutorials, and a lot of help is available through Google's search engine. You can google your question! Free templates are available, but be sure to pick one that is professional and appropriate for your audience.

Three Google Sites Tips

1. Pick a clever site name that you'll want to use when you are on the job market. Using "Principles of Marketing 101" won't be as catchy as "[Clever Business Name] Marketing Plan." You may want to use this plan as a sample of your work someday.
2. Test your site on different devices. See what your marketing plan looks like on a smartphone and a computer screen. Pay particular attention to your images to make sure they aren't too big or too small.
3. Ask somebody who isn't in the course to click around and tour your Web site before you present. He or she may be able to give you feedback on what looks the best or what you could improve.

Presenting the Marketing Plan

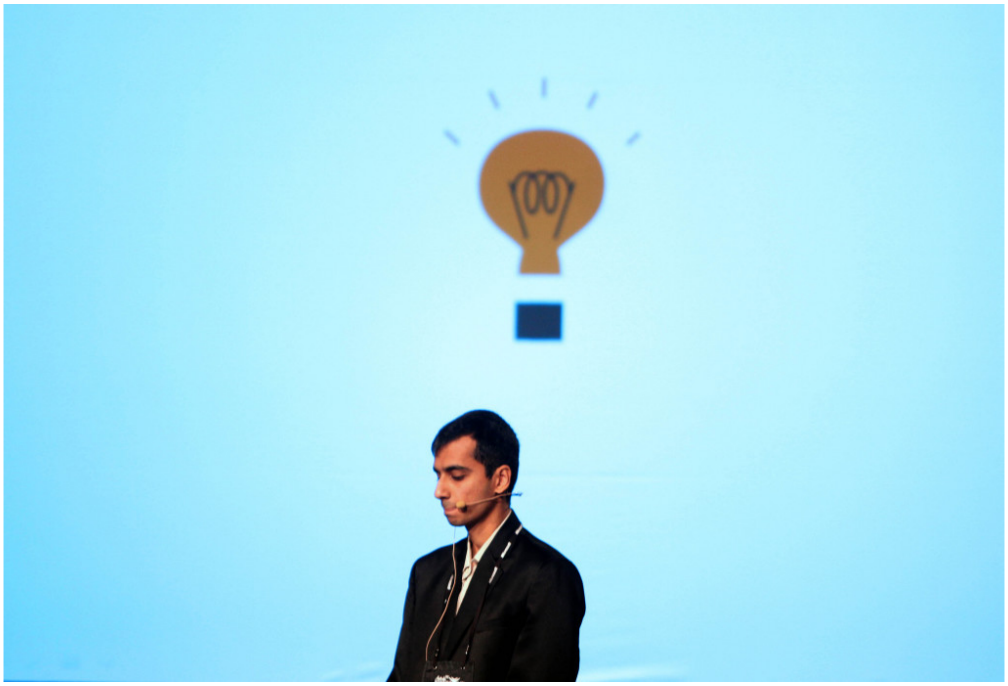
Now that we've shared some pointers on organizing your presentation and getting the technology to work for you (rather than against you) let's turn to a final list of pointers for the "performance" part of the presentation, when you actually present your plan to an audience. You've worked hard as the owner of this plan, so have confidence in your work. The following can help you get there:

1. Practice! Take what you've learned about SWOT and do a SWOT analysis of your presentation. What are the strengths, weaknesses, opportunities, and threats you'll face when you present to your audience? It's tough to remember this when you're nervous, but you're the person who knows the most about your plan. Practicing your presentation will help you build confidence.
2. Ask a friend or family member to watch you present. Request that they be honest with you and give constructive criticism.

3. Talk to your audience, not to the screen. Your audience can read the slides, so use your voice to explain more of the details.

Remember the sage advice of Oscar Wilde: “Be yourself. Everyone else is taken.” Good luck!

Reading: Business Presentations



Introduction

If you think about presenting a business plan in a classroom setting, the situation is admittedly a bit staged. You are not presenting business recommendations to coworkers who will evaluate them, critique them, and come together around a revised version of your work. Sadly the classroom environment cannot simulate that experience. In spite of this limitation, it is worth sharing some pointers for good business presentations, which may come in handy down the road when you get a chance to do the real thing. Also, there's no substitute for practice, which your marketing plan presentation will certainly provide.

A good business presentation should drive action.

The biggest difference between a business presentation and presentations in other settings is that you are trying to achieve specific business objectives in your job. You are not graded on presenting well. You are graded on achieving your objectives. Others in the audience also have objectives that they hope to achieve. Are those objectives the same? Possibly yes, possibly no. Your presentation should result in someone taking action that supports your business objectives.

Start your presentation by asking yourself, "What am I hoping to get this audience do as a result of my presentation?" If the answer is that you hope they will understand something better, why? Just as marketers want their target customers to respond to a specific call to action, you want to get your audience to do something that supports your objectives.

A good business presentation is short and focused.

In preparation for a business presentation, you will probably work and think and do a lot of research. There is a temptation to share everything you've collected and learned with your coworkers. This is generally a bad idea. The research you've done is the groundwork for understanding what should happen next. Your job as a presenter is to give people only the most relevant and important information to get them to where you are. Consider each point that builds your case, and ask yourself, "If I leave this out will they still understand why this makes sense?" Eliminate anything that isn't critical.

Most business people quickly lose interest in presentations, so use your time wisely, and try to stick to the key points. Once you lose an audience, it's difficult to get them back, and they may miss your call to action, or worse, not care.

Begin with recommendations and then support them.

If someone has to leave your presentation for another meeting, you don't want them to miss the grand unveiling of your main point. Start with the recommendation. Follow with a streamlined, logical path that supports the recommendation. You might have fifty slides of supporting information and data that justify your thinking, but don't present them! It's much better to include them in an appendix. If someone asks about the competitive landscape in a new market that you have considered, you can always pull up the slide that includes that information from the appendix. If you're sure that a slide is central to your case, move it to the back and use it if needed.

Use your presentation as an opportunity to learn and collaborate.

For a very small number of presentations, it's important for you to be the expert and have all the answers. Much more commonly, though, your role is to work with a broader team to achieve results. Others in the room will have more expertise than you in a given subject. That's a good thing. Once they understand your ideas, they can help you shape them and improve them. Be confident enough to present the fact that you are unsure about something, and ask for input. When a business presentation is really excellent, everyone in the room leaves feeling like they have something to contribute and are a part of the solution ahead.

15.4 The Marketing Plan in Action

Learning Objectives

- Discuss how the marketing plan is used to coordinate efforts between the marketing team and other parts of the organization
- Explain how the marketing plan is used to track progress, evaluate impact, and adjust course where needed
- Explain why and how to update the marketing plan

Explain how the marketing plan is used by marketing and the overall organization

In the first few modules of the course we discussed the importance of the marketing planning process to create alignment between marketing activities, company objectives, and the corporate mission. At that point we hadn't discussed the elements of the marketing plan in any detail, so we focused on the general outline of the planning process. But now you're miles down the road, having learned about the marketing mix and many other elements of the marketing plan. It's the perfect time to circle back and revisit the planning process and see the marketing plan in action.

Learning Activities

- Reading: Using and Updating the Marketing Plan
- Self Check: The Marketing Plan in Action

Reading: Using and Updating the Marketing Plan

Creating Alignment

The marketing plan captures the outputs from the marketing planning process in one cohesive document. If the plan is done well, it puts a plan in place that aligns the marketing strategy, objectives, and tactics with the corporate mission. It also supports the corporate objectives and strategy, which creates alignment with other functions across the company.

While this alignment is assumed, the presentation and formalization of the marketing plan often surfaces misalignment. Perhaps the finance team had assumed that the promotion strategy was not central to the plan and had reduced the budget. Perhaps the supply chain team had not recognized how aggressive the new product plans were and is not staffed to support them. While it is frustrating to identify points of confusion and misalignment, it is always best to do that in the planning process before it has impact on customers and on the market.

The marketing plan acts as a mechanism to communicate with other functions and to check for alignment.

Clarifying the Action Plan

There are many reasons why organizations fail to execute effectively, but many can be traced back to communication. When a large marketing organization begins to execute a plan, it's important that everyone understands what the goals are, but it's equally important to know which analysis supports (or possibly undermines) the plan. If a marketer is not fully aware of competitive threats that have been identified, then he may unknowingly make trade-offs that fail to address the competitive risk. If a product marketer is deeply focused on defining a new product and bringing it to market, she might not be aware of significant dependencies on the supply chain and distribution channels.

Similarly, in small organizations, there is a tendency to jump over the analysis and simply do what needs to be done. The marketing plan requires a greater level of rigour and serves to communicate that rigour to the rest of the team. The marketing plan is also a requirement of most funders (banks and investors alike), because it forces a degree of discipline on small businesses, which they may not already have.

The marketing plan is an important tool to communicate detailed plans within the marketing function.

Informing Adjustments and New Strategies

As soon as the first activity identified in the plan is executed, the marketing plan begins to be outdated. The more successful the plan is, the more quickly it will require a significant revision. If you are able to identify and implement a strategy that results in tremendous success, that will change the competitive dynamics and cause other companies to adjust their strategy and tactics.

Moreover, each action will generate new market data about what works and what doesn't work. This creates opportunities for new analysis and better strategies.

Sometimes an organization can get away with small quarterly updates to the marketing plan and major annual revisions. Other times, the market has shifted enough by the end of one quarter that a completely new approach is warranted—or a more aggressive implementation of the current approach. Either way, a regular update to the marketing plan allows for new analysis informed by new market experience, opportunities to realign plans with other functions, and the chance to inform others within the marketing function so that the team can learn and evolve together.

15.5 Putting It Together: Marketing Plan

Having taken an entire course and developed your own marketing plan, you're well on your way to being an expert student of marketing. Who knows? This could be the start of an exciting career path in business or nonprofit organizations or maybe in the marketing industry itself.

While the experience of developing and presenting a marketing plan for a class may seem far removed from the "real thing," rest assured that the key elements, structure, and basic layout of your plan aren't contrived at all. We've included an example of a real marketing plan for Lululemon so you can see what one looks like. The information is presented in the same format as the template you've already seen, so it's a good resource for you to examine as you work to improve your own plan. It may just remind you of how far you've come, how much you've learned, and what's possible now that the world of marketing is so much less mysterious to you.

Lululemon Marketing Strategy and Plan

Introduction and Executive Summary

This report proposes a marketing strategy and plan for Lululemon Athletica, focusing on their Wunder Under product line. In summary, this report concludes that Lululemon should undertake several initiatives to strengthen its position in the market. This report includes a situation analysis, a look at Lululemon's strategy, tactics, implementation, and financials.

Lululemon Athletica at Markville CC0

Lululemon Overview, Vision, Mission, and Plan Scope

Lululemon sells yoga and exercise apparel and they have found success in marketing a lifestyle rather than a product. Lululemon's mission statement is "to elevate the world from mediocrity to greatness." The mission statement comprises of these components: improving lives, improving health, and exceeding expectations. Lululemon is passionate when it comes to initiating long-lasting changes in everyone that uses their products. Lululemon's vision statement is "to be the experimental brand that ignites a community of people living the sweat life through sweat, grow and connect." The statement consists of the following components: exceptional brand, ignite communities through sweat, and create connections. Lululemon prioritizes quality over quantity to provide value to their customers.[1]

The scope of this plan includes a look at Wunder Under, a legging product line. Wunder Unders are leggings that are meant to make you feel empowered while having a snug waistline, lots of support

1. Mission Statement Academy. (2019, November 20). *Lululemon mission and vision statements analysis*. https://mission- statement.com/lululemon/

and they offer them in many lengths. [2]. They sell their products in 440 company-owned stores in 15 countries. They also sell online and via mobile apps where they offer many products and services [3]. Most of their stores operate in North America. Lululemon is focused on international expansion, especially in the Asia-Pacific region. They are hoping to introduce Wunder Unders into the Chinese Market.

Lululemon Goals, Strategies and Budget

Lululemon has many goals they hope to achieve. These include:

- Identify retail locations to open new stores and attract new customers.
- Provide customers with new products.
- Sustain their brand image.
- Achieve growth and maintain cash flow.
- Increase sales of current stores.
- Operate efficiently in all departments.
- Keep their dedicated and experienced staff. [4]

Lululemon's strategy allows them to become one of the major players in the athletic apparel. To achieve its goals, Lululemon uses three main strategies.

1. Innovation forever- they have a very active Research and Development department and are always looking to get new and improved products to their customers.
2. Interactive digital marketing- they portray their brand as essential for athletic teams, fitness facilities and yoga studios.
3. Expanding the market by launching new product lines in different regions – while Lululemon has been very successful in North America, they hope to expand their marketing to China[5].

Lululemon had a total revenue of $3.29 billion in 2018. Of that, 65% of it came from their own stores. Lululemon's sales have jumped with the rising popularity of yoga and their improved brand awareness. They have almost doubled from $1.8 billion in 2014 to $3.3 billion in 2018 and net income has had a similar outcome[6].

Strategic Analysis

The following selection describes the market, the competition, a SWOT analysis of Lululemon, Lululemon's' customers, as well as its products and services.

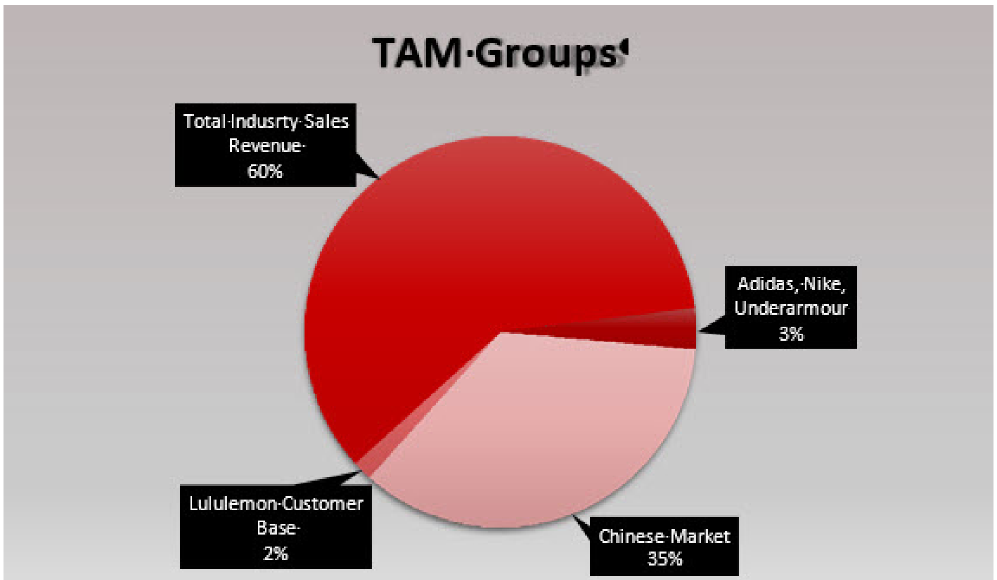
2. *The Wunder Under Collection.* (2020). Lululemon Athletica. https://shop.lululemon.com/story/womens-wunder-under-pants
3. Hoover Reports. (2019). *Lululemon Athletica Canada Inc. Profile.* Vancouver, Canada: Hoover Reports.
4. Ghani, A. (2015, August 2015). Lululemon strategy report. https://www.slideshare.net/azizghani0/lululemon-strategy-report-51426773
5. *Lululemon: Vision | Mission | Values | Strategy (2021) – Here is Everything You Need to Know!* (2021). *Business Strategy Hub.* https://bstrategyhub.com/lululemon-vision-mission-values-strategy-here-is-everything-you- need-to-know/
6. Hoover Reports. (2019). *Lululemon Athletica Canada Inc. Profile.* Vancouver, Canada: Hoover Reports.

Lululemon Market Analysis

Lululemon's leggings operate in the technical athletic wear market made up of women ages 20-40 across the world. Currently, 70% of Lululemon's sales revenue comes from the USA, 15% comes from Canada and Australia, and the rest are dispersed between European and Asia-Pacific countries [7]. Out of its 440 stores worldwide, 235 locations are in the USA alone, 64 in Canada and only 22 stores operate in China[8]. The rest are in Europe and other Asian-Pacific counties. We estimate the total addressable market to be worth **$197.35 billion** in revenue worldwide. We further estimate the market penetration to be **59.8%**. We further estimate that Lululemon's market share is **2.7%.**

We further defined the market for the following categories

1. *Qualified customers not buying anything.* China is an untapped market for Lululemon, and it currently makes up less than a percent of their total revenue. This number reflects the potential revenue in this market based on the average amount spent / year by Lululemon consumers **($200)** multiplied by 25% of the Chinese population **(348 250 000)** which is **$69.65 billion** in sales revenue.
2. Lululemon's current customer base **$3.2 billion** in sale revenue.
3. Customers buying from Lululemon and all competitors **$118 billion** in sales revenue.
4. Customers buying exclusively from direct competitors Adidas, NIKE and Under Armour **$6.5 billion** in sales revenue.



Lululemon Competitive Analysis

Lululemon's healthy lifestyle-inspired athletic apparel and accessories are marketed under the lululemon brand. They offer a comprehensive line of apparel and accessories for women and men. Their apparel assortment includes items such as pants, shorts, tops, and leggings designed for a healthy lifestyle

7. Hoover Reports. (2019). *Lululemon Athletica Canada Inc. Profile* . Vancouver, Canada: Hoover Reports.
8. Hoover Reports. (2019). *Lululemon Athletica Canada Inc. Profile* . Vancouver, Canada: Hoover Reports.

including activities such as yoga, running, training, and other sweaty pursuits. They also offer fitness-related accessories. Through their vertical retail strategy and direct connection with guests, we can collect feedback and incorporate unique performance and fashion needs into the design process. This way, they can solve problems for their guests. Advance product lines differentiate them from the competition. Lululemon benefits from the growing number of people that participate in yoga, they believe the percentage of their products sold for other activities will continue to increase as they broaden product range [9]

Lululemon SWOT analysis

We have undertaken a SWOT analysis for Lululemon in the context of our scope and discovered the following:

Strengths

Product Quality

Lululemon focuses on producing the highest quality of all the products in the market. They have designed their products to last for years. Lululemon has patented 45 materials and has trademarked their products and fabric names to protect them from being copied from competitors [10]

Price Point

Lululemon focuses on ensuring that they have made a superior quality product [11]. This means that Lululemon has higher pricing points than their competitors. Although in some countries this fact may seem like a weakness, when relating it to the Chinese market it is a strength. In China, people are willing to pay more for “luxury products” with “superior quality” so Lululemon’s price point is a great fit.

Weaknesses

Brand Presence

In North America, Lululemon has a strong presence and relies a lot on customer loyalty, word of mouth, and their trained sales associates to sell their products. However, in China Lululemon doesn’t have a strong brand presence, and cannot rely on it for marketing. Instead, Lululemon needs to adapt and become more focused on digital and mobile marketing to tailor itself towards Chinese consumers.

9. Umar Farooq, 2019, 2019.
10. Quiroz, M. A. (2018, January 8). *A growth strategy for Lululemon 2018*. Medium. https://medium.com/@michaelangelo_q/a-growth-strategy-for-lululemon-68819680e511
11. CPG, FMCG & Retail. (2019, April 1). *61% of Chinese Consumers Choose Premium Products Because of Superior Quality*. Nielson. https://www.nielsen.com/cn/en/insights/article/2019/61-percent-of-chinese-consumers- choose-premium-products-because-of-superior-quality/

Lack of Customer Base

Lululemon has not expanded into China enough to engage with the customers the way they do in the US. This results in a lack of customer base and customer loyalty.

Opportunities

Global Expansion

Lululemon currently has many retail stores, only a few of them operate outside of North America though. This leaves Lululemon with a lot of room to expand and grow in markets like Europe, and Asia. Although Lululemon has an e-commerce site and an ability to sell their products to those countries already, Lululemon sees more revenue when there is a store in place. This means that expanding the number of retail stores in foreign markets could increase their opportunities for sales.

E-Commerce Expansion

Lululemon currently runs an e-commerce website where you can buy many of its products online, however, most of Lululemon's revenues come from its retail locations. Lululemon could invest in more services for their website to grow online sales in China and give their guests an omnichannel experience by creating content on platforms exclusive to China.

Growing Industry

Mintel, an international marketing agency has estimated that the value of the sportswear industry in China will reach up to 2200 billion before 2020. The quality of life in China is also advancing, and they are continuing to see a growth in health and fitness consumers. This makes it a very good time for Lululemon to continue expanding into the Chinese market. [12].

Threats

Competition

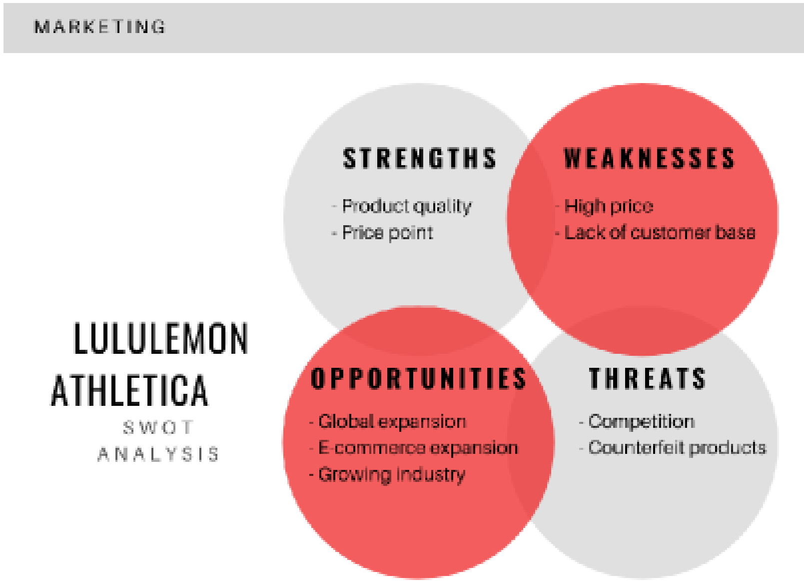
When it comes to Lululemon's Wunder Under leggings there is a lot of competition in the market. For example, Nike has a line of leggings called the "one tight" these leggings closely resemble that of Lululemon. Under Armour, Gymshark and Adidas are also some brands that have made similar leggings to Lululemon. Although their competitors leggings are high-priced, Lululemon has the highest price out of all of them[13].

Counterfeit Product

With Lululemon's high price-point and overall brand image, many people have started to try to create "dupe leggings" and sell them at much lower prices than Lululemon does. For example, brands like

12. Arcibal, C. (2021, February 17). *Lululemon bets on China after revenue from mainland more than doubles during coronavirus pandemic*. South China Morning Post. https://www.scmp.com/business/companies/article/3122091/lululemon-bets-china-after-revenue-mainland-more-doubles-during
13. Lululemon Athletica. (2020). *The wunder under collection*. https://shop.lululemon.com/story/womens-wunder-under-pants

Queenieke, and Occffy, sell their leggings directly through Amazon for $29.99, and claim they are exactly like Lululemon's leggings [14].



Lululemon Target Customer Description

Lululemon's primary and largest customer group is made up of women. This is the typical ideal customer of North America is a 32-year-old professional single woman named Ocean, who makes $100,000 a year. Ocean is also engaged, has her condo, is travelling, fashionable, has an hour and a half to work out a day. The woman is so aspirational because If you're 20 years old or you're graduating from university, you can't wait to be that woman," Wilson said. "If you're 42 years old with a couple of children, you wish you had that time back [15].

Lululemon Typical Customer

Based on the cultural values in China, we have created a persona for the typical customer for the Wunder Unders.

> *Breeze is a professional in her twenties, and she is successful in her career. In her downtime, she focuses on her health and fitness. She has some extra money to spend and looks for quality products and a recognizable brand to sweat in during her favourite yoga practices.*

Lululemon Customer Buying Process

The typical Chinese consumer behaves very differently in their buying process than the North American consumer. The typical consumer starts their product search online and takes their time to research to

14. Amazon. (2020). *Lululemon Dupes*. https://www.amazon.ca/s?k=lululemon+dupes&ref=nb_sb_noss_2
15. Lutz, A. (2015, Feb 2). *Lululemon calls its ideal customers 'Ocean' and 'Duke' heres everything we know about them*. Business Insider. https://www.businessinsider.com/lululemon-idea-customers-ocean-and-duke-2015-2

ensure products meet their needs (Digital Crew Insights and Analysis, 2019). These are the steps taken to make a purchase:

1. Product Search
   Consumers search on popular Chinese platforms such as Tmall and Baidu. Tmall is a platform for local Chinese and international businesses to sell brand name goods to consumers in mainland China, Hong Kong, Macau and Taiwan. It is the world's second-largest e-commerce website and it has over 500 million monthly active users (Digital Marketing China, 2019). This website is a great platform for Lululemon to communicate the features and benefits of their product, showcase product video content, and list where the products can be found. Baidu is a search engine similar to google. It provides many of the same services as google such as mapping, AI and digital advertising. Chinese consumers will also visit the brands' official website for additional information. The typical consumer is highly influenced by online and social media content, with 90% of consumers saying they have purchased a product based on their search.[16] Currently, Lululemon has a small presence on the TMall channel and has room to grow.
2. Product Testing
   Although the typical consumer does their research online, they will go to showrooms and brick and mortar stores to test the product. Lululemon has 38 stores operating in China for consumers to test product quality.
3. Product Comparison
   Consumers are likely to shop in showrooms and online looking for the best deal, before committing to a product (Digital Crew Insights and Analysis, 2019). Lululemon is exclusive to its stores and has trademarked all of its material and patterns. This makes it difficult to find a comparable product quality for a lower price.
4. Product Purchase
   Based on the consumers' experience in the product testing they will buy the product in-store or on their mobile phone.
5. Post Purchase Behaviour
   If the consumer is fully content with a product, they will keep the product, and perhaps re-buy in a different style or pattern if they believe in the quality and brand after use. They will also be inclined to engage in online activities with the brand (Digital Crew Insights and Analysis, 2019). It is also important to note that there is a high rate of product return with online shopping. For those consumers who can't make it to a showroom, the behaviour tends to be a bulk purchase to test products at home, and then return most of the product.[17].

Lululemon Product and Service Analysis

The following describes the products and service analysis of Lululemon's Wunder-Under leggings and services relative to the competition brands such as Nike One Tight. Lululemon is a brand that is proud to be environmentally friendly, its distribution centers have a recycling

16. Digital Marketing China. (2019, January 18). *Digital marketing in China 2019: Some figures about what digital will be this year*. Marketing to China. https://marketingtochina.com/digital-marketing-in-china-2019-some-figures-about-what-digital-will-be-this-year/
17. Digital Crew Insights and Analysis. (2019). *Buying Cycle of a Chinese Customer: What You Need to Know*. https://www.digitalcrew.com.au/blogs-and-insights/buying-cycle- of-a-chinese-customer-what-you-need-to-know/

rate of 86% and their recycling and compost program has a 70% recycling rate. When buying Lululemon ‘Wunder-Under” leggings from a store you’ll be given them in 25% recycled reusable bag, which is 100% disposable. ‘Wunder-Under Leggings’ are made of 86% nylon and 14% Lycra. These leggings were created because Chip and Shannon Wilson noticed how poorly cotton-based clothing worked while working out and doing yoga. These leggings are machine washable and the only thing Lululemon advises consumers of is to wash them in cold water to keep the colour and shape longer. Consumers love them, the only thing they don’t love is how thin the material is, but that is one of the reasons they are best for yoga and working out. Lululemon also offers free tailoring or replacement of items when the seams come loose or undone.[18].

Nike One Tights are designed for all-day wear, they are made of 83% polyester and 17% elastane with a mid-rise waistband to feel snug and secure. It’s made from 50% recycled polyester fabric, which comes from plastic bottles that Nike diverted from landfills since 2010. Nike uses a Dri-fit technology to help keep the consumer dry and comfortable during their workout or everyday activities. They have a pocket located on the back of the waistband big enough to hold a phone and a small pocket in the front of the waistband to hold cash or keys.[19]

Nike is one of the most well-known and trusted brands around the world whereas Lululemon is still trying to create that fan base. Nike’s consumers have a wide range of options to choose from, women’s and men’s loungewear, workout wear, shoes and so on whereas Lululemon is still only truly tailored to men’s and women’s workout and yoga gear.

Feature A

Where we perform the weakest relative to our competition is in the following product and services features and benefits:

1. Style
    - Doesn’t offer many colours
    - Smaller logos
2. All-Purpose
    - Doesn’t offer leggings designed to all activities

Feature B

Modifications to these product features will form the basis of our marketing strategy. Lululemon could add the following product features to improve their product and stand stronger against the competition:

1. Style

18. Kalpazanova, 2016
19. Nike. (2020). *Nike one*. https://www.nike.com/ca/t/one-tights-LS2tbp

- o Add a wider range of colours, focusing on bright, eye-catching colours
- o Add larger logos

2. All-Purpose

   o Create leggings that can be everyday wear while also be tailored to all sports. With making these modifications Lululemon will grow to be a more successful company in the Chinese market.

Lululemon Product Service Analysis

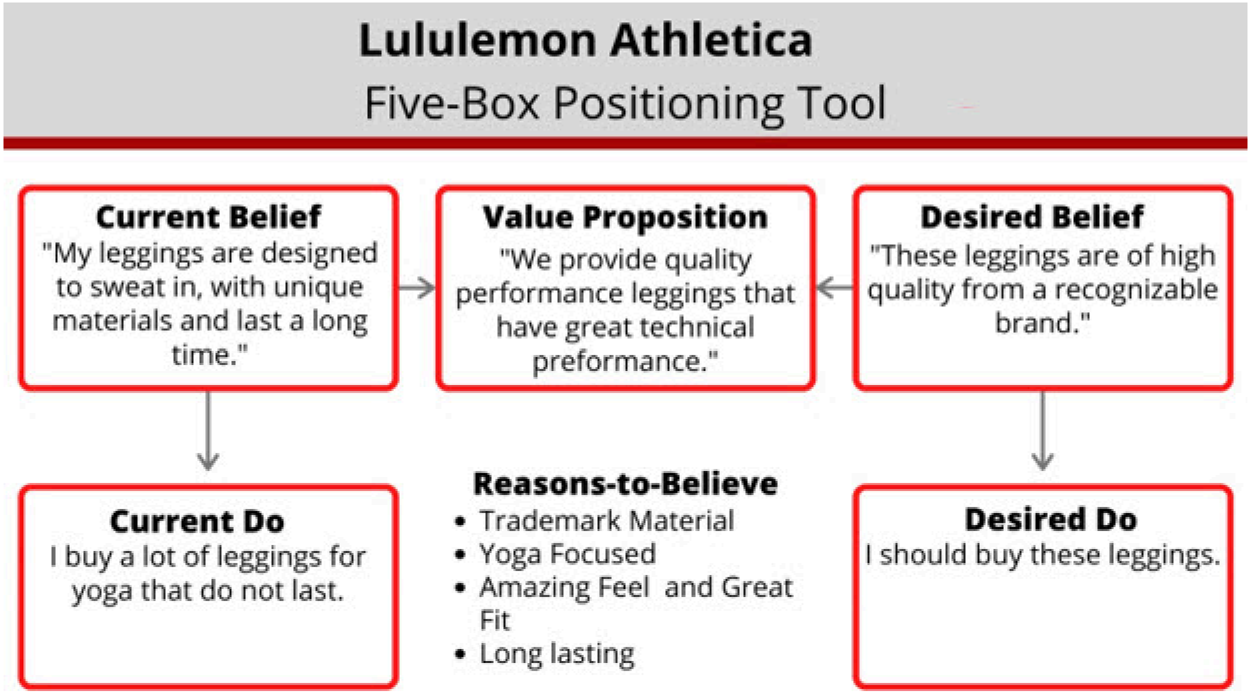
Feature	Benefit	How Lululemon's Product Performs	How Competitor's Product Performs
Flexibility	Be able to work out in certain positions without any problems	Extremely well	Good
Durability	The longevity of the product before it needs to be replaced	Good — Lululemon offers a replacement service	Average
Style	Variety of colours, patterns and logos to fit personal styles	Average	Great – Large variety of logos, colours, and patterns offered
Price	Is it expensive/ inexpensive	Higher end brand, higher cost	higher end brand but not as expensive as Lululemon
Fit	Feeling comfortable in leggings that fit all body types	Wonderful – sized to fit all body and focused on length	Good – multiple options

Lululemon Marketing Strategy

Based on our analysis to date, we propose that a great opportunity for Lululemon to increase sales in China is to target women in their 20s who are becoming more health-conscious and fit. These women would be part of the upper class with a higher household income, valuing quality and fashion. Lululemon can achieve this opportunity by adapting its product to the market, expanding its retail stores and growing its e-commerce platforms through engaging and information digital and mobile marketing strategies.

We have created the following value proposition based on our strategy:

> Lululemon provides quality, performance leggings to successful, health-conscious women by offering personalized brand engagement and an omni channel retail experience to showcase the technical performance of the Wunder Under legging.



Tactical Analysis

This section proposes more specific recommendations for Wunder Under marketing programs, pricing approach, promotion and channel design. Lululemon Product and Service. The following are the changes and improvements in Lululemon products and services proposed to address gaps and opportunities relative to their competition. Currently Lululemon tends to be neutral in their colour choices and they are tailored towards yoga. Lululemon currently offers complimentary hemming on tops and pants in store, returns done in person or by mail and within 30 days of the purchase date, and a contact section on their website with a list of accounts to reach out to through WeChat and Weibo [20]

New Colours and Loud Prints

To make Lululemon leggings work in the Chinese market, they should make them less muted, using more bright, playful colours. Lululemon should go with colourful and all-purpose leggings. In China, eye- catching designs for young people's clothing is becoming very popular [21]. Lululemon should launch a new product line to include bright coloured leggings. Including highlighter type colours that are very eye-catching and that will stand out. There will be multiple colours to pick from including neon pink, yellow, blue and lime green.

20. Lululemon Athletica. (2020). *Lululemon website*. https://shop.lululemon.com/?CID=Google_All_PPC%2BBrand_CA&gclid=CjwKCAjwvtX0BRAFEiw%20AGWJyZBUnHxotBcF1Z9wVJHIcyLFr-%20u8hFj4WGX6g1dZ1oeFPxqEPU151SxoCPa0QAvD_BwE&gclsrc=aw.ds.
21. Thomas, 2019

Create a Line with a Bigger Logo

When researching culture in China, it is stated they big logos are a sign of status and luxury [22]. Lululemon should think about having a bigger logo on their leggings so that their brand becomes more known. Lululemon should create a new product line with bigger logos on leggings. They will create a legging that grabs attention and makes a strong first impression. Logos are the foundation of brand identity and it will make Lululemon more memorable while separating them from their competition.

All-purpose Leggings

In China, it seems to be becoming more popular to wear sportswear as an extension of casualwear in fashion.[23] Lululemon should have more leggings tailored to more sports while also focusing on the casual side of their leggings. Lululemon should design leggings to give customers more choice and enhance their workouts with leggings made for specific activities but also focusing on their comfort, casualness and stretch. They will make sure the waistband is high enough for coverage but not so high that it makes it restricts movement during sports or casual activities.

Create Chinese Lululemon App and Social Media

Lululemon should make a Chinese version of the Lululemon App. They should use their website and WeChat to encourage customers to visit their brand-owned apps, where they can get information on products, events and exclusive content including coaching tips and personalized services for Chinese members. Going more digital is a strategy that will help Lululemon do better in Chinese market. Focusing on digital platforms, Lululemon would be able to create different communities and provide various online services and offline experiences.

Women's Only Stores

Another idea is to open a women's only store. In this store, they could put on events that are designed to inspire active women. Lululemon would be able to build a more cohesive female community in China[24]. There are major gaps in Lululemon's offered products and services compared to their competition. Lululemon should expand their services online to grow their e-commerce sales in China. Features rated high by Chinese consumers are colourful, eye catchy designs and luxury brand items. Lululemon should work with their designers to incorporate those features in their clothing lines. Lululemon should give their customers a full experience by creating content on platforms exclusive to China[25].

Lululemon's Wunder Under leggings pricing strategy is a customer value-based strategy to help grow the companies brand image and luxury status in the market. Lululemon sells all functional garments at a

22. Pan, Y. (2018, February 15). *In China, flashy logos are making a comeback as a status symbol*. Quartz Media. https://qz.com/1198053/in-china-flashy-logos-are-making-a-comeback-as-a-status-symbol/
23. Rapp, J. (2018, April 23). *Athleisure wear sales in China grow, but as a fashion trend it is still in its infancy*. South China Morning Post. https://www.scmp.com/lifestyle/fashion- beauty/article/2142894/athleisure-wear-sales-china-grow-fashion-trend-it-still-its
24. Allison. (2020, March 12). *Nike in China: Embracing digital transformation*. Daxue Consulting. https://daxueconsulting.com/nike-in-china/
25. Boyd, D. (2020, January 03). *Writing a Marketing Plan*. Lynda. https://www.lynda.com/Marketing-tutorials/Writing-Marketing-Plan-2020/2819187-2.html

high consistent price point because of their quality and exclusivity. Chinese consumers have a perception that high-quality products are found at a higher price point. To attract more Chinese consumers to their product, Lululemon has inflated its already high price. The high price is further justified by the larger amount of shipping cost and tax to run a business in China. Lululemon is paying a higher rate of tax in China to participate in e-commerce operations. They are also taxes on importing raw materials thought out the world to create their luxurious fabric. These factors justify the high price point in the Chinese market[26].

Lululemon uses a strict pricing strategy to create pricing awareness and maintain their luxury status using the following tactics. Regular price Wunder Unders, which consists of four core colours retail for ¥750, ¥850 and ¥980, which is slightly more inflated than the North American pricing. They are sold year-round at this price point [27]. Seasonal Wunder Under colours retail at regular price for 2 seasons and then enter a discounted rate of ¥ 450-¥ 650 or 20%-30% off. These discounts keep the market happy, knowing it is possible to get a deal, while the company still maintains high profit margins.

This pricing strategy is consistent across all Lululemon stores globally. Pricing is communicated consistently across online platforms and in retail stores. Customers are educated on the product quality first before the price is revealed [28].

Although Lululemon doesn't typically participate in large discount events, they have adapted to the Chinese culture by participating in International Singles day, a sale event that occurs every year, on November 11, on TMall. During the sale, Lululemon has incorporated lottery pricing and dollars off purchases over certain purchase value. This is a valuable sale to participate in because it is the largest spending day in China, and it's a good opportunity to engage new customers who may be skeptical of the regular price point. The discount rate will not drop any further than the regular discount rate of 20%-30% off regular price items to maintain luxury status while still being perceived as a deal[29].

The following is the proposed promotion plan for our target audience including the promotional tools to be used and the key messages to be delivered. We will be applying integrated marketing communication using a mix of digital and traditional channels to communicate with our customers. Our communication channel will focus on leveraging social media platforms to create an online brand community, customer engagement and product awareness online to ultimately drive traffic into our stores for customers to experience the product quality and the brand lifestyle.

Social Media & Direct Mobile Marketing

We will use social media channels such as WeChat and Weibo to create an online community for young yoga enthusiasts. We will also use these channels to advertise our events and generate brand excitement at a national and local level. WeChat and Weibo will also be used as a platform to connect with the brand with any customer service issues, which has already been established.

WeChat has 1 Billion active users as of 2019, and Weibo has 500 Million active users. 70%-85% of

26. THANGAVELU, 2018
27. Tmall. (2020). Tmall website. https://www.tmall.com/
28. Policella, G. (2019, November 14). *How Lululemon uses lifestyle marketing to create a strong brand community*. https://blog.smile.io/how-lululemon-uses-lifestyle- marketing-to-create-a-strong-brand-community
29. Who Knows China, 2020

users on each of these platforms are in their twenties.[30]. To further our reach with user-generated video content to showcase our product on real people we will create yoga challenges on short video platforms DouYin. We will also be creating short video ads to release through these platforms once a week. The purpose of these ads will be to promote new products like the Wunder Unders, issue yoga challenges, and advertise our local and large-scale events. Direct mobile marketing has been described an engaging and enjoyable by the Gen Z and Gen Y and they are likely to subscribe to push notifications to get the latest information on their favourite brands[31].

Community Events

In the last month of each quarter we will host major gatherings in each major city to give our brand community a chance to get together and socialize, and of course a large group yoga practice. These events will be covered through social media channels as well. Lululemon has hosted large-scale events like this in the past such as The Forbidden City Yoga Session is 2017, and the "Unroll Your Mat!" in 2016 To launch the new line of yoga mats [32] These types of events have been successful in starting the lifestyle community, and by hosting them more frequently we hope to continue building those relationships with customers by engaging them in our lifestyle experience surrounded by their community.

Sales Promotions

In China, November 11 is International Singles Day Shopping Festival. On this day we will hold a nation- wide event in-store, on our website and on Tmall to make the sale accessible. This is the largest spending day in China, bringing in nearly $38 billion in one day in 2019. This event, mostly celebrated by young people of major cities like Beijing, Shanghai and Guangzhou, is celebrated with a lot of festivities[33]. This will be the largest discount sale of the year for Lululemon in China. Previously, the discount has been determined by lottery 25%-30% off, with every customer receiving a deal no matter what.

Lululemon Distribution Plan

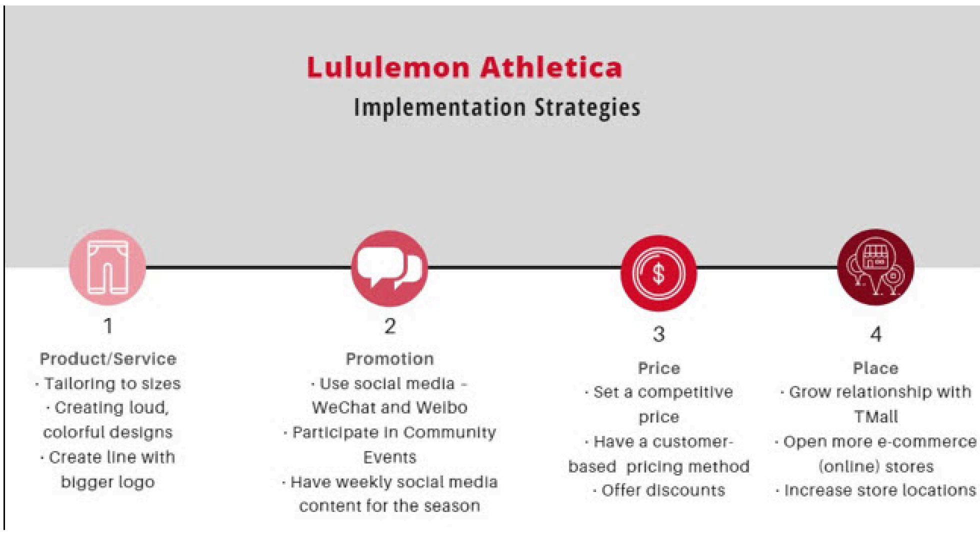
Direct distribution will be through showroom stores, and we will also distribute our product indirectly through Tmall, an e-commerce selling and distribution agent. Tmall shortens the distribution chain and works as an agent. When distributing Wunder Under leggings, Lululemon would sell the product to Tmall and Tmall would then sell the product directly to the consumer, which eliminates intermediaries and makes the distribution process more efficient and effective.

30. Iqbal, M. (2021, March 08). *WeChat Revenue and Usage Statistics (2020)*. Business of Apps. https://www.businessofapps.com/data/wechat-statistics/
31. Lee, J. (2017, May 23). *3 Successful marketing strategies to win over the new Chinese consumer*. Jing Daily. https://jingdaily.com/marketing-strategies-new-chinese-consumer/
32. Rapp, J. (2017, June 19). *Lululemon taps China's digital natives craving experiential luxury*. Jing Daily. https://jingdaily.com/china-lululemon-yoga-wellness/
33. Southall, A. (2020, November 09). *Chinese Singles Day: the biggest retail opportunity on the planet*. Mention Me. https://www.mention-me.com/blog/why-chinese-singles-day-represents-massive-retail-opportunity#:~:text=11th%20November%20marks%20Chinese%20Singles,drive%20sales%20and%20significant%20revenue.

Another way that Tmall helps the distribution chain is by using a B2D structure [34]. This means that Tmall assists in helping brands and companies connect with local Chinese distributors. This process advertises brands in the current market, and allows them to choose their distributor straight from the Tmall app. Tmall is a great asset for Lululemon to continue its relationship with because it allows for direct business-to-consumer selling, but they also allow for business to distributor selling. Another way we plan on expanding our distribution is by opening more stores. This will be done by adding around 20 new stores to China this year. We plan on opening most of the stores in areas with a higher population, with a younger demographic.

Implementation Plan

We have created to following graphic to showcase the changes we will be making this year.



Product and Service Adaptations

Product and service success will be evaluated throughout the year as we continue to engage the market, look at trends in design and sell-through, and review product feedback to create the right product for the market. We will do this by creating two teams:

Product Adaptation Team

The team will consist of representatives from market analysis, finance, sales and design departments. They will meet at the end of each product season to evaluate the strengths and weaknesses of a seasonal product with a focus on logos, colours and sizing. Based on their evaluation they will come up with a plan to improve next year's product and tailor it to our target market.

Service Adaptations Team

The team will consist of representatives from market analysis, digital marketing, customer service, retail operations, e-commerce and distribution departments. They will evaluate the strengths and weaknesses

34. Export China. (2018, June 28). *How to Connect with 85,000 Chinese Distributors*. https:/http://www.marketingtochina.com/connect-85-000-chinese-distributors/

in our services offered in-store and online. They will meet quarterly and submit evaluations and suggestions to improve servicing our market.

Pricing Implementation

Maintain Prices

Prices will be determined for each season 1 month before the product goes live online and in-store. Finance and marketing will determine these prices to maximize the pricing strategy.

Follow Discounted Pattern

Representatives from Finance, Marketing and Sales will work together monthly to determine which product should be discounted and when the discount will roll out on a seasonal basis. Sale prices will not exceed 20%-30% off regular price.

Special Projects Team: International Singles Day

Representatives from Marketing, Finance, Community Events, Digital Marketing, E-commerce, Distribution, Allocation and Retail Operations will dedicate Q1, Q2, planning the logistics for International singles day. They will be responsible for creating the discount structure, an allocation plan for retail stores as well as e-commerce platforms and distributors and an advertising campaign.

Promotional Implementation

The company needs to establish a social media presence on WeChat, Weibo and DouYin to create online community engagement and brand awareness to create a seamless omnichannel retail experience and two-way communication.

Grow the Social Media Team and Create Accounts:

Expand the social media team and divide them into National and Local levels for each major city. They will be responsible for content creation on all platforms, liaising with marketing, advertising, store manager, community events team to create consistent two-way communications. Platform Names will include: LululemonChina, LululemonShanghai, LuluLemonHangzhou, LululemonGuangzhou, LululemonChengdu, LululemonShenzhen and LululemonBeijing to target specific communities. Social Media Initiatives will be ongoing throughout the year on a consistent schedule established by the marketing and advertising departments.

Grow the Community Events Team

Expand the Community events team to tailor events to urban areas such as Shanghai, Hangzhou, Guangzhou, Chengdu, Shenzhen and Beijing. The community event team will be responsible for coordinating and planning all events in their designated district and liaising with local store managers, head office and the social media team. They will also need to become product experts to create their events which will feature specific products like the Wunder Under legging.

Invest in Mobile Marketing

The most effective way to reach our target market is by Mobile Marketing campaigns. Marketing, Advertising, Finance and the Social Media teams will be responsible for overseeing these initiatives. The marketing and finance departments will be responsible for defining the effectiveness of our mobile marketing initiatives, while advertising, social media will create the content and execute the planned schedule.

Distribution Implementation

Showroom Expansion

A New Store Opening team, which will operate under retail ops will consist of real estate, facilities, visual, and IT will be created for each major city Shanghai, Hangzhou, Guangzhou, Chengdu, Shenzhen and Beijing. We will be opening 20 new stores, 15 regular and 5 Women-only to grow interest in leggings. The goal is to open five stores per quarter.

E-Commerce Partnerships

B2B partnerships will be responsible for finding another e-commerce platform to get out product on by the end of the year. They will also continue working with their current partner, Tmall to find more distribution partners to get our products to our consumers quickly and efficiently.

Budget and Forecast

After looking at Lululemon's 2018 financials we realized they had spent $1.1 billion on their selling, general and administrative expenses, which was a 23% increase from their spending in the previous year [35]. We then estimated that their spending for 2019 would increase by 25%, and further determined that their spending in 2020 would be up 30% for a total budget of $1.79 billion for our implementation strategy. This budget was then allocated to, opening and operating new stores, digital marketing, product adaptation and community events. After estimating each department's spending, we determined that opening and operating new stores would receive 50% of the budget, giving the department $895 million. Digital marketing received a total budget of $447.5 million, product adaption received a total budget of $268.5 million. We then had 10% of the budget left over which we dedicated to community events, giving them a budget of $179 million.

Since China is the second-largest activewear market in the world it is a great opportunity for Lululemon to increase its revenues [36]. Based on our research we discovered that in 2019 Lululemon had doubled their amount of sales out of the North America region, making that share would 12% of its total sales. We believe that if Lululemon opens more retail stores in China and expands its e-commerce market that it could see an increase of 24% of total sales being from outside of the North American region.

35. Lululemon Athletica. (2018). *Financial information*. https://investor.lululemon.com/financial-information
36. *Fitness & Fashion: the Activewear Market in China.* (2019, August 13). tondigital. https://www.tongdigital.com/intelligence/fitness-fashion-the-activewear-market-in-china

Credits

Lululemon Marketing Strategy and Plan written by Taylor Rawding, Jantien Sneyd, Tiffani Hamilton, Saroja Venkatesha, Jodie Holman and Zoe Ciarrocco as an assignment.

15.7 Practice Quiz

Check Your Understanding

Answer the question(s) below to see how well you understand the topics covered in the previous section. This short quiz does **not** count toward your grade in the class, and you can retake it an unlimited number of times.

Use this quiz to check your understanding and decide whether to (1) study the previous section further or (2) move on to the next section.

An interactive H5P element has been excluded from this version of the text. You can view it online here: https://pressbooks.nscc.ca/nsccprinciplesofmarketingpartwo2e/?p=735#h5p-8

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References

MODULE 9: BRANDING

9.1 Why It Matters: Branding

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MODULE 11: PRICING STRATEGIES

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MODULE 13: PROMOTION: INTEGRATED MARKETING COMMUNICATION (IMC)

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MODULE 14: MARKETING GLOBALLY

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Version History

NSCC Change Tracker — Please add your changes in this file.

NSCC Edition

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Canadian legislation and regulatory requirements added to replace American requirements. New Canadian business examples added. Practice quizzes adapted from Lumen text quiz bank.

NSCC Version Mapping

NSCC Introduction to Marketing II 2e	Lumen Principles of Marketing	Fundamentals of Business Mathematics
Chapter 9	9. Branding	
Chapter 10	10. Product Marketing	
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Chapter 13	13. Promotion: IMC	
Chapter 14	14. Marketing Globally	
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