# 12 Pricing, Distributing, and Promoting Products

## iTunes Is It

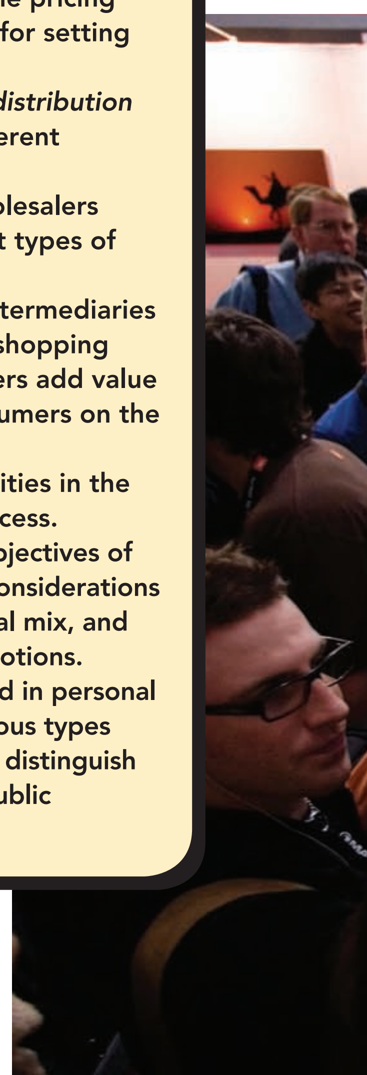
In 2010, iTunes continued as the number-one music retailer in the United States, with 28 percent of all music purchased by U.S. consumers. Since its beginning, Apple's giant storehouse of digital music has sold over 10 billion songs to more than 100 million customers and holds more than 70 percent of the market share for global digital downloads.

Apple has perfected the art of creating a buzz by coupling iTunes's massive music library with stylish, must-have gadgets like the iPad, iPod, and iPhone. TV and online ads feature products showing off their groundbreaking functionality to the soundtracks of songs so infectious you can hardly resist shelling out $0.69 (for some songs), $0.99 (for most), or $1.29 (top hits) each for them at the iTunes music store. That three-tier (or "variable") pricing policy was part of former Apple CEO Steve Jobs's plan to keep a customer base of loyal purchasers from resorting to piracy. He criticized the "greedy" music industry for its push to raise digital download prices. But don't assume that Jobs was all generosity—his contentment with a relatively meager profit from the iTunes music store was more than made up for by the billions of dollars Apple rakes in each year from sales of its own iTunes-compatible MP3 players.[1]

iTunes has also capitalized on the fastest method of product delivery—high-speed Internet—and the tech savvy of its target teen market. The result has

*After reading this chapter, you should be able to:*

1. **Identify the various pricing objectives that govern pricing decisions, and describe the price-setting tools used in making these decisions.**
2. **Discuss pricing strategies that can be used for different competitive situations and identify the pricing tactics that can be used for setting prices.**
3. **Explain the meaning of *distribution mix* and identify the different channels of distribution.**
4. **Describe the role of wholesalers and explain the different types of retailing.**
5. **Describe the role of e-intermediaries and explain how online shopping agents and online retailers add value for advertisers and consumers on the Internet.**
6. **Describe the major activities in the physical distribution process.**
7. **Identify the important objectives of promotion, discuss the considerations in selecting a promotional mix, and discuss advertising promotions.**
8. **Outline the tasks involved in personal selling, describe the various types of sales promotions, and distinguish between publicity and public relations.**



been that fewer than 48 percent of U.S. teens didn't purchase a single CD in 2008 (compared to 38 percent the year before) and brick-and-mortar retailers like Walmart have reduced the amount of physical store space devoted to CDs.[2] As gadgets and software become increasingly affordable and user-friendly, teens aren't the only demographic flooding the market. Baby Boomers can tap into iTunes's increasing supply of classic music titles to replace their worn-out vinyl, including, beginning with the Christmas season 2010, the complete Beatles catalog. iTunes shoppers of all ages, including older generations, can download books and informational podcasts through iTunes U, a distribution system which offers downloadable lectures, films, and other educational programs.

*Our opening story continues on page 320.*

## WHAT'S IN IT FOR ME?

To become the number-one retailer in any market takes a solid understanding of how best to set prices to achieve profit and market share objectives, and how to promote and distribute products to customers. This chapter also describes different types of wholesalers, retailers, and intermediaries, as well as how the online marketplace has changed the nature of how companies do business. By understanding this chapter's methods for pricing, distributing, and promoting products, you'll have a clearer picture of how to sort out and identify the different kinds of people that are targeted by various companies, products, and advertising campaigns. You'll also be prepared to evaluate a company's marketing programs, distribution methods, and competitive potential.

MyBizLab Where you see MyBizLab in this chapter, go to **www.mybizlab.com** for additional activities on the topic being discussed.

Jim Goldstein/Alamy

As we saw in Chapter 11, product development managers decide what products a company will offer to its customers. In this chapter, we'll look at three of the Four *P*s of the marketing mix. We'll start this chapter by looking at the concept of *pricing* and the price-setting tools used in making pricing decisions. We'll then look at *place*—the distribution mix and the different channels and methods of distribution. We'll then look at *promotion* and discuss the considerations in selecting a promotional mix. Finally, we'll discuss the tasks involved in personal selling and various types of sales promotions.

**1 Identify the various pricing objectives that govern pricing decisions, and describe the price-setting tools used in making these decisions.**

# Determining Prices

The second major component of the marketing mix is **pricing**—determining what the customer pays and the seller receives in exchange for a product. Setting prices involves understanding how they contribute to achieving the firm's sales objectives.

## Pricing to Meet Business Objectives

eBay, the popular Internet auction site, has a straightforward pricing structure that's a consumer favorite: Let buyers make offers until a price is finally settled. While eBay sellers hope for a high price, they sometimes are willing to give up some profit in return for a quick sale. Unfortunately, the eBay pricing model, one-on-one price setting, isn't feasible for all companies with lots of customers and products. **Pricing objectives** are the goals that sellers hope to achieve in pricing products for sale. Some companies have *profit-maximizing pricing objectives*, while others have *market share pricing objectives*. Pricing decisions are also influenced by the need to compete in the marketplace, by social and ethical concerns, and even by corporate image. Most recently we've seen how prices of financial products—loans and other borrowing—are determined by the government's persuasion and its control of interest rates in times of crisis.

**Profit-Maximizing Objectives** The seller's pricing decision is critical for determining the firm's revenue, which is the selling price times the number of units sold.

$$\text{Revenue} = \text{Selling price} \times \text{Units sold}$$

Companies that set prices to maximize profits want to set the selling price to sell the number of units that will generate the highest possible total profits. If a company sets prices too low, it will probably sell many units but may miss out on additional profits on each unit (and may even lose money on each exchange). If a company sets prices too high, it will make a large profit on each item but will sell fewer units. Again, the firm loses money, and it may also be left with excess inventory.

In calculating profits, managers weigh sales revenues against costs for materials and labor, as well as capital resources (plant and equipment) and marketing costs (such as maintaining a large sales staff). To use these resources efficiently, many firms set prices to cover costs and achieve a targeted level of return for owners.


Gain hands-on experience through an interactive, real-world scenario. This chapter's simulation entitled Pricing Strategies and Objectives is located at **www.mybizlab.com.**

**Market Share (Market Penetration) Objectives** In the long run, a business must make a profit to survive. Because they are willing to accept minimal profits, even losses, to get buyers to try products, companies may initially set low prices for new products to establish **market share** (or **market penetration**)—a company's percentage of the total industry sales for a specific product type.

## Price-Setting Tools

Whatever a company's objectives, managers like to measure the potential impact before deciding on final prices. Two tools used for this purpose are *cost-oriented pricing* and *breakeven analysis*. Although each can be used alone, both are often used because they provide different kinds of information for determining prices that will allow the company to reach its objectives.

### Cost-Oriented Pricing

**Cost-oriented pricing** considers a firm's desire to make a profit and its need to cover production costs.

$$\text{Selling price} = \text{Seller's costs} + \text{Profit}$$

A video store manager would price DVDs by calculating the cost of making them available to shoppers. Thus, price would include the costs of store rent, employee wages, utilities, product displays, insurance, and the DVD manufacturer's price.

If the manufacturer's price is $8 per DVD and the store sells DVDs for $8, the store won't make any profit. Nor will it make a profit if it sells DVDs for $8.50 each—or even $10 or $11. To be profitable, the company must charge enough to cover product and other costs. Together, these factors determine the **markup**—the amount added to an item's purchase cost to sell it at a profit. In this case, a reasonable markup of $7 over the purchase cost means a $15 selling price. The following equation calculates the markup percentage and determines what percent of every dollar of revenue is gross profit:

$$\text{Markup percentage} = \frac{\text{Markup}}{\text{Sales price}} \times 100\%$$

For our DVD retailer, the markup percentage is 46.7:

$$\text{Markup percentage} = \frac{\$7}{\$15} \times 100\% = 46.7\%$$

Out of every $1.00 taken in, $0.467 will be gross profit. Out of gross profit, the store must still pay rent, utilities, insurance, and all other costs.

For experienced price setters, an even simpler method uses a standard cost-of-goods percentage to determine the markup amount. Many retailers, for example, use 100 percent of cost-of-goods as the standard markup. If the manufacturer's price is $8 per DVD, the markup (100 percent) is also $8, so the selling price is $16.

### Breakeven Analysis: Cost-Volume-Profit Relationships

Using cost-oriented pricing, a firm will cover **variable costs**—costs that change with the number of units of a product produced and sold, such as raw materials, sales commissions, and shipping. Firms also need to pay **fixed costs**—costs, such as rent, insurance, and utilities, that must be paid *regardless of the number of units produced and sold*.

Costs, selling price, and the number of units sold determine how many units a company must sell before all costs, both variable and fixed, are covered, and it begins to make a profit. **Breakeven analyses** assess costs versus revenues for various sales volumes and show, at any particular selling price, the amount of loss or profit for each possible volume of sales.

If you were the manager of a video store, how would you determine how many DVDs you needed to sell to break even? We know that the *variable cost*

**Pricing** process of determining what a company will receive in exchange for its products

**Pricing Objectives** the goals that sellers hope to achieve in pricing products for sale

**Market Share (or Market Penetration)** company's percentage of the total industry sales for a specific product type

**Cost-Oriented Pricing** pricing that considers the firm's desire to make a profit and its need to cover production costs

**Markup** amount added to an item's purchase cost to sell it at a profit

**Variable Cost** cost that changes with the quantity of a product produced and sold

**Fixed Cost** cost that is incurred regardless of the quantity of a product produced and sold

**Breakeven Analysis** for a particular selling price, assessment of the seller's costs versus revenues at various sales volumes

Using low-cost, direct-to-consumer selling and market share pricing, Dell profitably dominated the personal computer market, while its competitors—Apple, IBM, Compaq, and Hewlett-Packard—sold through retailers, adding extra costs that prevented them from matching Dell's low prices. Competitors have switched to direct-to-consumer sales, but Dell is strongly anchored as the industry's number-two PC seller (after HP).


Richard Levine/Alamy

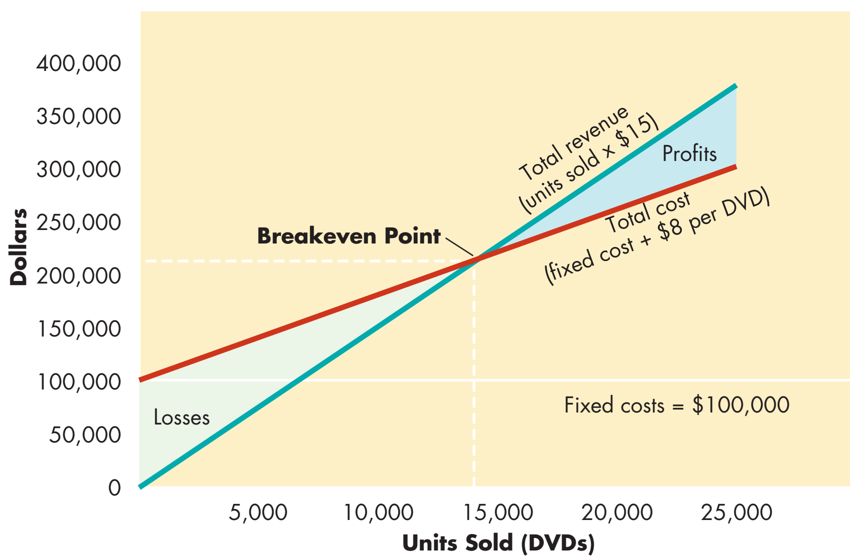
of buying each DVD from the manufacturer is \$8. This means that the store's annual variable costs depend on how many DVDs are sold—the number of DVDs sold times the \$8 cost for each DVD. Say that *fixed costs* for keeping the store open for one year are \$100,000 (no matter how many DVDs are sold). At a selling price of \$15 each, how many DVDs must be sold *so that total revenues exactly cover both* fixed and variable costs? The answer is the **breakeven point,** which is 14,286 DVDs:

$$\text{Breakeven point (in units)} = \frac{\text{Total Fixed Cost}}{\text{Price} - \text{Variable Cost}}$$

$$= \frac{\$100{,}000}{\$15 - \$8} = 14{,}286 \text{ DVDs}$$

Look at Figure 12.1. If the store sells fewer than 14,286 DVDs, it loses money for the year. If sales go over 14,286, profits grow by \$7 for each additional DVD. If the store sells exactly 14,286 DVDs, it will cover all its costs but earn zero profit.

**Figure 12.1** **Breakeven Analysis**



Zero profitability at the breakeven point can also be seen by using the profit equation:

$$\text{Profit} = \begin{matrix}\text{Total}\\ \text{Revenue}\end{matrix} - \left(\begin{matrix}\text{Total}\\ \text{Fixed}\\ \text{Cost}\end{matrix} + \begin{matrix}\text{Total}\\ \text{Variable}\\ \text{Cost}\end{matrix}\right)$$

$$= (14{,}286 \text{ DVDs} \times \$15) - (\$100{,}000 \text{ Fixed Cost}$$

$$+[14{,}286 \text{ DVDs} \times \$8 \text{ Variable Cost}])$$

$$\$0 = (\$214{,}290) - (\$100{,}00 + \$114{,}288)$$

$$(\text{rounded to the nearest whole DVD})$$

# Pricing Strategies and Tactics

**2 Discuss pricing strategies that can be used for different competitive situations and identify the pricing tactics that can be used for setting prices.**

The pricing tools discussed in the previous section help managers set prices on specific goods. They do not, however, help them decide on pricing philosophies for diverse competitive situations. In this section, we discuss pricing *strategy* (pricing as a planning activity) and some basic pricing *tactics* (ways in which managers implement a firm's pricing strategies).

## Pricing Strategies

Pricing is an extremely important element in the marketing mix, as well as a flexible marketing tool: it is certainly easier to change prices than to change products or distribution channels. This section will look at how pricing strategies can result in widely differing prices for very similar products.

**Pricing Existing Products** A firm has three options for pricing existing products:

1 Pricing above prevailing market prices for similar products to take advantage of the common assumption that higher price means higher quality

2 Pricing below market prices while offering a product of comparable quality to higher-priced competitors

3 Pricing at or near market prices

Godiva chocolates and Patek Phillipe watches price high by promoting prestige and quality images. In contrast, both Budget and Dollar car-rental companies promote themselves as low-priced alternatives to Hertz and Avis. Pricing below prevailing market price works if a firm offers a product of acceptable quality while keeping costs below those of higher-priced competitors.

**Pricing New Products** When introducing new products, companies must often choose between very high prices or very low prices. **Price skimming**—setting an initial high price to cover development and introduction costs and generate a large profit on each item sold—works only if marketers can convince customers that a new product is truly different from existing products and there is no foreseeable major competition on the horizon. Apple's iPod is a good example. With no strong competitors entering the market for several years, Apple was able to maintain a high retail price with little discounting, even at Walmart. In contrast, **penetration pricing**—setting an

**Breakeven Point** sales volume at which the seller's total revenue from sales equals total costs (variable and fixed) with neither profit nor loss

**Price Skimming** setting an initially high price to cover new product costs and generate a profit

**Penetration Pricing** setting an initially low price to establish a new product in the market initial low price to establish a new product in the market—seeks to create customer interest and stimulate trial purchases. This is the best strategy when introducing a product which has or expects to have competitors very quickly. Gillette uses this strategy on nearly all of their new shaving systems to make sure the product receives a high early adoption rate.

Startup firms often use one-price, fixed pricing for launching new products. Carbonite, Inc., started its online backup service in 2006 with "one-flat-low price," no matter how much space you needed to back up your PC files.[3] To date the company has backed up more than 80 billion files, using a $54.95-per-year one-price strategy. The initial policy of Apple's iTunes was to use one low price per song, $0.99, to attract and build a customer base in the first five years. In 2009, with 75 million customers, the three-tier pricing, discussed in our opening story, was adopted to reflect differences in value among songs. Older or obscure tunes of lesser value are priced at $0.69, while current hot songs are priced at $1.29, and still others sell for $0.99.

**Fixed Versus Dynamic Pricing for Online Business** The digital marketplace has introduced a highly variable pricing system as an alternative to conventional fixed pricing for both consumer and business-to-business (B2B) products. At present, fixed pricing is still the most common option for cybershoppers. E-tail giant Amazon.com has maintained this practice as its pricing strategy for its millions of retail items. In contrast, dynamic pricing, like eBay's auction bidding, uses flexibility between buyers and sellers in setting a price and uses the web to instantly notify millions of buyers of product availability and price changes.

Another kind of dynamic pricing—the reverse auction—allows sellers to alter prices privately on an individual basis. At Priceline.com, for example, consumers set a price (below the published fixed price) they are willing to pay for airfare (or a rental car or a hotel room); then an airline can complete the sale by accepting the bid price. For B2B purchases, MediaBids.com uses reverse advertising auctions to sell ad space. A company will notify MediaBids that it is going to spend $1,000 for advertising. Publications then use their ad space as currency to place bids for the advertising dollars. The company can then accept the bid that offers the most ad exposure in the best publication.[4]


Ian Dagnall/Alamy

Dynamic pricing, with online bidding screens on the wall, is a mainstream feature of this salesroom for the British Car Auctions (BCA) site in Brighouse, West Yorkshire, UK.

## Pricing Tactics

Regardless of its pricing strategy, a company may adopt one or more *pricing tactics*. Companies selling multiple items in a product category often use **price lining**—offering all items in certain categories at a limited number of prices. A department store, for example, might predetermine $175, $250, and $400 as the *price points* for men's suits, so all men's suits would be set at one of these three prices. This allows the store to have a suit for all of the different customer segments it hopes to attract. Grocery stores utilize this strategy as well; for example, in canned goods they will carry a national brand, a store brand and a generic brand.

**Psychological pricing** takes advantage of the fact that customers are not completely rational when making buying decisions. One type, **odd-even pricing,** is based on the theory that customers prefer prices that are not stated in even dollar amounts. Thus, customers regard prices of $1,000, $100, $50, and $10 as significantly higher than $999.95, $99.95, $49.95, and $9.95, respectively. Finally, sellers must often resort to price reductions—**discounts**—to stimulate sales.

# The Distribution Mix

3 Explain the meaning of *distribution mix* and identify the different channels of distribution.

In addition to a good product mix and effective pricing, the success of any product also depends on its **distribution mix**—the combination of distribution channels by which a firm gets products to end users. In this section, we look at intermediaries and different kinds of distribution channels. Then we discuss some benefits consumers reap from services provided by intermediaries.

## Intermediaries and Distribution Channels

Once called *middlemen*, **intermediaries** help to distribute goods, either by moving them or by providing information that stimulates their movement from sellers to customers. **Wholesalers** are intermediaries who sell products to other businesses for resale to final consumers. **Retailers** sell products directly to consumers.

### Distribution of Goods and Services

A **distribution channel** is the path a product follows from producer to end user. Figure 12.2 shows how four popular distribution channels can be identified according to the channel members involved in getting products to buyers.

*Channel 1: Direct Distribution* In a **direct channel,** the product travels from the producer to the consumer or organizational buyer without intermediaries. Avon, Dell, GEICO, and Tupperware, as well as many online companies, use this channel. Most

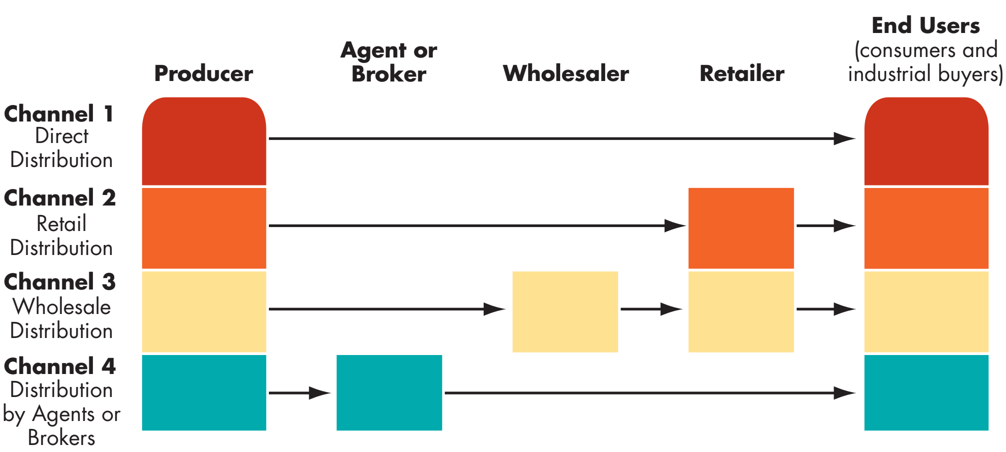



**Figure 12.2** Channels of Distribution

**Price Lining** setting a limited number of prices for certain categories of products

**Psychological Pricing** pricing tactic that takes advantage of the fact that consumers do not always respond rationally to stated prices

**Odd-Even Pricing** psychological pricing tactic based on the premise that customers prefer prices not stated in even dollar amounts

**Discount** price reduction offered as an incentive to purchase

**Distribution Mix** combination of distribution channels by which a firm gets its products to end users

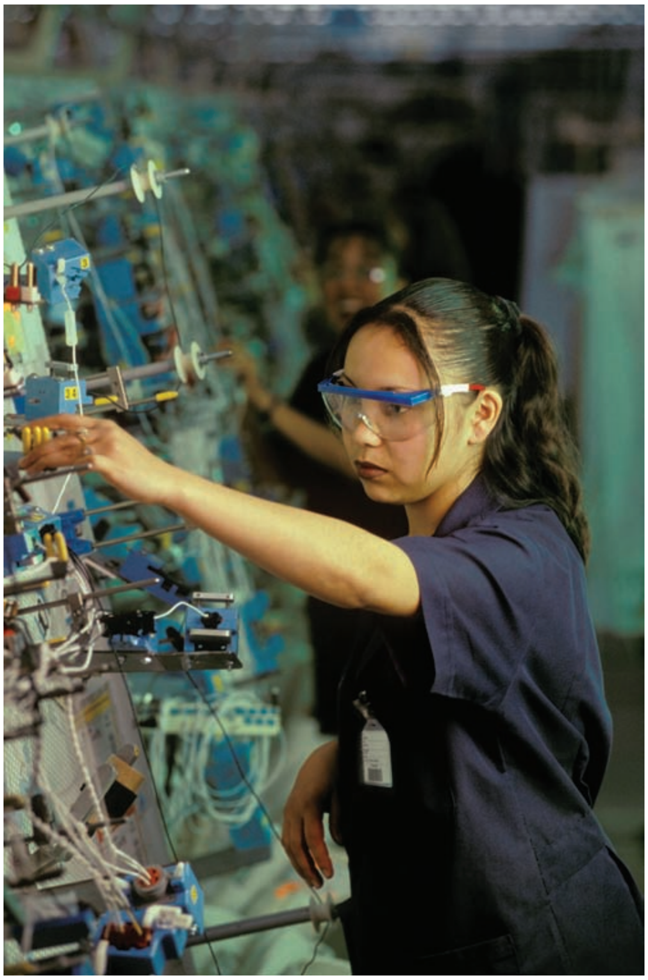
**Intermediary** individual or firm that helps to distribute a product

**Wholesaler** intermediary who sells products to other businesses for resale to final consumers

**Retailer** intermediary who sells products directly to consumers

**Distribution Channel** network of interdependent companies through which a product passes from producer to end user

**Direct Channel** distribution channel in which a product travels from producer to consumer without intermediaries



Keith Dannemiller/ZUMA Press/Newscom

At this plant of an electrical components supplier, this employee assembles electrical systems according to a process that meets the requirements for their industrial customers. The finished assemblies are shipped from the plant to customers' facilities, illustrating a direct (producer to customer) channel of distribution.

business goods, especially those bought in large quantities, are sold directly by the manufacturer to the industrial buyer.

***Channel 2: Retail Distribution*** In Channel 2, producers distribute consumer products through retailers. Goodyear, for example, maintains its own system of retail outlets. Levi's has its own outlets but also produces jeans for other retailers. Large outlets, such as Walmart, buy merchandise directly from producers. Many industrial buyers, such as businesses buying office supplies at Staples, rely on this channel.

***Channel 3: Wholesale Distribution*** Once the most widely used method of nondirect distribution, Channel 2 requires a large and costly amount of floor space for storing and displaying merchandise. Wholesalers relieve the space problem by storing merchandise and restocking store displays frequently. With approximately 90 percent of its space used to display merchandise and only 10 percent left for storage and office facilities, the combination convenience store/gas station's use of wholesalers is an example of Channel 3.

***Channel 4: Distribution by Agents or Brokers*** Sales agents or brokers represent producers and receive commissions on the goods they sell to consumers or industrial users. **Sales agents,** including many travel agents, generally deal in the related product lines of a few producers, such as tour companies, to meet the needs of many customers. **Brokers,** in such industries as real estate and stock exchanges, match numerous sellers and buyers as needed to sell properties, often without knowing in advance who they will be.

**The Pros and Cons of Nondirect Distribution** One downfall of nondirect distribution is higher prices: The more members in the channel—the more intermediaries making a profit by charging a markup or commission—the higher the final price. Intermediaries, however, can provide *added value* by providing time-saving information and making the right quantities of products available where and when consumers need them. Figure 12.3 illustrates the problem of making chili without the benefit of a common intermediary—the supermarket. As a consumer, you would obviously spend a lot more time, money, and energy if you tried to gather all the ingredients from separate producers. In short, intermediaries exist because they provide necessary services that get products efficiently from producers to users.

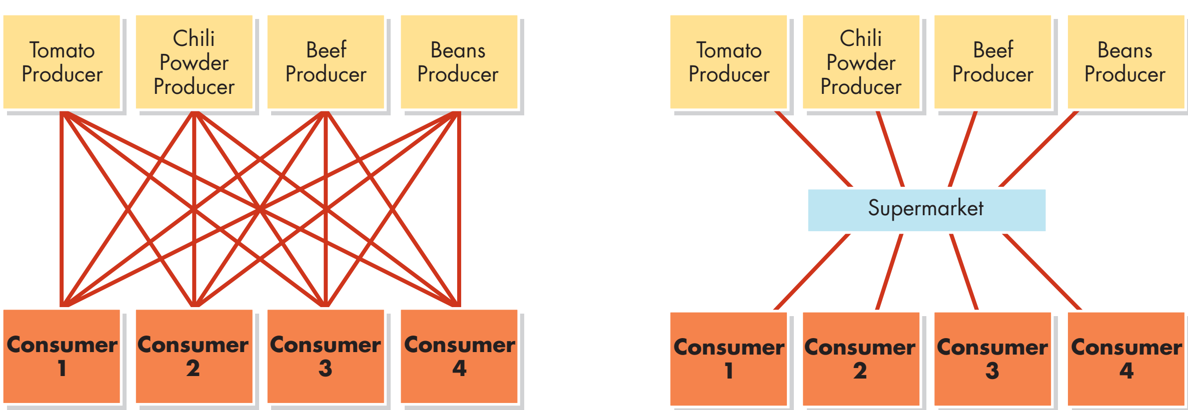



**Figure 12.3** The Value-Adding Intermediary

# Wholesaling

4 Describe the role of wholesalers and explain the different types of retailing.

The roles differ among the various intermediaries in distribution channels. Most wholesalers are independent operations that buy products from manufacturers and sell them to various consumers or other businesses. They usually provide storage, delivery, and additional value-adding services, including credit, marketing advice, and merchandising services, such as marking prices and setting up displays.

Unlike wholesalers, agents and brokers do not own their merchandise. Rather, they serve as sales and merchandising arms for producers or sellers who do not have their own sales forces. The value of agents and brokers lies in their knowledge of markets and their merchandising expertise. They show sale items to potential buyers and, for retail stores, they provide such services as shelf and display merchandising and advertising layout. They remove open, torn, or dirty packages; arrange products neatly; and generally keep goods attractively displayed.

# Retailing

There are more than 3 million brick-and-mortar retail establishments in the United States. Many consist only of owners and part-time help. Indeed, over one-half of the nation's retailers account for less than 10 percent of all retail sales. Retailers also include huge operations, such as Walmart, the world's largest corporate employer, and Home Depot. Although there are large retailers in many other countries—Metro in Germany, Carrefour in France, and Daiei in Japan—most of the world's largest retailers are U.S. businesses.

## Types of Brick-and-Mortar Retail Outlets

U.S. retail operations vary widely by type as well as size. They can be classified by their pricing strategies, location, range of services, or range of product lines. Choosing the right types of retail outlets is a crucial aspect of distribution strategy. This section describes U.S. retail stores by using three classifications: *product-line retailers*, *bargain retailers*, and *convenience stores*.

### Product Line Retailers

Retailers featuring broad product lines include **department stores,** which are organized into specialized departments: shoes, furniture, women's petite sizes, and so on. Stores are usually large, handle a wide range of goods, and offer a variety of services, such as credit plans and delivery. Similarly, **supermarkets** are divided into departments of related products: food products, household products, and so forth. They stress low prices, self-service, and wide selection.

In contrast, **specialty stores,** like Lids—a retailer selling athletic fashion headwear—are small, serve specific market segments with full product lines in narrow product fields, and often feature knowledgeable sales personnel.

### Bargain Retailers

**Bargain retailers** carry wide ranges of products at low prices. **Discount houses** began by selling large numbers of items at substantial price reductions to cash-only customers. As name-brand items became more common, they offered better product assortments while still transacting cash-only sales in low-rent

**Sales Agent** independent intermediary who generally deals in the related product lines of a few producers and forms long-term relationships to represent those producers and meet the needs of many customers

**Broker** independent intermediary who matches numerous sellers and buyers as needed, often without knowing in advance who they will be

**Department Store** large product-line retailer characterized by organization into specialized departments

**Supermarket** large product-line retailer offering a variety of food and food-related items in specialized departments

**Specialty Store** retail store carrying one product line or category of related products

**Bargain Retailer** retailer carrying a wide range of products at bargain prices

**Discount House** bargain retailer that generates large sales volume by offering goods at substantial price reductions

## ENTREPRENEURSHIP AND NEW VENTURES

### A 'Helping Hand' for Professional Inspiration: wowOwow!

The five founders of a new social networking service in 2008 had no idea that wowOwow.com would reinvigorate the talents of midlife professionals into new, more promising careers in the economic downturn. After just two years, its inspiring content led to the website's selection as one of *Forbes.com*'s "Top 100 websites for Women" in 2010. The site's business concept is simple: (a) Women over 40 enjoy social networking but with different interests than the younger crowd. (b) The fame and sophistication of its founders' personal lives, interests, and experiences is an attraction for the target audience. Plus, a contributing cast, including Whoopi Goldberg, Candice Bergen, and Lily Tomlin, provides added punch. (c) The $1 million start-up investment is shared equally among its media-savvy founders; all are pace-setting veteran businesswomen: Lesley Stahl (broadcast journalist), Mary Wells (advertising executive), Joni Evans (publishing executive), Peggy Noonan (political commentator), and Liz Smith (gossip columnist). (d) Branding—the distinctive wowOwow.com (for Women on the web)—signifies the site's mature audience and its goal of sharing professional and personal experiences to encourage one another and to make the world better. (e) The price is right for social networkers: Sign-up is free. Revenues from advertisers will be firmed up later, after wowOwow demonstrates that it can attract a massive audience: Grow the audience, and advertisers will come. (f) Publicity gives wowOwow's message a powerful boost, including interviews on National Public Radio, prominent articles in *The New York Times* and *The Los Angeles Times*, and television features on NBC's *Today Show*.

The surprising career-change twist came with wowOwow.com's Executive Intern Program, begun in late 2008. It's not for newcomer youth interns but, rather, for experienced businesswomen with marketable skills, who, in the business downturn, especially in media industries, need new skills leading to another job. With more and more newspapers and magazines moving online, newer print-web skills are required, while traditional print media personnel are being displaced. That was the situation for the first intern (unpaid), who at age 55 started listening, watching, and learning by doing and asking for help from much younger tech-savvy web writers at WOW's offices. She learned new skills in writing URLs, tags, headlines, subheads, and links in story development for wowOwow.com content. Positive buzz created by the internship program confirms that wowOwow's social network endorses the site's goal of sharing professional and personal experiences to encourage others and to make the world better.[5]

MyBizLab

Patrick McMullan Co/SIPA/Newscom

facilities. As they became firmly entrenched, they began moving to better locations, improving decor, selling better-quality merchandise at higher prices, and offering services such as credit plans and noncash sales.

**Catalog showrooms** mail catalogs to attract customers into showrooms to view display samples, place orders, and wait briefly while clerks retrieve orders from attached warehouses. **Factory outlets** are manufacturer-owned stores that avoid wholesalers and retailers by selling merchandise directly from factory to consumer. **Wholesale clubs,** like Costco, offer large discounts on a wide range of brand-name merchandise to customers who pay annual membership fees.

**Convenience Stores** **Convenience store** chains, such as 7-Eleven and Circle K stores, stress easily accessible locations, extended store hours, and speedy service. They differ from most bargain retailers in that they do not feature low prices.

## Nonstore Retailing

Some of the largest retailers sell all or most of their products without brick-and-mortar stores. Certain types of products—snack foods, pinball, jukeboxes, pool, and cigarettes—sell well from card- and coin-operated machines. For all products, global annual sales through vending are projected to reach nearly $200 billion by 2015. Still, vending machine sales make up less than 1 percent of all U.S. retail sales.[6]

Nonstore retailing also includes **direct-response retailing,** in which firms contact customers directly to inform them about products and to receive sales orders. **Mail order** (or **catalog marketing**) is a popular form of direct-response retailing practiced by Crate & Barrel and Land's End. Less popular in recent years due to do-not-call registries, outbound **telemarketing** uses phone calls to sell directly to consumers. However, telemarketing also includes inbound toll-free calls which most catalog and other retail stores make available. Finally, more than 600 U.S. companies, including Mary Kay cosmetics, use **direct selling** to sell door-to-door or through home-selling parties. Avon Products, the world's largest direct seller, has 6 million door-to-door sales representatives in more than 100 countries.[7]

# The Role of E-Intermediaries

**5** Describe the role of e-intermediaries and explain how online shopping agents and online retailers add value for advertisers and consumers on the Internet.

The ability of e-commerce to bring together millions of widely dispersed consumers and businesses has changed the types and roles of intermediaries. **E-intermediaries** are Internet-based channel members who perform one or both of two functions: (1) They collect information about sellers and present it to consumers, or (2) they help deliver Internet products to buyers. We will examine two types of e-intermediaries: *shopping agents* and *e-retailers*.

## Online Shopping Agents

**Shopping agents (e-agents),** like PriceSCAN.com, help Internet shoppers by gathering and sorting information. Although they don't take possession of products, they know which websites and stores to visit, give accurate comparison prices, identify product features, and help customers complete transactions by presenting information in a usable format.

## Electronic Retailing

Over 85 percent of the world's online population—over 1 billion consumers—have made purchases on the Internet. iTunes has outsold brick-and-mortar music retailers, and Amazon.com is the world's largest online retailer, with annual sales of $24 billion.[8]

**Catalog Showroom** bargain retailer in which customers place orders for catalog items to be picked up at on-premises warehouses

**Factory Outlet** bargain retailer owned by the manufacturer whose products it sells

**Wholesale Club** bargain retailer offering large discounts on brand-name merchandise to customers who have paid annual membership fees

**Convenience Store** retail store offering easy accessibility, extended hours, and fast service

**Direct-Response Retailing** form of nonstore retailing in which firms directly interact with customers to inform them of products and to receive sales orders

**Mail Order (Catalog Marketing)** form of nonstore retailing in which customers place orders for catalog merchandise received through the mail

**Telemarketing** form of nonstore retailing in which the telephone is used to sell directly to consumers

**Direct Selling** form of nonstore retailing typified by door-to-door sales

**E-Intermediary** Internet distribution channel member that assists in delivering products to customers or that collects information about various sellers to be presented to consumers

**Shopping Agent (E-Agent)** e-intermediary (middleman) in the Internet distribution channel that assists users in finding products and prices but does not take possession of products

**TABLE 12.1 Leading Online Retailers in Selected Consumer Products Categories***

| Consumer Product Category | Online Retailer |
|---|---|
| Mass Merchandise | Amazon.com |
| Video and Audio Entertainment | Netflix Inc. |
| Computers and Electronics | Apple Inc. |
| Office Supplies | Staples Inc. |
| Home Repair and Improvement | W.W. Grainger Inc. |
| Apparel and Accessories | Victoria's Secret |
| Health and Beauty | Amway Global |
| Home Furnishings and Housewares | Williams-Sonoma Inc. |
| Toys | Toys "R" Us Inc. |
| Sporting Goods | Cabela's Inc. |

*Based on "Top 500 Guide," Internet Retailer (2011), at http://www.internetretailer.com/top500/list/.

**Electronic retailing (online retailing)** allows sellers to inform, sell to, and distribute to consumers via the web. Some of the largest U.S. "e-tailers" for selected products are shown in Table 12.1. In addition to large companies, millions of small businesses around the globe have their own websites.

**Electronic Catalogs** **E-catalogs** use online displays of products to give millions of retail and business customers instant access to product information. The seller avoids mail distribution and printing costs, and once an online catalog is in place, there is little cost in maintaining and accessing it. About 90 percent of all catalogers are now on the Internet, with sales via websites accounting for nearly 50 percent of all catalog sales.[9]

**Electronic Storefronts and Cybermalls** Each seller's website is an **electronic storefront** (or *virtual storefront*) from which shoppers collect information about products and buying opportunities, place orders, and pay for purchases. Producers of large product lines, such as Dell, dedicate storefronts to their own product lines. Other sites, such as Newegg.com, which offers computer and other electronics equipment, are category sellers whose storefronts feature products from many manufacturers.

Search engines like Yahoo! serve as **cybermalls**—collections of virtual storefronts representing diverse products and offering speed, convenience, 24-hour access, and efficient searching. After entering a cybermall, shoppers can navigate by choosing from a list of stores (L.L. Bean or Macy's), product listings (computers or MP3 players), or departments (apparel or bath/beauty).


James Atoa/Everett/Photoshot

Wolfgang Puck products are distributed regularly through QVC and HSN television networks. The chef's name-brand kitchen appliances and cookware are also marketed through such online outlets as eBay and Shopping.com, as well as the QVC and HSN websites.

**Interactive and Video Retailing** Today, both retail and B2B customers interact with multimedia sites using voice, graphics, animation, film clips, and access to live human advice. As an example of **interactive retailing,** LivePerson.com is a leading provider of real-time sales and customer service that allows customers to enter a live chat room with a service operator who can answer their specific product questions.

**Video retailing,** a long-established form of interactive marketing, lets viewers shop at home from channels on their TVs. QVC, for example, displays and demonstrates products and allows viewers to phone in or e-mail orders, and is available on Facebook, YouTube, and Twitter.

# Physical Distribution

6 Describe the major activities in the physical distribution process.

**Physical distribution** refers to the activities needed to move products from manufacturer to customer and includes *warehousing* and *transportation operations*. Its purpose is to make goods available when and where customers want them, keep costs low, and provide services to satisfy customers. Because of its importance for customer satisfaction, some firms have adopted distribution as their marketing strategy of choice.

Consider, for example, the distribution system of National Semiconductor, one of the world's largest microchip makers. Finished microchips are produced in plants around the world and shipped to hundreds of customers, such as IBM, Toshiba, and Hewlett-Packard, which also run factories around the globe. Chips originally traveled 20,000 different routes on as many as 12 airlines and sat waiting at one location after another—on factory floors, at customs, in distributors' facilities, and in warehouses—before reaching customers. National has streamlined the system and now airfreights chips worldwide from a single center in Singapore. Every activity—storage, sorting, and shipping—is run by FedEx. By outsourcing the activities, National's distribution costs have fallen, delivery times have been reduced by half, and sales have increased.

## Warehousing Operations

Storing, or **warehousing,** is a major part of distribution management. In selecting a strategy, managers must keep in mind both the different characteristics and costs of warehousing operations. **Private warehouses** are owned by a single manufacturer, wholesaler, or retailer that deals in mass quantities and needs regular storage. Most are run by large firms that deal in mass quantities and need regular storage. J. C. Penney, for example, maintains its own warehouses to facilitate the movement of products to its retail stores.

Independently owned and operated **public warehouses,** which rent to companies only the space they need, are popular with firms needing storage only during peak periods and with manufacturers who need multiple storage locations to get products to multiple markets.

**Electronic Retailing (Online Retailing)** nonstore retailing in which information about the seller's products and services is connected to consumers' computers, allowing consumers to receive the information and purchase the products in the home

**E-Catalog** nonstore retailing in which the Internet is used to display products

**Electronic Storefront** commercial website at which customers gather information about products and buying opportunities, place orders, and pay for purchases

**Cybermall** collection of virtual storefronts (business websites) representing a variety of products and product lines on the Internet

**Interactive Retailing** nonstore retailing that uses a website to provide real-time sales and customer service

**Video Retailing** nonstore retailing to consumers via home television

**Physical Distribution** activities needed to move a product efficiently from manufacturer to consumer

**Warehousing** physical distribution operation concerned with the storage of goods

**Private Warehouse** warehouse owned by and providing storage for a single company

**Public Warehouse** independently owned and operated warehouse that stores goods for many firms

Joseph Sibilsky/Alamy

Specializing in long-haul shipping, U.S. Xpress Enterprises employs over 3,000 drivers to operate a fleet of 9,000 trucks and 26,000 trailers. Trucks have satellite capabilities, anti-collision radar, vehicle-detection sensors, computers for shifting through 10 speeds, and roomy cabs with sleepers, refrigerators, and microwaves.

**Non-Physical Storage** The digital age brings with it massive quantities of data that need to be safely stored, preserved, organized, and accessible to users. Many companies, to protect their valuable data resources, rely on remote off-site digital storage services as a safety net. Home users, too, use daily online backup services, such as *Carbonite Backup* and *SOS Online Backup*, to protect against losing data when their computers crash. In the event of any physical catastrophe—floods, fires, earthquakes—at the client's facility, data can be restored online from the backup system.[10]

## Transportation Operations

Physically moving a product creates the highest cost many companies face. In addition to transportation methods, firms must also consider the nature of the product, the distance it must travel, the speed with which it must be received, and customer wants and needs.

**Transportation Modes** Differences in cost among the major transportation modes—trucks, railroads, planes, digital transmission, water carriers, and pipelines—are usually most directly related to delivery speed.

***Trucks*** With more than 3 million drivers, trucks haul more than two-thirds of all tonnage carried by all modes of U.S. freight transportation. The advantages of trucks include flexibility for any-distance distribution, fast service, and dependability. Increasing truck traffic, however, is raising safety and courtesy concerns.

***Planes*** Air is the fastest and most expensive mode of transportation for physical goods. Airfreight customers benefit from lower inventory costs by eliminating the need to store items that might deteriorate. Shipments of fresh fish, for example, can be picked up by restaurants each day, avoiding the risk of spoilage from packaging and storing.

***Digital Transmission*** iTunes's transportation mode of choice, online transmission, discussed in our opening story, is newer, faster, and less expensive than all other modes. It is also restricted to products—such as music, images, movies, and software—that exist as digital bits that can be transmitted over communication channels.

***Water Carriers*** Aside from digital transmission, water is the least expensive mode but, unfortunately, also the slowest. Networks of waterways—oceans, rivers, and lakes—let water carriers reach many areas throughout the world. Boats and barges are used mostly for moving bulky products (such as oil, grain, and gravel).

***Railroads*** Railroads can economically transport high-volume, heavy, bulky items, such as cars, steel, and coal. However, their delivery routes are limited by fixed, immovable rail tracks.

***Pipelines*** Pipelines are slow and lack flexibility and adaptability, but for specialized products, like liquids and gases, they provide economical and reliable delivery.

## Distribution through Supply Chains as a Marketing Strategy

Instead of just offering advantages in product features, quality, price, and promotion, many firms have turned to supply chains that depend on distribution as a cornerstone of business strategy. This approach means assessing, improving, and integrating the entire stream of activities—upstream suppliers, wholesaling, warehousing,

## MANAGING IN TURBULENT TIMES

### Getting a Stimulus Boost with Pricing and Promotion

The past three years have been difficult for consumers, employees, and companies. "We're not trying to make a profit; we just want to cover costs and keep our employees." This broadcast message illustrates how a construction company is using reduced pricing coupled with coordinated advertising promotions to stimulate demand in a slow economy. Unusual marketing conditions sometimes call for uncommon actions, including changes in pricing and promotions for attracting customers in different ways than usual. Some of these methods seem simple and straightforward, but others are downright creative and unique.

Price discounts and free shipping are among the ordinary pricing attractions, but even those won't work without integrated promotions that get the cost-savings message to customers. Online B2B clothing wholesaler Apparelus.com offers free shipping to clothing merchants, as does retailer LLBean.com, with its wide-ranging line of consumer products. Both, however, highlight free shipping in Internet marketing campaigns that can also include online chats for stimulating buzz that informs customers about the cost savings.[11]

Auto dealers, too, are adopting newer, more radical tactics, with promotions that shift costs, such as increasing gasoline prices, from customers to the dealers: "Buy a new car now, and if gas prices exceed $2, we'll pay the gas bill." Even more extreme, as a safety net against rising job losses, in 2009 Ford and General Motors announced protection when customers buy a new vehicle and then lose their job. Ford will make monthly payments up to $700 for up to one year. GM will cover payments up to $500 per month for up to nine months. Hyundai Motor Co. allows buyers to return a new car within a year due to the buyer's job loss and, in the event of a layoff, Hyundai will make payments for up to three months. All of these offers are coordinated with advertising promotions—on radio, television, and the Internet—along with public relations and widespread publicity to boost sagging auto sales.[12]

Laura Gangi Pond/Shutterstock

Want to take a vacation, but your portfolio's gone south in the stock-market downfall? It's too late now, but Elite Island Resorts may have had the answer you needed. In December 2008 and January 2009 you could have booked a deluxe Caribbean vacation by paying up to $5,000 per room with stock instead of credit cards. Elite Island promoted the unique "Roll Back Your Stock's Value" offer, accepting a list of some 100 stocks at their higher mid-2008 market values for payment. For example, Elite Island accepted American Express at its earlier value of $40 per share although its value at the time had fallen to less than $22, and Goldman Sachs at $177 although its current value at the time was less than $72. By transferring the stock as payment, the resort was betting that the stock would eventually regain its value, and customers enjoyed the same price benefit as when their portfolio had been more valuable.[13]

MyBizLab

transportation, delivery, and follow-up services—involved in getting products to customers.

**Combining JIT and Supply Chains for Competitive Advantage** Since the 1960s, starting with Toyota in Japan, the industrial world has seen the rise of the Just-in-Time (JIT) inventory system, discussed in Chapter 7. Used for quality improvement and cost savings, it was primarily adopted by U.S. manufacturing firms coming by way of Ford Motor Company in the early 1980s. Along with JIT, the past twenty years have seen dramatic improvements in supply chain technology and management, and its adoption by the retail sector. In the decade of the eighties, Walmart decided to build their own distribution system utilizing the best practices of both Just-in-Time and supply chains instead of the industry practice of relying on outside freight haulers and wholesalers. Let's look at how this has enabled Walmart to dominate their competition and made them the leading retailer in the world:

> You are shopping at Walmart and decide to pick up a *Mr. Coffee* 8-cup coffeemaker. When you check out, the scanner reads the bar code on the box and Walmart's inventory system is updated instantly, showing that a replacement coffeemaker is needed on the shelf; the replacement comes from "in the back" at that store, where the remaining on-hand supply count is reduced in Walmart's computer system. Once the back-room supply dwindles to its automatic triggering number, Walmart's distribution warehouse receives a digital signal notifying that this store needs more *Mr. Coffee* 8-cup coffeemakers. At the same time, the computer system also notifies the manufacturer that Walmart's distribution warehouse needs a replenishment supply—a predetermined number of the coffeemakers. The manufacturer's suppliers, too, are notified, and so on, continuing upstream with information that enables faster resupply coordination throughout the supply chain. Walmart's data mining system determines the reorder number for every product based on sales (daily, weekly, and even by time of the year). Because of Walmart's constant rapid restocking from upstream sources, its store shelves are re-supplied without having to keep large inventories in its warehouses and retail stores, thus reducing inventory costs and providing lower prices.

Walmart's JIT system has allowed it to achieve as low as a 2-day turnaround from manufacturer to the store shelf, thus providing cost control and product availability. It maintains lower levels of inventory, meets customer demand, and keeps the lowest prices in the retail industry. Another retailer that has been able to adopt this method on a similar scale and compete effectively with Walmart (but only in groceries) is the H-E-B Grocery Company's chain of stores in Texas. Its data mining software can evaluate what products are purchased when, and with what other products (so, for example, they know to have tamales available at Christmas with coupons for enchilada sauce), and use this information for forecasting upcoming demand.

**7 Identify the important objectives of promotion, discuss the considerations in selecting a promotional mix, and discuss advertising promotions.**

# The Importance of Promotion

**Promotion** refers to techniques for communicating information about products and is part of the *communication mix*—the total message any company sends to customers about its product. Promotional techniques, especially advertising, must communicate the uses, features, and benefits of products, and marketers use an array of tools for this purpose.

## Promotional Objectives

The ultimate objective of any promotion is to increase sales. In addition, marketers may use promotion to *communicate information*, *position products*, *add value*, and *control sales volume*.

As we saw in Chapter 11, **positioning** is the process of establishing an easily identifiable product image in the minds of consumers by fixing, adapting, and communicating the nature of the product itself. First, a firm must identify which market segments are likely to purchase its product and how its product measures up against competitors. Then, it can focus on promotional choices for differentiating its product and positioning it in the minds of the target audience. As an example, when I say, "Ketchup," most people respond with... Heinz. "The Ultimate Driving machine" is... BMW. This is successful positioning.

Promotional mixes are often designed to communicate a product's *value-added benefits* to distinguish it from the competition. Mercedes automobiles and Ritz-Carlton Hotels, for example, promote their products as upscale goods and services featuring high quality, style, and performance, all at a higher price.

## The Promotional Mix

Five of marketing's most powerful promotional tools are *advertising*, *personal selling*, *sales promotions*, *direct* or *interactive marketing*, and *publicity and public relations*. The best combination of these tools—the best **promotional mix**—depends on many factors. The most important is the target audience. As an example, two generations from now, 25 percent of the U.S. workforce will be Hispanic. With 50 million Hispanic Americans, the rise in Latinos' disposable income has made them a potent economic force, and marketers are scrambling to redesign and promote products to appeal to them. Spanish-language media is one obvious outlet: The audience for programming from Univision, the biggest Spanish-language media company in the United States—with television, radio, music, and Internet—has ballooned by over 50 percent since 2001 to become the number five TV network in the United States.[14]

**The Target Audience: Promotion and the Consumer Decision Process** In establishing a promotional mix, marketers match promotional tools with the five stages in the buyer decision process:

1. When consumers first recognize the need to make a purchase, marketers use advertising and publicity, which can reach many people quickly, to make sure buyers are aware of their products.
2. As consumers search for information about available products, advertising and personal selling are important methods to educate them.
3. Personal selling can become vital as consumers compare competing products. Sales representatives can demonstrate product quality, features, benefits, and performance in comparison with competitors' products.
4. When buyers are ready to purchase products, sales promotion can give consumers an incentive to buy. Personal selling can help by bringing products to convenient purchase locations.
5. After making purchases, consumers evaluate products and note (and remember) their strengths and deficiencies. At this stage, advertising and personal selling can remind customers that they made wise purchases.

Figure 12.4 summarizes the effective promotional tools for each stage in the consumer buying process.

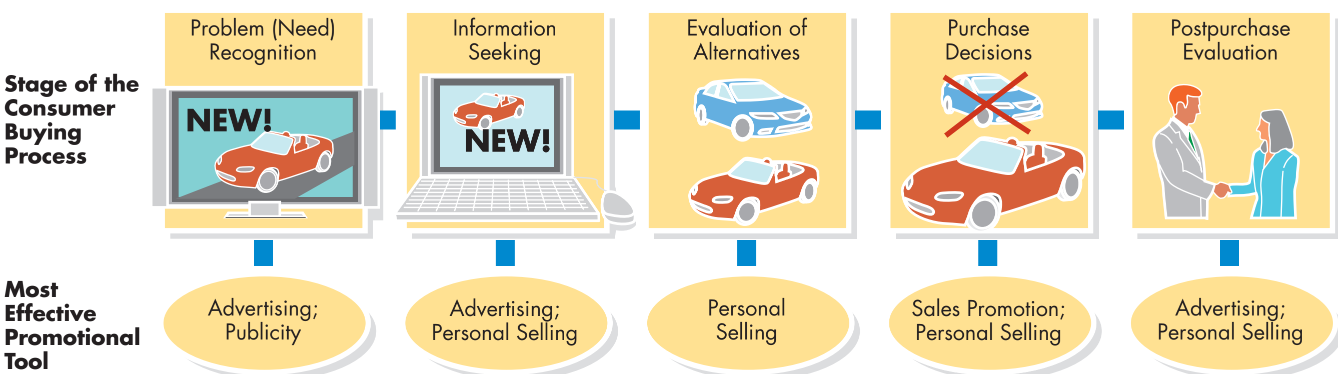


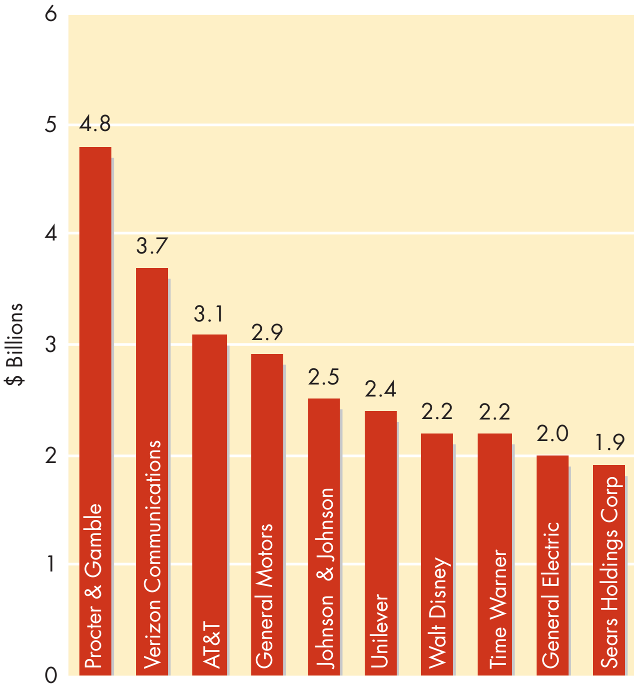

**Figure 12.4** **The Consumer Buying Process and the Promotional Mix**

**Promotion** aspect of the marketing mix concerned with the most effective techniques for communicating information about and selling a product

**Positioning** process of establishing an identifiable product image in the minds of consumers

**Promotional Mix** combination of tools used to promote a product

**Figure 12.5 Top 10 U.S. National Advertisers**
*Source:* "TNS Media Intelligence Reports U.S. Advertising Expenditures Grew 0.2 Percent in 2007," TNS Media Intelligence, March 25, 2008, at *http://www .tns-mi.com/news/03252008 .htm;* "2007 U.S. Advertising Expenditures Wrap-up: Spend Up Just 0.2%," at *http://www.marketingcharts .com/ television/tns-issues-2007- usadvertising-expenditures-wrap-upspend- up-just-02-3952/.*




## Advertising Promotions

**Advertising** is paid, nonpersonal communication by which an identified sponsor informs an audience about a product. In 2008, U.S. firms spent $280 billion on advertising—nearly $28 billion of it by just 10 companies.[15] Figure 12.5 shows U.S. advertising expenditures for the top-spending firms. Let's take a look at the different types of advertising media, noting some of the advantages and limitations of each.

**Advertising Media** Consumers tend to ignore the bulk of advertising messages that bombard them; they pay attention to what interests them. Moreover, the advertising process is dynamic, reflecting the changing interests and preferences of both customers and advertisers. A 2008 customer survey, for example, reports that mail ads are rated as most irritating and boring, while newspaper and magazine ads are least annoying. Yet, while newspaper ads are rated as more informative and useful than some other media, advertisers continue to shift away, using instead more online, cell phone, and PDA advertising because newsprint readership (the audience) is dwindling.[16]

**Real-Time Ad Tracking** Advertisers always want better information about who looks at ads and for how long. Which target audiences and demographics are more attracted to various ad contents? Accurate ad-watching behavior of shoppers in malls, theaters, and grocery stores is on the increase with assistance from high-tech real-time surveillance. As passing consumers watch ads on video screens, cameras watch the shoppers, while software analyzes the viewers' demographics and reactions to various ad contents and formats. The makers of the tracking system claim accuracy of up to 90 percent for determining gender, approximate age, and ethnicity. Once perfected, the system might measure your demographics, identify you with a target audience, then instantly change the presentation to a preferred product and visual format to attract and hold your attention.[17] Marketers must find out, then, who their customers are, which media they pay attention to, what messages appeal to them, and how to get their attention. Thus, marketers use several different **advertising media**—specific communication devices for carrying a seller's message to potential customers. The combination of media through which a company advertises is called its **media mix.** Table 12.2 shows the relative sizes of media usage and their strengths and weaknesses.

**TABLE 12.2 Total U.S. Media Usage, Strengths, and Weaknesses**

| Advertising Medium | Percentage* of Advertising Outlays | Strengths | Weaknesses |
|---|---|---|---|
| Television | 32% | Program demographics allow for customized ads<br>Large audience | Most expensive |
| Direct mail | 24% | Targeted audience<br>Personal messages<br>Predictable results | Easily discarded<br>Environmentally irresponsible |
| Internet | 15% | Targeted audience<br>Measurable success | Nuisance to consumers<br>Easy to ignore |
| Newspapers | 10% | Broad coverage<br>Ads can be changed daily | Quickly discarded<br>Broad readership limits ability to target specific audience |
| Radio | 9% | Inexpensive<br>Large audience<br>Variety of ready market segmentation | Easy to ignore<br>Message quickly disappears |
| Magazines | 8% | Often reread and shared<br>Variety of ready market segmentation | Require advanced planning<br>Little control over ad placement |
| Outdoor | 2% | Inexpensive<br>Difficult to ignore<br>Repeat exposure | Presents limited information<br>Little control over audience |

A combination of additional unmeasured media such as yellow pages, catalogs, special events, sidewalk handouts, ads on transport vehicles, skywriting, movies, and door-to-door communications, are not included.

*Estimated. Based on the following sources: "U.S. Ad Spending Grew 6.5% in 2010 as Auto Surged and Pharma Hit a Low," Advertising Age, March 17, 2011, at http://adage.com/article/mediaworks/u-s-ad-spending-grew-6-5-2010-auto-rose-pharma-fell/149436/; "Online Ad spending Passes Print Advertising," Sweet Spot Marketing, January 17, 2011, at http://www.sweetspotmarketing.com/news/online-ad-spend-passes-print/; "U.S. Advertising Revenue, By Medium," Business Insider, October 27, 2009, at http://www.businessinsider.com/us-advertising-spending-by-medium-2009-10; "Ad Spending Continues 2009 Spiral, Forecasts Slightly Better for 2010," March 13, 2009, Marketing Charts, at http://www.marketingcharts.com/television/ad-spending-continues-2009-spiral-forecasts-slightly-better-for-2010-8306/jack-myers-media-business-report-projected-change-ad-spending-2009jpg/.

# Personal Selling

**8 Outline the tasks involved in personal selling, describe the various types of sales promotions, and distinguish between publicity and public relations.**

In the oldest and most expensive form of sales, **personal selling,** a salesperson communicates one-on-one with potential customers to identify their needs and align them with the product. Salespeople gain credibility by investing a lot of time getting acquainted with potential customers and answering their questions.

Salespeople must be adept at performing three basic tasks of personal selling. In **order processing,** a salesperson receives an order and sees to its handling and delivery. Route salespeople, who call on regular customers to check inventories, are

**Advertising** promotional tool consisting of paid, nonpersonal communication used by an identified sponsor to inform an audience about a product

**Advertising Media** variety of communication devices for carrying a seller's message to potential customers

**Media Mix** combination of advertising media chosen to carry a message about a product

**Personal Selling** promotional tool in which a salesperson communicates one-on-one with potential customers

**Order Processing** personal-selling task in which salespeople receive orders and see to their handling and delivery often order processors. With the customer's consent, they may decide on the sizes of reorders, fill them directly from their trucks, and even stock shelves. In other situations, however, when potential customers are not aware that they need or want a product, **creative selling** involves providing information and demonstrating product benefits to persuade buyers to complete a purchase. Creative selling is crucial for industrial products and high-priced consumer products, such as cafeteria-management services and cars, for which buyers comparison shop. Finally, a salesperson may use **missionary selling** to promote a company and its products rather than simply to close a sale. Pharmaceutical companies often use this method to make doctors aware of the company and its products so they will recommend the company's products to others. Depending on the product and company, sales jobs usually require individuals to perform all three tasks—order processing, creative selling, and missionary selling—to some degree.

## Sales Promotions

**Sales promotions** are short-term promotional activities designed to encourage consumer buying, industrial sales, or cooperation from distributors. They can increase the likelihood that buyers will try products, enhance product recognition, and increase purchase size and sales revenues.

**Types of Sales Promotions** Most consumers have taken part in a variety of sales promotions such as free *samples* (giveaways), which let customers try products without risk, and **coupon** promotions, which use certificates entitling buyers to discounts in order to encourage customers to try new products, lure them away from competitors, or induce them to buy more of a product. **Premiums** are free or reduced-price items, such as pencils, coffee mugs, and six-month low-interest credit cards, given to consumers in return for buying a specified product. *Contests* can boost sales by rewarding high-producing distributors and sales representatives with vacation trips to Hawaii or Paris. Consumers, too, may win prizes by entering their cats in the Purina Cat Chow calendar contest, for example, by submitting entry blanks from the backs of cat-food packages.

To grab customers' attention in stores, companies use **point-of-sale (POS) displays** at the ends of aisles or near checkout counters to ease finding products and to eliminate competitors from consideration. In addition to physical goods, POS pedestals also provide services, namely information for consumers. Bank lobbies and physicians' waiting rooms, for example, have computer-interactive kiosks inviting clients to learn more about bank products and educational information about available treatments on consumer-friendly touch-screen displays. For B2B promotions, industries sponsor **trade shows** where companies rent booths to display and demonstrate products to customers who have a special interest or who are ready to buy.

## Direct (or Interactive) Marketing

**Direct (or interactive) marketing** is one-on-one nonpersonal selling and now makes up 54 percent of all promotional spending in the United States.[18] It includes the nonstore retailers (catalogs, telemarketing, home video shopping), direct mail, direct response advertising (such as infomercials and direct response magazine and newspaper ads), and most important, the Internet. When used by B2B businesses, direct marketing is primarily lead generation so a salesperson can close the sale where interest has been shown. In B2C businesses, it has primarily a selling goal. The advantage of direct marketing is that you can target the message to the individual and you can measure the results. For example, Amazon knows when you sign in who you are and what you have purchased in the past and makes recommendations based on your purchases. By selecting a certain title, they can suggest other titles that other buyers of your selection have also purchased and in that way, increase the sale to you.

The Internet has enhanced traditional direct marketing methods, especially direct mail. By using *permission marketing*, a form of e-mail where the consumer gives a company permission to contact them, a list of customers' e-mails is compiled and they are regularly contacted with special offers and deals based on their past purchases. The e-mail is coming from a company the consumer has experience with and has agreed to receive their messages, and it contains a direct link to the company's website and the sale item. Companies such as Amazon, Dell, Office Depot, and others have used this direct marketing method and technology very successfully.

## Publicity and Public Relations

**Publicity** is information about a company, a product, or an event transmitted by the general mass media to attract public attention. While publicity is free, marketers have no control over the content media reporters and writers disseminate, and because it is presented in a news format, consumers often regard it as objective and credible. In 2005, for example, U.S. fast-food patrons were horrified when a customer said she found a human fingertip in a bowl of Wendy's chili. The publicity nightmare immediately bruised the food chain's reputation and cost about $15 million in lost sales in just six weeks. [19]

In contrast to publicity, **public relations** is company-influenced information that seeks either to build good relations with the public—by publicizing the company's charitable contributions, for example—or to deal with unfavorable events. In the Wendy's case, CEO Jack Schuessler's public relations response was decisive and focused: protect the brand and tell the truth. That meant there would be no payoff or settlement to keep it out of the news. Instead, Wendy's enlisted cooperation with the health department and police, did visual inspections, polygraphed employees, publicly announced a hotline for tips, and offered a reward for information, all leading to the conclusion that the reported episode was a hoax. Energetic public relations was an effective promotional tool for clearing the Wendy's name and preserving the company's reputation.[20]

**Creative Selling** personal-selling task in which salespeople try to persuade buyers to purchase products by providing information about their benefits

**Missionary Selling** personal-selling task in which salespeople promote their firms and products rather than try to close sales

**Sales Promotion** short-term promotional activity designed to encourage consumer buying, industrial sales, or cooperation from distributors

**Coupon** sales-promotion technique in which a certificate is issued entitling the buyer to a reduced price

**Premium** sales-promotion technique in which offers of free or reduced-price items are used to stimulate purchases

**Point-of-Sale (POS) Display** sales-promotion technique in which product displays are located in certain areas to stimulate purchase or to provide information on a product

**Trade Show** sales-promotion technique in which various members of an industry gather to display, demonstrate, and sell products

**Direct (or Interactive) Marketing** one-on-one nonpersonal selling by nonstore retailers and B2B sellers using direct contact with prospective customers, especially via the Internet

**Publicity** promotional tool in which information about a company, a product, or an event is transmitted by the general mass media to attract public attention

**Public Relations** company-influenced information directed at building goodwill with the public or dealing with unfavorable events

Jim Goldstein/Alamy

*Continued from page 299*

## At Apple, iTunes Means Mu$ic

Will it be Lady GaGa? Or could it be Black Eyed Peas, Ke$ha, or Taylor Swift? No... can you believe... it's Johnny Cash's 1958 hit song, "Guess Things Happen That Way"! That was the milestone 10 billionth download for Apple's iTunes in early 2010 by 71-year-old Louis Sulcer using his iPod Nano. Along with his favorite song, the Woodstock, Georgia, grandfather of nine received a $10,000 iTunes gift card and a telephone greeting from Steve Jobs. While Mr. Sulcer isn't the typical customer, he represents the broadening iTunes audience that could download the next 10 billion, perhaps even faster than the first. The driving force behind song sales has been the number of iPods, totaling some 250 million sold as of early 2010, and that number keeps growing. Add to that the more-than 6 million iPads sold soon after its launch in 2010, and the demand for iTunes songs would seem to be accelerating.[21]

A positive indicator for growth is the industry's continuing transition to digital music: The digital format accounted for 40 percent of all industry purchases in 2009, up from 32 percent in 2008. However, some indicators suggest a possible slowdown on the horizon. Total music purchases grew by only 2 percent in 2009, down from 10 percent in 2008. The industry's digital album sales were up 16 percent in 2009, but that was only half the 2008 growth of 32 percent. And for Apple in particular, recent iTunes price increases seemed to hurt sales rankings for several popular songs. Forty of the Top 100 songs were repriced upward from $0.99 to $1.29, while the other 60 remained at $0.99. The next day, the 40 higher-priced songs lost an average of over 5.0 chart positions; the 60 songs priced at $0.99 gained an average of 2.5 chart positions. Similar changes continued in the days that followed. Meanwhile, a major competitor—Amazon.com—continues with its one-price policy, set at $0.99. The longer-term effects on iTunes sales remain to be determined by competition, consumer tastes, and other industry trends.[22]

### QUESTIONS FOR DISCUSSION

1. Consider the distribution channel for iTunes music products versus the channels used by brick-and-mortar retail music stores. What are the advantages and disadvantages of those channels?
2. What is (are) iTunes's target market(s)? What factors in the marketing environment, if any, are likely to change the target market(s) over the next few years?
3. What kind of promotional mix(es) would you recommend as most effective for reaching iTunes's current target market(s)?
4. In what ways might Apple benefit by jointly advertising its music products together with its digital-music-player products?
5. Would you advise iTunes to continue with the three-tier pricing system for music products or, instead, return to a one-price policy? Explain.

# SUMMARY OF LEARNING OBJECTIVES MyBizLab

1. **Identify the various pricing objectives that govern pricing decisions, and describe the price-setting tools used in making these decisions. (pp. 300–303)**
Two major pricing objectives are (1) *Pricing to maximize profits*: Set the price to sell the number of units that will generate the highest possible total profits. With prices set too low, the seller misses the chance to make additional profits on each of the many units sold. With prices set too high, a larger profit will be made on each unit, but fewer units will be sold. (2) *Market share objectives*: Pricing is used for establishing market share. The seller is willing to accept minimal profits, even losses, to get buyers to try products. Two basic tools are used: (1) *Cost-oriented pricing* begins by determining total costs for making products available to shoppers, then a figure for profit is added in to arrive at a selling price. (2) *Breakeven analysis* assesses total costs versus revenues for various sales volumes. It shows, at each possible sales volume, the amount of loss or profit for any chosen sales price. It also shows the *break-even point*: the number of sales units for total revenue to equal total costs.

2. **Discuss pricing strategies that can be used for different competitive situations and identify the pricing tactics that can be used for setting prices. (pp. 303–305)**
Pricing for existing products can be set above, at, or below market prices for similar products. High pricing is often interpreted as meaning higher quality and prestige, while low pricing may attract greater sales volume. Strategies for new products include *price skimming*—setting an initially high price to cover costs and generate a profit—and *penetration pricing*—setting a low price to establish a new product in the market. Strategies for e-businesses include dynamic versus fixed pricing. *Dynamic pricing* establishes individual prices by real-time interaction between the seller and each customer on the Internet. *Fixed pricing* is the traditional one-price-for-all arrangement.
Three tactics are often used for setting prices: (1) With *price lining*, any product category (such as lady's shoes) will be set at three or four price levels, and all shoes will be priced at one of those levels. (2) *Psychological pricing* acknowledges that customers are not completely rational when making buying decisions, as with *odd-even pricing* where customers regard prices such as $10 as being significantly higher than $9.95. (3) *Discount pricing* uses price reductions to stimulate sales.

3. **Explain the meaning of *distribution mix* and identify the different channels of distribution. (pp. 305–306)**
The combination of distribution channels for getting products to end users—consumers and industrial buyers—is the *distribution mix*. *Intermediaries* help to distribute a producer's goods by moving them from sellers to customers: *Wholesalers* sell products to other businesses, which resell them to final users. *Retailers*, *sales agents*, and *brokers* sell products directly to end users. In the simplest of four distribution channels, the producer sells directly to users. Channel 2 includes a retailer, Channel 3 involves both a retailer and a wholesaler, and Channel 4 includes an agent or broker.

4. **Describe the role of wholesalers and explain the different types of retailing. (pp. 307–309)**
*Wholesalers* provide a variety of services—delivery, credit arrangements, and product information—to buyers of products for resale or business use. In buying and reselling an assortment of products, wholesalers provide storage, marketing advice, and assist customers by marking prices and setting up displays. *Retail stores* range from broad product-line department stores and supermarkets, to small specialty stores for specific market segments seeking narrow product lines. With all retail stores, there is always an intermediary that moves products from producers to users. Various kinds of nonstore retailing include *direct-response retailing*, *mail order* (or *catalog marketing*), *telemarketing*, and *direct selling*. Electronic retailing includes e-catalogs, electronic storefronts, cybermalls, and interactive and video retailing. Many nonstore retailers do not use intermediaries but, instead, use direct-to-consumer contact by the producer.

5. **Describe the role of e-intermediaries and explain how online shopping agents and online retailers add value for advertisers and consumers on the Internet. (pp. 309–311)**
*E-intermediaries* are Internet-based channel members who perform one or both of two functions: (1) They collect information about sellers and present it to consumers, and (2) they help deliver Internet products to buyers. Two prominent types of e-intermediaries are shopping agents and electronic retailers: (1) *Shopping agents* (*e-agents*) help online consumers by gathering and sorting information (such as comparison prices and product features) for making purchases. They add value for sellers by listing sellers' web addresses for consumers. (2) *Electronic retailers* interact online with customers and add value by informing, selling to, and distributing products to them. *E-catalogs* are electronic displays that give instant worldwide access to pages of product information. *Electronic storefronts* and *cybermalls* provide collections of virtual storefronts at which Internet shoppers collect information about products, place orders, and pay for purchases.

6. **Describe the major activities in the physical distribution process. (pp. 311–314)**
Physical distribution activities include providing customer services, warehousing, and transportation of products. *Warehouses* provide storage for products, whereas *transportation operations* physically move products from suppliers to customers. Trucks, railroads, planes, water carriers (boats and barges), digital transmission, and pipelines are the major transportation modes used in the distribution process.

**7. Identify the important objectives of promotion, discuss the considerations in selecting a promotional mix, and discuss advertising promotions. (pp. 314–317)**

Although the ultimate goal of any *promotion* is to increase sales, other goals include communicating information, positioning a product, adding value, and controlling sales volume. In deciding on the appropriate *promotional mix*—the best combination of promotional tools (e.g., advertising, personal selling, sales promotions, direct or interactive marketing, public relations), marketers must consider the good or service being offered, characteristics of the target audience, the buyer's decision process, and the promotional mix budget. *Advertising* is paid, nonpersonal communication, by which an identified sponsor informs an audience about a product. Marketers use several different *advertising media*—specific communication devices for carrying a seller's message to potential customers—each having its advantages and drawbacks. The combination of media through which a company advertises is called its *media mix*.

**8. Outline the tasks involved in personal selling, describe the various types of sales promotions, and distinguish between publicity and public relations. (pp. 317–319)**

*Personal selling* tasks include *order processing*, *creative selling*, and *missionary selling*. *Sales promotions* include *point-of-sale* (*POS*) displays to attract consumer attention, help them find products in stores and offices, and provide product information. Other sales promotions give purchasing incentives, such as *samples* (customers can try products without having to buy them), *coupons* (a certificate for price reduction), and *premiums* (free or reduced-price rewards for buying products). At *trade shows*, B2B sellers rent booths to display products to industrial customers. *Contests* intend to stimulate sales, with prizes to high-producing intermediaries and consumers who use the seller's products.

*Publicity* is information about a company, a product, or an event transmitted by the general mass media to attract public attention. Control of the message's content is determined by outside writers and reporters. In contrast to publicity, *public relations* is company-influenced information that seeks to either build good relations with the public or to deal with unfavorable events.

## KEY TERMS MyBizLab

advertising (p. 316)
advertising media (p. 316)
bargain retailer (p. 307)
breakeven analysis (p. 301)
breakeven point (p. 302)
broker (p. 306)
catalog showroom (p. 308)
convenience store (p. 309)
cost-oriented pricing (p. 301)
coupon (p. 318)
creative selling (p. 318)
cybermall (p. 310)
department store (p. 307)
direct (or interactive) marketing (p. 318)
direct channel (p. 305)
direct selling (p. 309)
direct-response retailing (p. 309)
discount (p. 305)
discount house (p. 307)
distribution channel (p. 305)
distribution mix (p. 305)
e-catalog (p. 310)
e-intermediaries (p. 309)
electronic retailing (online retailing) (p. 310)
electronic storefront (p. 310)
factory outlet (p. 308)
fixed cost (p. 301)
interactive retailing (p. 311)
intermediary (p. 305)
mail order (catalog marketing) (p. 309)
market share (or market penetration) (p. 300)
markup (p. 301)
media mix (p. 316)
missionary selling (p. 318)
odd-even pricing (p. 305)
order processing (p. 317)
penetration pricing (p. 303)
personal selling (p. 317)
physical distribution (p. 311)
point-of-sale (POS) display (p. 318)
positioning (p. 314)
premium (p. 318)
price lining (p. 304)
price skimming (p. 303)
pricing (p. 300)
pricing objectives (p. 300)
private warehouse (p. 311)
promotion (p. 314)
promotional mix (p. 315)
psychological pricing (p. 304)
public relations (p. 319)
public warehouse (p. 311)
publicity (p. 319)
retailer (p. 305)
sales agent (p. 306)
sales promotion (p. 318)
shopping agent (e-agent) (p. 309)
specialty store (p. 307)
supermarket (p. 307)
telemarketing (p. 309)
trade show (p. 318)
variable cost (p. 301)
video retailing (p. 311)
warehousing (p. 311)
wholesale club (p. 308)
wholesaler (p. 305)

# QUESTIONS AND EXERCISES

## QUESTIONS FOR REVIEW

1. How does breakeven analysis help managers measure the potential impact of prices?
2. Discuss the goal of price skimming and penetration pricing.
3. Identify the channels of distribution. In what key ways do they differ from one another?
4. Explain how e-agents or e-brokers differ from traditional agents or brokers.
5. Select four advertising media and compare the advantages and disadvantages of each.

## QUESTIONS FOR ANALYSIS

6. Suppose that a small publisher selling to book distributors has fixed operating costs of $600,000 each year and variable costs of $3.00 per book. How many books must the firm sell to break even if the selling price is $6.00?
7. Choose two advertising campaigns: one that you think is effective and one that you think is ineffective. What makes one campaign better than the other?
8. Give examples of two products that typify the products sold to shoppers through each form of nonstore retailing. Explain why different products are best suited to each form of nonstore retailing.

## APPLICATION EXERCISES

9. Select a product and analyze pricing objectives for it. What information would you want if you were to adopt a profit-maximizing objective or a market share objective?
10. Select a product and identify the media used in its promotion. On the whole, do you think the campaign is effective? Why or why not? If the campaign is not effective, what changes would you suggest to improve it?
11. Identify a company that is a member in a supply chain. Explain how its presence in the chain affects the company's marketing decisions for pricing, promoting, and distributing its products.

# BUILDING YOUR BUSINESS SKILLS

## Greeting Start-Up Decisions

### Goal

To encourage you to analyze the potential usefulness of two promotional methods—personal selling and direct mail—for a start-up greeting card company.

### Background Information

You are the marketing adviser for a local start-up company that makes and sells specialty greeting cards in a city of 400,000. Last year's sales totaled 14,000 cards, including personalized holiday cards, birthday cards, and special-events cards for individuals. Although revenues increased last year, you see a way of further boosting sales by expanding into card shops, grocery stores, and gift shops. You see two alternatives for entering these outlets:

Use direct mail to reach more individual customers for specialty cards.

Use personal selling to gain display space in retail stores.

Your challenge is to convince the owner of the start-up company which alternative is the more financially sound decision.

### Method

#### *Step 1*

Get together with four or five classmates to research the two kinds of product segments: personalized cards and retail store cards. Find out which of the two kinds of marketing promotions will be more effective for each of the two segments. What will be the reaction to each method by customers, retailers, and card-company owners?

#### *Step 2*

Draft a proposal to the company owner. Leaving budget and production details to other staffers, list as many reasons as possible for adopting direct mail. Then, list as many reasons as possible for adopting personal selling. Defend each reason. Consider the following reasons in your argument:

- **Competitive environment.** Analyze the impact of other card suppliers that offer personalized cards and cards for sale in retail stores.
- **Expectations of target markets.** Who buys personalized cards and who buys ready-made cards from retail stores?
- **Overall cost of the promotional effort.** Which method, direct mail or personal selling, will be more costly?
- **Marketing effectiveness.** Which promotional method will result in greater consumer response?

## FOLLOW-UP QUESTIONS

1 Why do you think some buyers want personalized cards? Why do some consumers want ready-made cards from retail stores?

2 Consider today's easy access to online sources of cards and to software for designing and making cards on home PCs. How does the availability of these resources affect your recommendation?

3 What was your most convincing argument for using direct mail? For using personal selling?

4 Can a start-up company compete in retail stores against industry giants, such as Hallmark and American Greetings?

# EXERCISING YOUR ETHICS: INDIVIDUAL EXERCISE

## The Chain of Responsibility

### The Situation

Because several stages are involved when distribution chains move products from supply sources to end consumers, the process offers ample opportunity for ethical issues to arise. This exercise encourages you to examine some of the ethical issues that can emerge during transactions among suppliers and customers.

### The Dilemma

A customer bought an expensive wedding gift at a local store and asked that it be shipped to the bride in another state. Several weeks after the wedding, the customer contacted the bride, who had not confirmed the arrival of the gift. It hadn't arrived. Charging that the merchandise had not been delivered, the customer requested a refund from the retailer. The store manager uncovered the following facts:

- All shipments from the store are handled by a well-known national delivery firm.
- The delivery firm verified that the package had been delivered to the designated address two days after the sale.
- Normally, the delivery firm does not obtain recipient signatures; deliveries are made to the address of record, regardless of the name on the package.

The gift giver argued that even though the package had been delivered to the right address, it had not been delivered to the named recipient. It turns out that, unbeknownst to the gift giver, the bride had moved. It stood to reason, then, that the gift was in the hands of the new occupant at the bride's former address. The manager informed the gift giver that the store had fulfilled its obligation. The cause of the problem, she explained, was the incorrect address given by the customer. She refused to refund the customer's money and suggested that the customer might want to recover the gift by contacting the stranger who received it at the bride's old address.

### QUESTIONS TO ADDRESS

1 What are the responsibilities of each party—the customer, the store, the delivery firm—in this situation?
2 From an ethical standpoint, in what ways is the store manager's action right? In what ways is it wrong?
3 If you were appointed to settle this matter, what actions would you take?

# EXERCISING YOUR ETHICS: TEAM EXERCISE

## A Big Push for Publicity

### The Situation

J Company is known as a "good citizen" and prides itself on publicity it receives from sponsoring civic programs and other community projects. J Company's executive vice president, Ms. Q, has just been named chairperson of annual fundraising for MAS, a large coalition of community services that depend on voluntary donations. In the highly visible chairperson's role, Ms. Q has organized the support of officials at other firms to ensure that the fundraising target is met or surpassed.

### The Dilemma

Ms. Q began a J Company meeting of 30 department managers to appeal for 100 percent employee participation in MAS giving in the fundraising drive: "We will have 100 percent participation here." As follow-up the week before the drive officially started, Ms. Q met with each manager, saying: "I expect you to give your fair share and for you to ensure that all your employees do likewise. I don't care what it takes, just do it. Make it clear that employees will at least donate cash. Even better, get them to sign up for weekly payroll deductions to the MAS fund because it nets more money than one-time cash donations."

An hour after meeting with Ms. Q, Nathan Smith was both surprised and confused. As a newly appointed department manager, he was unsure how to go about soliciting donations from his 25 employees. Remembering Ms. Q's comment, "I don't care what it takes, just do it," Nathan wondered what to do if someone did not give. Personally, too, he was feeling uneasy. How much should he give? With his family's pressing financial needs, he would rather not give money to MAS. He began to wonder if his donation to MAS would affect his career at J Company.

### Team Activity

Assemble a group of four to five students and assign each group member to one of the following roles:

- Nathan Smith (employee)
- Ms. Q (employer)
- Director of MAS (customer)
- J Company stockholder (investor)
- J Company CEO (use this role only if your group has at least five members)

### ACTION STEPS

1 Before hearing any of your group's comments, and from the perspective of your assigned role, do you think there are any *ethical issues* with J Company's fundraising program? If so, write them down.
2 Before hearing any of your group's comments, and from the perspective of your assigned role, are any *problems* likely to arise from J Company's fundraising program? If so, write them down.
3 Together with your group, share the ethical issues you identified. Then, share the potential problems you listed. Did the different roles you were assigned result in different ethical issues and problems?

4 For the various ethical issues that were identified, decide as a group which one is the most important for J Company to resolve. Likewise, for potential problems that were identified, which is the most important one for J Company?

5 From an ethical standpoint, what does your group recommend be done to resolve the most important ethical issue? How should the most important problem be resolved? Identify the advantages and drawbacks of your recommendations.

# VIDEO EXERCISE MyBizLab

## Joby

### Learning Objectives

*The purpose of this video is to help you:*

1 Describe the objectives of promotion.
2 Understand the importance of positioning in the marketing of a product.
3 Explain the role of trade shows and publicity in the promotional mix.

### Synopsis

Joby is a San Francisco–based company that manufactures camera and phone accessories. Founded in the 2005, the company has experienced rapid growth on a limited promotional budget. Recognizing that traditional camera tripods were unsuited to many settings, Joby created the GorillaPod, which allows cameras to be mounted in almost any environment through the use of flexible arms. Joby expanded its product mix with the GorillaMobile line of mobile phone accessories and the GorillaTorch line of spotlights. Joby has developed a loyal following with their ever-expanding line of innovative products, heavy use of trade shows, and intensive presence on social media sites. Joby's operations have expanded to an international market, with offices in Switzerland, Japan, Singapore, and China.

### DISCUSSION QUESTIONS

1 What are the objectives of promotion? How do each apply to Joby?
2 How has Joby positioned itself in the market?
3 Joby's promotional strategy has de-emphasized television advertising. Why did the company make this decision? Do you think that this will limit sales?
4 How does Joby use publicity to promote their products? Has this been effective?
5 What role do trade shows play in Joby's promotional strategy?

### Online Exploration

The Joby website (www.joby.com) provides great insight into Joby's products and marketing mix. You can begin your exploration by finding out more about the company's product lines, focusing on how the company has adapted their initial technology to a wide range of applications. By clicking on the Store Link, you can view prices for each of their products. How do prices for Joby products compare to more traditional tripods and spotlights? Finally, you can gain insight into the company's use of publicity by scrolling to the bottom of the page and clicking on "About Joby". Pay particular attention to the press releases, trade shows, and social media information to understand Joby's promotional strategy. Briefly summarize the company's promotional strategy after viewing these links.

Using low-cost, direct-to-consumer selling and market share pricing, Dell profitably dominated the personal computer market, while its competitors—Apple, IBM, Compaq, and Hewlett-Packard—sold through retailers, adding extra costs that prevented them from matching Dell's low prices. Competitors have switched to direct-to-consumer sales, but Dell is strongly anchored as the industry's number-two PC maker (after Hewlett-Packard).

Roy Cooper scours the markets of Quito, Ecuador, for tapestries, baskets, and religious relics. He then sells them on the Internet, usually at substantial markups, by privately negotiating prices with buyers.

At the plant of the world's largest auto parts supplier, Delphi Automotive Systems, Jessica V. Prince assembles fuel pumps according to a process that she helped engineers and consultants design. The auto parts are shipped from the plant to an auto manufacturer, illustrating a direct (producer to consumer) channel of distribution.

Commenting on potential contributions by mature women, cofounder Liz Smith says, "A long time ago, Margaret Mead, the great anthropologist, said that there was nothing to equal the power of the menopausal woman. And I think she is right."

QVC host Bob Bowersox is getting ready to offer bedding made by Northern Lights, which distributes regularly through the TV home-shopping channel. Northern Lights markets through such electronic-retailing outlets as eBay and Shopping.com as well as QVC, which also sells online through its website and through six outlet stores.

Specializing in long-haul shipping, U.S. Xpress Enterprises employs nearly 6,000 drivers to operate 5,300 trucks and 12,000 trailers. Trucks have satellite capabilities, anticollision radar, vehicle-detection sensors, computers for shifting through 10 speeds, and roomy cabs with sleepers, refrigerators, and microwaves.

# END NOTES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