

Managing Marketing

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Part Summary

Part 4, Managing Marketing, provides an overview of the many elements of marketing, including developing, pricing, promoting, and distributing various types of goods and services.

- We begin in **Chapter 12, Understanding Marketing Processes and Consumer Behaviour**, by examining the ways in which companies distinguish their products, determine customer needs, and address consumer buying preferences.
- Then, in **Chapter 13, Developing and Promoting Goods and Services**, we explore the development of different types of products, the effect of brand names and packaging, how promotion strategies help a firm meet its objectives, and the advantages and disadvantages of several promotional tools.
- Finally, in **Chapter 14, Pricing and Distributing Goods and Services**, we examine pricing strategies. We also consider the various outlets business firms use to distribute their products, and we discuss the problems of storing and transporting goods to distributors.

What is the first thing you think of when you hear the names Coffee Crisp, Crest, UFC, and EA Sports? You probably didn't hesitate before picturing a chocolate bar, toothpaste, mixed martial arts, and video games. Your rapid association of brand names and the goods or services they provide is a tribute to the effectiveness of the marketing managers of the firms that produce these goods. These and many other names have become household words because companies have developed the right products to meet customers' needs, have priced those products appropriately, have made prospective customers aware of the products' existence and qualities, and have made the products readily available.

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chapter

12

Understanding Marketing Processes and Consumer Behaviour

After reading this chapter, you should be able to:

LO-1 Explain the concept of *marketing*.

LO-2 Explain the purpose of a *marketing plan* and identify the four components of the *marketing mix*.

LO-3 Explain *market segmentation* and show how it is used in target marketing.

LO-4 Explain the purpose and value of *marketing research*.

LO-5 Describe the key factors that influence the *consumer buying process*.

LO-6 Describe the *international* and *small-business marketing mixes*.

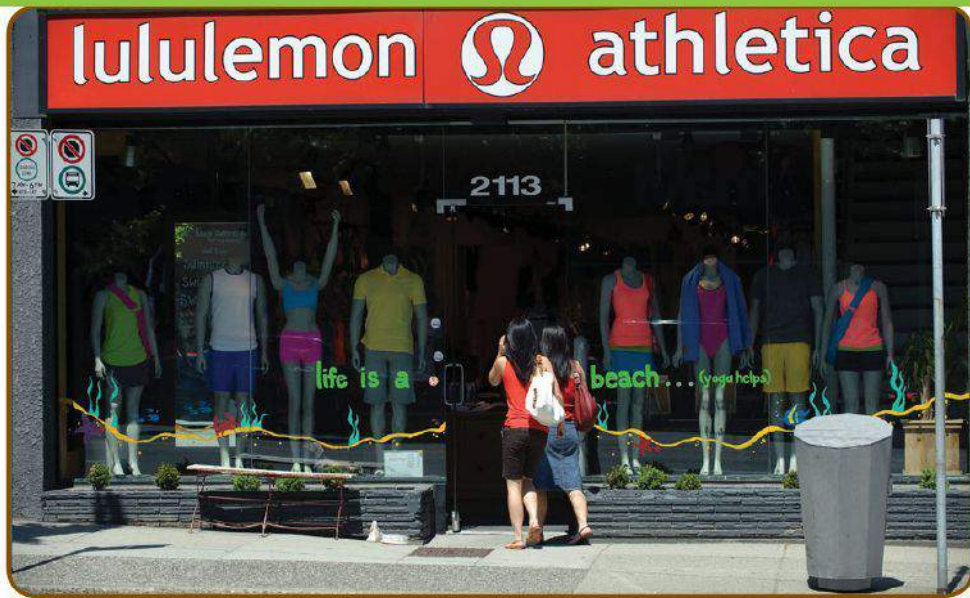


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SCANLIFE



lululemon: A Clear Marketing Strategy, Even in Trying Times

Chip Wilson founded lululemon after taking a rejuvenating yoga class in 1998. After two decades in the ski, snowboard, and skate business, he made an abrupt change and built this yoga-inspired athletic gear retailer. The first outlet opened in Vancouver's Kitsilano area in 2000. By 2010, lululemon had well over 100 stores in Canada, the U.S., Australia, and China with revenues of \$453 million. At the time, CEO Christina Day was proudly pointing to a same-store sales increase of 29 percent over the previous year. She also indicated that these results reflected the strength of the brand and its mission to focus on quality, design, innovation, and unique positioning. Who could argue with her? lululemon had carved a clearly identifiable niche and transformed people's buying behaviour while creating a lifestyle community.

lululemon strives to be more than just a retailer. According to the company, the intent is to elevate the world from mediocrity to greatness. Strong words for a clothing retailer. Its mission is to create components for people to live longer, healthier, and more fun lives. To further distinguish

How Will This Help Me?

Marketing is a business activity that focuses on providing value so customers will purchase goods and services offered for sale. If you understand the marketing methods and ideas that are presented in this chapter, you will benefit in two ways: (1) you'll be better prepared to enhance your career by using effective marketing ideas, both as an *employee* and as a *manager*, and (2) you'll be a more informed *consumer* with greater awareness of how businesses use marketing to influence your purchases.

itself, lululemon has developed a mantra, a manifesto, ambassadors, and a community hub to get the message out. Their values are a major stretch (no pun intended) from the tainted corporate image that defines so many firms these days.

In this chapter we will introduce you to the four Ps of marketing: product, price, place, and promotion. Let's take a look at how lululemon addresses these strategic pillars. From day one, Chip Wilson set out to provide superior products for his target consumer. It was clear to Chip that traditional sweatpants were totally unfit for the job, and an opportunity was identified. But he needed to educate consumers and offer better alternatives than the pure cotton clothing most people were wearing in yoga studios. His previous experience in developing technical athletic fabrics led to the creation of a design studio that moonlighted as a yoga studio in the evenings. Experts were consulted; yoga instructors were given clothing and enlisted as product testers. The efforts paid off. lululemon created a fabric called "luon," which is moisture wicking, pre-shrunk, has improved stretching ability, and maintains its shape. Today, lululemon makes products from Luxtreme, Coolmax, Silverscent, and Beechlu (to name a few); these fabrics are lighter weight and antibacterial.

lululemon offers important services to supplement its goods and build its community. Every outlet offers weekly complimentary yoga classes. In addition, they offer running clinics, boot camps, and Pilates courses. lululemon still consults yogis and elite athletes; a continuous improvement approach is the foundation of its product development cycle. Even the brand name was developed in this manner. Before the original launch, it surveyed 100 individuals to select the name and logo from a list of 20 options. Clearly, lululemon is a firm by the people, for the people.

In terms of place or distribution, over 100 retail outlets are being supplemented by 25 new showrooms, in 2010 alone, in key locations like Florida, California, Texas, and Vancouver. These showrooms are not permanent but rather leased spaces that aim to test new market locations and create buzz. In 2009, the successful launch of lululemon's e-commerce site was another major step in improving distribution. At the same time, the expansion of its wholesale business, to more yoga studios and gyms, helped create stronger ties and increased selling avenues. lululemon was also investing in its supply chain to ensure that popular products were kept in stock.

If you are thinking that lululemon has spent huge sums of money on advertising to achieve success, think again. lululemon uses virtually no traditional advertising, with the exception of strategically placed ads in highly targeted magazines like *Yoga Journal*. The company benefited from buzz generated by the 2010 Vancouver Winter Olympic Games held in its hometown. lululemon took advantage with two key stores located in high-traffic areas. Other promotional approaches are also being used. According to the CEO, a single email notification to clients about a new product can generate more than \$6000 of sales.

lululemon focuses on consumer-generated buzz. It has an ambassador program designed for loyal devotees that embody the lifestyle. You can go to the website and read about or get in touch with hundreds of ambassadors. In addition, there are approximately 60 "elite" ambassadors like Olympians Clara Hughes, Jennifer Heil, and Thomas Grandi. There are plenty of other ways to communicate with a yogi or fellow devotees; the website creates synergy with all modern communication tools including basic blogging and the ever-popular social media sites Twitter, Facebook, and Flickr.

High-end quality is usually accompanied by high-end prices. lululemon's products are expensive and the company is unapologetic; the focus is on value, not price. Having a strategy is one thing, but sticking to it is something else. Many organizations overreact to current market circumstances and forget who they are. In the face of the most recent recession and price pressure from competitors, lululemon stood firm. Prices were kept high.

Sticking to a core strategy does not mean being stagnant. lululemon temporarily held back on expansion plans and focused on quality improvements, but by 2010 the expansion plans were gaining steam again. In the meantime, lululemon invested in its website and product development by enhancing its running business. In 2011 the firm expects to earn 25 percent of revenues from this source. lululemon continues to look at the big picture and focus on the long-term strategy. It embodies and displays the confidence that it tries to instill in its members through the lifestyle. It will be interesting to see how this company evolves over the next decade.

LO-1 What Is Marketing?

What images come to mind when you think of marketing? If you are like most people, you probably think of advertising for something like detergent or soft drinks. But marketing includes much more than advertising. **Marketing** is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.

A company that employs the **marketing concept** is coordinated to achieve one goal—to serve its present and potential customers at a profit. This concept means that a firm must get to know what customers really want and closely follow evolving tastes. The various departments of the firm—marketing, production, finance, and human resources—must operate as a well-coordinated system that is unified in the pursuit of customer satisfaction.

Providing Value and Satisfaction

Consumers buy products that offer the best value when it comes to meeting their needs and wants. **Value** compares a product's benefits with its costs. **Benefits** include not only the features of the product or service but also the emotional satisfaction associated with owning, experiencing, or possessing it. **Costs** include the price, the expenditure of the buyer's time, and the emotional costs of making a purchase decision. The satisfied buyer perceives the benefits derived from the purchase to be greater than its costs. Thus, the simple but important ratio for value:

$$\text{Value} = \text{Benefits/Costs}$$

To understand how marketing creates value for customers, we need to know the kind of benefits that buyers get from a firm's goods or services. As we saw in Chapter 10, products provide consumers with time, place, ownership, and form utility. These utilities yield products that satisfy human wants or needs.

Goods, Services, and Ideas

Marketing of tangible goods is obvious in our everyday life. You walk into a department store and a woman with a clipboard and a bottle of perfume asks if you'd like to try a new brand of cologne. A pharmaceutical company proclaims the virtues of its new cold medicine. Your local auto dealer offers you a special deal. These **consumer goods** are products that you, the consumer, buy for personal use. Firms that sell their products to the end user are engaged in *consumer marketing*.

Marketing is also important for **industrial goods**—items that are used by companies for production purposes or further assembly. Conveyors, lift trucks, and earth movers are all industrial goods, as are components and raw materials such as integrated circuits, coal, steel,

and plastic. Firms that sell their products to other manufacturers are engaged in *industrial marketing*.

Marketing is also relevant for **services**—intangible products such as time, expertise, or some activity that you can purchase. *Service marketing* has become a major growth area in Canada. Insurance companies, airlines, investment counsellors, health clinics, and exterminators are a few examples of companies that engage in service marketing. In today's digital age, services come in many forms. The E-Business and Social Media Solutions box below highlights a very popular service delivery format.

Finally, marketing is also used to promote *ideas*. Television ads remind us that teaching is an honourable profession, that drinking and driving is irresponsible behaviour, and that smoking is detrimental to our health.

MARKETING Planning and executing the development, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy both buyers' and sellers' objectives.

MARKETING CONCEPT The idea that the whole firm is directed toward serving present and potential customers at a profit.

VALUE Relative comparison of a product's benefits versus its costs.

CONSUMER GOODS Products purchased by individuals for their personal use.

INDUSTRIAL GOODS Products purchased by companies to use directly or indirectly to produce other products.

SERVICES Intangible products, such as time, expertise, or an activity, that can be purchased.



New technologies create new products, such as the Chinese cellphone "gas station" kiosk pictured above. Called *shouji jiyouzhan* in Chinese, these kiosks allow consumers to recharge their cell-phones the way they would refuel their cars. The screens on the kiosks also provide marketers with a new way to display ads for waiting customers.

Apps, Apps, and More Apps: New Age Product Opportunities

Apple transformed the music industry with its successful marketing of the iPod and the creation of iTunes. Within a few years, music executives went from opponents to allies with a growing reliance on Apple to propel the industry into the future. Unfortunately for them, Apple had other plans. With iPod sales projected to flatten, Apple turned its attention to its newer iPhone device and the huge potential of applications (apps). The iPhone's success is clear. Back in 2008, the 3G iPhone sold over one million units in its first weekend. With each iPhone contract worth approximately \$2000 to the service provider, Apple effectively created \$2 billion worth of revenue streams for its partners in three days. In 2010, Apple sold 1.7 million iPhone G4s in the first three days of that launch, and new generation iPhones will keep revenues flowing for years. The launch of the iPad tablet in 2010 provided a new and exciting outlet, but Apple also had a great opportunity on the content side. In 2009, Apple had already amassed 10 000 apps, but this figure ballooned to well over 150 000 by mid-2010.

Most of you can list dozens if not hundreds of your favourite apps. The range is impressive. During the 2010 Vancouver Winter Olympic Games, the "cowbell" app was popular at the alpine skiing events. The "cigarette lighter" app is now a staple at music concerts. Dominos Pizza has an app that allows you to order pizza and have it delivered today or even a week from now. The "Shazam" app can help you download music or identify a song playing on the radio. There are sports scores, cooking tips, stock quotes, and much more. According to Gartner Inc., a technology industry research firm, smart phone owners are expected to download 4.5 billion apps in 2010, generating \$7 billion in revenue. This figure is expected to grow to \$30 billion by 2013.

How did Apple manage to develop so many apps so quickly? On the consumer side, people were excited by the touch screen and advanced graphics offered by the products. The gadget-loving tech generation had found a platform that fit their endless thirst for information and entertainment. It was a tool for increased social connectivity in an easily transportable format. How could this product be denied?

Apple has proven that it can identify, develop, and exploit opportunities: it quickly seized this one. Apple created a generous profit-sharing plan that provides



The increased size and capabilities of devices like the Apple iPad are opening up new opportunities for App developers. By 2011 the pace of development had accelerated and the number of Apple apps had already reached 300,000.

the developer with 70 percent of the revenue generated by its apps. This provides the profit incentive that has pushed individuals and firms to create new applications. So while Apple had 150 000 separate applications in its stable, BlackBerry could offer only approximately 5000 apps; the Google Android format had 25 000 apps.

Who is taking advantage of this business opportunity? Like the Yukon Gold Rush of the 1890s, everyone and anyone with a dream is entering this market space. Ethan Nicolas developed a game called iShoot and quit his job after earning \$37 000 in a single day. Over three million people downloaded the free version of his game and over 320 000 eventually bought an extended version at a cost of \$3 each. Major gaming companies like EA Sports are providing content like NBA Live. Old technology companies, like Marvel Comics, are finding new ways to deliver their products with the help of the iPad's large, user-friendly format. Whether we are talking about individuals with a dream or organizations with problems to solve, there is a potential solution in the world of apps. Once again, Apple is leading the way.

Critical Thinking Questions

1. What are your favourite apps? List and explain what makes them effective and/or useful.
2. Form a group of three or four and come up with a new application that you believe would meet the needs of a particular target group. Explain.

Relationship Marketing

Marketing often focuses on single transactions for products, services, or ideas, but **relationship marketing** emphasizes longer-term relationships with customers and suppliers. Stronger relationships, including stronger economic and social ties, can result in greater long-term satisfaction and retention of customers.¹ Harley-Davidson, for example, offers social incentives through the Harley Owners Group (HOG), the largest motorcycle club in the world, with over one million members and 1348 dealer-sponsored chapters globally and counting. HOG, explain Harley marketers, “is dedicated to building customers for life. HOG fosters long-term commitments to the sport of motorcycling by providing opportunities for our customers to bond with other riders and develop long-term friendships.”²

LO-2 Strategy: The Marketing Mix

Although many individuals contribute to the marketing of a product, a company’s **marketing managers** are typically responsible for planning and implementing the marketing activities that result in the transfer of goods or services to customers. These activities culminate in the **marketing plan**: a detailed and focused strategy for gearing marketing activities to meet consumer needs and wants. Marketing begins, therefore, when a company identifies a consumer need and develops a product to meet it.

In planning and implementing their strategies, marketing managers rely on four principal elements. These four elements—called the *four Ps of marketing*—are *product* (developing goods, services, and ideas), *pricing*, *promotion*, and *place* (distribution).³ The sellers’ four Ps are a mirror image of the buyers’ four Cs: customer solution (product), customer cost (price), customer convenience (place), and customer communication (promotion).⁴ Together, these elements are known as the **marketing mix** (see Figure 12.1).

The importance of these four elements varies, depending on the product being sold. Price might play a large role in selling fresh meat but a very small role in selling newspapers. Distribution might be crucial in marketing gasoline but not so important for lumber. Promotion is

vital in toy marketing but of little consequence in marketing nails. The product is important in every case, but probably less so for toothpaste than for cars.

Product Marketing begins with a **product**—a good, a service, or an idea designed to fill a consumer need or want. Meeting consumer needs is a constant challenge, and often means changing existing products to keep pace with changing markets and competitors. Marketers try to promote particular features of products to distinguish them from their competitors in the marketplace.

Product differentiation is the creation of a feature or image that makes a product differ enough from competitive products to attract consumers. For example, Volvo automobiles provide enhanced safety features to set them apart from competitors. In recent advertisements featuring two older, nostalgic gentlemen, TD Canada Trust emphasized their non-traditional extended banking hours as a clear source of differentiation for its service-oriented business model.

One company has developed a system that allows its customers at retail home centres and lumber yards to custom-design decks and shelving. As a result, the company has differentiated a commodity—two-by-fours—by turning them into premium products. *Mass-customization* allows marketers to provide products that satisfy very specific consumer needs. We discuss products and product development in more detail in Chapter 13. Take a look at the boxed insert entitled “Guelph Thinks Green,” which

RELATIONSHIP MARKETING A type of marketing that emphasizes lasting relationships with customers and suppliers.

MARKETING MANAGERS Managers responsible for planning and implementing all the marketing-mix activities that result in the transfer of goods or services to customers.

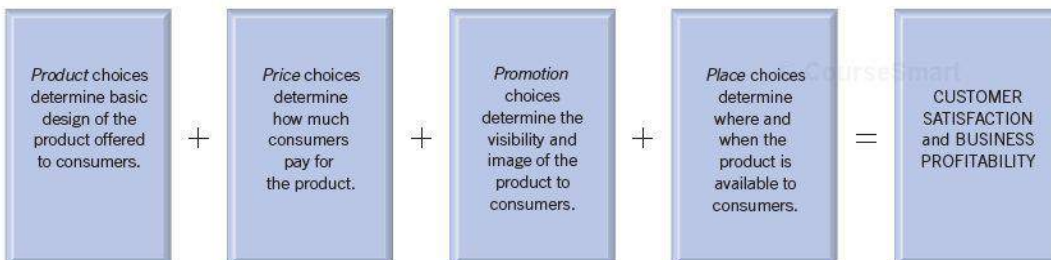
MARKETING PLAN A detailed strategy for gearing the marketing mix to meet consumer needs and wants.

MARKETING MIX The combination of product, pricing, promotion, and distribution strategies used in marketing a product.

PRODUCT A good, service, or idea that satisfies buyers’ needs and demands.

PRODUCT DIFFERENTIATION The creation of a product or product image that differs enough from existing products to attract consumers.

Figure 12.1
Choosing the marketing mix for a business.



PRICE That part of the marketing mix concerned with choosing the appropriate price for a product to meet the firm's profit objectives and buyers' purchasing objectives.

describes the efforts by Green World Solutions (GWS) to create environmentally friendly solutions.

Price Price refers not only to the actual amount of money that consumers pay for a product or service but also to the

total value of the things that consumers are willing to give up in return for being able to have the benefits of the product or service. For example, if a person wants to buy a car, he or she might take money out of a savings account in order to pay for it. The value of the interest he or she would have earned on the savings account is part of the value that the customer gives up in order to own the car. Car manufacturers are always looking for ways to

attract consumers. For example, when BMW Canada sets prices for its 3 Series line of cars, it needs to consider the competition. Recently, the Acura TL was offering \$3000 rebates and the Audi A4 was available at 2.9 percent financing.⁵ Determining the best price at which to sell a product is a difficult balancing act. From a manufacturer's point of view, prices must support the organization's operating, administrative, research, and marketing costs. On the other hand, prices cannot be so high that consumers turn to competing products.

Both low- and high-price strategies can be effective, depending on the situation. For example, Canadian Tire maintained healthy sales in patio furniture and barbecues during the most recent recession by stocking more lower-priced items and scaling back more expensive items.⁶ At the same time, de Grisogono was launching The Meccanico watch in style, by winning the Prix du

THE GREENING OF BUSINESS

Guelph Thinks Green

The majority of plastics that have been manufactured in the last hundred years are still in existence. (As little as 4 percent of plastics have been recycled and only 2 percent have been incinerated.) The remaining masses are either buried, blowing around, sitting in a landfill, or floating in our oceans. Today's consumers are starting to look for ways to reduce waste.

A group of University of Guelph students decided to look more closely at a niche market to try to address waste issues. Green World Solutions (GWS) was created by Kwasi Danso, Jonathan Wolff, and Ashley van Herten, who recognized that in order to make a difference to the environment, consumers must become collectively accountable for their actions. GWS has aligned itself with the patent holder of a revolutionary additive that makes plastic biodegradable and has begun discussions and pricing strategies for manufacturing a variety of household items.

One product idea was a pet waste bag, but before the idea could be launched GWS needed to conduct significant market research to determine the product's competitiveness and feasibility. What it found was surprising: most of the biodegradable pet waste bags on the market were not biodegradable in a landfill. The ideal environment for the breakdown of the materials could be found only in commercial composts. This new revelation did not make sense to GWS, since consumers were led to believe the products currently on the market would biodegrade when left in garbage cans. This recognition that current product offerings needed

to be improved gave GWS the basis for demonstrating to consumers that its product was superior to existing products.

GWS is testing this biodegradable additive with additional products in order to help various industries make better environmental choices. As this is a new market and environmental interest is at an all-time high, GWS is also spending considerable time and effort in creating a strong, recognizable brand image as an environmentally conscious company. Its name is descriptive and appealing to the target audience, and the logo shows imagery of a clean blue and green earth.

GWS has incorporated and is commencing production of biodegradable waste bags. The next steps for GWS are to actively promote environmental consumerism and to spread awareness of the importance of consumers taking responsibility for their own polluting activities. GWS foresees tremendous opportunity in the biodegradable retail plastic industry.

Critical Thinking Questions

1. What are the 4 Ps of marketing? Which one do you think was most important in this case?
2. What are some of the concerns that businesses would have when undertaking new initiatives like those at GWS? What concerns might consumers have?
3. Research the waste management industry. What can you learn from the companies' websites about the benefits of new biodegradable plastics?



Although BMW is consistent with its premium price policy, it must be conscious of the various offers that its competitors are providing, especially in difficult times.

DISTRIBUTION That part of the marketing mix concerned with getting products from the producer to the buyer, including physical transportation and choice of sales outlets.

PROMOTION That part of the marketing mix concerned with selecting the appropriate technique for selling a product to a consumer.

TARGET MARKET Any group of people who have similar wants and needs and may be expected to show interest in the same product(s).

MARKET SEGMENTATION Dividing a market into categories according to traits customers have in common.

Public at a prestigious competition in Geneva. The company proclaims that The Meccanico is the world's most complicated watch and it retails for about \$200 000 or roughly as much as a Ferrari. The company had expected to sell approximately 177 watches but had only managed to sell 35, with another 60 orders in place, in the first six months.⁷ Low prices will generally lead to a larger volume of sales. High prices will usually limit the size of the market but will increase a firm's profits per unit. In some cases, however, high prices may actually attract customers by implying that the product is especially good or rare. We will discuss pricing in more detail in Chapter 14.

Place (Distribution) In the marketing mix, *place* refers to **distribution**. Placing a product in the proper outlet (e.g., a retail store) requires decisions about warehousing, inventory control, and transportation that is needed to get the product

from the producer to the consumer. Firms must also make decisions about the *channels* through which they distribute products. Many manufacturers sell goods to other companies, which in turn distribute them to retailers. Others sell directly to major retailers such as Rona, Walmart, or Safeway. Still others sell directly to final consumers. We explain distribution decisions further in Chapter 14.

Promotion The most visible component of the marketing mix is **promotion**, which refers to those activities that are designed to sell products and services to consumers. Promotional tools include advertising, personal selling, sales promotions, publicity, and public relations. Chapter 13 explores the promotion of products in more depth.



By providing both distribution and advertising for Grand & Toy, this truck plays a dual role in the company's marketing strategy.

LO-3 Target Marketing and Market Segmentation

Marketing managers realize that they cannot be “all things to all people” because people have different tastes, interests, goals, and lifestyles. The marketing concept's recognition of consumers' various needs and wants leads marketing managers to think in terms of **target markets**—groups of people with similar wants and needs. Target marketing clearly requires **market segmentation**—dividing a market into categories of customer types or “segments.” For example, Mr. Big & Tall sells to men who are taller and heavier than average. Special-interest magazines are oriented toward people with certain interests like fishing, home decorating, or gardening.

GEOGRAPHIC VARIABLES

Geographical units that may be considered in a segmentation strategy.

DEMOGRAPHIC VARIABLES

Characteristics of populations that may be considered in developing a segmentation strategy.

MULTICULTURAL MARKETING

Marketing activities directed at various identifiable ethnic groups in Canada.

Table 12.1 Demographic Market Segmentation

Age	Under 5; 5–11; 12–19; 20–34; 35–49; 50–64; 65+
Education	Grade school or less; some high school; graduated high school; some college or university; college diploma or university degree; advanced degree
Family life cycle	Young single; young married without children; young married with children; older married with children under 18; older married without children under 18; older single; other
Family size	1, 2–3, 4–5, 6+
Income	Under \$15 000; \$15 000–\$24 999; \$25 000–\$34 999; \$35 000–\$44 999; \$45 000 and over
Nationality	Including but not limited to African, Asian, British, Eastern European, French, German, Irish, Italian, Latin American, Middle Eastern, and Scandinavian
Race	Including but not limited to Inuit, Asian, black, and white
Religion	Including but not limited to Buddhist, Catholic, Hindu, Jewish, Muslim, and Protestant
Sex	Male, female
Language	Including but not limited to English, French, Inuktitut, Italian, Ukrainian, and German

Once they have identified market segments, companies may adopt a variety of product strategies. Some firms decide to provide a range of products to the market in an attempt to market their products to more than one segment. For example, General Motors of Canada offers compact cars, vans, trucks, SUVs, luxury cars, and sports cars with various features and prices. Its strategy is to provide an automobile for nearly every segment of the market. In contrast, some businesses restrict production to one small market segment (or niche). Rolls-Royce understands that only a small number of people are willing to pay \$310 000 for an exclusive touring limousine. Rolls-Royce makes no attempt to cover the entire range of possible products; instead, it markets only to a very small segment of the automobile market.

Identifying Market Segments

The members of a market segment must share some common traits or behaviours that will affect their purchasing decisions. In identifying market segments, researchers look at geographic, demographic, psychographic, and product-use variables.

Geographic Variables Geographic variables are the geographical units, from countries to neighbourhoods, that may be important in a segmentation strategy. For example, the heavy rainfall in British Columbia prompts its inhabitants to purchase more umbrellas than people living in Arizona's desert climate. Urban dwellers have less demand for pickup trucks than do their rural counterparts. Sailboats sell better along both coasts than they do in the Prairie provinces. These patterns affect marketing decisions about what products to offer, at what price to sell them, how to promote them, and how to distribute them. For example, consider the marketing of down parkas in rural Saskatchewan. Demand will be high, price competition may be limited, local newspaper advertising may be

very effective, and the best location may be one easily reached from several small towns.

Demographic Variables Demographic variables describe populations by identifying characteristics such as age, income, gender, ethnic background, marital status, race, religion, and social class as detailed in Table 12.1. Note that these are objective criteria that cannot be altered. Marketers must work with or around them.

Depending on the marketer's purpose, a segment can be a single classification (e.g., age 20–34) or a combination of categories (e.g., age 20–34, married with children, earning \$25 000–\$34 999). Foreign competitors are gaining market share in auto sales by appealing to young buyers (under 30) with limited incomes (under \$30 000). While companies such as Hyundai and Kia are winning entry-level customers with high quality and generous warranties, Volkswagen targets under-35 buyers with its entertainment-styled VW Jetta.⁸ The Bank of Montreal is paying particular attention to the large baby boomer population (born between 1947 and 1966), which represents approximately 40 percent of the working population. Specialized services and products are being developed to serve the growing retirement needs of this group.⁹

Canada's great ethnic diversity requires companies to pay close attention to ethnicity as a segmentation variable. Visible minorities in Canada control \$76 billion in annual buying power, and to be effective in **multicultural marketing**, companies must understand the underlying values that ethnic minority customers hold.¹⁰ These consumers can be precisely targeted using one of the 370 media outlets geared toward 87 ethnic groups in Canada. Ethnic TV stations include the Fairchild Network (Cantonese and Mandarin) and ATN (South Asian). There are 44 language groups represented in 228 publications ranging from Punjabi to Italian. There are 66 languages represented on 57 radio stations across the country, including CHIN in Toronto, CFMB in Montreal, and CJVB in Vancouver.¹¹

Coffee Shops

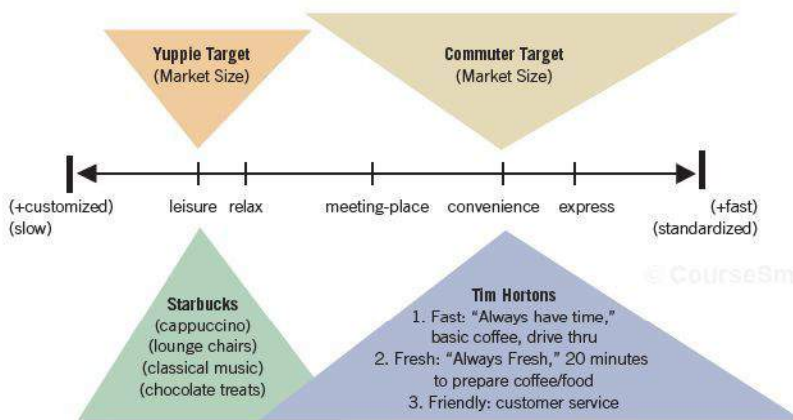


Figure 12.2
Product positioning.

Psychographic Variables Members of a market can also be segmented according to **psychographic variables** such as lifestyles, opinions, interests, and attitudes. One company that used psychographic variables to revive its brand is Burberry, whose plaid-lined gabardine raincoats have been a symbol of British tradition since 1856. During the past decade, Burberry repositioned itself as a global luxury brand like Gucci and Louis Vuitton. The strategy calls for luring top-of-the-line, fashion-conscious customers. Burberry pictures today's luxury-product shopper as a world traveller who identifies with prestige fashion brands and monitors social and fashion trends in magazines like *Harper's Bazaar*.¹² Robert Polet, chief executive of the Gucci Group, agrees with this strategy: "We're not in the business of selling handbags. We are in the business of selling dreams."¹³

Psychographics are particularly important to marketers because, unlike demographics and geographics, they can sometimes be changed by marketing efforts. Many companies have succeeded in changing some consumers' opinions by running ads highlighting products that have been improved directly in response to consumer desires. For example, Las Vegas began courting the gay community a few years ago as part of a broader effort to target a range of minority audiences. Studies showed that the gay and lesbian travel market was among the most lucrative. According to research from Community Marketing Inc., a gay and lesbian market research company, gay and lesbian travel accounts for \$55 billion of the overall U.S. travel market.¹⁴

Product-Use Variables This fourth way of segmenting looks at why people purchase the product in question, how they use the product, and their brand loyalty to

PSYCHOGRAPHIC VARIABLES

Psychological traits that a group has in common, including motives, attitudes, activities, interests, and opinions.

PRODUCT POSITIONING

The establishment of an easily identifiable image of a product in the minds of consumers.

the product.¹⁵ For example, a woman buying an *athletic* shoe will probably not care much about its appearance, but she will care a great deal

about arch support, traction offered by the sole, and sturdiness. In contrast, a woman buying a *casual* shoe will want it to look good but be comfortable. A woman buying a *dress* shoe may require a specific colour or style and accept some discomfort and a relatively fragile shoe.

Whatever basis is used for segmenting a market, care must be taken to *position* the product correctly. **Product positioning** is based on the important attributes that consumers use to assess the product. For example, a low-priced car like a Ford Focus tends to be positioned on the basis of *economy*, while a Porsche is positioned in terms of *high performance*. The product positioning chart in Figure 12.2 shows that Tim Hortons emphasizes a standardized product and provides fast service to people in a hurry, while Starbucks provides more customized products in more leisurely surroundings.

Market Segmentation: A Caution

Segmentation must be done carefully. A group of people may share an age category, income level, or some other segmentation variable, but their spending habits may be quite different. Look at your friends in school. You may all be approximately the same age, but you have different needs and wants. Some of you may wear cashmere sweaters while others wear sweatshirts. The same holds true for income. University professors and truck drivers earn about the same level of income; however, their spending patterns, tastes, and wants are generally quite different.

In Canada, the two dominant cultures—English and French—have historically shown significant differences in consumer attitudes and behaviour. Researchers have found that compared with English Canadians, French Canadians are more involved with home and family, attend the ballet more often, travel less, eat more chocolate, and are less interested in convenience food. But this does not

MARKET RESEARCH

The systematic study of what buyers need and how best to meet those needs.

SECONDARY DATA

Information already available to market researchers as a result of previous research by the firm or other agencies.

PRIMARY DATA

Information developed through new research by the firm or its agents.

OBSERVATION

A market research technique involving viewing or otherwise monitoring consumer buying patterns.

necessarily mean that companies must have different product offerings in Quebec. The adoption process for new products varies from one individual to another according to socio-economic and demographic characteristics.

Marketers are very interested in a person's system of values because values can have a big influence on an individual's tendency to adopt a new product. One study using business school students from France, Quebec, and the rest of North America identified three types of consumers: the conservatives, the dynamics, and the hedonists. The conservatives are typically those consumers who are least likely to adopt new products, while the

hedonists (pleasure seekers) are categorized as innovators and are the most likely to adopt new products. Individuals in the dynamics category are somewhat likely to adopt new products but are often seen as imitators.¹⁶

LO-4 Market Research

Market research, which is the study of what buyers need and how best to meet those needs, can address any element in the marketing mix. Business firms spend millions of dollars each year trying to figure out their customers' habits and preferences. Market research can greatly improve the accuracy and effectiveness of market segmentation.¹⁷ For example, comic books have historically not been of much interest to girls, but DC Comics and Marvel Entertainment are convinced they can change that after observing the success of upstart companies like Tokyopop and Viz Media, which produce translated Japanese comics called *manga*. These companies have succeeded in attracting female readers by having "girl-friendly" content and by distributing their products in both comic book shops and mainstream bookstores.¹⁸

The Research Process

Market research can occur at almost any point in a product's existence, but it is most frequently used when a new or altered product is being considered. There are five steps in performing market research:¹⁹

- 1 **Study the current situation.** What is the need and what is currently being done to meet it?

- 2 **Select a research method.** In choosing a method, marketers must bear in mind the effectiveness and costs of different methods.

- 3 **Collect data.** **Secondary data** are information already available as a result of previous research by the firm or other organizations. For example, Statistics Canada publishes a great deal of data that are useful for business firms. Using secondary data can save time, effort, and money. But in some cases, secondary data are unavailable or inadequate, so **primary data**—new research by the firm or its agents—must be obtained. When the Metro grocery chain wanted to increase sales among a key target group—the yoga set (i.e., health-conscious women)—it added three metres of space for yogourt in its coolers while reducing space for products like margarine. The resulting data showed no loss in margarine sales but significant growth in yogourt sales.²⁰

- 4 **Analyze the data.** As we learned in Chapter 11, data are not useful until they have been organized into information.

- 5 **Prepare a report.** This report normally includes a summary of the study's methodology and findings, various alternative solutions (where appropriate), and recommendations for an appropriate course of action.

Research Methods

The four basic types of methods used by market researchers are *observation*, *survey*, *focus groups*, and *experimentation*.

Observation Probably the oldest form of market research is simple **observation**. It is also a popular research method because it is relatively low in cost, often drawing on data that must be collected for some other reason, such as reordering. In earlier times, when a store owner noticed that customers were buying red children's wagons, not green ones, the owner reordered more red wagons, the manufacturer's records showed high sales of red wagons, and the marketing department concluded that customers wanted red wagons. But observation is now much more sophisticated. For example, Procter & Gamble sent video crews into about 80 households in the U.K., Germany, and China to capture people's daily routines and product interaction. P&G can use this information to develop new products to satisfy needs that consumers didn't even know they had.²¹

Retail guru Paco Underhill collects approximately 50,000 hours of video every year for customers like Walmart, Best Buy, and Gap.²² Using video equipment to observe consumer behaviour is called *video mining*. It is being adopted by many retailers in North America, who use hidden cameras to determine the percentage of shoppers who buy and the percentage who only browse. They do this by

comparing the number of people taped with the number of transactions the store records. Some consumer organizations are raising privacy concerns about this practice, since shoppers are unaware that they are being taped.²³

Survey Sometimes observation of current events is not enough and marketers need to conduct a **survey** to find out what consumers want. When Sara Lee Corp. acquired Kiwi shoe polish, it surveyed 3500 people in eight countries about their shoe care needs. It learned that people do not care as much about the shine on their shoes as they do about how fresh and comfortable they are on the inside. The firm has since unveiled several new products under the Kiwi name and is doing quite well.²⁴

The heart of any survey is a questionnaire that contains carefully constructed questions designed to give the company honest answers about specific research issues. Surveys can be expensive to carry out and may vary widely in their accuracy. Because no firm can afford to survey everyone, marketers must carefully select a representative group of respondents. In the past, surveys have been mailed to individuals for their completion, but online surveys are now gaining in popularity because the company gets immediate results and because the process is a less intrusive way of gathering data. At Hudson's Bay Company, customers can use online surveys to tell HBC how happy or unhappy they are about the service they received at any of The Bay's department stores. The company can then make any changes that are needed to keep customers happy. The Bay used to hire mystery shoppers to find out how well it was serving the public, but that program was ended when the online survey system was adopted.²⁵

Focus Groups Many firms also use **focus groups**, where 6 to 15 people are brought together to talk about a product or service. A moderator leads the group's discussion, and employees from the sponsoring company may observe the proceedings from behind a one-way mirror. The comments of people in the focus group are taped, and researchers go through the data looking for common themes. The people in the focus group are not usually told which company is sponsoring the research. When Procter & Gamble was developing a new air freshener, it asked people in focus groups to describe their "desired scent experience." They discovered that people get used to a scent after about half an hour and no longer notice it. P&G used this information to develop Febreze Scentstories, which gives off one of five scents every 30 minutes.²⁶

Consumers don't necessarily tell the truth when participating in focus groups or when filling out surveys. They may say one thing and think something else. This has led marketers to look at other ways of gathering information. For example, Sensory Logic Inc. studies facial expressions and eye movements to determine what consumers really think of a product.²⁷

Experimentation **Experimentation** compares the responses of the same or similar individuals under different circumstances. For example, a firm that is trying to decide whether to include walnuts in a new candy bar probably would not learn much by asking people what they thought of the idea. But if it made some bars with nuts and some without and then asked people to try both, the responses could be very helpful.²⁸

SURVEY A market research technique based on questioning a representative sample of consumers about purchasing attitudes and practices.

FOCUS GROUP A market research technique involving a small group of people brought together and allowed to discuss selected issues in depth.

EXPERIMENTATION A market research technique in which the reactions of similar people are compared under different circumstances.

CONSUMER BEHAVIOUR The study of the process by which customers come to purchase and consume a product or service.

Understanding Consumer Behaviour

Market research in its many forms can be of great help to marketing managers in understanding how the common traits of a market segment affect consumers' purchasing decisions. Why do people buy a certain product? What desire are they fulfilling with the product? Is there a psychological or sociological explanation for why consumers purchase one product and not another? These questions and many others are addressed in the area of marketing known as **consumer behaviour**, which focuses on the decision process customers use when deciding what products to buy.

Influences on Consumer Behaviour

To understand consumer behaviour, marketers draw heavily on the fields of psychology and sociology. Four influences are most active, and marketers use them to explain consumer choices and predict future purchasing behaviour:

- 1 **Psychological influences** include an individual's motivations, perceptions, ability to learn, and attitudes.
- 2 **Personal influences** include lifestyle, personality, economic status, and life-cycle stage.
- 3 **Social influences** include family, opinion leaders (people whose opinions are sought by others), and reference groups such as friends, co-workers, and professional associates.
- 4 **Cultural influences** include culture (the "way of living" that distinguishes one large group from another),

subculture (smaller groups, such as ethnic groups, with shared values), and social class (the cultural ranking of groups according to criteria such as background, occupation, and income).

Although these factors can have an impact on a consumer's choices, their effect on actual purchases varies. Some consumers regularly purchase certain products because they are satisfied with their performance. Such people are less subject to influence and stick with brand names they have experience with. On the other hand, as we saw in the opening case about lululemon, the clothes you wear often reflect social and psychological influences on your consuming behaviour.

LO-5 The Consumer Buying Process

Researchers who have studied consumer behaviour have constructed models that help marketing managers understand how consumers come to purchase products. Figure 12.3 presents one such model. At the foundation of this and similar models is an awareness of the psychosocial influences that lead to consumption. Ultimately, marketing managers use this information to develop marketing plans.

Problem/Need Recognition The buying process begins when a consumer becomes aware of a problem or need. For example, after strenuous exercise, you may recognize that you are thirsty and need refreshment. After the birth of twins, you may find your one-bedroom apartment too small for comfort. After standing in the rain to buy movie tickets, you may decide to buy an umbrella. Need recognition also

occurs when you have a chance to change your purchasing habits. For example, the income from your first job after graduation will let you purchase items that were too expensive when you were a student. You may also discover a need for professional clothing, apartment furnishings, and cars. Visa and the Bay recognize this shift and therefore market their credit cards to graduates.

Information Seeking Having recognized a need, consumers seek information. This search is not always extensive. If you are thirsty, you may ask where the vending machine is, but that may be the extent of your information search. Other times, you simply rely on your memory for information. If you are thirsty after a workout, Gatorade probably comes to mind because of all the ads you've seen reminding you that it is great way to replenish lost fluids. Before making major purchases, however, most people seek additional information. For example, if you move to a new city, you will want to find out who is the best local dentist, physician, hair stylist, or butcher. To get this information, you may check with acquaintances, co-workers, and relatives. Before buying an exercise bike, you may read the latest *Consumer Reports*—a public source of consumer ratings—on such equipment. You may also ask market sources such as the salesclerk or rely on direct experience. You might test-ride the bike to learn more before you buy.²⁹ The internet has become an important source of information; 80 percent of Canadians rely on the internet to gather information.³⁰

Evaluation of Alternatives If you are in the market for a set of golf clubs, you probably have some idea

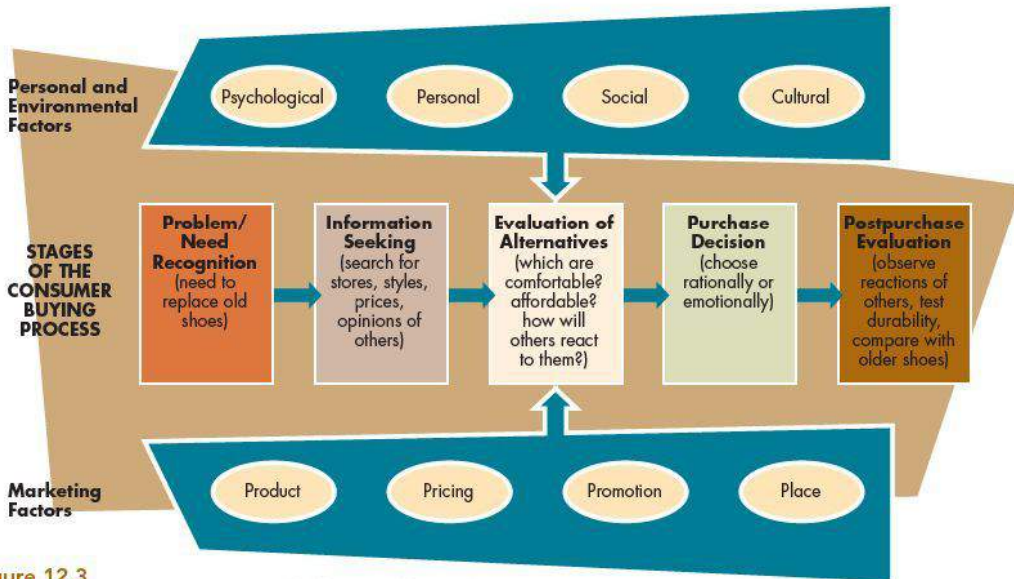


Figure 12.3 The consumer buying process.

of who produces clubs and how they differ. You may have accumulated some of this knowledge during the information-seeking stage and combined it with what you knew before. Based on product attributes such as colour, price, prestige, quality, and service record, you will decide which product best meets your needs.

Purchase Decision Ultimately, you make a purchase decision. “Buy” decisions are based on rational and emotional motives. **Rational motives** involve a logical evaluation of product attributes like cost, quality, and usefulness. **Emotional motives** like fear, sociability, imitation of others, and aesthetics can lead to less-than-ideal purchase decisions. Many spur-of-the-moment decisions are emotionally driven. You might buy mouthwash to avoid embarrassment. You might buy the same brand of jeans as your friends to “fit in.” And you might buy a chocolate milkshake simply because you like the taste.

Post-Purchase Evaluation Marketing does not stop with the sale of a product or service but includes the process of consumption. What happens *after* the sale is very important. A marketer wants consumers to be happy after the consumption of the product so that they will buy the product again. In fact, since consumers do not want to go through a complex decision process for every purchase, they often choose a product they have used and liked.

Not all consumers are satisfied with their purchases. Dissatisfied consumers may complain, file a lawsuit, or publicly criticize the product and the company. They are unlikely to purchase the product again, and they are much more likely to speak about their negative experience with a product than are satisfied customers about their positive experience. People can complain about products or services at www.complaints.com or on social media sites. Dissatisfied customers can have a very negative impact on a company’s marketing effort. **Word of mouth marketing** (also known as **buzz marketing**) is a very powerful marketing tool. It can, however, be the most devastating, since businesses cannot control it.³¹ The Exercising Your Ethics feature at the end of the chapter describes a situation where the customer’s buying process did not fit with the marketing methods being used by the company. The result was an unhappy customer.

Companies need to be proactive to satisfy their consumers. After a very tough year full of embarrassing recalls, Toyota Canada began offering customers free maintenance for two years or 48 000 kilometres on select 2010 vehicles. This approach is often used by high-end auto manufacturers. This response could be effective for three reasons: (1) it allows Toyota to identify unsatisfied customers and fix their problems before they spread negative word of mouth, (2) it is relatively inexpensive—in essence, four oil changes, and (3) it ensures that customers will get

into the habit of visiting the dealership; a behaviour that can be very lucrative after the two-year period expires.³²

LO-6 The International Marketing Mix

Marketing products internationally means mounting a strategy to support global business operations. Obviously, this is no easy task. Foreign customers differ from domestic buyers in language, customs, business practices, and consumer behaviour. When they decide to go global, marketers must therefore reconsider each element of the marketing mix.

International Products

Some products (e.g., Heineken and Coca-Cola) can be sold in many countries with virtually no changes, but often only a redesigned (or completely different) product will meet the needs of foreign buyers. To sell its computers in Japan, Apple had to develop a Japanese-language operating system.

Mattel, the maker of Barbie dolls, is one company that has learned some interesting lessons about the international market. When it conducted focus groups with kids in dozens of countries, it found that worldwide demand existed for many of the same products. Mattel discovered, in essence, that children have similar tastes no matter where they live. Mattel’s experience with its famous Barbie doll is illustrative. The dolls sold in Japan had always had black hair and Asian features, not the blonde, blue-eyed appearance of Barbie dolls sold in North America. This seemed to make intuitive sense, but now Mattel is finding that the original Barbie doll is selling just as well in Asia as in North America. But there are still important differences between countries, and they cannot be ignored. For example, German children aren’t attracted to action toys the way Canadian and American children are. There are also differences within basic product lines. American kids want Nascar toy cars, while European children want Formula One models.

International Pricing

When pricing for international markets, marketers must handle all the considerations of domestic pricing while

RATIONAL MOTIVES

Those reasons for purchasing a product that involve a logical evaluation of product attributes such as cost, quality, and usefulness.

EMOTIONAL

MOTIVES Those reasons for purchasing a product that involve non-objective factors.

WORD OF MOUTH MARKETING (BUZZ MARKETING)

Opinions about the value of products passed among consumers in informal discussions.

Feathercraft is a small British Columbia manufacturer that has been successful selling kayaks in the Japanese market.

also considering the higher costs of transporting and selling products abroad. Some products cost more overseas than in Canada because of the added costs of delivery. In contrast, products like jet airplanes are priced the same worldwide because delivery costs are incidental; the huge development and production costs are the major considerations regardless of customer location.

International Promotion

Some standard Canadian promotional techniques like advertising do not always succeed in other countries. In fact, some Europeans believe that a product must be shoddy if a company does any advertising. International marketers must also be aware that cultural differences can cause negative reactions to products that are advertised improperly. For example, since many Europeans are offended by television commercials that show weapons or violence, Dutch commercials for toys do not feature the guns and combat scenes that are commonplace on Saturday morning television in North America. Meanwhile, cigarette commercials that are banned from Canadian and U.S. television are thriving in many Asian and European markets.

Symbolism can be a surprising consideration. In France, for instance, yellow flowers suggest infidelity. In Mexico, they are signs of death—an association made in Brazil by the colour purple. Clearly, product promotions must be carefully matched to the customs and cultural values of each country.

International Distribution

In some industries, delays in starting new distribution networks can be costly. Therefore, companies with existing distribution systems often enjoy an advantage over new businesses. Several companies have gained advantages in time-based competition by buying existing businesses. Procter & Gamble, for example, saved three years of start-up time by buying Revlon's Max Factor and Betrix cosmetics, both of which are well established in foreign markets. P&G can thus immediately use these companies' distribution and marketing networks for selling its own brands in the United Kingdom, Germany, and Japan. On the other hand, Coca-Cola has been a major player on the international distribution scene

for decades and it's a good thing. While sales have been sluggish in North America, the firm is benefiting from major growth in China and India. North America sales now account for only 18 percent of Coca-Cola's profits.³³

Other companies contract with foreign firms or individuals to distribute and sell their products abroad. Foreign agents may perform personal selling and advertising, provide information about local markets, or serve as exporters' representatives. But having to manage interactions with foreign personnel complicates a marketing manager's responsibilities. In addition, packaging practices in Canada must sometimes be adapted to withstand the rigours of transport to foreign ports and storage under conditions that differ radically from domestic conditions.

Small Business and the Marketing Mix

Many of today's largest firms were yesterday's small businesses. McDonald's began with one restaurant, a concept, and one individual (Ray Kroc) who had a lot of foresight. Behind the success of many small firms lies a skilful application of the marketing concept and careful consideration of each element in the marketing mix.

Small-Business Products

Some new products—and firms—are doomed from the start simply because few consumers want or need what

they have to offer. Too often, enthusiastic entrepreneurs introduce products that they and their friends like, but they fail to estimate realistic market potential. Other small businesses offer new products before they have clear pictures of their target markets and how to reach them. They try to be everything to everyone, and they end up serving no one well. In contrast, sound product planning has paid off for many small firms. “Keep it simple” is a familiar key to success—that is, fulfill a specific need and do it efficiently.

Small-Business Pricing

Haphazard pricing that is often little more than guesswork can sink even a firm with a good product. Most often, small-business pricing errors result from a failure to predict operating expenses accurately. Owners of failing businesses have often been heard to utter statements like, “I didn’t realize how much it costs to run a business!” and “If I price the product high enough to cover my expenses, no one will buy it!” But when small businesses set prices by carefully assessing costs, many earn very satisfactory profits—sometimes enough to expand or diversify.

Small-Business Promotion

Successful small businesses plan for promotional expenses as part of start-up costs. Some hold costs

down by taking advantage of less expensive promotional methods. Local newspapers are sources of publicity when they publish articles about new or unique businesses. Other small businesses have succeeded by identifying themselves and their products with associated groups, organizations, and events. Thus a custom-crafts gallery might join with a local art league and local artists to organize public showings of their combined products. Social media sites are providing new inexpensive outlets for promotion of small businesses as well.

Small-Business Distribution

Problems in arranging distribution can also make or break small businesses. Perhaps the most critical aspect of distribution is facility location, especially for new service businesses. The ability of many small businesses—retailers, veterinary clinics, gourmet coffee shops—to attract and retain customers depends heavily on the choice of location.

In distribution, as in other aspects of the marketing mix, smaller companies may have advantages over larger competitors. They may be quicker in applying service technologies. Everex Systems Inc. sells personal computers to wholesalers and dealers through a system the company calls “Zero Response Time.” Phone orders are reviewed every two hours so that the factory can adjust assembly to match demand.



To improve your grade, visit the MyBusinessLab website at www.pearsoned.ca/mybusinesslab. This online homework and tutorial system allows you to test your understanding and generates a personalized study plan just for you. It provides you with study and practice tools directly related to this chapter’s content. MyBusinessLab puts you in control of your own learning! Test yourself on the material for this chapter at www.pearsoned.ca/mybusinesslab.

Summary of Learning Objectives

1. Explain the concept of *marketing*. Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals. Marketing can be used to promote consumer and industrial goods.
2. Explain the purpose of a *marketing plan* and identify the four components of the *marketing mix*.

Marketing managers plan and implement all the marketing activities that result in the transfer of products to customers. These activities culminate in the marketing plan. Marketing managers rely on the four Ps of marketing (marketing mix). (1) *Product*: a good, a service, or idea. Product differentiation is the creation of a feature or image that makes a product differ from competitors. (2) *Pricing*: strategically selecting the most

appropriate price. (3) *Place (Distribution)*: activities concerned with getting a product from the producer to the consumer. (4) *Promotion*: techniques used to communicate information about products to customers.

3. Explain **market segmentation** and show how it is used in **target marketing**. Marketers think in terms of target markets—groups of people who have similar wants and needs. Target marketing requires market segmentation—dividing a market into customer types or “segments.” Four of the most important influences are (1) *geographic variables*, (2) *demographic variables*, (3) *psychographic variables*, and (4) *behavioural variables*.
4. Explain the **purpose and value of marketing research**. Market research is the study of what buyers need and the best ways to meet those needs. This process involves (1) studying the current situation, (2) selecting a research method, (3) collecting and analyzing data, and (4) preparing the report. The four most common research methods are observation, surveys, focus groups, and experimentation.
5. Describe the **key factors that influence the consumer buying process**. Consumer behaviour is the study of the process by which customers decide to purchase products. The result is a focus on four major influences on consumer behaviour: (1) *psychological*

influences, (2) *personal influences*, (3) *social influences*, and (4) *cultural influences*. By identifying which influences are most active in certain circumstances, marketers try to explain consumer choices and predict future purchasing behaviour.

6. Describe the **international and small-business marketing mixes**. When going global, marketers must reconsider each element of the marketing mix: (1) *product*: sell products abroad without changes or redesign the product, (2) *price*: consider the higher costs of transporting and selling abroad, (3) *distribution*: companies can gain advantages by buying businesses already established in foreign markets, and (4) *promotion*: can the ad campaign be transported abroad, or does it need to be totally redesigned?

Behind the success of many small firms lies an understanding of each element in the marketing mix: (1) *small-business products*: understanding what customers need and want, (2) *small-business pricing*: errors usually result from failure to project operating expenses perhaps the most critical aspect is facility location, (3) *small-business distribution*: the ability of many small businesses to attract and retain customers depends on it, and (4) *small-business promotion*: successful small businesses plan for promotional expenses as part of start-up costs.

Questions and Exercises

Questions for Analysis

1. Why and how is market segmentation used in target marketing?
2. Select an everyday product (such as books, iPods, skateboards, dog food, or shoes). Show how different versions of your product are aimed toward different market segments. Explain how the marketing mix differs for each segment.
3. Consider a service product, such as transportation, entertainment, or health care. What are some ways that more customer value might be added to this product? Why would your improvements add value for the buyer?
4. How does the branding and packaging of convenience, shopping, and specialty goods differ? Why? Give examples of actual products to defend your answer.
5. If you were starting a small business, what are the key marketing pitfalls you would try to avoid?
6. Select a product or service that you use regularly. Explain the relative importance of each of the four elements in the marketing mix (product, price, promotion, and place). Then select another product and determine the extent to which the relative emphasis changes. If it changed, why did it change?

Application Exercises

7. Interview the marketing manager of a local business. Identify the degree to which this person’s job is focused on each element in the marketing mix.
8. Select a product made by a foreign company and visit its website. What is the product’s target market? What is the basis on which the target market is segmented? Do you think that this basis is appropriate? How might another approach be beneficial? Why?
9. Interview someone who has recently purchased or is in the process of purchasing a car. Identify the actions that your subject took at each stage of the consumer buying process. Did the manufacturer help simplify the process? How? Is the consumer experiencing post-purchase regret?
10. Visit the websites of three major banks and identify how they help their clients gather information to ease the home-buying process (e.g., mortgage products and services).

Building Your Business Skills

Dealing in Segments and Variables

Goal

To encourage students to analyze the ways in which various market segmentation variables affect business success.

Situation

You and four partners are thinking of purchasing a heating and air conditioning (H/AC) dealership that specializes in residential applications priced between \$2000 and \$40 000. You are now in the process of deciding where that dealership should be. You are considering four locations: Miami, Florida; Toronto, Ontario; Vancouver, British Columbia; and Dallas, Texas.

Method

Step 1 Working with four classmates (your partnership group), conduct library research to learn how H/AC makers market their residential products. Check for articles in *The Globe and Mail*, *Canadian Business*, *Wall Street Journal*, and other business publications.

Step 2 Continue your research. This time, focus on the specific marketing variables that define each prospective location. Check Statistics Canada data at your library

and on the internet and contact local chambers of commerce (by phone and via the internet) to learn about the following factors for each location:

- Geography
- Demography (especially age, income, gender, family status, and social class)
- Psychographic variables (lifestyles, interests, and attitudes)

Step 3 Meet with group members to analyze which location holds the greatest promise as a dealership site. Base your decision on your analysis of market segment variables and their effects on H/AC sales.

Follow-Up Questions

1. Which location did you choose? Describe the market segmentation factors that influenced your decision.
2. Identify the two variables you believe will have the greatest impact on the dealership's success. Why are these factors so important?
3. Which factors were least important in your decision? Why?
4. When equipment manufacturers advertise residential H/AC products, they often show them in different climate situations (in winter, summer, or high-humidity conditions). Which market segments are these ads targeting? Describe these segments in terms of demographic and psychographic characteristics.

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Exercising Your Ethics

A Big Push for Publicity

The Situation

Marsden Corp. is known as a "good citizen" and prides itself on publicity it receives from sponsoring community projects. The company's executive vice-president, Jane Martin, has just been named chairperson of annual fundraising for the Coalition for Community Services (CCS), which is a group of community service organizations that depend on voluntary donations. In the highly visible chairperson's role, Martin has organized the support of

officials at other firms to ensure that the fundraising target is met or surpassed.

The Dilemma

Martin began a meeting of 30 department managers to appeal for 100 percent employee participation in CCS giving in the fundraising drive. As follow-up the week before the drive officially started, she met with each manager, saying, "I expect you to give your fair share and 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 CCS fund because it nets more money than one-time cash donations.”

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 Martin’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 CCS. He began to wonder if his donation to CCS would affect his career at Marsden.

Team Activity

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

- Nathan Smith (employee)
- Jane Martin (employer)
- Director of CCS (customer)
- Marsden stockholder (investor)
- Marsden CEO (if your group has five members)

Action Steps

1. Before discussing the situation with your group, and from the perspective of your assigned role, consider

whether there are any *ethical issues* with Marsden’s fundraising program. If yes, write them down.

2. Before discussing the situation with your group, and from the perspective of your assigned role, consider whether there are any *problems* likely to arise from Marsden’s fundraising program. If yes, write them down.
3. Share the ethical issues and problems you identified with the group. Did the different roles 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 Marsden to resolve. Likewise, for potential problems that were identified, which is the most important one for Marsden?
5. From an ethical standpoint, what does your group recommend to resolve the most important ethical issue? How should the most important problem be resolved? Identify the advantages and drawbacks of your recommendations.

BUSINESS CASE 12

Dell Facing Serious Challenges

For over a quarter of a century, Dell’s successful model has been documented in countless articles and books. Quite simply, Dell has been a symbol of efficient distribution and customer service. However, this tremendous reputation has suffered in recent years as Dell has lost ground to competitors like HP and Acer. Before we examine what has gone wrong, let’s take a look at the origins of Dell’s success.

From the outset, Michael Dell’s vision recognized a market with different kinds of potential users—the business sector, non-business organizations such as schools and other institutions, as well as the growing segment of PC users in homes—each with different needs and resources. Choosing to focus more on the business and institutional segments, Dell envisioned a then-unheard-of combination of service features for PC customers: high-quality products, lowest cost, ease in ordering and receiving products, live interaction with expert technical assistance for building a PC “the way you like it,” super-fast deliveries, and after-the-sale communications to ensure product performance and to keep users informed about upgrades to enhance their PCs.

The market response was overwhelming, resulting in Dell’s dominant position as industry leader. Dell’s



unique vision for integrating all stages of marketing—development of the product and related services, pricing, selling to consumers directly via telephone or the internet, delivering directly to customers from efficient manufacturing plants, and promotional messages for product awareness and use—were unmatched by competitors that struggled to copy Dell’s way of doing business.

A few years ago, Dell launched itself into the broader consumer electronics market for even greater revenue growth. Giant electronics retailers like Best Buy may have been concerned that Dell's customer-friendly business model would carry over into LCD TVs, DVD recorders, MP3 players, and digital cameras. The potential range of products is enormous: music, movies, photos, and other entertainment are increasingly digital and have become compatible extensions of PCs. Chairman and CEO Michael Dell had clearly identified a new strategic opportunity: "There is a whole new ballgame in the convergence of computing and consumer electronics, and it's a world we are comfortable in."

But would they succeed? Some experts thought the crossover into consumer products could be a problem because, unlike Gateway's and Hewlett-Packard's focus on the consumer segment, Dell's primary PC focus has been on business and institutional markets. A classic example of a failed crossover is IBM's ill-fated attempt in the 1980s to woo consumers with its downsized PC Jr. With hugely successful sales and technical support for business customers, IBM never understood the consumer market, and Big Blue's efforts proved a mismatch that ended with the withdrawal of the PC Jr. from the marketplace in the late 1990s. But in this case the risks were largely offset by Dell's brand familiarity in both business and consumer markets.

For masses of electronics lovers, Dell's entry came as welcome news. After all, competition drives down profit margins and prices. Retailers and e-tailers, in contrast, experienced what might be called "reverse sticker shock." Sellers enjoying net profit margins of 25 to 40 percent on consumer electronics may have to survive on the modest 10 percent margin to which PC sellers are accustomed. That would leave lots of room for Dell to push electronics prices down, gain large volume sales, and reap high total profits while competing firms in the industry try to imitate its low-price-high-value business model. At least, that was the plan.

The arguments were rational and the strategy seemed to fit the converging needs of the consumer. So what happened? It's still early to pass a final judgment, but the results are very disturbing. With Dell's attention focused on new greener pastures, the competition swooped in and stole market share. In 2010, Dell had dropped from a dominant position in PC sales to third place behind HP and Acer. Dell could briefly console itself in the thought that shipments were up by 5.2 percent that year. Unfortunately, reality set in when the comparative results were examined. The companies they were now chasing, HP and Acer, were up 28 percent and 23 percent respectively. In addition, the fourth- and fifth-ranked competitors, Lenovo and Toshiba, were up 42 and 30 percent respectively. With these statistics it was clear that Dell was in trouble and any minor gains it had made in electronics were being overshadowed by major losses in its primary market.

By mid-2010, the outlook was not getting any rosier, with increased price pressure coming, in particular, from Acer and higher component costs threatening margins

further. Without its accustomed dominant position there was legitimate concern that Dell could no longer buy components at favourable prices versus the competition; a long-time source of competitive advantage. Meanwhile, over at Hewlett-Packard the results were positive. HP beat industry estimates and it was raising sales and profit estimates for the upcoming year.

The results were telling a negative story, which was in stark contrast to what had become the norm for Dell. But Dell was reformulating and looking for long-term solutions. After all, the initial move into electronics was taken to search for higher-margin products. In 2009, Dell bought Perot Systems Corp., an information technology and business solutions company, for US\$3.9 billion. In 2010, Dell struck a deal with AT&T to bring its first-ever smart phone, which was already available in China and Brazil, to the U.S. Dell had also signed a deal with telecommunication provider Telefonica to develop and expand distribution of "smart mobile devices" (smart phones, tablets, and netbooks) in Europe and Latin America.

Dell is clearly moving forward. But would these moves pay off? Was the company spending enough energy on its core market? Was it willing to continue to sacrifice its former leadership position in PC sales for emerging growth opportunities? Would a move into the fiercely competitive and crowded smart phone market pay off? As Dell was answering these questions, and many more, competitors in all of these markets were formulating their own strategies to meet their goals. Only time will tell if Dell is on the right track or if its decline will continue.

Questions for Discussion

1. In this chapter we have discussed the important concepts of targeting, segmenting, and positioning. In groups of three or four, identify where Dell's brand is positioned in the minds of your classmates.
2. Over the years, Dell's success was based on a combination of strategic elements. Which of the four Ps was the key element in the success of the company? Explain how the company delivers value to consumers.
3. Identify the main factors favouring success for Dell's bold move into the North American smart phone market. What prominent factors suggest major problems or even failure in this attempt?
4. Debate: Divide into two groups and defend one of the following statements. (1) Dell should go back to its roots and focus primarily on sales of its computers, laptops, and notebooks. (2) In order for Dell to succeed it must continue to expand and pursue new opportunities such as the smart phone business.

