11 Marketing Processes and Consumer Behavior

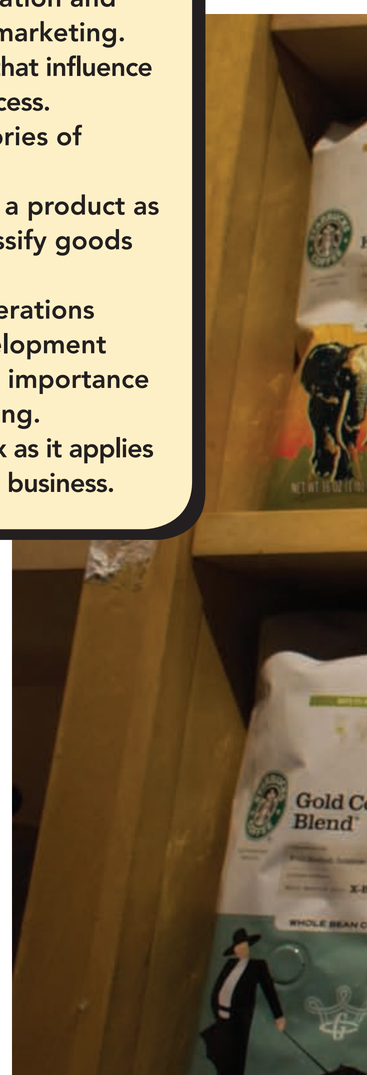
After reading this chapter, you should be able to:

1. Explain the concept of marketing and identify the five forces that constitute the external marketing environment.
2. Explain the purpose of a marketing plan and identify the four components of the marketing mix.
3. Explain market segmentation and how it is used in target marketing.
4. Describe the key factors that influence the consumer buying process.
5. Discuss the three categories of organizational markets.
6. Explain the definition of a product as a value package and classify goods and services.
7. Describe the key considerations in the new product development process, and explain the importance of branding and packaging.
8. Discuss the marketing mix as it applies to international and small business.

Starbucks Brews a New Marketing Mix

For lovers of upscale coffee products, Starbucks has long been the standout brand with a premium image as the "home of affordable luxury." With its well-established line of tasty lattes and Frappuccinos—some priced above $4 and all presented by service-savvy baristas—Starbucks gained great popularity in the connoisseur coffee market. Seeking to tap the market's full potential, Chairman and CEO Howard Schultz spearheaded an ambitious expansion dream for 40,000 retail outlets globally, creating a massive network of stores dispensing Starbucks products, along with an infusion of Starbucks's "romance, warmth and theater," to millions of coffee gourmets. All of that changed, however, with the sting of the 2008–2010 recession.

To stay afloat, Starbucks is reconsidering all aspects of its marketing strategy, including downsizing the distribution network of retail stores, refashioning its line of products and prices, and promoting a repositioned Starbucks image. The new strategy—presenting Starbucks as being more affordable—reflects the company's tighter budget and realignment with the target market, as consumers adjust to the realities of a down-turning economy. Instead of adding 2,500 locations annually, hundreds of the once-17,000 locations have been closed, including stores in areas such as Florida and California that have seen widespread home foreclosures. And fewer of the planned new stores have opened. The strategy also refocuses its products back onto what made Starbucks great—coffee—instead of side-tracking into movies and music. New entries in the product mix include a line of instant



coffee (once shunned by Starbucks). In a competitive response to McDonald's (with its own specialty coffee drinks) and Dunkin' Donuts, Starbucks has presented a newer line of recession-friendly value meals, including a choice of breakfast sandwich paired with a coffee product, at a reduced-price savings of as much as $1.20. To keep its customers and bolster sales, the company launched Starbucks Card Rewards, a customer loyalty promotion that gets you free coffee refills and other extras, all to support the affordability image.[1]

Will it work? Can Starbucks reposition the brand so it appeals to the convenience market without tarnishing the company's premium image? Some observers note that the new approach may attract some cost-conscious customers at the same time that it alienates others in the coffee connoisseur segment. It's a marketing risk that Starbucks is taking.

Our opening story continues on page 292.

WHAT'S IN IT FOR ME?

Adjusting its marketing strategy is an example of how a company can apply marketing basics in an innovative way to appeal to the forces of the external marketing environment. This chapter discusses these basics along with the marketing plan and components of the marketing mix, as well as target marketing and market segmentation. It also explores key factors that influence consumer and organizational buying processes, as well as how new products are developed and how they are defined by branding and packaging. By grasping the marketing methods and ideas in this chapter, you will not only be better prepared as a marketing professional, but also as an informed consumer.

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

Richard Levine/Alamy

1 Explain the concept of marketing and identify the five forces that constitute the external marketing environment.

What Is Marketing?

What comes to mind when you think of marketing? Most of us think of marketing as advertisements for detergents, social networking, and soft drinks. Marketing, however, encompasses a much wider range of activities. The American Marketing Association defines **marketing** as "an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders."[2] To see this definition in action we'll continue this chapter by looking at some marketing basics, including the ways marketers build relationships with customers. We'll then examine forces that constitute the external marketing environment, followed by the marketing plan, the components of the marketing mix, and we'll discuss market segmentation and how it is used in target marketing. We'll then look at key factors that influence the buying processes of consumers and industrial buyers. Finally, we'll explore how new products are developed and see how branding and packaging help establish their identity in the marketplace.

Delivering Value

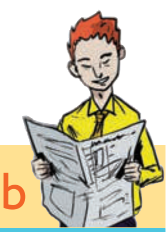
What attracts buyers to one product instead of another? Although our desires for the many goods and services available to us may be unbounded, limited financial resources force most of us to be selective. Accordingly, customers buy products that offer the best value when it comes to meeting their needs and wants.

Value and Benefits The **value** of a product compares its benefits with its costs. Benefits include not only the functions of the product, but also the emotional satisfaction associated with owning, experiencing, or possessing it. But every product has costs, including sales price, the expenditure of the buyer's time, and even the emotional costs of making a purchase decision. A satisfied customer perceives the benefits derived from the purchase to be greater than its costs. Thus, the simple but important ratio for value is derived as follows:

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

The marketing strategies of leading firms focus on increasing value for customers. Marketing resources are deployed to add benefits and decrease costs of products to provide greater value. To satisfy customers, a company may:

- Develop an entirely new product that performs better (provides greater performance benefits) than existing products;
- Keep a store open longer hours during a busy season (adding the benefit of greater shopping convenience);
- Offer price reductions (the benefit of lower costs).
- Offer information that explains how a product can be used in new ways (the benefit of new uses at no added cost).



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

Value and Utility 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 discussed in Chapter 7, those benefits provide customers with **utility**—the ability of a product to satisfy a human want or need. Marketing strives to provide four kinds of utility in the following ways:

- *Form utility.* Marketing has a voice in designing products with features that customers want.
- *Time utility.* Marketing creates a time utility by providing products when customers will want them.

- *Place utility.* Marketing creates a place utility by providing products where customers will want them.
- *Possession utility.* Marketing creates a possession utility by transferring product ownership to customers by setting selling prices, setting terms for customer credit payments, if needed, and providing ownership documents.

Because they determine product features, and the timing, place, and terms of sale that provide utility and add value for customers, marketers must understand customers' wants and needs. Their methods for creating utility are described in this and the following chapter.

Goods, Services, and Ideas

The marketing of tangible goods is obvious in everyday life. It applies to two types of customers: those who buy consumer goods and those who buy industrial goods. Think of the products that you bought the last time you went to the mall or the grocery store or on the Internet. In a department store an employee asks if you'd like to try a new cologne. A pharmaceutical company proclaims the virtues of its new cold medicine. Your local auto dealer offers an economy car at an economy price. These products are all **consumer goods:** tangible goods that you, the consumer, may buy for personal use. Firms that sell goods to consumers for personal consumption are engaged in consumer marketing, also known as B2C (business-to-consumer) marketing.

Marketing also applies to **industrial goods:** physical items used by companies to produce other products. Surgical instruments and bulldozers are industrial goods, as are such components and raw materials as integrated circuits, steel, and plastic. Firms that sell goods to other companies are engaged in industrial marketing, also known as B2B (business-to-business) marketing.

But marketing techniques are also applied to **services**—products with intangible (nonphysical) features, such as professional advice, timely information for decisions, or arrangements for a vacation. Service marketing—the application of marketing for services—continues to be a major growth area in the United States. Insurance companies, airlines, public accountants, and health clinics all engage in service marketing, both to individuals (consumer markets) and to other companies (industrial markets). Thus, the terms consumer marketing and industrial marketing include services as well as goods.

Finally, marketers also promote ideas. Ads in theaters, for example, warn us against copyright infringement and piracy. Other marketing campaigns may stress the advantages of avoiding fast foods, texting while driving, or quitting smoking—or they may promote a political party or candidate.

Relationship Marketing and Customer Relationship Management

Although marketing often focuses on single transactions for products, services, or ideas, marketers also take a longer-term perspective. Thus, **relationship marketing** emphasizes building lasting relationships with customers and suppliers. Stronger relationships—including stronger economic and social ties—can result in greater long-term satisfaction, customer loyalty, and customer retention.[3] Starbucks's Card Rewards attracts return customers with free coffee refills and other extras. Similarly, commercial banks offer economic incentives to encourage longer lasting relationships.

Marketing organizational function and a set of processes for creating, communicating, and delivering value to customers, and for managing customer relationships in ways that benefit the organization and its stakeholders.

Value relative comparison of a product's benefits versus its costs

Utility ability of a product to satisfy a human want or need

Consumer Goods physical products purchased by consumers for personal use

Industrial Goods physical products purchased by companies to produce other products

Services products having nonphysical features, such as information, expertise, or an activity that can be purchased

Relationship Marketing marketing strategy that emphasizes building lasting relationships with customers and suppliers

Long-time customers who purchase a certain number of the bank's products (for example, checking accounts, savings accounts, and loans) accumulate credits toward free or reduced-price products or services, such as free investment advice.

Customer Relationship Management Like many other marketing areas, the ways that marketers go about building relationships with customers have changed dramatically. **Customer relationship management (CRM)** is an organized method that an enterprise uses to build better information connections with clients, so that stronger enterprise-client relationships are developed. The power of Internet communications coupled with the ability to gather and assemble information on customer preferences allows marketers to better predict what clients will want and buy. The compiling and storage of customers' data, known as *data warehousing*, provides the raw materials from which marketers can extract information that enables them to find new clients. It also identifies their best customers who can then be posted on upcoming new products, and supplied with special information such as post-purchase service reminders. *Data mining* automates the massive analysis of data by using computers to sift, sort, and search for previously undiscovered clues about what customers look at, react to, and how they might be influenced. The hoped-for result is a clearer picture of how marketing, knowing a client's preferences, can more effectively use its resources to better satisfy those particular needs, thereby building closer, stronger relationships with customers.[4]

Toronto-based Fairmont Resort Hotels, for example, first used data mining to rebuild its customer-relations package by finding out what kinds of vacations their customers prefer, and then placed ads where they were more likely to reach those customers. When data mining revealed the worldwide destinations of Fairmont customers, it helped determine Fairmont's decision to buy their customers' number-one preference—the Savoy in London.[5] More recently, Fairmont's enhanced CRM is attracting new guests, along with heightening relationships and loyalty among existing clients, through web-based promotions and incentives. Using profiles of guest information, Fairmont identifies target traveler segments and supplies travelers with personalized price discounts and special hotel services.[6] We'll discuss data warehousing and data mining in more detail in Chapter 13.

The Marketing Environment

Marketing strategies are not determined unilaterally by any business—rather, they are strongly influenced by powerful outside forces. As you see in Figure 11.1, every marketing program must recognize the factors in a company's *external environment*, which is everything outside an organization's boundaries that might affect it. In this section we'll discuss how these external forces affect the marketing environment in particular.

Political-Legal Environment Political activities, both global and domestic, have profound effects on marketing. For example, environmental legislation has determined the destinies of entire industries. The political push for alternative energy sources is creating new markets and products for emerging companies such as India's Suzlon Energy Limited (large wind turbines), wind-powered electric generators by Germany's Nordex AG, and wind farms and power plants by Spain's Gamesa Corporation. Marketing managers try to maintain favorable political and legal environments in several ways. To gain public support for products and activities, marketers use ad campaigns to raise public awareness of important issues. Companies contribute to political candidates and frequently support the activities of political action committees (PACs) maintained by their respective industries.

Sociocultural Environment Changing social values force companies to develop and promote new products for both individual consumers and industrial customers. Just a few years ago, organic foods were available only in specialty food stores like Whole Foods. Today, in response to a growing demand for healthy foods, Target's Archer Farms product line brings affordable organic food to a much larger audience. New industrial products, too, reflect changing social values: A growing number of wellness programs are available to companies for improving employees' health. Quest Diagnostics, for

Figure 11.1 **The External Marketing Environment**

example, a B2B company, supplies a "Blueprint for Wellness" service that assesses employee health-care risks in client companies and recommends programs for reducing those risks. This and other trends reflect the values, beliefs, and ideas that shape society.

Technological Environment New technologies create new goods and services. New products make existing products obsolete, and many products change our values and lifestyles. In turn, lifestyle changes often stimulate new products not directly related to the new technologies themselves. Cell phones and PDAs, for example, facilitate business communication just as prepackaged meals provide convenience for busy household cooks. Both kinds of products also free up time for recreation and leisure.

David R. Frazier Photolibrary, Inc./Alamy

Marketing strategies are strongly influenced by powerful outside forces. For example, new technologies create new products, such as the cell phone "gas station" shown here. These recharging stations enable customers to recharge their mobile devices just as they would refuel their cars. The screens at the stations also provide marketers with a new way to display ads to waiting customers.

Economic Environment Because they determine spending patterns by consumers, businesses, and governments, economic conditions influence marketing plans for product offerings, pricing, and promotional strategies. Marketers are concerned with such economic variables as inflation, interest rates, and recession. Thus, they monitor the general business cycle to anticipate trends in consumer and business spending.

The interconnected global economy has become an increasingly important concern for marketers worldwide—for example, in 2008, rising oil prices broke records on an almost daily basis. Fed up with gas prices, U.S. drivers drove less, decreasing the demand and prices for gasoline. As the global economy continued to sour, the Canadian government demanded its automakers reduce production costs and auto prices to qualify for the government's bailout fund. Meanwhile, the continuing U.S. housing crisis is leaving many former homeowners awash in debt they cannot afford

Customer Relationship Management (CRM) organized methods that a firm uses to build better information connections with clients, so that stronger company-client relationships are developed

MANAGING IN TURBULENT TIMES

Feeling the Pressure for "Green"

Today's marketers are struggling with pressures from several outside forces: The political-legal, sociocultural, technological, and economic environments are all pushing for change. Industries ranging from autos to energy to housing are grappling with a common environmental theme: green. Public sentiment turned decidedly toward alternatives to gas-guzzling cars. Home buyers, too, want energy-efficient heating and cooling, such as geothermal heat, in their next home. Environmentalists are pushing for alternative energy sources, notably wind and solar power, to replace fossil fuels. Local utilities are offering incentives for construction using environmentally sensitive building designs to conserve energy. Purchases of tiny-size houses are growing. Solar-powered wells are replacing mechanical windmills on farms. In Washington, the Obama administration and Congress are struggling to reverse severe economic conditions and meet commitments for a cleaner environment using energy-saving technologies.

These outside pressures present challenges to all areas of marketing, from identifying the new target markets, to designing new products for those markets and, in some cases, finding technologies to make those products. Success depends on coordinating the various marketing activities—making them compatible with one another. Marketers need to present a convincing rationale for a product's pricing and demonstrate how the product provides the benefits sought by the target markets. Distribution methods—delivering products and after-services to customers—have to match up with promises in the promotional message so that, together, the marketing activities provide a persuasive package that delivers the desired value and benefits. Further, this integrated marketing strategy must be coordinated with financial management and production operations to provide timely customer satisfaction.

The marketing blueprint for Toyota's Prius automobile utilized an integrated marketing mix for meeting the challenge of *going green*. While developing the fuel-efficient hybrid technology, Toyota identified niche target markets of users in some 40 countries and determined a price range compatible with the company's performance reliability and quality reputation. Promotion in the U.S. market started two years before the car was released so customers could view and purchase a Prius. One pre-launch promotion involved teaming up with the Sierra Club; in addition, lending the Prius to environmentally sensitive Hollywood superstars provided exposure and allowed car testing in the target market. The main ad campaign to general audiences emphasized that consumers can still have speed and comfort along with environmental friendliness. And pre-orders were delivered on time to buyers. As a result, the Prius is the most successful hybrid automobile in the United States and the rest of the world.[7]

David Koscheck/Shutterstock

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to repay. As a result, money-strapped consumers have shifted to used cars (instead of new) and to down-sized, more modest housing. This product shift by consumers affects all areas of marketing—target markets, pricing, promotion, and distribution—for cars, fuel, and housing.[8]

Competitive Environment In a competitive environment, marketers must convince buyers that they should purchase one company's products rather than those of some other seller. Because both consumers and commercial buyers have limited resources, every dollar spent on one product is no longer available for other purchases. Each marketing program, therefore, seeks to make its product the most attractive. Expressed in business terms, a failed program loses the buyer's dollar forever (or at least until it is time for the next purchase decision).

To promote products effectively, marketers must first understand which of three types of competition they face:

- **Substitute products** may not look alike or they may seem very different from one another, but they can fulfill the same need. For example, your cholesterol level may be controlled with either of two competing products: a physical fitness program or a drug regimen. The fitness program and the drugs compete as substitute products.

- **Brand competition** occurs between similar products and is based on buyers' perceptions of the benefits of products offered by particular companies. For Internet searches do you turn to the Google, Bing, or Yahoo search engine? Brand competition is based on users' perceptions of the benefits offered by each product.
- **International competition** matches the products of domestic marketers against those of foreign competitors. The intensity of international competition has been heightened by the formation of alliances, such as the European Union and NAFTA. In 2009 the U.S. Air Force opened bidding to foreign manufacturers for three new planes to replace the existing Presidential Air Force One fleet (made by Boeing). If Europe's Airbus had won the contract it would have been the first time a U.S. President has flown in a non-U.S. made Air Force One.[9] Instead, however, Airbus withdrew from bidding, leaving Boeing the sole competitor.

Having identified the kind of competition, marketers can then develop a strategy for attracting more customers.

Strategy: The Marketing Mix

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

A company's **marketing managers** are responsible for planning and implementing all the activities that result in the transfer of goods or services to its customers. These activities culminate in the **marketing plan**—a detailed strategy for focusing marketing efforts on customers' needs and wants. Therefore, marketing strategy begins when a company identifies a customer need and develops a product to meet it. Starbucks's revised strategy in our opening case, for example, recognizes consumers' needs for more affordable coffee products in a down-turned economy.

In planning and implementing strategies, marketing managers develop the four basic components (often called the "Four Ps") of the **marketing mix:** product, pricing, place, and promotion.

Product

Marketing begins with a **product**—a good, a service, or an idea designed to fill a customer's need or want. Conceiving and developing new products is a constant challenge for marketers, who must always consider the factor of change—changing technology, changing wants and needs of customers, and changing economic conditions. Meeting these changing conditions often means changing existing products—such as Starbucks's introduction of its new line of instant coffee—to keep pace with emerging markets and competitors.

Product Differentiation Producers often promote particular features of products in order to distinguish them in the marketplace. **Product differentiation** is the creation of a feature or image that makes a product differ enough from existing products to attract customers. For example, Jann Wenner started *Rolling Stone* magazine in 1967, and it's been the cash cow of Wenner Media ever since. In 1985, however, Wenner bought *US*

Substitute Product product that is dissimilar from those of competitors but that can fulfill the same need

Brand Competition competitive marketing that appeals to consumer perceptions of benefits of products offered by particular companies

International Competition competitive marketing of domestic products against foreign products

Marketing Manager manager who plans and implements the marketing activities that result in the transfer of products from producer to consumer

Marketing Plan detailed strategy for focusing marketing efforts on consumers' needs and wants

Marketing Mix combination of product, pricing, promotion, and place (distribution) strategies used to market products

Product good, service, or idea that is marketed to fill consumers' needs and wants

Product Differentiation creation of a product feature or product image that differs enough from existing products to attract customers

Frances M. Roberts/Newscom

Wenner Media Chair and CEO Jann Wenner (above) is hoping that his strategy for greater differentiation between his *Us Weekly* magazine and rival *People* will continue to pay off. *People* is news driven, reporting on ordinary people as well as celebrities, whereas *Us Weekly* features more coverage of celebrity sex and glitter.

magazine and set out to compete with *People*. Wenner's strategy calls for greater differentiation between the two products. *People* is news driven, reporting on ordinary people as well as celebrities, and Wenner has punched up *Us Weekly* with more coverage of gossipy celebrity sex and glitter. So far, he hasn't been as successful as some expected: *People* reaches 3.7 million readers, *Us Weekly* about 1.9 million.[10]

Pricing

The **pricing** of a product—selecting the best price at which to sell it—is often a balancing act. On the one hand, prices must support a variety of costs—operating, administrative, research costs, and marketing costs. On the other hand, prices can't be so high that customers turn to competitors. Successful pricing means finding a profitable middle ground between these two requirements. By offering a reduced-price savings for its breakfast meals, Starbucks is promoting its affordability image.

Both low-and high-price strategies can be effective in different situations. Low prices, for example, generally lead to larger sales volumes. High prices usually limit market size but increase profits per unit. High prices may also attract customers by implying that a product is of high quality. We discuss pricing in more detail in Chapter 12.

Place (Distribution)

In the marketing mix, **place** refers to **distribution.** Placing a product in the proper outlet—for example, a retail store—requires decisions about several activities, all of which are concerned with getting the product from the producer to the consumer. Decisions about warehousing and inventory control are distribution decisions, as are decisions about transportation options.

Firms must also make decisions about the *channels* through which they distribute products. Many manufacturers, for example, sell goods to other companies that, in turn, distribute them to retailers. Others sell directly to major retailers, such as Target and Sears. Still others sell directly to final consumers. We explain distribution decisions further in Chapter 12.

Richard Levine/Alamy

American Eagle Outfitters (AEO) is a chain of more than 900 stores specializing in clothes, accessories, and personal care products designed to appeal to a demographic consisting of girls and guys ages 15 to 25. In 2006, the brand expanded its line with Aerie, a chain of standalone stores in the U.S. and Canada, and an online store, that sell girls' intimates, workout wear, and Aerie's Dormwear—a collection of leggings, hoodies, and fashionable sweats appropriate for lounging in the dorm or wearing to a morning class.

Promotion

The most visible component of the marketing mix is no doubt **promotion,** which refers to techniques for communicating information about products. The most important promotional tools include advertising, personal selling, sales promotions, publicity/public relations, and direct or interactive marketing. Promotion decisions are discussed further in Chapter 12.

Blending It All Together: Integrated Strategy

An **integrated marketing strategy** ensures that the Four Ps blend together so that they are compatible with one another and with the company's non-marketing activities as well. As an example, Toyota has become the world's largest automaker: Its nearly 30-year auto superiority, even with its massive product recalls in 2008–2009, stems from a coherent marketing mix that is tightly integrated with its production strategy. Offering a relatively small number of different models, Toyota targets auto customers that want high quality, excellent performance reliability, and moderate prices (a good value for the price). With a smaller number of different models than U.S. automakers, fewer components and parts are needed, purchasing costs are lower, and less factory space is required for inventory and assembly in Toyota's lean production system. Lean production's assembly simplicity yields higher quality, the factory's cost savings led to lower product prices, and speedy production gives shorter delivery times in Toyota's distribution system. Taken together, this integrated strategy is completed when Toyota's advertising communicates its message of industry-high customer satisfaction.[11]

Target Marketing and Market Segmentation

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

Marketers have long known that products cannot be all things to all people. The emergence of the marketing concept and the recognition of customers' needs and wants led marketers to think in terms of **target markets**—groups of people or organizations with similar wants and needs and who can be expected to show interest in the same products. Selecting target markets is usually the first step in the marketing strategy.

Target marketing requires **market segmentation**—dividing a market into categories of customer types or "segments." Once they have identified segments, companies may adopt a variety of strategies. Some firms market products to more than one segment. General Motors, for example, once offered automobiles with various features and at various price levels. GM's past strategy was to provide an automobile for nearly every segment of the market. The financial crisis, however, has forced GM's changeover to fewer target markets and associated brands by closing Saturn, phasing out Pontiac, and selling or shutting down Hummer and Saab.

In contrast, some businesses offer a narrower range of products, such as Ferrari's high-priced sports cars, aiming at just one segment. Note that segmentation is a strategy for analyzing consumers, not products. Once a target segment is identified, the marketing of products for that segment begins. The process of fixing, adapting, and communicating the nature of the product itself is called **product positioning.**

Identifying Market Segments

By definition, members of a market segment must share some common traits that affect their purchasing decisions. In identifying consumer segments, researchers look at several different influences on consumer behavior. Here are five of the most important variables:

Pricing process of determining the best price at which to sell a product

Place (Distribution) part of the marketing mix concerned with getting products from producers to consumers

Promotion aspect of the marketing mix concerned with the most effective techniques for communicating information about products

Integrated Marketing Strategy strategy that blends together the Four Ps of marketing to ensure their compatibility with one another and with the company's non-marketing activities as well

Target Market group of people who have similar wants and needs and can be expected to show interest in the same products

Market Segmentation process of dividing a market into categories of customer types, or "segments"

Product Positioning process of fixing, adapting, and communicating the nature of a product

Geographic Segmentation Many buying decisions are affected by the places people call home. Urban residents don't need agricultural equipment, and sailboats sell better along the coasts than on the Great Plains. **Geographic variables** are the geographic units, from countries to neighborhoods, that may be considered in a segmentation strategy. McDonald's restaurants in Germany, in contrast to those in the United States, offer beer on the menu. Pharmacies in Jackson Hole, Wyoming, sell firearms that are forbidden in Chicago.

Demographic Segmentation **Demographic variables** describe populations by identifying traits, such as age, income, gender, ethnic background, marital status, race, religion, and social class, as detailed in Table 11.1. Depending on the marketer's purpose, a demographic segment can be a single classification (ages 20–34) or a combination of categories (ages 20–34, married without children, earning $25,000–$44,999 a year).

For example, Hot Topic is a California-based chain that specializes in clothes, accessories, and jewelry designed to appeal to the Generation Y and Millennials—a demographic consisting of American consumers between 13 and 17. The theme is pop culture music—anything from rock and rockabilly to rave and acid rap—because it's the biggest influence on the demographic's fashion tastes.

Geo-Demographic Segmentation **Geo-demographic variables** are a combination of geographic and demographic traits and is becoming the most common segmentation tool. An example would be Young Urban Professionals—well educated, 25- to 34-year-olds with high paying professional jobs living in the "downtown" zip codes of major cities. Segmentation is more effective because the greater number of variables defines the market more precisely.

Psychographic Segmentation Markets can also be segmented according to such **psychographic variables** as lifestyles, interests, and attitudes. For example, Burberry, whose raincoats have been a symbol of British tradition since 1856, has repositioned itself as a global luxury brand, like Gucci and Louis Vuitton. The strategy calls for attracting a different type of customer—the top-of-the-line, fashion-conscious individual—who shops at stores like Neiman Marcus and Bergdorf Goodman. Psychographics are particularly important to marketers because, unlike demographics and geographics, they can be changed by marketing efforts. For example, Polish companies have overcome consumer resistance by promoting the safety and desirability of using credit cards rather than depending on solely using cash.[12]

Behavioral Segmentation **Behavioral variables** include such areas as heavy users (buy in bulk, the key to Sam's and Costco); situation buyers (Halloween is now the second largest "holiday" in terms of spending)[13]; or specific purpose (All Free is a new detergent for people who have skin reactions to additives in other detergents).

TABLE 11.1 Demographic Variables

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, college 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–$50,000, $50,000–$100,000, over $100,000
Nationality	African, American, Asian, British, Eastern European, French, German, Irish, Italian, Latin American, Middle Eastern, Scandinavian
Race	Native American, Asian, African American, Caucasian
Religion	Buddhist, Catholic, Hindu, Jewish, Muslim, Protestant
Sex	Male, female

Understanding Consumer Behavior

4 Describe the key factors that influence the consumer buying process.

Although marketing managers can tell us what features people want in a new refrigerator, they cannot tell us why they buy particular refrigerators. What desire are consumers fulfilling? Is there a psychological or sociological explanation for why they purchase one product and not another? These questions and many others are addressed in the study of **consumer behavior**—the study of the decision process by which people buy and consume products.

Influences on Consumer Behavior

To understand consumer behavior, marketers draw heavily on such fields as psychology and sociology. The result is a focus on four major influences on consumer behavior: *psychological*, *personal*, *social*, and *cultural*. By identifying which influences are most active in certain circumstances, marketers try to explain consumer choices and predict future buying behavior.

- Psychological influences include an individual's motivations, perceptions, ability to learn, and attitudes.
- Personal influences include lifestyle, personality, and economic status.
- Social influences include family, opinion leaders (people whose opinions are sought by others), and such reference groups as friends, coworkers, and professional associates.
- Cultural influences include culture (the way of living that distinguishes one large group from another), subculture (smaller groups with shared values), and social class (the cultural ranking of groups according to such criteria as background, occupation, and income).

Although these factors can have a strong impact on a consumer's choices, their effect on actual purchases is sometimes weak or negligible. Some consumers, for example, exhibit high **brand loyalty**—they regularly purchase products, such as McDonald's foods, because they are satisfied with their performance. Such people are less subject to influence and stick with preferred brands.[14] On the other hand, the clothes you wear, the social network you choose, and the way you decorate your room, often reflect social and psychological influences on your consumer behavior.

The Consumer Buying Process

Students of consumer behavior have constructed various models to help show how consumers decide to buy products. Figure 11.2 presents one such model. At the core of this and similar models is an awareness of the many influences that lead to consumption. Ultimately, marketers use this information to develop marketing plans.

Geographic Variables geographic units that may be considered in developing a segmentation strategy

Demographic Variables characteristics of populations that may be considered in developing a segmentation strategy

Geo-Demographic VariableS combination of geographic and demographic traits used in developing a segmentation strategy

Psychographic Variables consumer characteristics, such as lifestyles, opinions, interests, and attitudes that may be considered in developing a segmentation strategy

Behavioral Variables behavioral patterns displayed by groups of consumers and that are used in developing a segmentation strategy

Consumer Behavior study of the decision process by which people buy and consume products

Brand Loyalty pattern of regular consumer purchasing based on satisfaction with a product's performance

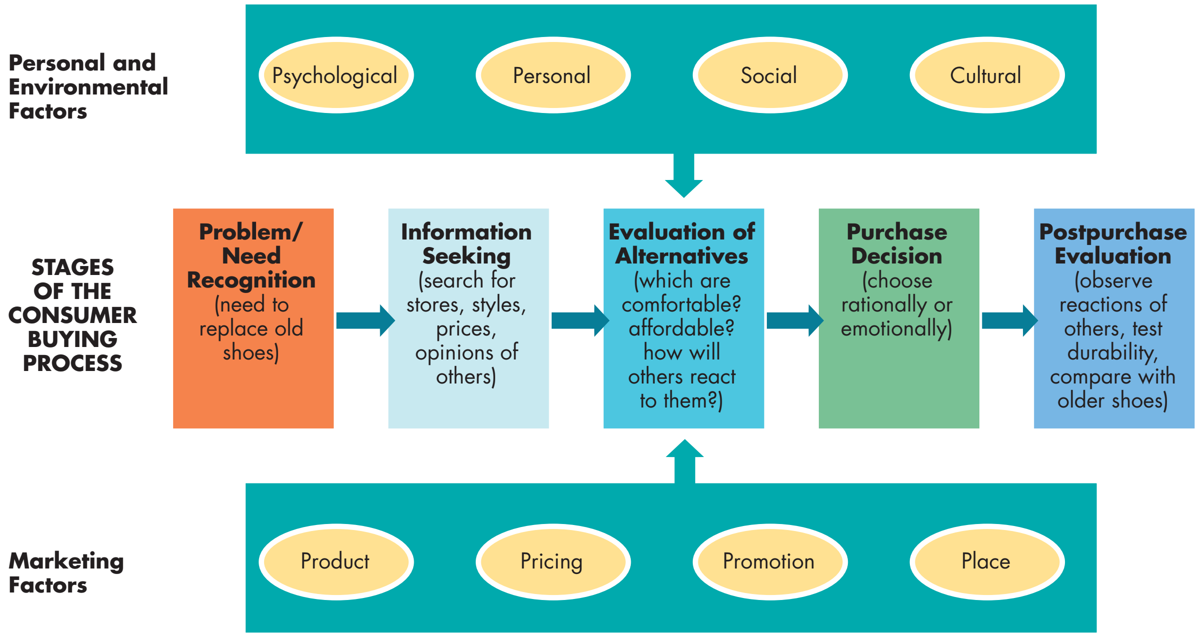


Figure 11.2 The Consumer Buying Process

Problem/Need Recognition This process begins when the consumer recognizes a problem or need. Need recognition also occurs when you have a chance to change your buying habits. When you obtain your first job after graduation, your new income may let you buy things that were once too expensive for you. You may find that you need professional clothing, apartment furnishings, and a car. Bank of America and Citibank cater to such shifts in needs when they market credit cards to college students.

Information Seeking Having recognized a need, consumers often seek information. The search is not always extensive, but before making major purchases, most people seek information from personal sources, public sources, and experience. From this information search, consumers develop an **evoked set** or **consideration set,** which is the group of products they will consider buying.

Evaluation of Alternatives If someone is in the market for skis, they probably have some idea of who makes skis and how they differ. By analyzing product attributes (price, prestige, quality) of the consideration set, consumers compare products before deciding which one best meets their needs.

Purchase Decision Ultimately, consumers make purchase decisions. "Buy" decisions are based on rational motives, emotional motives, or both. **Rational motives** involve the logical evaluation of product attributes: cost, quality, and usefulness. **Emotional motives** involve nonobjective factors and include sociability, imitation of others, and aesthetics. For example, you might buy the same brand of jeans as your friends to feel accepted in a certain group, not because your friends happen to have the good sense to prefer durable, comfortably priced jeans.

Postpurchase Evaluation Marketing does not stop with the sale of a product. What happens after the sale is important. Marketers want consumers to be happy after buying products so that they are more likely to buy them again. Because consumers do not want to go through a complex decision process for every purchase, they often repurchase products they have used and liked. Not all consumers are satisfied with their purchases. These buyers are not likely to purchase the same product(s) again and are much more apt to broadcast their experiences than are satisfied customers.

Organizational Marketing and Buying Behavior

5 Discuss the three categories of organizational markets.

In the consumer market, buying and selling transactions are visible to the public. Equally important, though far less visible, are organizational (or commercial) markets. Marketing to organizations that buy goods and services used in creating and delivering consumer products involves various kinds of markets and buying behaviors different from those in consumer markets.

Business Marketing

Business marketing involves organizational or commercial markets that fall into three B2B categories: industrial, reseller, and government/institutional markets. Taken together, the B2B markets do over $25 trillion in business annually—more than two times the amount done in the U.S. consumer market.[15]

Industrial Market The **industrial market** includes businesses that buy goods to be converted into other products or that are used up during production. It includes farmers, manufacturers, and some retailers. For example, clockmaking company Seth Thomas buys electronics, metal components, and glass from other companies to make clocks for the consumer market. The company also buys office supplies, tools, and factory equipment—items never seen by clock buyers—that are used during production.

Reseller Market Before products reach consumers, they pass through a **reseller market** consisting of intermediaries, including wholesalers and retailers, that buy and resell finished goods. For example, as a leading distributor of parts and accessories for the pleasure boat market, Coast Distribution System buys lights, steering wheels, and propellers and resells them to marinas and boat-repair shops.

Government and Institutional Market In addition to federal and state governments, there are some 87,000 local governments in the United States. State and local governments annually spend nearly $7 trillion for durable goods, nondurables, services, and construction.[16] The **institutional market** consists of nongovernmental organizations, such as hospitals, churches, museums, and charities, that also use supplies and equipment as well as legal, accounting, and transportation services.

B2B Buying Behavior

In some respects, organizational buying behavior bears little resemblance to consumer buying practices. Differences include the buyers' purchasing skills and an emphasis on buyer-seller relationships.

Differences in Buyers Unlike most consumers, organizational buyers purchase in large quantities, and are professional, specialized, and well informed.

- Industrial buyers buy in bulk or large quantities. Because of this fact, and with so much money at stake, the following are also characteristics of organizational buyers.

Evoked Set (or Consideration Set) group of products consumers will consider buying as a result of information search

Rational Motives reasons for purchasing a product that are based on a logical evaluation of product attributes

Emotional Motives reasons for purchasing a product that are based on nonobjective factors

Industrial Market organizational market consisting of firms that buy goods that are either converted into products or used during production

Reseller Market organizational market consisting of intermediaries that buy and resell finished goods

Institutional Market organizational market consisting of such nongovernmental buyers of goods and services as hospitals, churches, museums, and charitable organizations

- As professionals, B2B buyers are trained in methods for negotiating purchase terms. Once buyer-seller agreements have been reached, they also arrange formal contracts.
- As a rule, industrial buyers are company specialists in a line of items and are often experts about the products they buy. As one of several buyers for a large bakery, for example, you may specialize in food ingredients. Another buyer may specialize in baking equipment (industrial ovens and mixers), whereas a third may buy office equipment and supplies.

Differences in the Buyer-Seller Relationship Consumer-seller relationships are often impersonal, short-lived, one-time interactions. In contrast, B2B situations often involve frequent and enduring buyer-seller relationships. The development of a long-term relationship provides each party with access to the technical strengths of the other as well as the security of knowing what future business to expect. Thus, a buyer and a supplier may form a design team to create products to benefit both parties. Accordingly, industrial sellers emphasize personal selling by trained representatives who understand the needs of each customer.

6 Explain the definition of a product as a value package and classify goods and services.

What Is a Product?

In developing the marketing mix for any product, whether goods or services, marketers must consider what customers really want when they purchase products. Only then can these marketers plan strategies effectively.

The Value Package

Whether it is a physical good, a service, or some combination of the two, customers get value from the various benefits, features, and even intangible rewards associated with a product. **Product features** are the qualities, tangible and intangible, that a company builds into its products, such as a 12-horsepower motor on a lawnmower. However, as we discussed earlier, to attract buyers, features must also provide benefits: The lawnmower must produce an attractive lawn. The owner's pleasure in knowing that the mower is nearby when needed is an intangible reward.

Today's customer regards a product as a bundle of attributes—benefits and features—that, taken together, marketers call the **value package.** Increasingly, buyers expect to receive products with greater value—with more benefits and features at reasonable costs—so firms must compete on the basis of enhanced value packages. Consider, for example, the possible attributes in a personal computer value package:

- Easy access to understandable prepurchase information
- Features, such as wireless capability
- Attractive color and design
- Useful software packages
- Attractive prices
- Fast, simple ordering via the Internet
- Secure credit card purchasing
- Assurance of speedy delivery
- Warranties
- Easy access to technical support

Although the computer includes physical *features*—processing devices and other hardware—many items in the value package are services or intangibles that, collectively, add value by providing *benefits* that increase the customer's satisfaction. Reliable data processing is certainly a benefit, but so too are speedy delivery and easy access to technical support. Top-performing companies find that the addition of a new service often pleases customers far beyond the cost of providing it. Just making the purchase transaction faster and more convenient, for example, adds value by sparing customers long waits and cumbersome paperwork.

Classifying Goods and Services

We can classify products according to expected buyers, who fall into two groups: buyers of consumer products and buyers of organizational products. As we saw earlier in this chapter, the consumer and industrial buying processes differ significantly. Similarly, marketing products to consumers is vastly different from marketing products to companies and other organizations.

Classifying Consumer Products Consumer products are commonly divided into three categories that reflect buyer behavior: **convenience goods and services, shopping goods and services,** and **specialty goods and services.** These are outlined in Table 11.2.

Classifying Organizational Products Depending on how much they cost and how they will be used, organizational products can be divided into three categories: **production items, expense items,** and **capital items.** These are explained in Table 11.3.

TABLE 11.2 Categories of Consumer Products

Category	Description	Examples
Convenience goods and services	• Consumed rapidly and regularly • Inexpensive • Purchased often and with little input of time and effort	• Milk • Newspaper • Fast food
Shopping goods and services	• Purchased less often • More expensive • Consumers may shop around and compare products based on style, performance, color, price, and other criteria.	• Television set • Tires • Car insurance
Specialty goods and services	• Purchased infrequently • Expensive • Consumer decides on a precise product and will not accept substitutions and spends a good deal of time choosing the "perfect" item.	• Jewelry • Wedding gown • Catering

Product Features tangible and intangible qualities that a company builds into its products

Value Package product marketed as a bundle of value-adding attributes, including reasonable cost

Convenience Good/Convenience Service inexpensive good or service purchased and consumed rapidly and regularly

Shopping Good/Shopping Service moderately expensive, infrequently purchased good or service

Specialty Good/Specialty Service expensive, rarely purchased good or service

Production Item industrial product purchased and used directly in the production process that creates other goods or services

Expense Item industrial product purchased and consumed within a year by firms producing other products

Capital Item expensive, long-lasting, infrequently purchased industrial product, such as a building, or industrial service, such as a long-term agreement for data warehousing services

TABLE 11.3 Organizational Products

Category	Description	Examples
Production items	• Goods or services used directly in the production process	• Loads of tea processed into tea bags • Information processing for real-time production
Expense items	• Goods or services that are consumed within a year by firms producing other goods or supplying other services	• Oil and electricity for machines • Building maintenance • Legal services
Capital items	• Permanent (expensive and long-lasting) goods and services • Life expectancy of more than a year • Purchased infrequently so transactions often involve decisions by high-level managers	• Buildings (offices, factories) • Fixed equipment (water towers, baking ovens) • Accessory equipment (computers, airplanes)

The Product Mix

The group of products that a company makes available for sale, whether consumer, industrial, or both, is its **product mix.** Black & Decker, for example, makes toasters, vacuum cleaners, electric drills, and a variety of other appliances and tools. 3M makes everything from Post-it Notes to laser optics.

Product Lines Many companies begin with a single product. Over time, they find that the initial product fails to suit every customer shopping for the product type. To meet market demand, they introduce similar products—such as flavored coffees and various roasts—designed to reach more customers. For example, Starbucks stores expanded the line of coffees by adding various Italian-style espresso beverages that include mochas, cappucinos, and lattes—hot and iced—and flavored blended cremes. A group of products that are closely related because they function in a similar manner (e.g., flavored coffees) or are sold to the same customer group (e.g., stop-in coffee drinkers) who will use them in similar ways is a **product line.**

Companies may extend their horizons and identify opportunities outside existing product lines. The result—multiple (or diversified) product lines—is evident at Starbucks. Beyond just serving beverages to customers at coffee bars, Starbucks has lines of home-brewing equipment, supermarket products, music products, and industry services. Multiple product lines allow a company to grow rapidly and can help offset the consequences of slow sales in any one product line.

7 Describe the key considerations in the new product development process, and explain the importance of branding and packaging.

Developing New Products

To expand or diversify product lines—in fact, just to survive—firms must develop and introduce streams of new products. Faced with competition and shifting customer preferences, no firm can count on a single successful product to carry it forever.

The New Product Development Process

For many years, the growing demand for improved health care has stimulated the development of new dietary supplements, heart medicines, and other pharmaceuticals. However, companies that develop and sell these products face a big problem: It costs well over $100 million, sometimes over $1 billion, and can take as long as 8 to 10 years to get a new product through the approval process at the U.S. Food and Drug Administration (FDA).

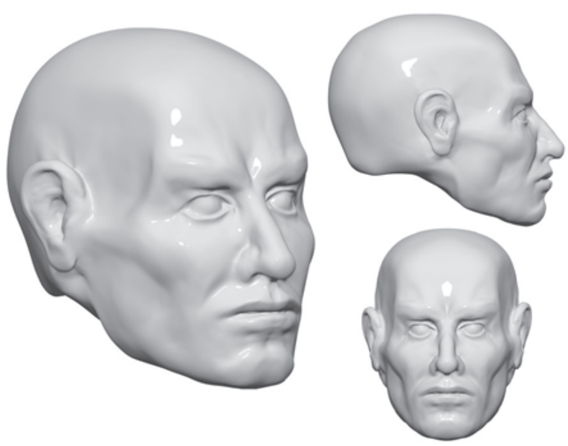
Testing, both for FDA approval and for marketing, can be the most time-consuming stage of development. For example, Merck & Co. is developing an experimental heart drug—called anacetrapib—to raise levels of good cholesterol, thereby reducing the risk of heart attack. Years of laboratory work were followed by a lengthy test study using 1,600 patients, and the results of that study must undergo further analysis. Thereafter, a major 30,000-patient study beginning in 2011 must be completed before the drug may be deemed ready for approval and use sometime after 2015.[17] If successful, Merck could cash in on the growth of the cholesterol-lowering drug market, but it requires an immense amount of time, patience, money, and risk of failure.

Product development is a long and expensive process, and like Merck & Co., many firms have research and development (R&D) departments for exploring new product possibilities. Why do they devote so many resources to exploring product possibilities, rejecting many seemingly good ideas along the way? First, high *mortality rates* for new ideas mean that only a few new products reach the market. Second, for many companies, *speed to market* with a product is as important as care in developing it.

Product Mortality Rates

It is estimated that it takes 50 new product ideas to generate one product that finally reaches the market. Even then, only a few of these survivors become successful products. Many seemingly great ideas have failed as products. Creating a successful new product has become increasingly difficult—even for the most experienced marketers. Why? The number of new products hitting the market each year has increased dramatically; more than 180,000 new household, grocery, and drugstore items are introduced annually. In 2009 the U.S. consumer packaged goods industry alone launched 45,000 new products (foods, beverages, school supplies, and other nonfood products).[18] At any given time, however, the average North American supermarket carries a total of only 45,000 different items. Because of lack of space and customer demand, about 9 out of 10 new products will fail. Those with the best chances are innovative and deliver unique benefits. The single greatest factor in product failure is the lack of significant difference (i.e., the new product is a "me-too" product). Some prominent examples of this are Mr. Pibb versus Dr. Pepper, which while still on the market is an "also-ran," and Burger King's Big King, their answer to the Big Mac.

Speed to Market The more rapidly a product moves from the laboratory to the marketplace, the more likely it is to survive. By introducing new products ahead of competitors, companies establish market leadership. They become entrenched in the market before being challenged by newer competitors. For example, sales of Apple's new iPad surged after its introduction in early 2010, and estimates are that more than 13 million units were sold by year end. Industry observers expect nearly every other company in the industry will try to come out with competing products beginning later in 2011, but the iPad's visibility and popularity make it a formidable market leader. How important is **speed to market** (or *time compression*)—that is, a firm's success in responding rapidly to customer demand or market changes? One study reports that a product that is only three months late to market (three months behind the leader) loses 12 percent of its lifetime profit potential. At six months, it will lose 33 percent.



Myroslav Prylypko/Dreamstime

Designers used to create products, such as this head for a human-like toy, by sculpting models out of clay. Now they use "rapid prototyping," a technology that allows several employees to work simultaneously on 3D digital/visual "models" that can be e-mailed to clients for instant review. It now takes days, or just hours, instead of weeks to make an initial sculpture.

Product Life Cycle

When a product reaches the market, it enters the **product life cycle (PLC):** a series of stages through which it passes during its commercial life. Depending on the product's ability to attract and keep customers, its PLC may be a matter of months, years,

Product Mix group of products that a firm makes available for sale

Product Line group of products that are closely related because they function in a similar manner or are sold to the same customer group who will use them in similar ways

Speed To Market strategy of introducing new products to respond quickly to customer or market changes

Product Life Cycle (PLC) series of stages in a product's commercial life or decades. Strong, mature products (such as Clorox bleach and H&R Block tax preparation) have had long productive lives.

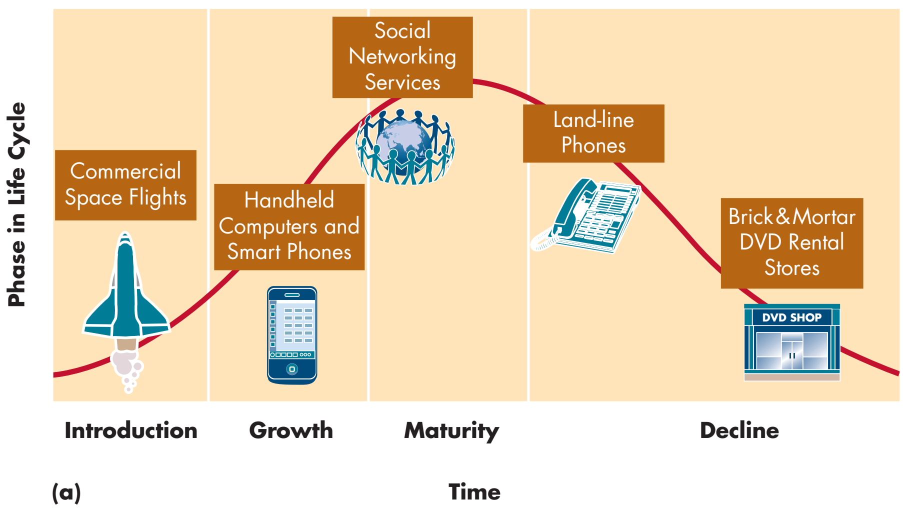
Stages in the PLC The life cycle for both goods and services is a natural process in which products are born, grow in stature, mature, and finally decline and die. Look at the two graphics in Figure 11.3. In Figure 11.3(a), the four phases of the PLC are applied to several products with which you are familiar:

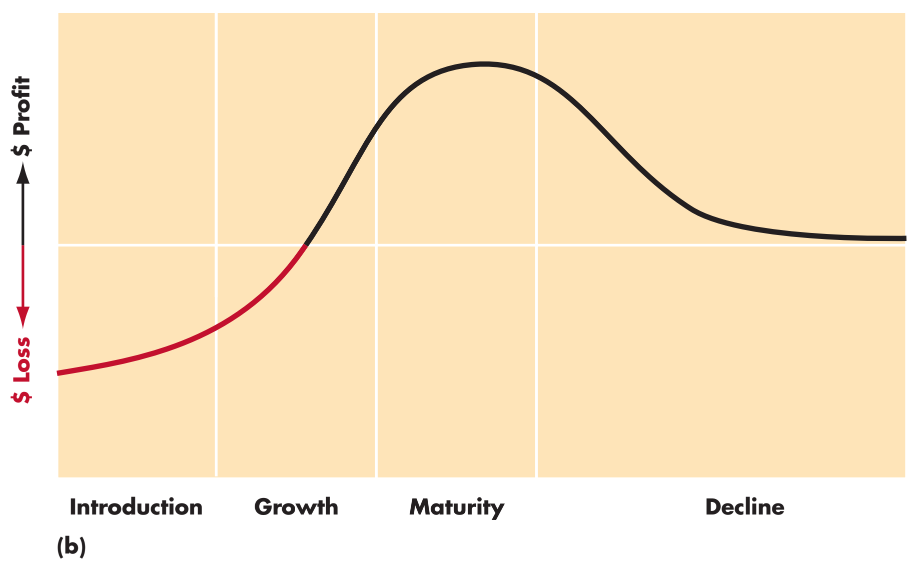
Introduction. This stage begins when the product reaches the marketplace. Marketers focus on making potential customers aware of the product and its benefits. Extensive development, production, and sales costs erase all profits.

Growth. If the new product attracts enough customers, sales start to climb rapidly. Marketers lower price slightly and continue promotional expenditures to increase sales. The product starts to show a profit as revenues surpass costs, and other firms move rapidly to introduce their own versions.

Maturity. Sales growth starts to slow. Although the product earns its highest profit level early in this stage, increased competition eventually forces price-cutting, increasing advertising and promotional expenditures, and lower profits. Toward the end of the stage, sales start to fall.

Figure 11.3 Products in the Life Cycle: (a) Phases and (b) Profit (or Loss)
Source: Adapted from Jay Heizer and Barry Render, *Operations Management*, 7th ed. (Upper Saddle River, NJ: Prentice Hall, 2004), 157.





Decline. Sales and profits continue to fall, as new products in the introduction stage take away sales. Firms end or reduce promotional support (ads and salespeople), but may let the product linger to provide some profits.

Figure 11.3(b) plots the relationship of the PLC to a product's typical profits (in black) or losses (in red). Although the early stages of the PLC often show financial losses, increased sales for successful products recover earlier losses and continue to generate profits until the decline stage. For many products, profitable life spans are short—thus, the importance placed by so many firms on the constant replenishment of product lines.

Identifying Products

Marketers must also identify products so that consumers recognize them. Two important tools for this task are branding and packaging.

Branding Products Coca-Cola is the best-known brand in the world. Some Coke executives claim that if all the company's other assets were obliterated, they could go to the bank and borrow $100 billion on the strength of the brand name alone. Indeed, Interbrand, the brand-ranking firm, says the Coke brand in 2010 was worth over $70 billion in terms of revenue generation from its ability to create demand for the product. Industry observers regard brands as a company's most valuable asset.[19] **Branding** is a process of using names and symbols, like Coca-Cola or McDonald's golden arches, to communicate the qualities of a particular product made by a particular producer. Brands are designed to signal uniform quality; customers who try and like a product can return to it by remembering its name or its logo.

Several benefits result from successful branding, including brand loyalty and **brand awareness**—the brand name that first comes to mind when you consider a particular product category. What company, for example, comes to mind when you need to ship a document a long way on short notice? For many people, FedEx has the necessary brand awareness.

Gaining Brand Awareness The expensive, sometimes fierce struggle for brand recognition is perhaps nowhere more evident than in branding battles among dot-com firms. Collectively, the top Internet brands—Google (ranked fourth), eBay (forty-third), and Amazon.com (thirty-sixth)—spend billions a year, even though only Google, Amazon, and eBay have cracked the ranks of the top 50 global brands.[20] Moreover, the mounting costs of establishing a brand identity mean that many more would-be e-businesses do and will probably fail.

With its growing importance in nearly every industry, marketers are finding more effective, less expensive ways to gain brand awareness. Recent successes have been found with several methods, including product placements, buzz marketing, viral marketing, and social networking.

Product Placements Television commercials can be a real turnoff for many viewers, but entertainment programming gets our full attention. And that's when marketers are turning up the promotional juice with **product placement**—a promotional tactic for brand exposure in which characters in television, film, music, magazines, or video games use a real product with a brand visible to viewers.

Branding process of using symbols to communicate the qualities of a product made by a particular producer

Brand Awareness extent to which a brand name comes to mind when a consumer considers a particular product category

Product Placement a promotional tactic for brand exposure in which characters in television, film, music, magazines, or video games use a real product with its brand visible to viewers

Product placements are effective because the message is delivered in an attractive setting that holds the customer's interest. When used in successful films and TV shows, the brand's association with famous performers is an implied celebrity endorsement. The idea is to legitimize the brand in the mind of the customer. In all, nearly $5 billion is spent annually on product placements, especially in television, and major marketers are putting more into product placements instead of television advertisements. A Minute Maid beverage and Clorox make appearances in the hit movie *Madea Goes to Jail*, while the new Mini Cooper brand was launched in the movie, *The Italian Job*. In print placements, Hewlett-Packard computers appear in the photo layouts in the IKEA catalog. Television placements are widespread, including Hyundai in *Leverage* and *Burn Notice*, and are especially effective as digital video recorders (DVRs) remain popular. Viewers can use their DVRs to skip commercials in recorded shows, but product placements are unavoidable.

Buzz Marketing One method for increasing brand awareness is **buzz marketing** which relies on word-of-mouth to spread "buzz" about a particular product or idea. Buzz marketing agencies provide volunteer participants with new products to try and ask them to share the buzz with their friends, family, coworkers, and others in their social network. Here's the key—most companies running word-of-mouth campaigns require full disclosure, which means the participants should let people know they are participating in a campaign. This is essential so that those on the receiving end of the "buzz" don't feel tricked or taken advantage of.

Viral Marketing and Social Networking **Viral marketing** is the new form of buzz marketing that relies on social networking on the Internet to spread information like a "virus" from person to person. Messages about new cars, sports events, and numerous other goods and services flow via networks among potential customers who pass the information on to others. Using various social network formats—games, contests, chat rooms, blogs, and bulletin boards—marketers encourage potential customers to try out products and tell other people about them. Marketers—including such giants as Bank of America, McDonald's, eBay, and Cisco—are using **corporate blogs** increasingly for public relations, branding, and otherwise spreading messages that stimulate chat about products to target markets.[21] Many major consumer companies now have their own Facebook page.

How effective can it be? Viral marketing can lead to consumer awareness faster and with wider reach than traditional media messages—and at a lower cost. It works for two reasons. First, people rely on the Internet for information that they used to get from newspapers, magazines, and television. Equally important, however, is the interactive element: The customer becomes a participant in the process of spreading the word by forwarding information to other Internet users. Success of the movie *Avatar* is credited to 20th Century Fox's use of pre-release viral tactics for stimulating public awareness of the blockbuster movie.

Types of Brand Names Just about every product has a brand name. Generally, different types of brand names—national, licensed, or private—increase buyers' awareness of the nature and quality of competing products. When customers are satisfied with a product, marketers try to build brand loyalty among the largest possible segment of repeat buyers.

National Brands **National brands** are produced by, widely distributed by, and carry the name of the manufacturer. These brands are often widely recognized by customers because of national advertising campaigns, and they are, therefore, valuable assets. Because the costs of developing a national brand are high, some companies use a national brand on several related products, called **brand extension.** Procter & Gamble now markets Ivory Shampoo, capitalizing on the name of its bar soap and dishwashing liquid. While cost efficient, this can sometimes dilute the original brand's effectiveness. Coors Light Beer now outsells original Coors Beer.

Licensed Brands We have become used to companies (and even personalities) selling the rights to put their names on products. These are called **licensed brands.**

For example, the popularity of auto racing is generating millions in revenues for the NASCAR brand, which licenses its name on car accessories, ladies and men's apparel, headsets, and countless other items with the names of popular drivers such as Martin, Johnson, Stewart, and Edwards. Harley-Davidson's famous logo—emblazoned on boots, eyewear, gloves, purses, lighters, and watches—brings the motorcycle maker more than $200 million annually. Along with brands such as Coors and Ferrari, licensing for character-based brands—Tinker Bell, Mickey Mouse, and other Disney characters—are equally lucrative. Marketers exploit brands because of their public appeal—the image and status that customers hope to gain by associating with them.

Private Brands When a wholesaler or retailer develops a brand name and has a manufacturer put it on a product, the resulting name is a **private brand** (or **private label**). Sears, which carries such lines as Craftsman tools, Canyon River Blues denim clothing, and Kenmore appliances, is a well-known seller of private brands.

Packaging Products With a few exceptions, products need some form of **packaging** to reduce the risk of damage, breakage, or spoilage, and to increase the difficulty of stealing small products. A package also serves as an in-store advertisement that makes the product attractive, displays the brand name, and identifies features and benefits. Also, packaging features, such as no-drip bottles of Clorox bleach, add utility for consumers.

The International Marketing Mix

8 **Discuss the marketing mix as it applies to international and small business.**

Marketing internationally means mounting a strategy to support global business operations. Foreign customers, for example, differ from domestic buyers in language, customs, business practices, and consumer behavior. If they go global, marketers must reconsider each element of the marketing mix—product, pricing, place, and promotion.

International Products

Some products can be sold abroad with virtually no changes. Coca-Cola and Marlboro are the same in Peoria, Illinois, and Paris, France. In other cases, U.S. firms have had to create products with built-in flexibility—for example, an electric shaver that is adaptable to either 120- or 230-volt outlets, so travelers can use it in both U.S. and European electrical outlets. Frequently, however, domestic products require a major redesign for buyers in foreign markets. To sell computers in Japan, for example, Apple had to develop a Japanese-language operating system.

International Pricing

When pricing for international markets, marketers must consider the higher costs of transporting and selling products abroad. For example, because of the higher costs of buildings, rent, equipment, and imported meat, a McDonald's Big Mac costs more in Switzerland than in the United States.

Buzz Marketing promotional method that relies on word of mouth to create buzz about products and ideas

Viral Marketing type of buzz marketing that relies on the Internet to spread information like a "virus" from person to person about products and ideas

Corporate Blogs comments and opinions published on the web by or for an organization to promote its activities

National Brand brand-name product produced by, widely distributed by, and carrying the name of a manufacturer

Brand Extension a company's use of a national brand on several additional related products

Licensed Brand brand-name product for whose name the seller has purchased the right from an organization or individual

Private Brand (Private Label) brand-name product that a wholesaler or retailer has commissioned from a manufacturer

Packaging physical container in which a product is sold, advertised, or protected

Indranil Kishor/Majority World/Photoshot

Before creating an international ad like this Chinese advertisement for Coca-Cola, it is crucial to research what disparities, such as meaning of words, traditions, and taboos, exist between different societies. For example, German manufacturers of backpacks label them as "body bags," not terribly enticing to the U.S. consumer. Can you guess why Gerber baby food is not sold in France? The French translation of Gerber is "to vomit"! Effective marketing does not just involve knowledge of culture abroad, but also requires a general sensitivity to social trends and language.

International Distribution

In some industries, delays in starting new international distribution networks can be costly. Therefore, companies with existing distribution systems often enjoy an advantage. Many companies have avoided time delays by buying existing businesses with already-established distribution and marketing networks. Procter & Gamble, for example, bought Revlon's Max Factor and Betrix cosmetics, both of which have distribution and marketing networks in foreign markets. And many times, distribution methods used in the United States don't fit in international markets. For example, in Europe, Breathe Right Nasal Strips are identified as "medicinal" and must be sold in pharmacies.

International Promotion

Occasionally, a good ad campaign is a good campaign just about anywhere. Quite often, however, U.S. promotional tactics do not succeed in other countries. Many Europeans believe that a product must be inherently shoddy if a company resorts to any advertising, particularly the American hard-sell variety.

International marketers are ever more aware of cultural differences that can cause negative reactions to improperly advertised products. Some Europeans, for example, are offended by TV commercials that show weapons or violence. Meanwhile, cigarette commercials that are banned from U.S. television thrive in many Asian and European markets. Product promotions must be carefully matched to local customs and cultural values.

Because of the need to adjust the marketing mix, success in international markets is hard won. But whether a firm markets in domestic or international markets, the basic principles of marketing still apply; only their implementation changes.

Small Business and the Marketing Mix

Many of today's largest firms were yesterday's small businesses. Behind the success of many small firms lies a skillful application of the marketing concept and an understanding of each element in the marketing mix.

Small-Business Products Some new products and firms are doomed at the start because few customers want or need what they have to offer. Many fail to estimate realistic market potential, and some offer new products before they have clear pictures of their target segments. In contrast, a thorough understanding of what customers want has paid off for many small firms. Take, for example, the case of Little Earth Productions, Inc., a company that makes fashion accessories, such as handbags. Originally, the company merely considered how consumers would use its handbags. But after examining shopping habits, Little Earth Productions redesigned for better in-store display. Because stores can give handbags better visibility by hanging them instead of placing them on floors or low countertops, Little Earth Productions added small handles specifically for that purpose.

ENTREPRENEURSHIP AND NEW VENTURES

Social Networking for Job Opportunities in Tough Times

If you're out of work, looking for a job, and wondering where to turn, help is as close as your PC or iPod. While troubled times have dampened demand for many products, others are getting a boost. Service products such as social networking sites are an example. While popular entertainment sites—including Facebook and MySpace—began as cyber highways for recreational and friendship interactions, social networking is no longer just for entertainment. In today's economy, there's a different kind of traffic—professional networking for career transition—among the list of cyber networking products for job-hunting assistance.

LinkedIn, started by five co-founders in the living room of Reid Hoffman in 2002, is an example of an interconnected network that now serves professionals in 200 countries and some 170 industries. Officially founded in 2003, this Mountain View, California, start-up had 4,500 members in the network after just one month. Today, profiles from more than 85 million members include executives from all *Fortune 500* companies. Users can post résumés, search companies, and find job openings. The Linkedin jobs directory allows users choices for searching by industry, or by job function, geographic region, job title, or by company. However, the key attraction of the network is personal connections: One member knows other LinkedIn users, who link with still others, and so on as information flows to those looking for good candidates until they find a word-of-mouth prospect that looks good. The system is based on trusted relationships and connections, and it works: LinkedIn is the world's largest business network, and it connects a huge pool of talent that keeps on growing.

In addition to professionals looking for jobs, there are also business members, some searching for prospective employees, industry experts, potential clients, or new business opportunities. Others are interested in sharing the latest business developments within their networks of contacts. Linkedln Open Groups, for example, consists of specialty network-groups of businesses focused on particular industries, including Social Media Marketing, or Finance and Accounting Professionals, or Business in Japan, to name just three of many. Group members may share industry-specific information on performance-enhancing practices, legal issues, current events, and even participate in determining new directions for their industry. LinkedIn's further growth depends on the value it provides for meeting its members' needs for professional fulfillment.[22]

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Vika Sabo/Alamy

Small-Business Pricing Haphazard pricing can sink a firm with a good product. Small-business pricing errors usually result from a failure to estimate operating expenses accurately. Owners of failing businesses have often been heard to say, "I didn't realize how much it costs to run the business!" But when small businesses set prices by carefully assessing costs, many earn satisfactory profits.

Small-Business Distribution The ability of many small businesses to attract and retain customers depends partly on the choice of location, especially for new service businesses.

In distribution as in other aspects of the marketing mix, however, smaller companies may have advantages over larger competitors. A smaller company may be able to address customers' needs more quickly and efficiently with an added personal touch. Everex Systems, Inc. of Fremont, California, designs and sells computers to wholesalers and dealers through a system that the company calls *zero response time*. Because Everex Systems is small and flexible, phone orders can be reviewed every two hours and factory assembly adjusted to match demand.

Small-Business Promotion Successful small businesses plan for promotional expenses as part of start-up costs. Some hold down costs by using less expensive promotional methods, like publicity in local newspapers. Other small businesses identify themselves and their products with associated groups, organizations, and events. Thus, a crafts gallery might join with a local art league to organize public showings of their combined products.

Richard Levine/Alamy

Continued from page 269

Can Starbucks Have the Best of Both Markets—Luxury AND Affordability?

Howard Schultz, Starbucks CEO, admits that the recession is propelling not only economic behavior, but social behavior as well. Among the recession's belt-tightening behaviors are consumers' purchasing habits, including their choices for coffee products. Convenience and affordability have moved to the forefront with coffee-drinkers, and Starbucks wants to show it is moving with them with lower prices and more value packages. Can the prestige-oriented Starbucks brand fend off competitors, including McDonald's, with its already-established image for affordability and convenience? Even at its Seattle home base, Starbucks officials may have blanched at an aggressive McDonald's billboard ad with its pointed broadside about coffee-drink prices: "Four bucks is dumb."

B Christopher/Alamy

In addition to its upscale coffee houses, Starbucks can also be found at nontraditional locations as part of its "convenience and affordability" movement, as seen here.

Part of its repositioning, then, involves changing any misperceptions that may linger among coffee consumers, especially regarding Starbucks's luxury image with upscale coffees and prices. Starting in-house, the company's baristas are being trained to communicate to consumers that its prices are affordable: 90 percent of the drinks cost less than \$4, with an average drink price under \$3. And the new value-pricing with meals drives prices even lower: At \$3.95, you can get a 12 ounce coffee with a breakfast sandwich. Are the company's promotional efforts working? One report in 2009 indicates that while Starbucks's prices remain higher than McDonald's, the gap has narrowed since 2007.[23] But pricing is only one factor that can turn around decreasing sales and reverse a recent profitability shrinkage of nearly 70 percent. That's why Starbucks continues to revise its distribution network globally—to reduce operating costs by closing hundreds of existing stores and opening fewer new ones.[24]

QUESTIONS FOR DISCUSSION

1. What forces in the external environment are influencing the changes in Starbucks's marketing strategy? Explain.
2. How are the components of Starbucks's marketing mix being used for implementing the new marketing strategy?
3. Identify the main factors favoring success for Starbucks's crossover into the affordability market. What prominent factors suggest major problems or even failure for this crossover attempt?
4. Applying this chapter's definition of product value to Starbucks's plans, what are the benefits in Starbucks's affordability offerings? What are the costs?
5. In what ways, if any, does Starbucks's plan for closing some existing stores and opening fewer new ones have any impact on the product value of its new affordability products and its more-established luxury products?

SUMMARY OF LEARNING OBJECTIVES

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1. Explain the concept of marketing and identify the five forces that constitute the external marketing environment. (pp. 270–275)

Marketing is responsible for creating, communicating, and delivering value and satisfaction to customers at a profit. Marketing manages customer relationships to benefit the organization and its stakeholders. After identifying customers' needs and wants, it develops plans to satisfy them by creating products, establishing their prices, methods for distributing them, and ways for promoting them to potential customers. Marketing is successful if satisfied buyers perceive that the benefits derived from each purchase outweigh its costs, and if the firm, in exchange for providing the products, meets its organizational goals. Five outside factors comprise a company's external environment and influence its marketing programs: (1) *political and legal actions*, (2) *sociocultural factors*, (3) *technological changes*, (4) *economics*, and (5) *competition*.

2. Explain the purpose of a marketing plan and identify the four components of the marketing mix. (pp. 275–277)

The *marketing plan* is a detailed strategy for focusing marketing efforts on meeting consumer needs and wants. The plan defines the organization's marketing goals, and identifies all the activities for reaching those goals, that will result in the successful transfer of goods and services to its customers. In planning and implementing strategies, marketing managers focus on the four elements (Four *P*s) of the *marketing mix*: (1) *products* for consumers, (2) *pricing* of products, (3) *place* (*distribution)* of products to consumers, and (4) *promotion* of products.

3. Explain market segmentation and how it is used in target marketing. (pp. 277–278)

Marketers think in terms of *target markets*—groups of people or organizations with similar wants and needs and who can be expected to show interest in the same products. Target marketing requires *market segmentation*—dividing a market into categories of customer types or "segments." Members of a market segment must share some common traits that influence purchasing decisions. Once they identify segments, companies adopt a variety of strategies for attracting customers in one or more of the chosen target segments. The following are five variables used for segmentation: (1) *Geographic variables* are the geographical units that may be considered in developing a segmentation strategy. (2) *Demographic variables* describe populations by identifying such traits as age, income, gender, ethnic background, and marital status. (3) *Geo-demographic variables* combine demographic variables with geographic variables, such as an age category coupled with urban areas. (4) *Psychographic variables* include lifestyles, interests, and attitudes. (5) *Behavioral variables* include categories of behavioral patterns such as online consumers or large-volume buyers.

4. Describe the key factors that influence the consumer buying process. (pp. 279–280)

One consumer behavior model considers five influences that lead to consumption: (1) *Problem/need recognition*: The buying process begins when the consumer recognizes a problem or need. (2) *Information seeking*: Having recognized a need, consumers seek information. The information search leads to an evoked set (or consideration set)—a group of products they will consider buying. (3) *Evaluation of alternatives*: By analyzing product attributes (price, prestige, quality) of the consideration set, consumers compare products to decide which product best meets their needs. (4) *Purchase decision*: "Buy" decisions are based on rational motives, emotional motives, or both. *Rational motives* involve the logical evaluation of product attributes, such as cost, quality, and usefulness. *Emotional motives* involve nonobjective factors and include sociability, imitation of others, and aesthetics. (5) *Postpurchase evaluations*: Consumers continue to form opinions after their purchase. Marketers want consumers to be happy after the consumption of products so that they are more likely to buy them again.

5. Discuss the three categories of organizational markets. (pp. 281–282)

(1) The *industrial market* consists of businesses that buy goods to be converted into other products or that are used during production. It includes farmers, manufacturers, and some retailers. (2) Before products reach consumers, they pass through a *reseller market* consisting of intermediaries—wholesalers and retailers—that buy finished goods and resell them. (3) The *government and institutional market* includes federal, state, and local governments, and nongovernmental buyers—hospitals, churches, and charities—that purchase goods and services needed for serving their clients. Taken together, these organizational markets do more than two times the business annually than that of the U.S. consumer markets.

6. Explain the definition of a product as a value package and classify goods and services. (pp. 282–284)

Customers buy products to receive value that satisfies a want or a need. Thus, a successful product is a *value package*—a bundle of attributes that, taken together, provides the right features and offers the right benefits that satisfy customers' wants and needs. *Features* are the qualities, tangible and intangible, that are included with the product. To be satisfying, features must provide *benefits* that allow customers to achieve the end results they want. The value package has services and features that add value by providing benefits that increase the customer's satisfaction.

Products (both goods and services) can be classified according to expected buyers as either *consumer products* or *organizational products*. *Convenience products* are inexpensive consumer goods and services that are consumed rapidly and regularly. *Shopping products* are more expensive and are purchased less often than convenience products. *Specialty products* are extremely important and expensive goods and services. *Organizational products* are classified as either *production items*, *expense items* or *capital items*. Production items are goods and services used directly in the production process. *Expense items* are goods or services consumed within a year to produce other products. *Capital items* are expensive and long-lasting goods and services that have expected lives of several years.

7. Describe the key considerations in the new product development process, and explain the importance of branding and packaging. (pp. 284–289)

To expand or diversify product lines, new products must be developed and introduced. Many firms have research and development (R&D) departments for continuously exploring new product possibilities because high mortality rates for new ideas result in only a few new products reaching the market. Even then, only a few of these survivors become successful products. *Speed to market*—how fast a firm responds with new products or market changes—determines a product's profitability and success. A continuous product development process is necessary because every product has a *product life cycle*—a series of stages through which it passes during its commercial life. The development of new products, then, is the source for renewal of the firm's product offerings in the marketplace.

Branding and *packaging* identify products so that consumers recognize them. Branding is the use of names and symbols, like Coca-Cola or McDonald's golden arches, to communicate the qualities of a particular product made by a particular producer. The goal in developing a brand is to distinguish a product from others so that consumers develop a preference for that particular brand name. Most products need some form of *packaging*—a physical container in which it is sold, advertised, or protected. A package makes the product attractive, displays the brand name, and identifies features and benefits. It also reduces the risk of damage, breakage, or spoilage, and it lessens the likelihood of theft.

8. Discuss the marketing mix as it applies to international and small business. (pp. 289–291)

In going *global*, marketers must reconsider each element of the marketing mix—product, pricing, place, and promotion—because foreign customers differ from domestic buyers in language, customs, business practices, and consumer behavior. While some products can be sold abroad with virtually no changes, others require major redesign. Pricing must consider differences in the costs of transporting and selling products abroad. Delays in starting international distribution networks can be costly, so companies with existing distribution systems enjoy an advantage. Often, U.S. promotional tactics do not succeed in other countries, so promotional methods must be developed and matched to local customs and cultural values.

Each element in the marketing mix can determine success or failure for any *small business*. Many *products* are failures because consumers don't need what they have to offer. A realistic market potential requires getting a clearer picture of what target segments want. Small-business pricing errors usually result from a failure to estimate operating expenses accurately. By carefully assessing costs, prices can be set to earn satisfactory profits. Perhaps the most crucial aspect of *place*, or distribution, is location because it determines the ability to attract customers. Although *promotion* can be expensive and is essential for small businesses, costs can be reduced by using less expensive promotional methods. Local newspaper articles and television cover business events, thus providing free public exposure.

KEY TERMS MyBizLab

behavioral variables (p. 278)
brand awareness (p. 287)
brand competition (p. 275)
brand extension (p. 288)
brand loyalty (p. 279)
branding (p. 287)
buzz marketing (p. 288)
capital item (p. 283)
consumer behavior (p. 279)
consumer goods (p. 271)
convenience good/convenience service (p. 283)
corporate blogs (p. 288)
customer relationship management (CRM) (p. 272)
demographic variables (p. 278)
emotional motives (p. 280)
evoked set (or consideration set) (p. 280)
expense item (p. 283)
geo-demographic variables (p. 278)
geographic variables (p. 278)
industrial goods (p. 271)
industrial market (p. 281)
institutional market (p. 281)
integrated marketing strategy (p. 276)
international competition (p. 275)
licensed brand (p. 288)
market segmentation (p. 277)
marketing (p. 270)
marketing manager (p. 275)
marketing mix (p. 275)
marketing plan (p. 275)
national brand (p. 288)
packaging (p. 289)
place (distribution) (p. 276)
pricing (p. 276)
private brand (private label) (p. 289)
product (p. 275)
product differentiation (p. 275)
product features (p. 282)
product life cycle (PLC) (p. 285)
product line (p. 284)
product mix (p. 284)
product placement (p. 287)
product positioning (p. 277)
production item (p. 283)
promotion (p. 276)
psychographic variables (p. 278)
rational motives (p. 280)
relationship marketing (p. 271)
reseller market (p. 281)
services (p. 271)
shopping good/shopping service (p. 283)
specialty good/specialty service (p. 283)
speed to market (p. 285)
substitute product (p. 274)
target market (p. 277)
utility (p. 270)
value (p. 270)
value package (p. 282)
viral marketing (p. 288)

QUESTIONS AND EXERCISES

QUESTIONS FOR REVIEW

1. What are the key similarities and differences between consumer buying behavior and B2B buying behavior?
2. Why and how is market segmentation used in target marketing?
3. What are the various classifications of consumer and industrial products? Give an example of a good and a service for each category other than those discussed in the text.
4. How is the concept of the value package useful in marketing to consumers and industrial customers?

QUESTIONS FOR ANALYSIS

5. Select an everyday product (personal fitness training, CDs, dog food, cell phones, or shoes, for example). Show how different versions of your product are aimed toward different market segments. Explain how the marketing mix differs for each segment.

6. Select a second everyday product and describe the consumer buying process that typically goes into its purchase.
7. 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?
8. How would you expect the branding and packaging of convenience, shopping, and specialty goods to differ? Why? Give examples to illustrate your answers.

APPLICATION EXERCISES

9. Identify a company with a product that interests you. Consider ways the company could use customer relationship management (CRM) to strengthen relationships with its target market. Specifically, explain your recommendations on how the company can use each of the four basic components of the marketing mix in its CRM efforts.
10. Select a product made by a foreign company and sold in the United States. 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, if any, be beneficial? Why?
11. Choose a product that could benefit from word-of-mouth buzz marketing. Then create a marketing campaign kit for participants to spread the word about this product.

BUILDING YOUR BUSINESS SKILLS

Dealing with Variables

Goal

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

Background Information

You and four partners are thinking of purchasing a heating and air conditioning (H/AC) dealership that specializes in residential applications priced between $2,000 and $40,000. You are now in the process of deciding where that dealership should be located. You are considering four locations: Miami, Florida; Westport, Connecticut; Dallas, Texas; and Spokane, Washington.

Method

Step 1

Working with your partnership group, examine some business information sources to learn how H/AC makers market residential products. Check for articles in the *Wall Street Journal*, *Business Week*, *Fortune*, and other business publication sources.

Step 2

Continue your research by focusing on the specific marketing variables that define each prospective location. Check Census Bureau and Department of Labor 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:

1. Geography
2. Demography (especially age, income, gender, family status, and social class)
3. Geo-demographic information
4. Psychographic factors (lifestyles, interests, and attitudes)
5. Behavioral patterns of consumers

Step 3

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

EXERCISING YOUR ETHICS: INDIVIDUAL EXERCISE

Driving a Legitimate Bargain

The Situation

A firm's marketing methods are sometimes at odds with the consumer's buying process. This exercise illustrates how ethical issues can become entwined with personal selling activities, product pricing, and customer relations.

The Dilemma

In buying his first new car, Matt visited showrooms and websites for every make of SUV. After weeks of reading and test-driving, he settled on a well-known Japanese-made vehicle with a manufacturer's suggested retail price of $37,500 for the 2011 model. The price included accessories and options that Matt considered essential. Because he planned to own the car for at least five years, he was willing to wait for just the right package rather than accept a lesser-equipped car already on the lot. Negotiations with Gary, the sales representative, continued for two weeks. Finally, a sales contract was signed for $33,600, with delivery due no more than two or three months later if the vehicle had to be special-ordered from the factory and earlier if Gary found the exact car when he searched other dealers around the country. On April 30, to close the deal, Matt had to write a check for $1,000.

Matt received a call on June 14 from Angela, Gary's sales manager: "We cannot get your car before October," she reported, "so it will have to be a 2012 model. You will have to pay the 2012 price." Matt replied that the agreement called for a stated price and delivery deadline for 2011, pointing out that money had exchanged hands for the contract. When asked what the 2012 price would be, Angela responded that it had not yet been announced. Angrily, Matt replied that he would be foolish to agree now on some unknown future price. Moreover, he didn't like the way the dealership was treating him. He told Angela to send him back everything he had signed; the deal was off.

QUESTIONS TO ADDRESS

1 Given the factors involved in the consumer buying process, how would you characterize the particular ethical issues in this situation?
2 From an ethical standpoint, what are the obligations of the sales representative and the sales manager regarding the pricing of the product in this situation?
3 If you were responsible for maintaining good customer relations at the dealership, how would you handle this matter?

EXERCISING YOUR ETHICS: TEAM EXERCISE

Cleaning Up in Sales

The Situation

Selling a product—whether a good or a service—requires the salesperson to believe in it, to be confident of his or her sales skills, and to keep commitments made to clients. Because so many people and resources are involved in delivering a product, numerous uncertainties and problems can give rise to ethical issues. This exercise encourages you to examine some of the ethical issues that can surface in the selling process for industrial products.

The Dilemma

Along with 16 other newly hired graduates, Denise Skilsel has just completed the sales training program for a new line of high-tech machinery that Cleaning Technologies Corporation (CTC) manufactures for industrial cleaners. As a new salesperson, Denise is eager to meet potential clients, all of whom are professional buyers for companies—such as laundries and dry cleaners, carpet cleaners, and military cleaners—that use CTC products or those of competitors. Denise is especially enthusiastic about several facts that she learned during training: CTC's equipment is the most technically advanced in the industry, carries a 10-year performance guarantee, and is safe—both functionally and environmentally.

The first month was difficult but successful: In visits to seven firms, Denise successfully closed three sales, earning large commissions (pay is based on sales results) as well as praise from the sales manager. Moreover, after listening to her presentations, two more potential buyers had given verbal commitments and were about to sign for much bigger orders than any Denise had closed to date. As she was catching her flight to close those sales, Denise received two calls—one from a client and one from a competitor. The client, just getting started with CTC equipment, was having some trouble: Employees stationed nearby were getting sick when the equipment was running. The competitor told Denise that the U.S. Environmental Protection Agency (EPA) had received complaints that CTC's new technology was environmentally unsafe because of noxious emissions.

Team Activity

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

- Denise: CTC salesperson (employee)
- CTC sales manager (employer)
- CTC customer
- CTC investor

ACTION STEPS

1 Before hearing any of your group's comments on this situation, and from the perspective of your assigned role, what do you recommend Denise should say to the two client firms she is scheduled to visit? Write down your recommendation.
2 Gather your group together and reveal, in turn, each member's recommendation.
3 Appoint someone to record main points of agreement and disagreement within the group. How do you explain the results? What accounts for any disagreement?
4 Identify any ethical issues involved in group members' recommendations. Which issues, if any, are more critical than others?
5 From an ethical standpoint, what does your group finally recommend Denise should say to the two client firms she is scheduled to visit? Explain your result.
6 From the standpoint of customer relationship management, identify the advantages and drawbacks resulting from your recommendations.

VIDEO EXERCISE MyBizLab

DC Shoes

Learning Objectives

The purpose of this video is to help you:

1 Understand the importance of branding.
2 Describe how market segmentation is used to create a target market for a product.
3 Discuss the components of the value package.

Synopsis

DC Shoes is a manufacturer and distributor of clothing and accessories for extreme sports enthusiasts. Founded in 1993 by rally racer Ken Block and skateboarder Damon Way, DC Shoes sells products for skateboarding, snowboarding, surfing, motocross, and BMX. The company's media arm, DC Films, produces high quality videos that define and sustain the brand. Video shorts produced by DC Films often feature the company's products, but that is only the beginning. The films highlight extreme sports athletes and embody the lifestyle and priorities of their target market.

DISCUSSION QUESTIONS

1 Describe DC Shoes's target market in terms of age, gender, and lifestyle. How does the company's marketing mix appeal to this target market?
2 What are the components of DC Shoes's value package?
3 How does DC Shoes use its media arm, DC Films, to attract and retain customers?
4 How does DC Shoes differentiate themselves from their competition?

5 Recently, DC Shoes signed skateboarder Chris Cole. How did DC Shoes use buzz marketing before the announcement?

Online Exploration

DC Shoes has a multimedia approach to building its brand. Go to YouTube (www.youtube.com) and search for "DC Shoes" to find the company's YouTube channel. View a sample of the hundreds of videos, paying particular attention to the videos introducing Chris Cole. How does DC Shoes use YouTube and social media to build and define the brand? How is YouTube particularly suited to the company's target market?

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