CHAPTER 5

Market Segmenting, Targeting, and Positioning

Suppose you have an idea for a great new offering you hope will become a hot seller. Before you quit your day job, you'll need to ask yourself, "Does my idea satisfy consumers' needs and add value to existing products?" "Who's going to buy my product?" and "Will there be enough of these people to make it worth my while?"

Certain people will be more interested in what you plan to offer than others. Not everyone needs homeowners' insurance, not everyone needs physical therapy services, and not every organization needs to purchase vertical lathes or CT scanners. Among those that do, some will buy a few, and a few will buy many. In terms of potential buyers, not all of them are "created equal." Some customers are more equal than others, however. A number of people might be interested in your product idea if it satisfies a need, adds value, is priced right, or if they are aware when your product exists in the marketplace.

Your goal is to figure out which people and organizations are interested in your product ideas. To do this you will need to divide or segment the people and organizations into different groups of potential buyers with similar characteristics. This process is called **market segmentation** and involves asking the question, *What groups of buyers are similar enough that the same product or service will appeal to all of them?*[1] After all, your marketing budget is likely to be limited. You need to get the biggest bang for your buck by focusing on those people you truly have a shot at selling to and tailoring your offering toward them.

market segmentation

The process of breaking down all consumers into groups of potential buyers with similar characteristics.

1. TARGETED MARKETING VERSUS MASS MARKETING

LEARNING OBJECTIVES

1. **Distinguish between targeted marketing and mass marketing and explain what led to the rise of each.**
2. **Describe how targeted marketing can benefit firms.**
3. **Explain why companies differentiate among their customers.**

The segment(s) or group(s) of people and organizations you decide to sell to is called a **target market**. Targeted marketing, or *differentiated marketing*, means that you may differentiate some aspect of marketing (offering, promotion, price) for different groups of customers selected. It is a relatively new phenomenon. **Mass marketing**, or *undifferentiated marketing*, came first. It evolved along with mass production and involves selling the same product to everybody. You can think of mass marketing as a shotgun approach: you blast out as many marketing messages as possible on every medium available as often as you can afford.[2] By contrast, targeted marketing is more like shooting a rifle; you take careful aim at one type of customer with your message.

target market

The select group of people you choose to sell to.

mass marketing

Selling the same product to all consumers.

Automaker Henry Ford was very successful at both mass production and mass marketing. Ford pioneered the modern-day assembly line early in the twentieth century, which helped him cost-effectively pump out huge numbers of identical Model T automobiles. They came in only one color: black. "Any customer can have a car painted any color he wants, so long as it is black," Ford used to joke. He also advertised in every major newspaper and persuaded all kinds of publications to carry stories about the new, inexpensive cars. By 1918, half of all cars on America's roads were Model Ts.[3]

Then Alfred P. Sloan, the head of General Motors (GM), appeared on the scene. Sloan began to segment consumers in the automobile market—to divide them up by the prices they wanted to pay and the different cars they wanted to buy. The idea was to offer a car for every target market or for every income level. His efforts were successful, and in the 1950s, GM overtook Ford as the nation's top automaker.[4] (You might be interested to know that before GM declared bankruptcy in 2009, it was widely believed the automaker actually had too many car models. After eliminating many models including Pontiac and Oldsmobile, General Motors made a turnaround and posted a large profit for 2011.)

FIGURE 5.1

You could forget about buying a custom Model T from Ford in the early 1900s. The good news? The price was right.

1.1 Benefits of Segmenting and Targeting Markets

The story of General Motors raises an important point, which is that segmenting and targeting markets doesn't necessarily mean "skinnying down" the number of your customers. In fact, it can help you enlarge your customer base by giving you information with which to successfully adjust some component of your offering—the offering itself, its price, the way you service and market it. More specifically, the process can help you do the following:

- Avoid head-on competition with other firms trying to capture the same customers.
- Develop new offerings and expand profitable brands and products lines.
- Remarket older, less-profitable products and brands.
- Identify early adopters.
- Redistribute money and sales efforts to focus on your most profitable customers.
- Retain "at-risk" customers in danger of defecting to your competitors.

The trend today is toward more precise, targeted marketing. Figuring out "who's who" in terms of your customers involves some detective work, though—often market research. A variety of tools and research techniques can be used to segment markets. Government agencies, such as the U.S. Census Bureau, collect and report vast amounts of population information and economic data that can reveal changing consumption trends. Technology is also making it easier for even small companies and entrepreneurs to gather information about potential customers. For example, the online game company GamePUMA.com originally believed its target market consisted of U.S. customers, but when the firm looked more closely at who was downloading games from its Web site, they were people from all over the globe. With the increased use of social media, companies are able to get information on consumers' search behavior. Loyalty cards that consumers scan at many grocery and drug stores provide an incredible amount of information on consumers' buying behavior.

The great product idea you had? Companies are now using the Internet to track people's Web browsing patterns and segment them into target groups. Even small businesses are able to do this cost-effectively because they don't need their own software and programs. They can simply sign up online for products like Google's AdSense and AdWords programs. You can locate potential customers by looking at blog sites and discussion forums on the Web. Big-boards.com has thousands of discussion forums you can mine to find potential customers interested in your product. Do you have a blog? Go to BlogPoll.com, and you can embed a survey in your blog to see what people think of your idea. If you have a Web site, you can download an application onto your iPhone that will give you up-to-the-minute information and statistics on your site's visitors.

Getting a read on potential target markets doesn't necessarily have to involve technology. Your own personal experience and talking to would-be buyers is an important part of the puzzle. Go where you think would-be buyers go—restaurants, malls, gyms, subways, grocery stores, daycare centers, and offices—and ask questions to find out what they do during the day, what they talk about, what products or services do you see them using, and do they seem to be having an enjoyable experience when using those products or are they frustrated?

Healthy Choice frozen dinners were conceived as a result of questioning potential customers. The food-maker ConAgra launched the dinners in the late 1980s after its CEO, Charlie Harper, suffered a heart attack. One day a colleague complimented Harper on his wife's tasty low-fat turkey stew. That's when Harper realized there were people like him who wanted healthy convenience foods, so he began talking to them about what they wanted. Two years after the Healthy Choice line was launched, it controlled 10 percent of the frozen-dinner market by concentrating on the health conscious segment.[5]

FIGURE 5.2

The Healthy Choice line of frozen dinners was launched by a heart attack victim.

1.2 Segmenting and Targeting a Firm's Current Customers

Finding and attracting new customers is generally far more difficult than retaining your current customers. Think about how much time and energy you spend when you switch your business from one firm to another, even when you're buying something as simple as a haircut. If you aren't happy with your hair stylist and want to find a new hairdresser, you first have to talk to people with haircuts you like or read reviews of salons. Once you decide on a particular salon, you have to find it and explain to the new hairdresser how you want your hair cut and hope he or she gets it right. You also have to figure out what type of credit cards the new salon will accept and whether tips can be put on your credit card.

Finding new customers, getting to know them, and figuring out what they really want is also a difficult process, one that's fraught with trial and error. That's why it's so important to get to know, form close relationships, and focus selling efforts on current customers.[6]

In 2009, Backroads, a California company focused on adventure-based travel increased its revenues by creating a personalized marketing campaign for people who had done business with them in the past. Backroads looked at customers' past purchases, the seasons in which they took their trips, the levels of activity associated with them, and whether or not the customers tended to vacation with children. Based on their findings, Backroads created three relevant trip suggestions for each customer and sent postcards and e-mails with links to customized Web pages reminding each customer of the trips he/she had previously booked with Backroads and suggesting new ones. "In terms of past customers, it was like off-the-charts better [than past campaigns]," says Massimo Prioreschi, the vice president of Backroads' sales and marketing group.[7]

In addition to studying their buying patterns, firms also try to get a better understanding of their customers by surveying them or hiring marketing research firms to do so or by utilizing loyalty programs. (A good source for finding marketing research companies is http://www.greenbook.org.) For example, if you sign up to become a frequent flier with a certain airline, the airline will likely ask you a number of questions about your likes and dislikes. This information will then be entered into a customer relationship management (CRM) system, and you might be e-mailed special deals based on the routes you tend to fly. British Airways goes so far as to track the magazines its most elite fliers like to read so the publications are available to them on its planes.

Twitter is another way companies are keeping in touch with their customers and boosting their revenues. When the homemaking maven Martha Stewart schedules a book signing, she tweets her followers, and voilà, many of them show up at the bookstore she's appearing at to buy copies. Finding ways to interact with customers that they enjoy—whether it's meeting or "tweeting" them, or putting on events and tradeshows they want to attend—is the key to forming relationships with them.

Many firms, even small ones, are using Facebook to develop closer relationships with their customers. Hansen Cakes, a Beverly Hills (California) bakery, has about two thousand customers who visit its Facebook page. During her downtime at the bakery, employee Suzi Finer posts "cakes updates" and photos of the goodies she's working on to the site. Along with information about the cakes, Finer extends special offers to customers and mixes in any gossip about Hollywood celebrities she's spotted in the area. After Hansen Cakes launched its Facebook page, the bakery's sales shot up 15–20 percent. "And that's during the recession," notes Finer, who is obviously proud of the results she's gotten.[8]

Regardless of how well companies know their customers, it's important to remember that some customers are highly profitable, others aren't, and others actually end up costing your firm money to serve. Consequently, you will want to interact with some customers more than others. Believe it or not, some firms deliberately "untarget" unprofitable customers. Best Buy got a lot of attention (not all of it good) when it was discovered they had categorized its buyers into "personas," or types of buyers, and created customized sales approaches for each. For example, an upper-middle-class woman was referred to as a "Jill." A young urban man was referred to as a "Buzz." Pesky, bargain-hunting customers that Best Buy couldn't make much of a profit from were referred to as "devils" and taken off the company's mailing lists.[9]

The knife cuts both ways, though. Not all firms are equal in the minds of consumers, who will choose to do business with some companies rather than others. To consumers, market segmentation means: meet *my* needs—give me what *I* want.[10]

FIGURE 5.3

Are you a "high maintenance" customer? Always trying to "work a deal"? Then don't call Best Buy. They'll call you.

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one-to-one marketing

Forming close, personal relationships with customers and giving them exactly what they want.

Steps companies take to target their best customers, form close, personal relationships with them, and give them what they want—a process called **one-to-one marketing**—are outlined in "Steps in One-to-One Marketing." In terms of our shotgun versus rifle approach, you can think of one-to-one marketing as a rifle approach, but with an added advantage: now you have a scope on your rifle.

One-to-one marketing is an idea proposed by Don Peppers and Martha Rogers in their 1994 book *The One to One Future*. The book described what life would be like after mass marketing. We would all be able to get exactly what we want from sellers, and our relationships with them would be collaborative, rather than adversarial. Are we there yet? Not quite, but it does seem to be the direction the trend toward highly targeted marketing is leading.

Steps in One-to-One Marketing

1. **Establish short-term measures to evaluate your efforts**. Determine how you will measure your effort. Will you use higher customer satisfaction ratings, increased revenues earned per customer, number of products sold to customers, transaction costs, or another measure?
2. **Identify your customers**. Gather all the information you can about your current customers, including their buying patterns, likes, and dislikes. When conducting business with them, include an "opt in" question that allows you to legally gather and use their phone numbers and e-mail addresses so you can remain in contact with them.
3. **Differentiate among your customers**. Determine who your best customers are in terms of what they spend and will spend in the future (their customer lifetime value), and how easy or difficult they are to serve. Identify and target customers that spend only small amounts with you but large amounts with your competitors.
4. **Interact with your customers, targeting your best ones**. Find ways and media in which to talk to customers about topics they're interested in and enjoy. Spend the bulk of your resources interacting with your best (high-value) customers. Minimize the time and money you spend on low-value customers with low growth potential.
5. **Customize your products and marketing messages to meet their needs**. Try to customize your marketing messages and products in order to give your customers exactly what they want—whether it's the product itself, its packaging, delivery, or the services associated with it.[11]

Audio Clip

Interview with Apurva Ghelani

Listen to Apurva Ghelani, a senior sales engineer, from the marketing company Air2Web, discuss how companies like NASCAR get permission from consumers to send them advertisements via their wireless devices.

KEY TAKEAWAY

Choosing select groups of people to sell to is called target marketing, or *differentiated marketing*. Mass marketing, or *undifferentiated marketing*, involves selling the same product to everyone. The trend today is toward more precise, targeted marketing. Finding and attracting new customers is generally far more difficult than retaining one's current customers, which is why organizations try to interact with and form relationships with their current customers. The goal of firms is to do as much business with their best customers as possible. Forming close, personal relationships with customers and giving them exactly what they want is a process called one-to-one marketing. It is the opposite of mass marketing.

REVIEW QUESTIONS

1. Using the shotgun and rifle analogy, how do mass marketing, targeted marketing, and one-to-one marketing compare with one another?
2. How is technology making it easier for firms to target potential customers?
3. Outline the steps companies need to take to engage in one-to-one marketing with their customers.

2. HOW MARKETS ARE SEGMENTED

LEARNING OBJECTIVES

1. **Understand and outline the ways in which markets are segmented.**
2. **Explain why marketers use some segmentation bases versus others.**

Sellers can choose to pursue consumer markets, business-to-business (B2B) markets, or both. Consequently, one obvious way to begin the segmentation process is to segment markets into these two types of groups.

Different factors influence consumers to buy certain things. Many of the same factors can also be used to segment customers. A firm will often use multiple **segmentation bases**, or criteria to classify buyers, to get a fuller picture of its customers and create real value for them. Each variable adds a layer of information. Think of it as being similar to the way in which your professor builds up information on a PowerPoint slide to the point at which you are able to understand the material being presented.

segmentation bases

Criteria used to classify and divide buyers into different groups.

There are all kinds of characteristics you can use to slice and dice a market. “Big-and-tall” stores cater to the segment of population that’s larger sized. What about people with wide or narrow feet, or people with medical conditions, or certain hobbies? Next, we look primarily at the ways in which consumer markets can be segmented. Later in the chapter, we’ll look at the ways in which B2B markets can be segmented.

2.1 Types of Segmentation Bases

Table 5.1 shows some of the different types of buyer characteristics used to segment markets. Notice that the characteristics fall into one of four segmentation categories: *behavioral*, *demographic*, *geographic*, or *psychographic*. We’ll discuss each of these categories in a moment. For now, you can get a rough idea of what the categories consist of by looking at them in terms of how marketing professionals might answer the following questions:

- **Behavioral segmentation.** What benefits do customers want, and how do they use our product?
- **Demographic segmentation.** How do the ages, races, and ethnic backgrounds of our customers affect what they buy?
- **Geographic segmentation.** Where are our customers located, and how can we reach them? What products do they buy based on their locations?
- **Psychographic segmentation.** What do our customers think about and value? How do they live their lives?

TABLE 5.1 Common Ways of Segmenting Buyers

By Behavior	By Demographics	By Geography	By Psychographics
■ Benefits sought from the product ■ How often the product is used (usage rate) ■ Usage situation (daily use, holiday use, etc.) ■ Buyer's status and loyalty to product (nonuser, potential user, first-time users, regular user)	■ Age/ generation ■ Income ■ Gender ■ Family life cycle ■ Ethnicity ■ Family size ■ Occupation ■ Education ■ Nationality ■ Religion ■ Social class	■ Region (continent, country, state, neighborhood) ■ Size of city or town ■ Population density ■ Climate	■ Activities ■ Interests ■ Opinions ■ Values ■ Attitudes ■ Lifestyles

2.2 Segmenting by Behavior

behavioral segmentation

Dividing people and organization into groups according to how they behave with or act toward products.

Behavioral segmentation divides people and organization into groups according to how they behave with or act toward products. *Benefits segmentation*—segmenting buyers by the benefits they want from products—is very common. Take toothpaste, for example. Which benefit is most important to you when you buy a toothpaste: The toothpaste's price, ability to whiten your teeth, fight tooth decay, freshen your breath, or something else? Perhaps it's a combination of two or more benefits. If marketing professionals know what those benefits are, they can then tailor different toothpaste offerings to you (and other people like you). For example, Colgate 2-in-1 Toothpaste & Mouthwash, Whitening Icy Blast is aimed at people who want the benefits of both fresher breath and whiter teeth.

Video Clip

A Vintage Colgate Commercial from the 1950s

Watch the YouTube video to see a vintage Colgate toothpaste ad that describes the product's various benefits to consumers. (Onscreen kissing was evidently too racy for the times.)

View the video online at: http://www.youtube.com/v/9QrFa3tDwvY

Another way in which businesses segment buyers is by their usage rates—that is, how often, if ever, they use certain products. Harrah's, an entertainment and gaming company, gathers information about the people who gamble at its casinos. High rollers, or people who spend a lot of money, are considered "VIPs." VIPs get special treatment, including a personal "host" who looks after their needs during their casino visits. Companies are interested in frequent users because they want to reach other people like them. They are also keenly interested in nonusers and how they can be persuaded to use products.

The way in which people use products is also be a basis for segmentation. Avon Skin So Soft was originally a beauty product, but after Avon discovered that some people were using it as a mosquito repellant, the company began marketing it for that purpose. Eventually, Avon created a separate product called Skin So Soft Bug Guard, which competes with repellents like Off! Similarly, Glad, the company that makes plastic wrap and bags, found out customers were using its Press'n Seal wrap in ways the company could never have imagined. The personnel in Glad's marketing department subsequently launched a Web site called 1000uses.com that contains both the company's and consumers' use tips. Some of the ways in which people use the product are pretty unusual, as evidenced by the following comment posted on the site: "I have a hedgehog who likes to run on his wheel a lot. After quite a while of cleaning a gross wheel every morning, I got the tip to use 'Press'n Seal wrap' on his wheel, making clean up much easier! My hedgie can run all he wants, and I don't have to think about the cleanup. Now we're both GLAD!"

Although we doubt Glad will ever go to great lengths to segment the Press 'n Seal market by hedgehog owners, the firm has certainly gathered a lot of good consumer insight about the product and publicity from its 1000uses.com Web site. (Incidentally, one rainy day, the author of this chapter made "rain boots" out of Press 'n Seal for her dog. But when she later tried to tear them off of the dog's paws, he bit her. She is now thinking of trading him in for a hedgehog.)

FIGURE 5.4

Encouraging consumers to use your products for multiple purposes is a smart marketing strategy.

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2.3 Segmenting by Demographics

Segmenting buyers by personal characteristics such as age, income, ethnicity and nationality, education, occupation, religion, social class, and family size is called **demographic segmentation**. Demographics are commonly utilized to segment markets because demographic information is publicly available in databases around the world. You can obtain a great deal of demographic information on the U.S. Census Bureau's Web site (http://www.census.gov). Other government Web sites you can tap include FedStats (http://www.fedstats.gov) and *The World Factbook* (http://www.cia.gov/cia/publications/factbook), which contains statistics about countries around the world. In addition to current statistics, the sites contain forecasts of demographic trends, such as whether some segments of the population are expected to grow or decline.

demographic segmentation

Segmenting buyers by personal characteristics such as their ages, incomes, ethnicity, and family sizes.

Age

At this point in your life, you are probably more likely to buy a car than a funeral plot. Marketing professionals know this. That's why they try to segment consumers by their ages. You're probably familiar with some of the age groups most commonly segmented (see Table 5.2) in the United States. Into which category do you fall?

TABLE 5.2 U.S. Generations and Characteristics

Generation	Also Known As	Birth Years	Characteristics
Seniors	"The Silent Generation," "Matures," "Veterans," and "Traditionalists"	1945 and prior	■ Experienced very limited credit growing up ■ Tend to live within their means ■ Spend more on health care than any other age group ■ Internet usage rates increasing faster than any other group
Baby Boomers		1946–1964	■ Second-largest generation in the United States ■ Grew up in prosperous times before the widespread use of credit ■ Account for 50 percent of U.S. consumer spending ■ Willing to use new technologies as they see fit
Generation X		1965–1979	■ Comfortable but cautious about borrowing ■ Buying habits characterized by their life stages ■ Embrace technology and multitasking
Generation Y	"Millennials," "Echo Boomers," includes "Tweens" (preteens)	1980–2000	■ Largest U.S. generation ■ Grew up with credit cards ■ Adept at multitasking; technology use is innate ■ Ignore irrelevant media
Note: Not all demographers agree on the cutoff dates between the generations.			

retro brands

Old brands or products companies "bring back" for a period of time.

Today's college-age students (Generation Y) compose the largest generation. The baby boomer generation is the second largest, and over the course of the last thirty years or so, has been a very attractive market for sellers. **Retro brands**—old brands or products that companies "bring back" for a period of time—were aimed at baby boomers during the recent economic downturn. Pepsi Throwback and Mountain Dew Throwback, which are made with cane sugar—like they were "back in the good old days"—instead of corn syrup, are examples.[12] Marketing professionals believe they appealed to baby boomers because they reminded them of better times—times when they didn't have to worry about being laid off, about losing their homes, or about their retirement funds and pensions drying up.

Baby boomers are aging and the size of the group will eventually decline. By contrast, the members of Generation Y have a lifetime of buying still ahead of them, which translates to a lot of potential customer lifetime value (CLV), the amount a customer will spend on a particular brand over his/her lifetime, for marketers if they can capture this group of buyers. However, a recent survey found that the latest recession had forced teens to change their spending habits and college plans and that roughly half of older Generation Yers reported they had no savings.[13]

So which group or groups should your firm target? Although it's hard to be all things to all people, many companies try to broaden their customer bases by appealing to multiple generations so they don't lose market share when demographics change. Several companies have introduced lower-cost brands targeting Generation Xers, who have less spending power than boomers. For example, kitchenware and home-furnishings company Williams-Sonoma opened the Elm Street chain, a less-pricey version of the Pottery Barn franchise. The Starwood hotel chain's W hotels, which feature contemporary designs and hip bars, are aimed at Generation Xers.[14]

The video game market is very proud of the fact that along with Generation X and Generation Y, many older Americans still play video games. (You probably know some baby boomers who own a Nintendo Wii.) Products and services in the spa market used to be aimed squarely at adults, but not anymore. Parents are now paying for their tweens to get facials, pedicures, and other pampering in numbers no one in years past could have imagined.

Video Clip

Evian Water: Roll, Baby, Roll!

Watch the YouTube video to see a fun generational type of advertisement. No, the ad isn't designed to appeal to babies. It's aimed at us adults!

View the video online at: http://www.youtube.com/v/_PHnRIn74Ag

As early as the 1970s, U.S. automakers found themselves in trouble because of changing demographic trends. Many of the companies' buyers were older Americans inclined to "buy American." These people hadn't forgotten that Japan bombed Pearl Harbor during World War II and weren't about to buy Japanese vehicles, but younger Americans were. Plus, Japanese cars had developed a better reputation. Despite the challenges U.S. automakers face today, they have taken great pains to cater to the "younger" generation—today's baby boomers who don't think of themselves as being old. If you are a car buff, you perhaps have noticed that the once-stodgy Cadillac now has a sportier look and stiffer suspension. Likewise, the Chrysler 300 looks more like a muscle car than the old Chrysler Fifth Avenue your great-grandpa might have driven.

Automakers have begun reaching out to Generations X and Y, too. General Motors (GM) has sought to revamp the century-old company by hiring a new younger group of managers—managers who understand how Generation X and Y consumers are wired and what they want. "If you're going to appeal to my daughter, you're going to have to be in the digital world," explained one GM vice president.[15]

Companies have to develop new products designed to appeal to Generations X and Y and also find new ways to reach them. People in these generations not only tend to ignore traditional advertising but also are downright annoyed by it. To market to Scion drivers, who are generally younger, Toyota created Scion Speak, a social networking site where they can communicate, socialize, and view cool new models of the car. Online events such as the fashion shows broadcast over the Web are also getting the attention of younger consumers, as are text, e-mail, and Twitter messages they can sign up to receive so as to get coupons, cash, and free merchandise. Advergames are likewise being used to appeal to the two demographic groups. **Advergames** are electronic games sellers create to promote a product or service. Would you like to play one now? Click on the following link to see a fun one created by Burger King to advertise its Tender Crisp Chicken.

advergames

Electronic games sellers create to promote a product or service.

Burger King Advergame

http://web.archive.org/web/20110426194400/http://www.bk.com/en/us/campaigns/subservient-chicken.html

You can boss the "subservient chicken" around in this advergame. He will do anything you want—well, *almost* anything.

Income

Tweens might appear to be a very attractive market when you consider they will be buying products for years to come. But would you change your mind if you knew that baby boomers account for 50 percent of all consumer spending in the United States? Americans *over* sixty-five now control nearly three-quarters of the net worth of U.S. households; this group spends $200 billion a year on major "discretionary" (optional) purchases such as luxury cars, alcohol, vacations, and financial products.[16]

Income is used as a segmentation variable because it indicates a group's buying power and may partially reflect their education levels, occupation, and social classes. Higher education levels usually result in higher paying jobs and greater social status. The makers of upscale products such as Rolexes and Lamborghinis aim their products at high-income groups. However, a growing number of firms today are aiming their products at lower-income consumers. The fastest-growing product in the financial services sector is prepaid debit cards, most of which are being bought and used by people who don't have bank accounts. Firms are finding that this group is a large, untapped pool of customers who tend to be more brand loyal than most. If you capture enough of them, you can earn a profit.[17] Based on the targeted market, businesses can determine the location and type of stores where they want to sell their products.

Sometimes income isn't always indicative of who will buy your product. Companies are aware that many consumers want to be in higher income groups and behave like they are already part of them. Mercedes Benz's cheaper line of "C" class vehicles is designed to appeal to these consumers.

FIGURE 5.5

Automobile companies may segment markets based on income, age, social class, and gender.

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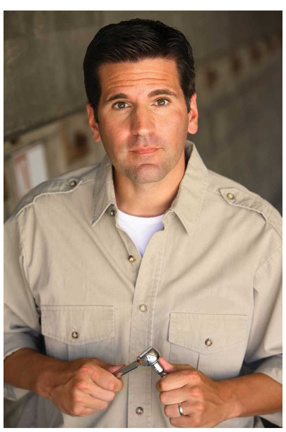
Gender

Gender is another way to segment consumers. Men and women have different needs and also shop differently. Consequently, the two groups are often, but not always, segmented and targeted differently. Marketing professionals don't stop there, though. For example, because women make many of the purchases for their households, market researchers sometimes try to further divide them into subsegments. (Men are also often subsegmented.) For women, those segments might include *stay-at-home* housewives, *plan-to-work* housewives, *just-a-job* working women, and *career-oriented* working women. Research has found that women who are solely homemakers tend to spend more money, perhaps because they have more time.

In addition to segmenting by gender, market researchers might couple gender with marital status and other demographic characteristics. For, example, did you know that more women in America than ever before (51 percent) now live without spouses? Can you think of any marketing opportunities this might present?[18]

FIGURE 5.6

Considering the rising number of U.S. women who live without spouses, entrepreneurs have launched handyman services in many markets.



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Family Life Cycle

Family life cycle refers to the stages families go through over time and how it affects people's buying behavior. For example, if you have no children, your demand for pediatric services (medical care for children) is likely to be slim to none, but if you have children, your demand might be very high because children frequently get sick. You may be part of the target market not only for pediatric services but also for a host of other products, such as diapers, daycare, children's clothing, entertainment services, and educational products. A secondary segment of interested consumers might be grandparents who are likely to spend less on day-to-day childcare items but more on special-occasion gifts for children. Many markets are segmented based on the special events in people's lives. Think about brides (and want-to-be brides) and all the products targeted at them, including Web sites and television shows such as *Say Yes to the Dress*, *My Fair Wedding*, *Platinum Weddings*, and *Bridezillas*.

family life cycle

The stages families go through over time and how it affects people's buying behavior.

Resorts also segment vacationers depending on where they are in their family life cycles. When you think of family vacations, you probably think of Disney resorts. Some vacation properties, such as Sandals, exclude children from some of their resorts. Perhaps they do so because some studies show that the market segment with greatest financial potential is married couples without children.[19]

Keep in mind that although you might be able to isolate a segment in the marketplace, including one based on family life cycle, you can't make assumptions about what the people in it will want. Just like people's demographics change, so do their tastes. For example, over the past few decades U.S. families have been getting smaller. Households with a single occupant are more commonplace than ever, but until recently, that hasn't stopped people from demanding bigger cars (and more of them) as well as larger houses, or what some people jokingly refer to as "McMansions."

The trends toward larger cars and larger houses appear to be reversing. High energy costs, the credit crunch, and concern for the environment are leading people to demand smaller houses. To attract people such as these, D. R. Horton, the nation's leading homebuilder, and other construction firms are now building smaller homes.

FIGURE 5.7

Many markets are segmented based on people's family life cycle needs.

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Ethnicity

People's ethnic backgrounds have a big impact on what they buy. If you've visited a grocery store that caters to a different ethnic group than your own, you were probably surprised to see the types of products sold there. It's no secret that the United States is becoming—and will continue to become—more diverse. Hispanic Americans are the largest and the fastest-growing minority in the United States. Companies are going to great lengths to court this once overlooked group. In California, the health care provider Kaiser Permanente runs television ads letting members of this segment know that they can request Spanish-speaking physicians and that Spanish-speaking nurses, telephone operators, and translators are available at all of its clinics.[20]

African Americans are the second-largest ethnic group in America. Collectively, they have the most buying power of any ethnic group in America. Many people of Asian descent are known to be early adapters of new technology and have above-average incomes. As a result, companies that sell electronic products, such as AT&T, spend more money segmenting and targeting the Asian community.[21] Table 5.3 contains information about the number of people in these groups and their buying power.

TABLE 5.3 Major U.S. Ethnic Segments and Their Spending

Group	Percentage of U.S. Population	Annual Spending Power (Billions of Dollars)
Hispanics	13.7	736
African Americans	13.0	761
Asians	5.0	397

Source: New American Dimensions, LLC.

As you can guess, even within various ethnic groups there are many differences in terms of the goods and services buyers choose. Consequently, painting each group with a broad brush would leave you with an incomplete picture of your buyers. For example, although the common ancestral language among the Hispanic segment is Spanish, Hispanics trace their lineages to different countries. Nearly 70 percent of Hispanics in the United States trace their lineage to Mexico; others trace theirs to Central America, South America, and the Caribbean.

All Asians share is race. Chinese, Japanese, and Korean immigrants do not share the same language.[22] Moreover, both the Asian and Hispanic market segments include new immigrants, people who immigrated to the United States years ago, and native-born Americans. So what language will you use to communicate your offerings to these people, and where?

Subsegmenting the markets could potentially help you. New American Dimension, a multicultural research firm, has further divided the Hispanic market into the following subsegments:

- **Just moved in'rs.** Recent arrivals, Spanish dependent, struggling but optimistic.
- **FOBrs (fashionistas on a budget).** Spanish dominant, traditional, but striving for trendy.
- **Accidental explorers.** Spanish preferred, not in a rush to embrace U.S. culture.
- **The englightened.** Bilingual, technology savvy, driven, educated, modern.
- **Doubting Tomáses.** Bilingual, independent, skeptical, inactive, shopping uninvolved.
- **Latin flavored.** English preferred, reconnecting with Hispanic traditions.
- **SYLrs (single, young latinos).** English dominant, free thinkers, multicultural.

You could go so far as to break down segments to the individual level, which is the goal behind one-to-one marketing. However, doing so would be dreadfully expensive, notes Juan Guillermo Tornoe, a marketing expert who specializes in Hispanic marketing issues. After all, are you really going to develop different products and different marketing campaigns and communications for each group? Probably not, but "you need to perform your due diligence and understand where the majority of the people you are trying to reach land on this matrix, modifying your message according to this insight," Tornoe explains.[23]

2.4 Segmenting by Geography

Suppose your great new product or service idea involves opening a local store. Before you open the store, you will probably want to do some research to determine which geographical areas have the best potential. For instance, if your business is a high-end restaurant, should it be located near the local college or country club? If you sell ski equipment, you probably will want to locate your shop somewhere in the vicinity of a mountain range where there is skiing. You might see a snowboard shop in the same area but probably not a surfboard shop. By contrast, a surfboard shop is likely to be located along the coast, but you probably would not find a snowboard shop on the beach.

Geographic segmentation divides the market into areas based on location and explains why the checkout clerks at stores sometimes ask for your zip code. It's also why businesses print codes on coupons that correspond to zip codes. When the coupons are redeemed, the store can find out where its customers are located—or not located. **Geocoding** is a process that takes data such as this and plots it on a map. Geocoding can help businesses see where prospective customers might be clustered and target them with various ad campaigns, including direct mail. One of the most popular geocoding software programs is PRIZM NE, which is produced by a company called Claritas. PRIZM NE uses zip codes and demographic information to classify the American population into segments. The idea behind PRIZM is that "you are where you live." Combining both demographic and geographic information is referred to as **geodemographics** or neighborhood geography. The idea is that housing areas in different zip codes typically attract certain types of buyers with certain income levels. To see how geodemographics works, visit the following page on Claritas' Web site: http://www.claritas.com/MyBestSegments/Default.jsp?ID=20.

geographic segmentation

Segmenting buyers by where they are located.

geocoding

The process of plotting geographic marketing information takes on a map.

geodemographics (neighborhood geography)

Combining both demographic and geographic information for marketing purposes.

Type in your zip code, and you will see **customer profiles** of the types of buyers who live in your area. Table 5.4 shows the profiles of buyers who can be found the zip code 76137—the "Brite Lites, Li'l City" bunch, and "Home Sweet Home" set. Click on the profiles on the Claritas site to see which one most resembles you.

customer profile

The description of a type of customer based on market segmentation criteria.

TABLE 5.4 An Example of Geodemographic Segmentation for 76137 (Fort Worth, TX)

Number	Profile Name
12	*Brite Lites, Li'l City*
19	*Home Sweet Home*
24	*Up-and-Comers*
13	*Upward Bound*
34	*White Picket Fences*

The tourism bureau for the state of Michigan was able to identify and target different customer profiles using PRIZM. Michigan's biggest travel segment are Chicagoans in certain zip codes consisting of upper-middle-class households with children—or the "kids in cul-de-sacs" group, as Claritas puts it. The bureau was also able to identify segments significantly different from the Chicago segment, including blue-collar adults in the Cleveland area who vacation without their children. The organization then created significantly different marketing campaigns to appeal to each group.

City size and **population density** (the number of people per square mile) are also used for segmentation purposes. Have you ever noticed that in rural towns, McDonald's restaurants are hard to find, but Dairy Queens (DQ) are usually easy to locate? McDonald's generally won't put a store in a town of fewer than five thousand people. However, this is prime turf for the "DQ"— because it doesn't have to compete with bigger franchises like McDonald's.

population density

The number of people per square mile.

Proximity marketing is an interesting new technology firms are using to segment and target buyers geographically within a few hundred feet of their businesses using wireless technology. In some areas, you can switch your mobile phone to a "discoverable mode" while you're shopping and, if you want, get ads and deals from stores as you pass by them, which is often less expensive than hiring people to hand you a flier as you walk by.[24]

FIGURE 5.8

Virgin Mobile is helping stores capitalize on proximity marketing by sending text messages to Virgin Mobile users when they opt to receive them. Billboards outside stores tell Virgin Mobile users to "switch your Bluetooth on to get free stuff here!" (Who wouldn't want free stuff?)

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proximity marketing

The process of segmenting buyers geographically and targeting them within a few hundred feet of a business businesses using wireless technology.

Audio Clip

Interview with Apurva Ghelani

To learn about how proximity marketing works at a real company, listen to Apurva Ghelani in this audio clip. Ghelani is a senior sales engineer for Air2Web, a company that helps businesses promote their brands and conduct transactions with people via their mobile phones.

In addition to figuring out where to locate stores and advertise to customers in that area, geographic segmentation helps firms tailor their products. Chances are you won't be able to find the same heavy winter coat you see at a Walmart in Montana at a Walmart in Florida because of the climate differences between the two places. Market researchers also look at migration patterns to evaluate opportunities. TexMex restaurants are more commonly found in the southwestern United States. However, northern states are now seeing more of them as more people of Hispanic descent move northward.

2.5 Segmenting by Psychographics

If your offering fulfills the needs of a specific demographic group, then the demographic can be an important basis for identifying groups of consumers interested in your product. What if your product crosses several market segments? For example, the group of potential consumers for cereal could be "almost" everyone although groups of people may have different needs with regard to their cereal. Some consumers might be interested in the fiber, some consumers (especially children) may be interested in the prize that comes in the box, other consumers may be interested in the added vitamins, and still other consumers may be interested in the type of grains. Associating these specific needs with consumers in a particular demographic group could be difficult. Marketing professionals want to know *why* consumers behave the way they do, what is of high priority to them, or how they rank the importance of specific buying criteria. Think about some of your friends who seem a lot like you. Have you ever gone to their homes and been shocked by their lifestyles and how vastly different they are from yours? Why are their families so much different from yours?

psychographic segmentation

Segmenting people by their activities, interests, opinion, attitudes, values, and lifestyles.

Psychographic segmentation can help fill in some of the blanks. Psychographic information is frequently gathered via extensive surveys that ask people about their activities, interests, opinion, attitudes, values, and lifestyles. One of the most well-known psychographic surveys is VALS (which originally stood for "Values, Attitudes, and Lifestyles") and was developed by a company called SRI International in the late 1980s. SRI asked thousands of Americans the extent to which they agreed or disagreed with questions similar to the following: "My idea of fun at a national park would be to stay at an expensive lodge and dress up for dinner" and "I could stand to skin a dead animal."[25] Based on their responses to different questions, consumers were divided up into the following categories, each characterized by certain buying behaviors.

- **Innovators.** Innovators are successful, sophisticated, take-charge people with high self-esteem. Because they have such abundant resources, they exhibit all three primary motivations in varying degrees. They are change leaders and are the most receptive to new ideas and technologies. Innovators are very active consumers, and their purchases reflect cultivated tastes for upscale, niche products and services. Image is important to Innovators, not as evidence of status or power but as an expression of their taste, independence, and personality. Innovators are among the established and emerging leaders in business and government, yet they continue to seek challenges. Their lives are characterized by variety. Their possessions and recreation reflect a cultivated taste for the finer things in life.
- **Thinkers.** Thinkers are motivated by ideals. They are mature, satisfied, comfortable, and reflective people who value order, knowledge, and responsibility. They tend to be well educated and actively seek out information in the decision-making process. They are well informed about world and national events and are alert to opportunities to broaden their knowledge. Thinkers have a moderate respect for the status quo institutions of authority and social decorum but are open to consider new ideas. Although their incomes allow them many choices, Thinkers are conservative, practical consumers; they look for durability, functionality, and value in the products they buy.

- **Achievers.** Motivated by the desire for achievement, Achievers have goal-oriented lifestyles and a deep commitment to career and family. Their social lives reflect this focus and are structured around family, their place of worship, and work. Achievers live conventional lives, are politically conservative, and respect authority and the status quo. They value consensus, predictability, and stability over risk, intimacy, and self-discovery. With many wants and needs, Achievers are active in the consumer marketplace. Image is important to Achievers; they favor established, prestige products and services that demonstrate success to their peers. Because of their busy lives, they are often interested in a variety of timesaving devices.
- **Experiencers.** Experiencers are motivated by self-expression. As young, enthusiastic, and impulsive consumers, Experiencers quickly become enthusiastic about new possibilities but are equally quick to cool. They seek variety and excitement, savoring the new, the offbeat, and the risky. Their energy finds an outlet in exercise, sports, outdoor recreation, and social activities. Experiencers are avid consumers and spend a comparatively high proportion of their income on fashion, entertainment, and socializing. Their purchases reflect the emphasis they place on looking good and having "cool" stuff.
- **Believers.** Like Thinkers, Believers are motivated by ideals. They are conservative, conventional people with concrete beliefs based on traditional, established codes: family, religion, community, and the nation. Many Believers express moral codes that are deeply rooted and literally interpreted. They follow established routines, organized in large part around home, family, community, and social or religious organizations to which they belong. As consumers, Believers are predictable; they choose familiar products and established brands. They favor American products and are generally loyal customers.
- **Strivers.** Strivers are trendy and fun loving. Because they are motivated by achievement, Strivers are concerned about the opinions and approval of others. Money defines success for Strivers, who don't have enough of it to meet their desires. They favor stylish products that emulate the purchases of people with greater material wealth. Many see themselves as having a job rather than a career, and a lack of skills and focus often prevents them from moving ahead. Strivers are active consumers because shopping is both a social activity and an opportunity to demonstrate to peers their ability to buy. As consumers, they are as impulsive as their financial circumstance will allow.
- **Makers.** Like Experiencers, Makers are motivated by self-expression. They express themselves and experience the world by working on it—building a house, raising children, fixing a car, or canning vegetables—and have enough skill and energy to carry out their projects successfully. Makers are practical people who have constructive skills and value self-sufficiency. They live within a traditional context of family, practical work, and physical recreation and have little interest in what lies outside that context. Makers are suspicious of new ideas and large institutions such as big business. They are respectful of government authority and organized labor but resentful of government intrusion on individual rights. They are unimpressed by material possessions other than those with a practical or functional purpose. Because they prefer value to luxury, they buy basic products.
- **Survivors.** Survivors live narrowly focused lives. With few resources with which to cope, they often believe that the world is changing too quickly. They are comfortable with the familiar and are primarily concerned with safety and security. Because they must focus on meeting needs rather than fulfilling desires, Survivors do not show a strong primary motivation. Survivors are cautious consumers. They represent a very modest market for most products and services. They are loyal to favorite brands, especially if they can purchase them at a discount.[26]

To find out which category you're in, take a VALS survey at http://www.sric-bi.com/vals/surveynew.shtml. VALS surveys have been adapted and used to study buying behavior in other countries, too. Note that both VALS and PRIZM group buyers are based on their values and lifestyles, but PRIZM also overlays the information with geographic data. As a result, you can gauge what the buying habits of people in certain zip codes are, which can be helpful if you are trying to figure out where to locate stores and retail outlets.

consumer insight

An understanding of consumers that results when both quantitative and qualitative information are gathered about them.

The segmenting techniques we've discussed so far in this section require gathering quantitative information and data. Quantitative information can be improved with *qualitative* information you gather by talking to your customers and getting to know them. (Recall that this is how Healthy Choice frozen dinners were created.) **Consumer insight** is what results when you use both types of information. You want to be able to answer the following questions:

- Am I looking at the consumers the way they see themselves?
- Am I looking at life from their point of view?

Best Buy asked store employees to develop insight about local consumer groups in order to create special programs and processes for them. Employees in one locale invited a group of retirees to their store to explain how to make the switch to digital television. The store sold $350,000 worth of equipment and televisions in just two hours' time. How much did it cost? The total cost included ninety-nine dollars in labor costs plus coffee and donuts.

Intuit, the company that makes the tax software Quicken, has a "follow me home" program. Teams of engineers from Intuit visit people's homes and spend a couple of hours watching consumers use Quicken. Then they use the insights they gain to improve the next version of Quicken. Contrast this story with that of a competing firm. When a representative of the firm was asked if he had ever observed consumers installing or using his company's product, he responded, "I'm not sure I'd want to be around when they were trying to use it."[27] This company is now struggling to stay in business.

To read about some of the extreme techniques Nokia uses to understand cell phone consumers around the world, click on the following link: http://www.nytimes.com/2008/04/13/magazine/13anthropology-t.html?pagewanted=all.

2.6 Segmentation in B2B Markets

Many of the same bases used to segment consumer markets are also used to segment B2B markets. For example, Goya Foods is a U.S. food company that sells different ethnic products to grocery stores, depending on the demographic groups the stores serve—Hispanic, Mexican, or Spanish. Likewise, B2B sellers often divide their customers by geographic areas and tailor their products to them accordingly. Segmenting by behavior is common as well. B2B sellers frequently divide their customers based on their product usage rates. Customers that order many goods and services from a seller often receive special deals and are served by salespeople who call on them in person. By contrast, smaller customers are more likely to have to rely on a firm's Web site, customer service people, and salespeople who call on them by telephone.

Researchers Matthew Harrison, Paul Hague, and Nick Hague have theorized that there are fewer behavioral and needs-based segments in B2B markets than in business-to-consumer (B2C) markets for two reasons: (1) business markets are made up of a few hundred customers whereas consumer markets can be made up of hundreds of thousands of customers, and (2) businesses aren't as fickle as consumers. Unlike consumers, they aren't concerned about their social standing or influenced by their families and peers. Instead, businesses are concerned solely with buying products that will ultimately increase their profits. According to Harrison, Hague, and Hague, the behavioral, or needs-based, segments in B2B markets include the following:

- **A price-focused segment** is composed of small companies that have low profit margins and regard the good or service being sold as not being strategically important to their operations.
- **A quality and brand-focused segment** is composed of firms that want the best possible products and are prepared to pay for them.
- **A service-focused segment** is composed of firms that demand high-quality products and have top-notch delivery and service requirements.
- **A partnership-focused segment** is composed of firms that seek trust and reliability on the part of their suppliers and see them as strategic partners.[28]

B2B sellers, like B2C sellers, are exploring new ways to reach their target markets. Trade shows and direct mail campaigns are two traditional ways of reaching B2B markets. Now, however, firms are finding they can target their B2B customers more cost-effectively via e-mail campaigns, search-engine marketing, and "fan pages" on social networking sites like Facebook. Companies are also creating blogs with cutting-edge content about new products and business trends of interest to their customers. For a fraction of the cost of attending a trade show to exhibit their products, B2B sellers are holding Webcasts and conducting online product demonstrations for potential customers.

KEY TAKEAWAY

Segmentation bases are criteria used to classify buyers. The main types of buyer characteristics used to segment consumer markets are behavioral, demographic, geographic, and psychographic. Behavioral segmentation divides people and organization into groups according to how they behave with or toward products. Segmenting buyers by personal characteristics such as their age, income, ethnicity, family size, and so forth is called demographic segmentation. Geographic segmentation involves segmenting buyers based on where they live. Psychographic segmentation seeks to differentiate buyers based on their activities, interests, opinions, attitudes, values, and lifestyles. Oftentimes a firm uses multiple bases to get a fuller picture of its customers and create value for them. Marketing professionals develop consumer insight when they gather both quantitative and qualitative information about their customers. Many of the same bases used to segment consumer markets are used to segment business-to-business (B2B) markets. However, there are generally fewer behavioral-based segments in B2B markets.

REVIEW QUESTIONS

1. What buyer characteristics do companies look at when they segment markets?
2. Why do firms often use more than one segmentation base?
3. What two types of information do market researchers gather to develop consumer insight?

3. SELECTING TARGET MARKETS AND TARGET-MARKET STRATEGIES

LEARNING OBJECTIVES

1. **Describe the factors that make some markets more attractive targets than others.**
2. **Describe the different market-segmenting strategies companies pursue and why.**
3. **Outline the market-segmentation strategies used in global markets.**

3.1 Selecting Target Markets

After you segment buyers and develop a measure of consumer insight about them, you can begin to see those that have more potential. Now you are hunting with a rifle instead of a shotgun. The question is, do you want to spend all day hunting squirrels or ten-point bucks? An attractive market has the following characteristics:

- **It is sizeable (large) enough to be profitable given your operating cost.** Only a tiny fraction of the consumers in China can afford to buy cars. However, because the country's population is so large (nearly 1.5 billion people), more cars are sold in China than in Europe (and in the United States, depending on the month). Three billion people in the world own cell phones. But that still leaves three billion who don't.[29]
- **It is growing.** The middle class of India is growing rapidly, making it a very attractive market for consumer products companies. People under thirty make up the majority of the Indian population, fueling the demand for "Bollywood" (Indian-made) films.
- **It is not already swamped by competitors, or you have found a way to stand out in a crowd.** IBM used to make PCs. However, after the marketplace became crowded with competitors, IBM sold the product line to a Chinese company called Lenovo.
- **Either it is accessible or you can find a way to reach it.** Accessibility, or the lack of it, could include geographic accessibility, political and legal barriers, technological barriers, or social barriers. For example, to overcome geographic barriers, the consumer products company Unilever hires women in third-world countries to distribute the company's products to rural consumers who lack access to stores.
- **The company has the resources to compete in it.** You might have a great idea to compete in the wind-power market. However, it is a business that is capital intensive. What this means is that you will either need a lot of money or must be able to raise it. You might also have to compete with the likes of T. Boone Pickens, an oil tycoon who is attempting to develop and profit from the wind-power market. Does your organization have the resources to do this?
- **It "fits in" with your firm's mission and objectives.** Consider TerraCycle, which has made its mark by selling organic products in recycled packages. Fertilizer made from worm excrement and sold in discarded plastic beverage bottles is just one of its products. It wouldn't be a good idea for TerraCycle to open up a polluting, coal-fired power plant, no matter how profitable the market for the service might be.

Video Clip

Yogurt, Anyone? I Mean, Any Woman?

Are women an attractive target market for yogurt sellers? The maker of this humorous YouTube video thinks so. (She seems to imply they are the only market.)

View the video online at: http://www.youtube.com/v/qMRDLCR8vAE

3.2 Target-Market Strategies: Choosing the Number of Markets to Target

Henry Ford proved that mass marketing can work—at least for a while. Mass marketing is also efficient because you don't have to tailor any part of the offering for different groups of consumers, which is more work and costs more money. The problem is that buyers are not all alike. If a competitor comes along and offers these groups a product (or products) that better meet their needs, you will lose business.

3.3 Multisegment Marketing

Most firms tailor their offerings in one way or another to meet the needs of different segments of customers. Because these organizations don't have all their eggs in one basket, they are less vulnerable to competition. Marriott International is an example of a company that operates in multiple market segments. The company has different types of facilities designed to meet the needs of different market segments. Marriott has invested in unique brands so consumers don't confuse the brand and the brand is not diluted. Some of the Marriott brands and their target markets are as follows:

- **Marriott Courtyard.** Targeted at over-the-road travelers.
- **Ritz-Carlton Hotels.** Targeted at luxury travelers.
- **Marriott Conference Centers.** Targeted at businesses hosting small- and midsized meetings.
- **Marriott ExecuStay.** Targeted at executives needing month-long accommodations.
- **Marriott Vacation Clubs.** Targeted at travelers seeking to buy timeshares.

A **multisegment marketing** strategy can allow firms to respond to demographic changes and other trends in markets. For example, the growing number of people too old to travel have the option of moving into one of Marriott's "Senior Living Services" facilities, which cater to retirees who need certain types of care. A multisegment strategy can also help companies weather an economic downturn by allowing customers to trade up or down among brands and products. Suppose you take a pay cut and can't afford to stay at Marriott's Ritz-Carlton hotels anymore. A room at a JW Marriott—the most luxurious of the Marriott-brand hotels but cheaper than the Ritz—is available to you. A multisegment strategy can also help companies deal with the product life cycle issues. If one brand or product is "dying out," the company has others to compete.

multisegment marketing

Targeting multiple groups of consumers.

3.4 Concentrated Marketing

concentrated marketing

Targeting a very select group of customers.

Some firms—especially smaller ones with limited resources—engage in concentrated marketing. **Concentrated marketing** involves targeting a very select group of customers. Concentrated marketing can be a risky strategy because companies really *do* have all their eggs in one basket. The auto parts industry is an example. Traditionally, many North American auto parts makers have supplied parts exclusively to auto manufacturers. But when General Motors, Ford, Chrysler, and other auto companies experienced a slump in sales following the recession that began in 2008, the auto parts makers found themselves in trouble. Many of them began trying to make and sell parts for wind turbines, aerospace tools, solar panels, and construction equipment.[30]

niche marketing

Targeting an extremely select group of consumers.

Niche marketing involves targeting an even more select group of consumers. When engaging in niche marketing, a company's goal is to be a big fish in a small pond instead of a small fish in a big pond.[31] Some examples of companies operating in niche markets include those shown in Table 5.5.

TABLE 5.5 Companies That Operate in Niche Markets

Company	Niche	Market Share (%)
Hohner	Harmonicas	85
Tetra	Tropical fish food	80
Swarovski	Crystal jewels	65
Uwatec	Snorkeling equipment	60
St. Jude Medical Center	Artificial heart valves	60

Source: José María Manzanedo, "Market Segmentation Strategies. How to Maximize Opportunities on the Potential Market," February 20, 2005, http://www.daemonquest.com/en/research_and_insight/2006/10/11/ market_segmentation_strategies_how_to_maximize_opportunities_on_the_potential _market (accessed December 1, 2009).

microtargeting

The process of gathering multiple sources of data available on people, everything from their tax and phone records to the catalogs they receive, so as to market to them.

Microtargeting, or narrowcasting, is a new effort to isolate markets and target them. It was originally used to segment voters during elections, including the 2008 U.S. presidential election. Microtargeting involves gathering all kinds of data available on people—everything from their tax and phone records to the catalogs they receive. One company that compiles information such as this is Acxiom. For a fee, Acxiom can provide you with a list of Hispanic consumers who own two pets, have caller ID, drive a sedan, buy certain personal care products, subscribe to certain television cable channels, read specified magazines, and have income and education levels within a given range.[32] Clearly, microtargeting has ethical implications and privacy issues.

3.5 Targeting Global Markets

Firms that compete in the global marketplace can use any combination of the segmenting strategies or none at all. A microcosm of the targeting strategies used in global markets is shown in Figure 5.9. If you're a seller of a metal like iron ore, you might sell the same product across the entire world via a metals broker. The broker would worry about communicating with customers around the world and devising different marketing campaigns for each of them.

FIGURE 5.9 Targeting Strategies Used in Global Markets

Most companies, however, tailor their offerings to some extent to meet the needs of different buyers around the world. For example, Mattel sells Barbie dolls all around the world—but not the same Barbie. Mattel has created thousands of different Barbie offerings designed to appeal to all kinds of people in different countries.

Pizza Hut has franchises around the world, but its products, packaging, and advertising are tailored to different markets. Squid is a popular topping in Asia. Companies tailor products not only for different countries but also for different customers in different countries. For example, Procter & Gamble's China division now offers products designed for different local market segments in that country. P&G has an advanced formulation of laundry detergent for the premium segment, a modified product for the second (economy) segment, and a very basic, inexpensive product created for the third (rural) segment.[33]

Sellers are increasingly targeting consumers in China, Russia, India, and Brazil because of their fast-growing middle classes. Take the cosmetics maker Avon. Avon's largest market is no longer the United States. It is Brazil. Brazilians are extremely looks-conscious and increasingly able to afford cosmetic products as well as plastic surgery.[34] So attractive are these countries that firms are changing how they develop goods and services, too. "Historically, American companies innovated in the U.S. and took those products abroad," says Vjay Govindarahan, a professor at Dartmouth's Tuck School of Business. Now, says Govindarahan, companies are creating low-cost products to capture large markets in developing countries and then selling them in developed countries. Acer's $250 laptop and General Electric's ultrainexpensive $1,000 electrocardiogram device are examples. The world's cheapest car, the $2,500 Tata Nano, was developed for India but is slated to be sold in the United States.[35]

Other strategies for targeting markets abroad include acquiring (buying) foreign companies or companies with large market shares there. To tap the Indian market, Kraft made a bid to buy the candymaker Cadbury, which controls about one-third of India's chocolate market. Likewise, to compete against Corona beer, the Dutch brewer Heineken recently purchased Mexico's Femsa, which makes the beer brands Dos Equis, Tecate, and Sol.[36] However, some countries don't allow foreign firms to buy domestic firms. They can only form partnerships with them. Other regulatory and cultural barriers sometimes prevent foreign firms from "invading" a country. IKEA, the Swedish home-furnishings maker, eventually left Russia because it found it too hard to do business there. By contrast, McDonald's efforts to expand into Russia have been quite successful. Having saturated other markets, the hamburger chain is hoping to continue to grow by opening hundreds of new stores in the country.

KEY TAKEAWAY

A market worth targeting has the following characteristics: (1) It's sizeable enough to be profitable, given your operating costs; (2) it's growing; (3) it's not already swamped by competitors, or you have found a way to stand out in the crowd; (4) it's accessible, or you can find a way to reach it; (5) you have the resources to compete in it; and (6) it "fits in" with your firm's mission and objectives. Most firms tailor their offerings in one way or another to meet the needs of different segments of customers. A multisegment marketing strategy can allow a company to respond to demographic and other changes in markets, including economic downturns. Concentrated marketing involves targeting a very select group of customers. Niche marketing involves targeting an even more select group of consumers. Microtargeting, or *narrowcasting*, is a new, effort to "super target" consumers by gathering all kinds of data available on people—everything from their tax and phone records to the catalogs they receive. Firms that compete in the global marketplace can use any combination of these segmenting strategies or none at all. Sellers are increasingly targeting consumers in China, Russia, India, and Brazil because of their fast-growing middle classes. Firms are creating low-cost products to capture large markets in developing countries such as these and then selling the products in developed countries. Other strategies for targeting markets abroad include acquiring foreign companies or forming partnerships with them.

REVIEW QUESTIONS

1. What factors does a firm need to examine before deciding to target a market?
2. Which of the segmenting strategies discussed in this section is the broadest? Which is the narrowest?
3. Why might it be advantageous to create low-cost products for developing countries and then sell them in nations such as the United States? Do you see any disadvantages of doing so?

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4. POSITIONING AND REPOSITIONING OFFERINGS

LEARNING OBJECTIVES

1. **Explain why positioning is an important element when it comes to targeting consumers.**
2. **Describe how a product can be positioned and mapped.**
3. **Explain what repositioning is designed is to do.**

Why should buyers purchase your offering versus another? If your product faces competition, you will need to think about how to "position" it in the marketplace relative to competing products. After all you don't want the product to be just another "face in the crowd" in the minds of consumers. **Positioning** is how consumers perceive a product relative to the competition. Companies want to have a distinctive image and offering that stands out from the competition in the minds of consumers.

positioning

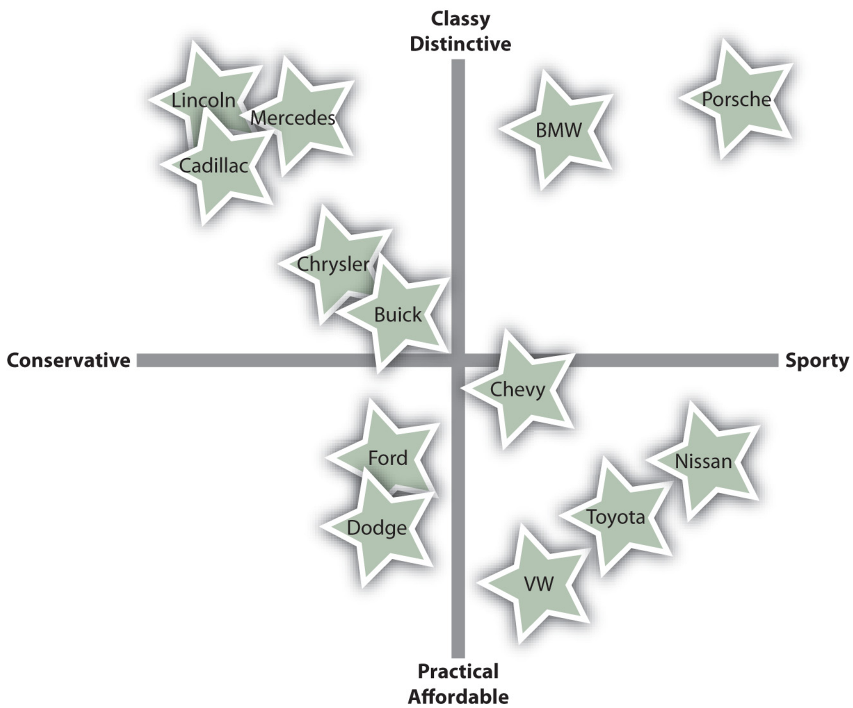
How consumers view a product relative to the the competition.

One way to position your product is to plot customer survey data on a perceptual map. A **perceptual map** is a two-dimensional graph that visually shows where your product stands, or should stand, relative to your competitors, based on criteria important to buyers. The criteria can involve any number of characteristics—price, quality, level of customer service associated with the product, and so on. An example of a perceptual map is shown in Figure 5.10. To avoid head-to-head competition with your competitors, you want to position your product somewhere on the map where your competitors aren't clustered.

perceptual map

A two-dimensional graph that visually shows where a product stands, or should stand, relative to its competitors.

FIGURE 5.10 An Example of a Perceptual Map



Source: Adapted from http://en.wikipedia.org/wiki/Perceptual_mapping.

Many companies use taglines in their advertising to try to position their products in the minds of the buyer—where they want them, of course. A **tagline** is a catchphrase designed to sum up the essence of a product. You perhaps have heard Wendy's tagline "It's better than fast food." The tagline is designed to set Wendy's apart from restaurants like McDonald's and Burger King—to plant the idea in consumers' heads that Wendy's offerings are less "fast foodish," given the bad rap fast food gets these days.

tagline

A catchphrase designed to sum up the essence of a product.

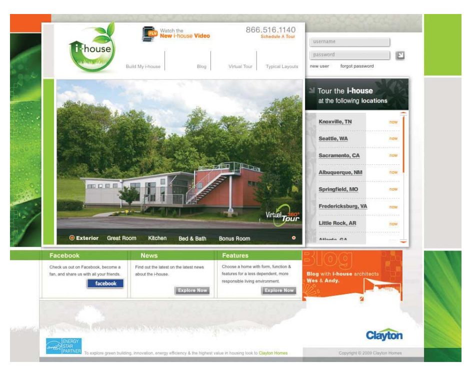
repositioning

The process of "moving" a product to a different place in the minds of consumers.

Sometimes firms find it advantageous to reposition their products—especially if they want the product to begin appealing to different market segments. **Repositioning** is an effort to "move" a product to a different place in the minds of consumers. The i-house, a prefab house built by Clayton Homes, a mobile home manufacturer, is an example. According to the magazine *Popular Mechanics*, the i-house "looks like a house you'd order from IKEA, sounds like something designed by Apple, and consists of amenities—solar panels, tankless water heaters and rainwater collectors—that one would expect to come from an offbeat green company out of California selling to a high-end market."[37] A Clayton Homes spokesperson says, "Are we repositioning to go after a new market? I would think we are maintaining our value to our existing market and expanding the market to include other buyers that previously wouldn't have considered our housing product."[38]

Recently, Porsche unveiled its new line of Panamera vehicles at a Shanghai car show. The car is a global model, but unlike Porsche's other cars, it's longer. Why? Because rich car buyers in China prefer to be driven by chauffeurs.[39] How do you think Porsche is trying to reposition itself for the future?

FIGURE 5.11 The Clayton i-house: "A Giant Leap from the Trailer Park"



Source: http://www.claytonihouse.com.

Audio Clip

Interview with Apurva Ghelani

Listen to Ghelani's advice to students interested in working in his area of marketing.

KEY TAKEAWAY

If a product faces competition, its producer will need to think about how to "position" it in the marketplace relative to competing products. Positioning is how consumers view a product relative to the competition. A perceptual map is a two-dimensional graph that visually shows where a product stands, or should stand, relative to its competitors, based on criteria important to buyers. Sometimes firms find it advantageous to reposition their products. Repositioning is an effort to "move" a product to a different place in the minds of consumers.

REVIEW QUESTIONS

1. Why do companies position products?
2. Explain what a tagline is designed to do.
3. Why might an organization reposition a product?

5. DISCUSSION QUESTIONS AND ACTIVITIES

DISCUSSION QUESTIONS

1. Think about some of your friends and what you have discovered by visiting their homes. Do they buy different things than you do? If so, why? How might a company distinguish you from them in terms of its targeting?
2. Staples and The Limited have attempted to thwart shoppers who abuse store return policies. When a customer returns items, store clerks swipe the customer's driver's license through electronic card readers that track buying and return patterns for any suspicious activity.[40] What drawbacks do you think such a strategy could have?
3. Is it always harder to find new customers than it is to retain old ones or does it depend on the business you're in?
4. Does one-to-one marketing have to be expensive? How can small organizations interact with their customers in a cost-effective way?
5. Are large companies better off using multisegment strategies and small companies better off using niche strategies? Why or why not?
6. How have companies such as JCPenney and Sears tried to change their position (reposition their stores)?
7. Do you think hotel companies have segmented the market too much and confused customers?

ACTIVITIES

1. Visit http://aclu.org/pizza/images/screen.swf to see a video created by the American Civil Liberties Union in an effort to warn consumers about the information being collected about them. Do you think the video is far-fetched? Or do you think consumers should be alarmed? In your opinion, do the potential benefits of CRM databases exceed the potential downsides—or not?
2. Form groups of three students. Think of a product or service that one of you purchased recently on campus. How might you go about developing a customer profile for the product? List the sources you would use.
3. Describe a product you like that you believe more people should use. As a marketer, how would you reposition the product to increase its use? Outline your strategy.
4. Look at the latest census data and identify at least two areas of the country that are growing. What type of businesses would you recommend enter the growing markets?
5. Think of an idea for a new product or service. Who would be the target market(s) and how would you position your offering?

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CHAPTER 6

Creating Offerings

Why do buyers purchase something? Why do you own anything? Many of us own iPods, but few of us do for the sake of owning an iPod. We own one because it delivers music, and we want the music. Or we own one because we have been influenced to buy one. Shortly after the iPod's introduction, some people undoubtedly purchased the devices because other people thought they were "cool," and they wanted to be cool by owning one. Now iPods are so ubiquitous that no one gives them a second glance. Yet the impact that iPods have had on the music and entertainment industry has been huge because the product revolutionized how we purchase entertainment.

1. WHAT COMPOSES AN OFFERING?

LEARNING OBJECTIVES

1. **Distinguish between the three major components of an offering—product, price, and service.**
2. **Explain, from both a product-dominant and a service-dominant approach, the mix of components that compose different types of offerings.**
3. **Distinguish between technology platforms and product lines.**

People buy things to solve needs. In the case of the iPod, the need is to have better access to music, to look cool, or both. **Offering** are products and services designed to deliver value to customers—either to fulfill their needs, satisfy their "wants," or both. We discuss people's needs in other chapters. In this chapter, we discuss how marketing fills those needs through the creation and delivery of offerings.

offering

The entire bundle of a tangible good, intangible service, and price that composes what a company offers to customers.

1.1 Product, Price, and Service

Most offerings consist of a **product**, or a tangible good people can buy, sell, and own. Purchasing a classic iPod, for example, will allow you to store up to forty thousand songs or two hundred hours of video. The amount of storage is an example of a **feature**, or characteristic of the offering. If your playlist consists of twenty thousand songs, then this feature delivers a benefit to you—the benefit of plenty of storage. However, the feature will only benefit you up to a point. For example, you won't be willing to pay more for the extra storage if you only need half that much. When a feature satisfies a need or want, then there is a **benefit**. Features, then, matter differently to different consumers based on each individual's needs. Remember the value equation is different for every customer!

An offering also consists of a **price**, or the amount people pay to receive the offering's benefits. The price paid can consist of a one-time payment, or it can consist of something more than that. Many consumers think of a product's price as only the amount they paid; however, the true cost of owning an iPod, for example, is the cost of the device itself plus the cost of the music or videos downloaded onto it. The **total cost of ownership (TCO)**, then, is the total amount someone pays to own, use, and eventually dispose of a product.

TCO is usually thought of as a concept businesses use to compare offerings. However, consumers also use the concept. For example, suppose you are comparing two sweaters, one that can be hand-washed and one that must be dry-cleaned. The hand-washable sweater will cost you less to own in dollars but may cost more to own in terms of your time and hassle. A smart consumer would take that into consideration. When we first introduced the personal value equation, we discussed hassle as the time and effort spent making a purchase. A TCO approach, though, would also include the time and effort related to owning the product—in this case, the time and effort to hand wash the sweater.

product

A tangible good that can be bought, sold, and owned.

feature

A characteristic of an offering.

benefit

The degree to which a feature satisfies a buyer's need or desire.

price

The amount exchanged by the buyer to receive the value offered by the product or service.

total cost of ownership (TCO)

The total amount of time and money spent to acquire, use, and dispose of an offering.

A **service** is an action that provides a buyer with an intangible benefit. A haircut is a service. When you purchase a haircut, it's not something you can hold, give to another person, or resell. "Pure" services are offerings that don't have any tangible characteristics associated with them. Skydiving is an example of a pure service. You are left with nothing after the jump but the memory of it (unless you buy a DVD of the event). Yes, a plane is required, and it is certainly tangible. But it isn't the product—the jump is. At times people use the term "product" to mean an offering that's either tangible or intangible. Banks, for example, often advertise specific types of loans, or financial "products," they offer consumers. Yet truly these products are financial services. The term "product" is frequently used to describe an offering of either type.

FIGURE 6.1

Neiman Marcus sells sweaters for over $1,000! But that's just the purchase price. The total cost of ownership would also include the cost of having the sweater professionally cleaned or the value of the time and effort needed to hand wash it.

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service

An intangible component of an offering.

The intangibility of a service creates interesting challenges for marketers and buyers when they try to judge the relative merits of one service over another. An old riddle asks, "You enter a barbershop to get a haircut and encounter two barbers—one with badly cut hair and the other with a great haircut. Which do you choose?" The answer is the one with the badly cut hair as he cut the hair of the other. But in many instances, judging how well a barber will do before the haircut is difficult. Thus, services can suffer from high variability in quality due to the fact that they are often created as they are received.

Services usually also require the consumer to be physically present or involved. A haircut, a night in a hotel, a flight from here to there—all require the consumer to be physically present and consumption of the service is not separate from the creation of the service. Unlike a physical product, which can be created and purchased off a shelf, a service often (but not always) involves the consumer in its creation.

Another challenge for many services providers is that services are perishable; they can't be stored. A night at a hotel, for example, can't be saved and sold later. If it isn't sold that day, it is lost forever. A barber isn't really paid for a haircut (to use the riddle) but for time. Services have difficult management and marketing challenges because of their intangibility.

FIGURE 6.2

Skydiving is an example of a pure service. You are left with nothing after the jump but the memory of it (unless you buy a DVD of the event).

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Many tangible products have an intangible service components attached to them, however. When Hewlett-Packard (HP) introduced its first piece of audio testing equipment, a key concern for buyers was the service HP could offer with it. Could a new company such as HP back up the product, should something go wrong with it? As you can probably tell, a service does not have to be consumed to be an important aspect of an offering. HP's ability to provide good after-sales service in a timely fashion was an important selling characteristic of the audio oscillator, even if buyers never had to use the service.

FIGURE 6.3

Sport Clips is a barbershop with a sports-bar atmosphere. The company's slogan is "At Sport Clips, guys win." So, although you may walk out of Sport Clips with the same haircut you could get from Pro Cuts, the experience you had getting it was very different, which adds value for some buyers.

Source: Sport Clips, used with permission.

What services do you get when you purchase a can of soup? You might think that a can of soup is as close to a "pure" product devoid of services that you can get. But think for a moment about your choices in terms of how to purchase the can of soup. You can buy it at a convenience store, a grocery store like Publix, or online. Your choice of how to get it is a function of the product's intangible service benefits, such as the way you are able to shop for it.

FIGURE 6.4

Even what seems like a "pure" product like a can of soup can have an intangible service component associated with it, such as the way you are able to shop for it—say, at a convenience store, a grocery store like Publix, or perhaps online.

Source: Wikimedia Commons.

1.2 The Product-Dominant Approach to Marketing

product-dominant

An approach to products and offerings that clearly separates the physical product from services and from price.

product-oriented

An approach to business that centers on capturing business by focusing on creating and manufacturing better products at lower prices.

From the traditional **product-dominant** perspective of business, marketers consider products, services, and prices as three separate and distinguishable characteristics. To some extent, they are. HP could, for example, add or strip out features from a piece of testing equipment and not change its service policies or the equipment's price. The product-dominant marketing perspective has its roots in the Industrial Revolution. During this era, businesspeople focused on the development of products that could be mass produced cheaply. In other words, firms became **product-oriented**, meaning that they believed the best way to capture market share was to create and manufacture better products at lower prices. Marketing remained oriented that way until after World War II.

1.3 The Service-Dominant Approach to Marketing

Who determines which products are better? Customers do, of course. Thus, taking a product-oriented approach can result in marketing professionals focusing too much on the product itself and not enough on the customer or service-related factors that customers want. Most customers will compare tangible products and the prices charged for them in conjunction with the services that come with them. In other words, the *complete* offering is the basis of comparison. So, although a buyer will compare the price of product A to the price of product B, in the end, the prices are compared in conjunction with the other features and services of the products. The dominance of any one of these dimensions is a function of the buyer's needs.

FIGURE 6.5

King Ranch Chicken is a casserole made with chicken, RO*TEL tomatoes, cream of mushroom soup, and cream of chicken soup. If you eat the casserole at your school's cafeteria, you are consuming both a product and a service. Consequently, separating the product from the service is often an artificial exercise.

© Good Housekeeping, http://www.goodhousekeeping.com/recipefinder/king-ranch-chicken-recipe-ghk0111?click=rec_sr

service-dominant

An approach to offerings that integrates the physical product, attendant services, and price into the total offering.

The advantage of the **service-dominant** approach is that it integrates the product, price, and service dimensions of an offering. This integration helps marketers think more like their customers, which can help them add value to their firm's products. In addition to the offering itself, marketers should consider what services it takes for the customer to acquire their offerings (e.g., the need to learn about the product from a sales clerk), to enjoy them, and to dispose of them (e.g., someone to move the product out of the house and haul it away), because each of these activities create costs for their customers—either monetary costs or time and hassle costs.

core product

The physical component of an offering.

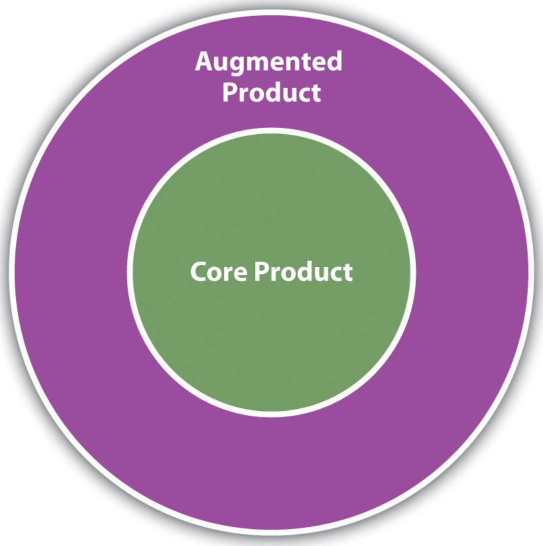
augmented product

Services and accessories that improve the core product's ability to deliver benefits.

Critics of the service-dominant approach argue that the product-dominant approach also integrated services (though not price). The argument is that at the core of an offering is the product, such as an iPod, as illustrated in Figure 6.6. The physical product, in this case an iPod, is the **core product**. Surrounding it are services and accessories, called the **augmented product**, that support the core product. Together, these make up the complete product. One limitation of this approach has already been mentioned; price is left out. But for many "pure" products, this conceptualization can be helpful in bundling different augmentations for different markets.

FIGURE 6.6

A core product is the central functional offering, but it may be augmented by various accessories or services, known as the augmented product.



Customers are now becoming more involved in the creation of benefits. Let's go back to that "pure" product, Campbell's Cream of Chicken Soup. The consumer may prepare that can as a bowl of soup, but it could also be used as an ingredient in making King Ranch Chicken. As far as the consumer goes, no benefit is experienced until the soup is eaten; thus, the consumer played a part in the creation of the final "product" when the soup was an ingredient in the King Ranch Chicken. Or suppose your school's cafeteria made King Ranch Chicken for you to consume; in that case you both ate a product and consumed a service.

Some people argue that focusing too much on the customer can lead to too little product development or poor product development. These people believe that customers often have difficulty seeing how an innovative new technology can create benefits for them. Researchers and entrepreneurs frequently make many discoveries and then products are created as a result of those discoveries. 3M's Post-it Notes are an example. The adhesive that made it possible for Post-it Notes to stick and restick was created by a 3M scientist who was actually in the process of trying to make something else. Post-it Notes came later.

FIGURE 6.7

Few consumers could have envisioned that a new type of adhesive would lead to the development of a product as successful as Post-it Notes.

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1.4 Product Levels and Product Lines

A product's **technology platform** is the core technology on which it is built. Take for example, the iPod, which is based on MP3 technology. In many cases, the development of a new offering is to take a technology platform and rebundle its benefits in order to create a different version of an already-existing offering. For example, in addition to the iPod Classic, Apple offers the Shuffle and the Nano. Both are based on the same core technology.

In some instances, a new offering is based on a technology platform originally designed to solve different problems. For example, a number of products originally were designed to solve the problems facing NASA's space-traveling astronauts. Later, that technology was used to develop new types of offerings. EQyss's Micro Tek pet spray, which stops pets from scratching and biting themselves, is an example. The spray contains a trademarked formula developed by NASA to decontaminate astronauts after they return from space.

technology platform

The core technology that is the basis for an offering or product.

A technology platform isn't limited to tangible products. Knowledge can be a type of technology platform in a pure services environment. For example, the "bioesthetic" treatment model was developed to help people who suffer from TMJ, a jaw disorder that makes chewing painful. A dentist can be trained on the bioesthetic technology platform and then provide services based on it. There are, however, other ways to treat TMJ that involve other platforms, or bases of knowledge and procedures, such as surgery.

FIGURE 6.8

The formula in EQyss's Micro Tek pet grooming spray was originally developed by NASA to decontaminate astronauts after they return from space.

Source: Photo by Amy Ray, used with permission.

Few firms survive by selling only one product. Most firms sell several offerings designed to work together to satisfy a broad range of customers' needs and desires. A **product line** is group of related offerings. Product lines are created to make marketing strategies more efficient. Campbell's condensed soups, for example, are basic soups sold in cans with red labels. But Campbell's Chunky is a ready-to-eat soup sold in cans that are labeled differently. Most consumers expect there to be differences between Campbell's red-label chicken soup and Chunky chicken soup, even though they are both made by the same company.

A product line can be broad, as in the case of Campbell's condensed soup line, which consists of several dozen different flavors. Or, a product line can be narrow, as in the case of Apple's iPod line, which consists of only a few different MP3 devices. How many offerings there are in a single product line—that is, whether the product line is broad or narrow—is called **line depth**. When new but similar products are added to the product line, it is called a **line extension**. If Apple introduces a new MP3 player to the iPod family, that would be a line extension. Companies can also offer many different product lines. **Line breadth** (or width) is a function of how many different, or distinct, product lines a company has. For example, Campbell's has a Chunky soup line, condensed soup line, Kids' soup line, Lower Sodium soup line, and a number of nonsoup lines like Pace Picante sauces, Prego Italian sauces, and crackers. The entire assortment of products that a firm offers is called the **product mix**.

As Figure 6.9 shows, there are four offering levels. Consider the iPod Shuffle. There is (1) the basic offering (the device itself), (2) the offering's technology platform (the MP3 format or storage system used by the Shuffle), (3) the product line to which the Shuffle belongs (Apple's iPod line of MP3 music players), and (4) the product category to which the offering belongs (MP3 players as opposed to iPhones, for example).

product line

A group of offerings that serve similar needs and are sold under the same name.

line depth

The number of variations in a single product line.

line extension

A new idea or offering that occurs when a company comes out with another model (related product or service) based on the same platform and brand as one of its other products.

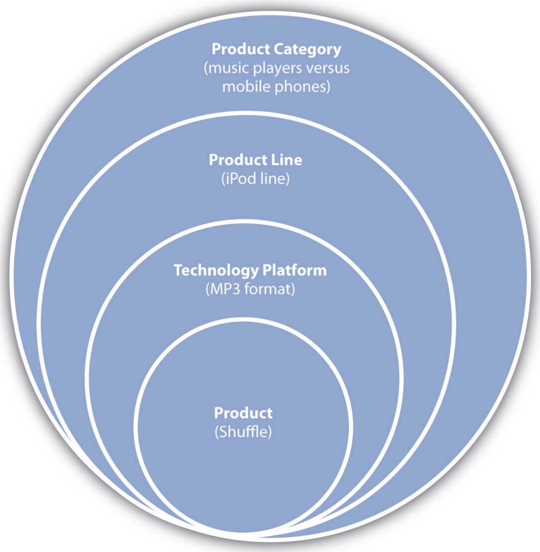
line breadth

The number of different, or distinct, product lines offered by a company.

product mix

The entire assortment of products that a firm offers.

FIGURE 6.9 Product Levels



So how does a technology platform become a new product or service or line of new products and services? In another chapter, we take a closer look at how companies design and develop new offerings.

KEY TAKEAWAY

Companies market offerings composed of a combination of tangible and intangible characteristics for certain prices. During the Industrial Revolution, firms focused primarily on products and not so much on customers. The service-dominant perspective to marketing integrates three different dimensions of an offering—not only the product but also its price and the services associated with it. This perspective helps marketers think more like their customers, which helps firms add value to their offerings. An offering is based on a technology platform, which can be used to create a product line. A product line is a group of similar offerings. A product line can be deep (many offerings of a similar type) and/or broad (offerings that are very different from one another and cover a wide range of customers' needs). The entire assortment of products that a company offers is called the product mix.

REVIEW QUESTIONS

1. How do the product-dominant and service-dominant approaches to marketing differ?
2. Do "product-dominant" and "product-oriented" mean the same thing?
3. What is the difference between a technology platform and a product line?
4. Does a product line have to be built on one technology platform?
5. What is the difference between product depth and product breadth?

2. TYPES OF CONSUMER OFFERINGS

LEARNING OBJECTIVES

1. **Define the various types of offerings marketed to individual consumers.**
2. **Explain why a single offering might be marketed differently to different types of consumers.**

Products and services can be categorized in a number of ways. We will use these categories throughout the book because they are the most commonly referred to categories by marketers and because there are marketing implications for each. Consumer offerings fall into four general categories:

1. Convenience offerings
2. Shopping offerings
3. Specialty offerings
4. Unsought offerings

In this section, we will discuss each of these categories. Keep in mind that the categories are not a function of the characteristic of the offerings themselves. Rather, they are a function of how consumers want to purchase them, which can vary from consumer to consumer. What one consumer considers a shopping good might be a convenience good to another consumer.

2.1 Convenience Offerings

Convenience offerings are products and services consumers generally don't want to put much effort into shopping for because they see little difference between competing brands. For many consumers, bread is a convenience offering. A consumer might choose the store in which to buy the bread but be willing to buy whatever brand of bread the store has available. Marketing convenience items is often limited to simply trying to get the product in as many places as possible where a purchase could occur.

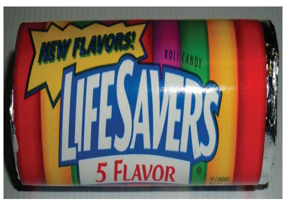
convenience offering

Low-priced, frequently purchased products and services that require little shopping effort.

Closely related to convenience offerings are **impulse offerings**, or items purchased without any planning. The classic example is Life Savers, originally manufactured by the Life Savers Candy Company, beginning in 1913. The company encouraged retailers and restaurants to display the candy next to their cash registers and to always give customers a nickel back as part of their change so as to encourage them to buy one additional item—a roll of Life Savers, of course!

FIGURE 6.10

The Life Savers Candy Company was formed in 1913. Its primary sales strategy was to create an impulse to buy Life Savers by encouraging retailers and restaurants to place them next to their cash registers and include a nickel—the purchase price of a roll of Life Savers—in the customer's change.



Source: Wikimedia Commons.

impulse offering

An offering that is purchased on impulse, without prior planning.

2.2 Shopping Offerings

A **shopping offering** is one for which the consumer will make an effort to compare and select a brand. Consumers believe there are differences between similar shopping offerings and want to find the right one or the best price. Buyers might visit multiple retail locations or spend a considerable amount of time visiting Web sites and reading reviews about the product, such as the reviews found in *Consumer Reports*.

Consumers often care about brand names when they're deciding on shopping goods. If a store is out of a particular brand, then another brand might not do. For example, if you prefer Crest Whitening Expressions toothpaste and the store you're shopping at is out of it, you might put off buying the toothpaste until your next trip to the store. Or you might go to a different store or buy a small tube of some other toothpaste until you can get what you want. Note that even something as simple as toothpaste can become a shopping good for someone very interested in her dental health—perhaps after she's read online product reviews or consulted with her dentist. That's why companies like Procter & Gamble, the maker of Crest, work hard to influence not only consumers but also people like dentists who influence the sale of their products.

shopping offering

An offering for which the consumer will make an effort to compare various firms' offerings and select a brand.

FIGURE 6.11

If your favorite toothpaste is Crest's Whitening Fresh Mint, you might change stores if you don't find it on the shelves of your regular store.

Source: Wikimedia Commons.

2.3 Specialty Offerings

Specialty offerings are highly differentiated offerings, and the brands under which they are marketed are very different across companies, too. For example, an Orange County Chopper or Iron Horse motorcycle is likely to be far different feature-wise than a Kawasaki or Suzuki motorcycle. Typically, specialty items are available only through limited channels. For example, exotic perfumes available only in exclusive outlets are considered specialty offerings. Specialty offerings are purchased less frequently than convenience offerings. Therefore, the profit margin on them tends to be greater.

specialty offering

An offering that is highly differentiated from other offerings and is designed to satisfy a similar need or want.

Note that while marketers try to distinguish between specialty offerings, shopping offerings, and convenience offerings, it is the consumer who ultimately makes the decision. Therefore, what might be a specialty offering to one consumer may be a convenience offering to another. For example, one consumer may never go to Sport Clips or Ultra-Cuts because hair styling is seen as a specialty offering. A consumer at Sport Clips might consider it a shopping offering, while a consumer for Ultra-Cuts may view it as a convenience offering. The choice is the consumer's.

FIGURE 6.12

Specialty offerings, such as this custom-made motorcycle, are highly differentiated. People will go to greater lengths to shop for these items and are willing to pay more for them.

Source: Wikimedia Commons.

Marketing specialty goods requires building brand name recognition in the minds of consumers and educating them about your product's key differences. This is critical. For fashion goods, the only point of difference may be the logo on the product (for example, an Izod versus a Polo label). Even so, marketers spend a great deal of money and effort to try to get consumers to perceive these products differently than their competitors'.

2.4 Unsought Offerings

Unsought offerings are those that buyers do not generally want to have to shop for until they need them. Towing services and funeral services are generally considered unsought offerings. Marketing unsought items is difficult. Some organizations try to presell the offering, such as preneed sales in the funeral industry or towing insurance in the auto industry. Other companies, such as insurance companies, try to create a strong awareness among consumers so that when the need arises for these products, consumers think of their organizations first.

unsought offering

An offering consumers don't typically shop for until it is needed. Examples include funeral and towing services.

KEY TAKEAWAY

Convenience offerings, shopping offerings, specialty offerings, and unsought offerings are the major types of consumer offerings. Convenience offerings often include life's necessities (bread, milk, fuel, and so forth), for which there is little difference across brands. Shopping goods do vary, and many consumers develop strong preferences for some brands versus others. Specialty goods are even more exclusive. Unsought goods are a challenge for marketers because customers do not want to have to shop for them until they need them.

REVIEW QUESTIONS

1. What are the four types of consumer offerings? How do they differ from one another?
2. Is it possible for cemetery plots or caskets to be a shopping good or a specialty good? Or are they always unsought goods?

3. TYPES OF BUSINESS-TO-BUSINESS (B2B) OFFERINGS

LEARNING OBJECTIVES

1. **Define the various types of offerings marketed to businesses.**
2. **Identify some of the differences with regard to how the various types of business offerings are marketed.**

Just like there are different types of consumer offerings, there are different types of business-to-business (B2B) offerings as well. But unlike consumer offerings, which are categorized by how consumers shop, B2B offerings are categorized by how they are used. The primary categories of B2B offerings are

- capital equipment offerings,
- raw materials offerings,
- original equipment manufacturer (OEM) offerings,
- maintenance, repair, and operations (MRO) offerings,
- facilitating offerings.

3.1 Capital Equipment Offerings

capital equipment offering

Tangible equipment business purchases that are depreciated.

A **capital equipment offering** is any equipment purchased and used for more than one year and depreciated over its useful life. Machinery used in a manufacturing facility, for example, would be considered capital equipment. Professionals who market capital equipment often have to direct their communications to many people within the firms to which they are selling because the buying decisions related to the products can be rather complex and involve many departments. From a marketing standpoint, deciding who should get what messages and how to influence the sale can be very challenging.

3.2 Raw Materials Offerings

FIGURE 6.13

The grade of raw leather used to cover the sofa is purchased from suppliers as a commodity—that is, a certain grade is the same across vendors, which compete on the basis of price and the availability of the product.

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Raw materials offerings are materials firms offer other firms so they can make a product or provide a service. Raw materials offerings are processed only to the point required to economically distribute them. Lumber is generally considered a raw material, as is iron, nickel, copper, and other ores. If iron is turned into sheets of steel, it is called a **manufactured material** because it has been processed into a finished good but is not a stand-alone product; it still has to be incorporated into something else to be usable. Both raw and manufactured materials are then used in the manufacture of other offerings.

Raw materials are often thought of as commodities, meaning that there is little difference among them. Consequently, the competition to sell them is based on price and availability. Natuzzi is an Italian company that makes leather furniture. The wood Natuzzi buys to make its sofas is a commodity. By contrast, the leather the company uses is graded, meaning each piece of leather is rated based on quality. To some extent, the leather is still a commodity, because once a firm decides to buy a certain grade of leather, every company's leather within that grade is virtually the same.

raw materials offering

Raw material products firms offer other firms so they can make a product or provide a service. These offerings are processed only to the point required for economic handling and distribution.

manufactured material

A material that has been processed into a finished good but is not a stand-alone product; it still has to be incorporated into something else to be usable.

3.3 OEM Offerings or Components

An **original equipment manufacturer (OEM)** is a manufacturer or assembler of a final product. An OEM purchases raw materials, manufactured materials, and component parts and puts them together to make a final product. **OEM offerings or components**, like an on/off switch, are components, or parts, sold by one manufacturer to another that get built into a final product without further modification. If you look at that picture of the Natuzzi couch, you may notice that it sits on metal feet. The metal feet are probably made by a manufacturer other than Natuzzi, making the feet an OEM component. Dell's hard drives installed in computer kiosks like the self-service kiosks in airports that print your boarding passes are another example of OEM components.

original equipment manufacturer (OEM)

A company that assembles and manufactures a product into its final form.

OEM offerings or components

Products, or parts, sold by one manufacturer to another that get built into a final product without further modification.

3.4 MRO Offerings

maintenance, repair, and operations (MRO)

Offerings used to maintain, repair, and operate the physical assets of an organization.

Maintenance, repair, and operations (MRO) offerings refer to products and services used to keep a company functioning. Janitorial supplies are MRO offerings as is hardware used to repair any part of a building or equipment. MRO items are often sold by distributors. However, you can buy many of the same products at a retail store. For example, you can buy nuts and bolts at a hardware store. A business buyer of nuts and bolts, however, will also need repair items that you don't, such as very strong solder used to weld metal. For convenience sake, the buyer would prefer to purchase multiple products from one vendor rather than driving all over town to buy them. So the distributor sends a salesperson to see the buyer. Most distributors of MRO items sell thousands of products, set up online purchasing Web sites for their customers, and provide a number of other services to make life easier for them.

FIGURE 6.14

These janitorial products are examples of MRO items. Because most businesses buy MRO items in large quantities and because these firms also need products not available to the general public, they will generally buy these products from a distributor such as T&G Chemical rather than from a retailer.

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3.5 Facilitating Offerings

facilitating offerings

Offerings that support an organization's ability to do business but do not go into the final product.

Facilitating offerings include products and services that support a company's operations but are not part of the final product it sells. Marketing research services, banking and transportation services, copiers and computers, and other similar products and services fall into this category. Facilitating offerings might not be central to the buyer's business, at least not the way component parts and raw materials are. Yet to the person who is making the buying decision, these offerings can be very important. If you are a marketing manager who is selecting a vendor for marketing research or choosing an advertising agency, your choice could be critical to your own personal success. For this reason, many companies that supply facilitating offerings try to build strong relationships with their clients.

KEY TAKEAWAY

Business buyers purchase various types of offerings to make their own offerings. Some of the types of products they use are raw materials, manufactured materials, and component parts and assemblies, all of which can become part of an offering. MRO (maintenance, repair, and operations) offerings are those that keep a company's depreciable assets in working order. Facilitating offerings are products and services a company purchases to support its operations but are not part of the firm's final product.

REVIEW QUESTIONS

1. What types of offerings do businesses buy? How do the offerings differ in terms of how they are marketed?
2. As you learned early in the chapter, consumer offering can belong to different categories depending on how the buyer wants to purchase them. Is the same true for business offerings?

4. BRANDING, LABELING, AND PACKAGING

LEARNING OBJECTIVES

1. **Understand the branding decisions firms make when they're developing new products.**
2. **Identify the various levels of packaging for new products.**

What comes to mind when someone says Coke or Nike or Microsoft? According to *BusinessWeek* magazine, the Coca-Cola brand is the *strongest* brand in the world. However, a global study of consumers sponsored by Reuters found that Apple has the *best* brand. What is a "brand" and what do these studies mean when they report that one brand is the strongest or the best?

4.1 Branding

We have mentioned brands periodically throughout this chapter. But what is a brand? A **brand** is a name, picture, design, or symbol, or combination of those items, used by a seller to identify its offerings and to differentiate them from competitors' offerings. **Branding** is the set of activities designed to create a brand and position it in the minds of consumers. Did you know that The Beatles started a recording studio called Apple? When Apple Computer (the iPod company) was formed, Apple Corp., Ltd. (the Beatles' recording studio), sued Apple Computer because two companies with the same name can create confusion among consumers. This wasn't much of a problem when Apple was only selling computers, but following the release of the iPod and launch of Apple's iTunes program, a case could be made that the companies' offerings are similar enough for consumers to confuse the two companies and their products. In fact, it wasn't until very recently that the lawsuit over the name was settled, some thirty years after the initial lawsuit was filed. Nonetheless, the situation signifies how important brand names are to the companies that own them.

brand

A name, picture, design, or symbol, or combination of those elements, used by a seller to differentiate its offerings from competitors'.

branding

A set of activities designed to create a brand and position it in the minds of consumers.

A successful branding strategy is one that accomplishes what Coke and Apple have done—it creates consumer recognition of what the brand (signified by its name, picture, design, symbol, and so forth) means. Consequently, when marketing professionals are considering whether a potential new offering fits a company's image, they are very concerned about whether the offering supports the organization's brand and position in the mind of the consumer. For this reason, many consider branding to be much more than how the product is packaged or labeled, and they are right. Characteristics of the offering, such as pricing and quality, have to support the brand's position. If Apple (the brand) stands for innovation, then products and services have to be innovative. But branding itself refers to strategies that are designed to create an image and position in the consumers' minds.

A **brand name**, like Apple, is the spoken part of a brand's identity. A **brand mark** is the symbol, such as Coke's wave or Apple Computer's multicolor apple (not to be confused with Apple Records' green apple), associated with a brand. Brand names and brand marks are important to companies because consumers use them to make choices. That's why it was important to sort out the Apple brand. Each company wanted to make sure that consumers were getting what they wanted and would know what each brand meant.

brand name

The spoken part of an identity used to describe of a brand.

brand mark

A symbol or logo used to identify a brand.

brand extension

The process of utilizing an existing brand name or brand mark for a new product category.

cannibalization

When a new product takes sales away from the same company's existing products.

An important decision companies must make is under which brand a new offering will be marketed. For example, Black & Decker makes power tools for consumers under its Black & Decker brand, while tools for more serious do-it-yourselfers and professionals are under its Dewalt brand. If Black & Decker decided to add to its Dewalt line new products such as coolers, portable radios, CD players, and other accessories construction professionals might find useful at a job site, the company would be creating a brand extension. A **brand extension** involves utilizing an existing brand name or brand mark for a new product category.

Why would Black & Decker add these accessories to the Dewalt line? If the company did, it would be because Dewalt already has a good reputation for high quality, long-lasting durability, and performance among construction professionals. These same professionals would trust the Dewalt brand to deliver. How a company like Black & Decker goes about building this trust is the subject of later chapters. For now, let's consider whether it is better for a company to market a new product via a brand extension or create an entirely new brand for the product.

One thing firms have to consider when they're branding a new offering is the degree of cannibalization that can occur across products. **Cannibalization** occurs when a firm's new offering eats into the sales of one of its older offerings. (Ideally, when you sell a new product, you hope that all of its sales come from your competitors' buyers or buyers that are new to the market.) A completely new offering will not result in cannibalization, whereas a line extension likely will. A brand extension will also result in some cannibalization if you sell similar products under another brand. For example, if Black & Decker already had an existing line of coolers, portable radios, and CD players when the Dewalt line of them was launched, the new Dewalt offerings might cannibalize some of the Black & Decker offerings.

Some marketers argue that cannibalization can be a good thing because it is a sign that a company is developing new and better offerings. These people believe that if you don't cannibalize your own line, then your competitors will.

4.2 Packaging Decisions

Another set of questions to consider involves the packaging on which a brand's marks and name will be prominently displayed. Sometimes the package itself is part of the brand. For example, the curvaceous shape of Coca-Cola's Coke bottle is a registered trademark. If you decide to market your beverage in a similar-shaped bottle, Coca-Cola's attorneys will have grounds to sue you.

FIGURE 6.15

Sometimes the package itself is part of a licensed brand. Coke's curvaceous bottle is an example.

Source: Wikimedia Commons.

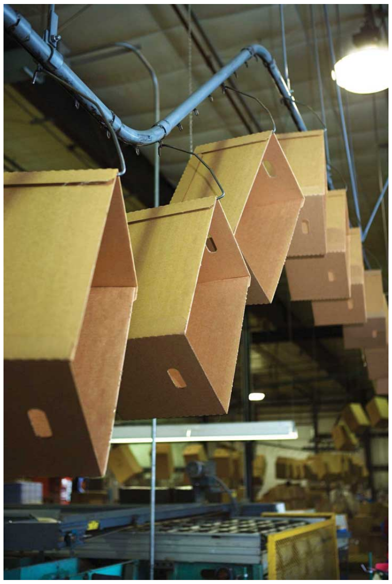
Packaging has to fulfill a number of important functions, including

- communicating the brand and its benefits;
- protecting the product from damage and contamination during shipment, as well as damage and tampering once it's in retail outlets;
- preventing leakage of the contents;
- presenting government-required warning and information labels.

Sometimes packaging can fulfill other functions, such as serving as part of an in-store display designed to promote the offering.

FIGURE 6.16

A single wholesale unit of a product, such as these empty cartons shown here, is an example of secondary packaging. Each of these boxes might hold, for example, twenty-four cans of car polish or thirty-six cans of bug spray.



Primary packaging holds a single retail unit of a product. For example, a bottle of Coke, a bag of M&Ms, or a ream of printer paper (five hundred sheets) are all examples of primary packages. Primary packaging can be used to protect and promote products and get the attention of consumers. Primary packaging can also be used to demonstrate the proper use of an offering, provide instructions on how to assemble the product, or any other needed information. If warning or nutrition labels are required, they must be on the primary packaging. Primary packaging can be bundled together as well. Consumers can buy bottles of Coke sold in six-packs or cans of Coke in twelve-packs, for example.

primary packaging

Packaging designed to hold a single retail unit of a product.

Secondary packaging holds a single wholesale unit of a product. A case of M&M bags is an example, as are cartons of reams of paper. Secondary packaging is designed more for retailers than consumers. It does not have to carry warning or nutrition labels but is still likely to have brand marks and labels. Secondary packaging further protects the individual products during shipping.

secondary packaging

Packaging designed to hold a single wholesale unit of a product.

Tertiary packaging is packaging designed specifically for shipping and efficiently handling large quantities. When a Coca-Cola bottler ships cases of Cokes to a grocery store, they are stacked on pallets (wooden platforms) and then wrapped in plastic. Pallets can be easily moved by a forklift truck and can even be moved within the grocery store by a small forklift.

tertiary packaging

Packaging designed for the shipping and efficiently handling of large quantities of a product.

FIGURE 6.17

This product is bound in tertiary packaging so that mass quantities of it can be stacked on pallets and moved with a forklift.

A product's packaging can benefit the customer beyond just protecting the offering while it's being shipped. No-spill caps, for example, can make it easier for you to use your laundry detergent or prevent spills when you're adding oil to your car's engine. And, as we have noted, secondary packaging (and also tertiary packaging) can serve as part of an in-store display, thereby adding value for your retailers.

KEY TAKEAWAY

A brand is a name, picture, design, or symbol, or combination of those items, used by a seller to identify its offerings and differentiate them from competitors' offerings. Branding is the set of activities designed to create a brand and position it relative to competing brands in the minds of consumers. An important decision companies must make is under which brand a new offering will be marketed. A brand extension involves utilizing an existing brand name or brand mark for a new product or category (line) of products. Cannibalization occurs when a company's new offering eats into the sales of one of its older offerings. It is something to be avoided in most cases, but it can also be a sign of progress because it means a company is developing new and better products. Packaging protects products from damage, contamination, leakage, and tampering, but it is also used to communicate the brand and its benefits, product warnings, and proper use.

REVIEW QUESTIONS

1. How do brands help companies market their products?
2. What is the purpose of a brand extension?
3. Name the basic types of packaging used in marketing.

5. MANAGING THE OFFERING

LEARNING OBJECTIVES

1. **Understand the people involved in creating and managing offerings.**
2. **Recognize the differences in organizing product marketing for consumer versus B2B companies.**

Managing all of a company's offerings presents a number of challenges. Depending on the size of the company and the breadth of the company's offerings, several positions may be needed.

A brand manager is one such position. A **brand manager** is the person responsible for all business decisions regarding offerings within one brand. By business decisions, we mean making decisions that affect profit and loss, which include such decisions as which offerings to include in the brand, how to position the brand in the market, pricing options, and so forth. Indeed, a brand manager is often charged with running the brand as if it were its own separate business.

A brand manager is much more likely to be found in consumer marketing companies. Typically, B2B companies do not have multiple brands so the position is not common in the B2B environment. What you often find in a B2B company is a **product manager**, someone with business responsibility for a particular product or product line. Like the brand manager, the product manager must make many business decisions, such as which offerings to include, advertising selection, and so on. Companies with brand managers include Microsoft, Procter & Gamble, SC Johnson, Kraft, Target, General Mills, and ConAgra Foods. Product managers are found at Xerox, IBM, Konica-Minolta Business Solutions, Rockwell International, and many others.

The University of Georgia was the first to launch a graduate program in brand management, but the only major program now being taught in the United States is at the University of Wisconsin. The program is managed through the university's Center for Brand and Product Management. Most brand managers simply have an undergraduate degree in marketing, but it helps to have a strong background in either finance or accounting because of the profitability and volume decisions brand managers have to make. In the United Kingdom, a number of school have undergraduate degree programs specializing in brand management, as does Seneca College in Toronto, Canada.

In some companies, a **category manager** has responsibility for business decisions within a broad grouping of offerings. For example, a category manager at SC Johnson may have all home cleaning products, which would mean that brands such as Pledge, Vanish, Drano, Fantastik, Windex, Scrubbing Bubbles, and Shout would be that person's responsibility. Each of those brands may be managed by brand manager who then reports directly to the category manager.

At the retail level, a category manager at each store is responsible for more than just one manufacturer's products. The home cleaning category manager would have responsibility for offerings from SC Johnson, as well as Procter & Gamble, Colgate-Palmolive, and many other producers.

Another option is to create a **market manager**, who is responsible for business decisions within a market. In this case, a market can be defined as a geographic market or region; a market segment, such as a type of business; or a channel of distribution. For example, SC Johnson could have regional insect control managers. Regional market managers would make sense for insect control because weather has an influence on which bugs are pests at any given time. For example, a southern regional manager would want more inventory of the repellent Off! in March because it is already warm and the mosquitoes are already breeding and biting in the southern United States.

In B2B markets, a market manager is more likely to be given responsibility for a particular market segment, such as all hospital health care professionals or doctor's offices. All customers such as these (retail, wholesale, and so forth) in a particular industry compose what's called a **vertical market**, and the managers of these markets are called **vertical market managers**. B2B companies organize in this way because

- buying needs and processes are likely to be similar within an industry,
- channels of communication are likely to be the same within an industry but different across industries.

Because magazines, Web sites, and trade shows are organized to serve specific industries or even specific positions within industries, B2B marketers find vertical market structures for marketing departments to be more efficient than organizing by geography.

Market managers sometimes report to brand managers or are a part of their firms' sales organizations and report to sales executives. Market managers are less likely to have as much flexibility in terms

brand manager

A person responsible for all business decisions regarding offerings within one brand. A brand manager is often charged with running his or her brand as if it is its own separate business.

product manager

Someone with business responsibility for a particular product or product line. Like brand managers, product managers must make decisions, such as which offerings to include, advertising selection, and others.

category manager

Someone responsible for managing a broad group of products that may belong to multiple manufacturers.

market manager

Someone responsible for managing efforts within a particular market, such as a geographic market or another grouping of customers into a market (e.g., a single industry or size).

vertical market

B2B customers that compose a particular industry, such as the health care industry.

vertical market managers

Marketing managers who oversee B2B products sold to a particular industry.

of pricing and product decisions and have no control over the communication content of marketing campaigns or marketing strategies. These managers are more likely to be tasked with implementing a product or brand manager's strategy and be responsible for their markets. Some companies have market managers but no brand managers. Instead, marketing vice presidents or other executives are responsible for the brands.

KEY TAKEAWAY

Brand managers decide what products are to be marketed and how. Other important positions include category managers, market managers, and vertical market managers. Category managers are found in consumer markets, usually in retail. Market managers can be found in both consumer markets and B2B markets. However, vertical market managers are found only in B2B markets. Some companies have market managers but no brand managers. Instead, a vice president of marketing or other executive is responsible for the brands.

REVIEW QUESTIONS

1. What is a brand manager?
2. How do brand managers differ from category managers?
3. What is a market manager?
4. Which type of manager has the most marketing responsibility?

6. DISCUSSION QUESTIONS AND ACTIVITIES

DISCUSSION QUESTIONS

1. How is marketing capital equipment different from marketing MRO offerings?
2. What are the marketing implications for your company if buyers stop viewing your primary offering as a shopping good and begin considering it a convenience good? How would you respond to the change?
3. Can you market unsought goods? If so, how?
4. How does packaging add value for consumers and retailers?
5. If consumers find the most value in the services of your offering rather than the tangible product, how will perishability, intangibility, variability, and inseparability influence your marketing? Be specific for each characteristic.
6. Choose two of the different marketing jobs or positions described and compare and contrast the challenges associated with each. One position should be one you would want while the other is one you would not. Why did you pick one over the other?
7. Describe three decisions that would be made differently from a product-dominant approach when compared to a service-dominant approach. What is each decision and how would it be different?
8. When would a product orientation be useful? Why?
9. Describe an example of a core product where there are many different augmented products and the augmented products are considered very different by the consumer or user.
10. The text says that branding is much more than labeling or packaging. Provide some examples where you believe the product did not live up to the brand. Using examples to illustrate how consistency works, discuss how the offering and the desired brand image have to be consistent.

ACTIVITIES

1. Identify three television commercials designed to persuade buyers to view the products being advertised as shopping items rather than convenience items. What is similar about the strategies employed in the commercials? Do you think the commercials are successful? Why or why not?
2. Identify a product for which packaging adds value and describe how that value is added for the consumer. Identify a second brand for which the organization uses primary packaging to distinguish the brand at the point of purchase, and describe how the package contributes to the branding. Do not use brands used as examples in the chapter. Finally, identify a pure service brand and describe how that service is "packaged."
3. Select two brands that serve the same market but are not discussed in the chapter. Using print advertising, screen shots from Web sites, and stills from commercials (use screen shots from streaming video), assemble supporting material that helps you describe what each brand stands for and how consumers view each brand. Is one brand better than the other? Why or why not?

C H A P T E R 7

Developing and Managing Offerings

Having something that customers want to buy is important to any company. Most companies are started by people who get an idea about how to make something better. Hewlett-Packard, for example, began in 1939 in a garage (now a California Historic Landmark) when two young engineers, Bill Hewlett and Dave Packard, thought they had a better idea for designing and making a precision audio oscillator, which is an electronic device that tests sound. Their product was so much more precise than competitors' products that it was manufactured and sold around the world for over thirty years. In fact, it is probably one of the longest-selling electronic devices ever. It also sold for just $54, whereas competing products sold for over $200. Hewlett-Packard, now more commonly known as HP, has not been located in a little garage for many years. Yet the company's ability to grow by successfully designing and marketing new offerings continues.

Developing new offerings is a constant process in most companies. In some instances, a company starts with a price and then develops products and services to fit that price. IKEA is an example of a company that does this. IKEA looks at the various prices consumers are willing to pay for home furnishings and then works backward to design products that match those prices (using a demand backward pricing strategy is discussed in the pricing chapter). In other situations, the goal is simply to develop a better product that adds value to existing products, and the price comes later. Hewlett-Packard's audio oscillator is an example of this type of product.

FIGURE 7.1

Hewlett-Packard was founded in this California garage, which is now a national landmark.

Source: Wikimedia Commons.

Keep in mind that a "new" product can be a "new and improved" product, such as laundry detergent; an addition to a product or service line, such as Marriott adding the Courtyard by Marriott and the Fairfield Inn or Capri Sun adding new flavors; a repositioned product or company, such as Hyundai Motor Company trying to change the perceptions of Hyundai automobiles from being inexpensive to being "an overachieving, underappreciated brand that smart people are discovering";[1] or a totally new innovation, such as the iPad computer. What is new for one company may not be new to another. For example, one hotel may already have budget properties, but when a luxury hotel adds a budget property, that property is considered a new offering for them.

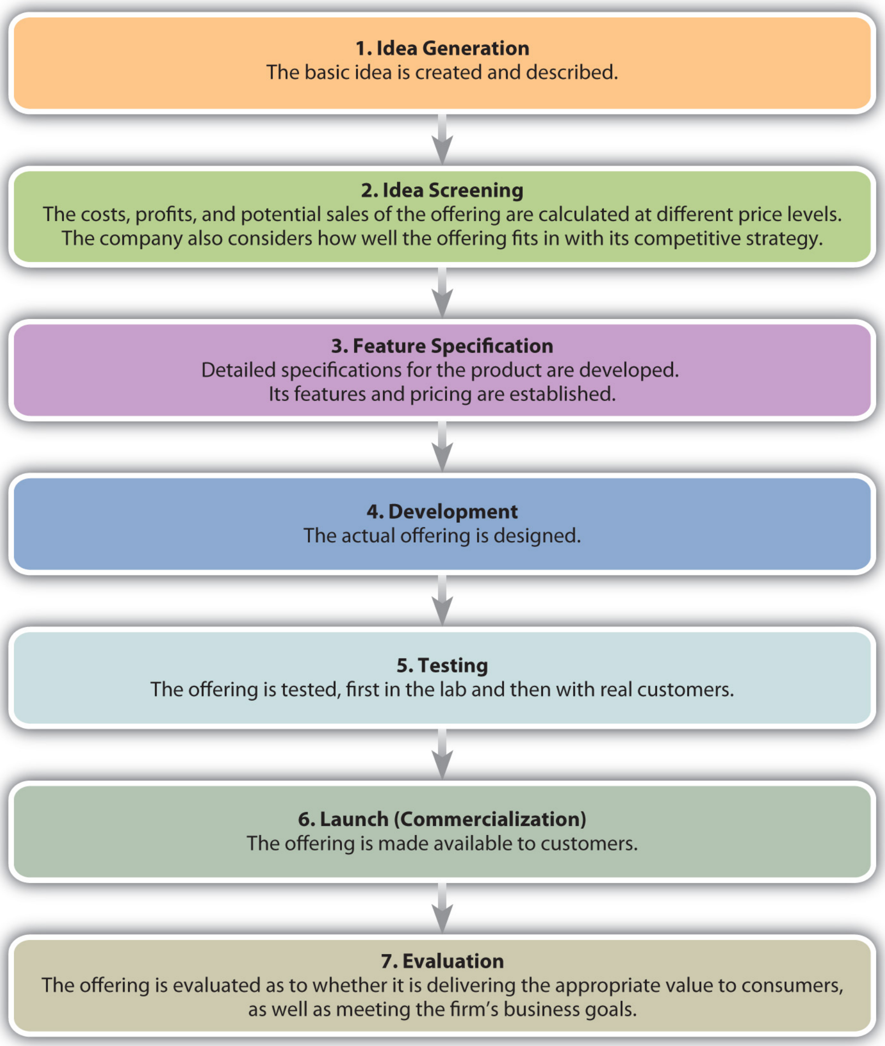
1. THE NEW OFFERING DEVELOPMENT PROCESS

LEARNING OBJECTIVES

1. **Identify an effective process for creating offerings and bringing them to market.**
2. **Understand the relative importance of each step in the new offering development process and the functions within each step.**
3. **Distinguish between the various forms of testing and analysis that take place before a new offering is brought to the market.**

Most new offerings go through similar stages in their development process. Although the size of a company will affect how the different stages of their new product development process are conducted and whether products are test marketed before being introduced, the steps are generally the same. Figure 7.2 summarizes these steps.

FIGURE 7.2 The New Offering Development Process



1.1 Idea Generation

Many companies, HP and Apple included, were launched in someone's garage after the founders got an idea for a product and then tried to make and sell it. HP's first product was an audio oscillator that two Stanford University students developed. Apple's Macintosh microcomputer was a low-cost knockoff of the Xerox Star, a software-equipped workstation. Apple's cofounder, Steve Jobs, saw the product demonstrated at a Xerox research center and Xerox was an early investor in Apple.[2]

FIGURE 7.3

Ideas can come from anywhere. A Motorola employee came up with an idea for a new cell phone while rollerblading. His idea was to use the wheels of the roller blades to generate electricity to charge a cell phone or MP3 player.

Employees often come up with new product ideas, too. At Motorola, engineers are working on a mobile phone that can be recharged by rubbing it on smooth surface. A Motorola engineer came up with the idea while rollerblading. He wondered if a small generator could be created to capture and store the energy generated by rollerblade wheels. This idea, in turn, led to the development of a small roller ball (like you would find on an old-style computer mouse) built into the mobile phone. To power up the phone, you just give it a roll.

Ideas can come from anywhere, including your customers. In fact, in business-to-business (B2B) markets, customers are probably the biggest source of new product ideas. Customers know what customers need and want, which provides organizations an indication of market needs. Customers who are good at generating new product ideas or applications of products are called **lead users**. These people are often courted by manufacturers for this purpose. Lead users exist in consumer markets, too. JCPenney, for example, utilizes a panel of women who help develop and improve the company's Ambrielle line of lingerie products.

lead users

Potential customers who are innovative and develop new applications or new products for their own use without the aid of a supplier.

Customers are particularly important cocreators of offerings when they are consuming products with service components. For example, if you provide your hairdresser with feedback while your hair is being cut, your input will alter the final style you receive. Similarly, a businessperson who provides her certified public accountant (CPA) with information and feedback about her firm will help the CPA develop better financial and tax plans for her business.

Suppliers provide another source of ideas for new products. A supplier might develop a new product or technology that can be used to make yet another product, and then go to the makers of those products and suggest new versions of them. For example, McClancy Seasoning Co. makes spices that restaurants and food processing companies use in their food products. McClancy's research and development department works with companies such as Campbell's to help them develop new and better offerings (for more information, visit http://www.mcclancy.com/research_and_development.asp).

FIGURE 7.4

Campbell's creates many new products, including varieties of their Pace products, that may result from working with their suppliers.

Source: Wikimedia Commons.

line extension

A new idea or offering that occurs when a company comes out with another model (related product or service) based on the same platform and brand as one of its other products.

Of course, companies also watch their competitors to see what they're doing. Some offerings are protected by patents or copyrights and can't be legally duplicated. The software that runs Apple's iPhone is an example. There are, however, different ways to achieve the same results as Apple has with its iPhone. The Droid, manufactured by Motorola, and the G5, a copy of the Google phone, are devices similar to the iPhone that operate with software serving the same purpose.

Figure 7.5 shows some product ideas that came from each of the sources we have discussed—employees, customers, suppliers, and one's competitors. Innovations like the iPhone are rare. However, many new ideas (and consequently new products) aren't actually new but rather are versions of products and services already available. A **line extension** occurs when a company comes out with another model (related product) based on the same platform and brand as one of its other products. When Apple added the Nano and the Shuffle to its iPod line, these were line extensions.

FIGURE 7.5 New Offering Ideas

Keep in mind that idea generation is typically the least expensive step in the process of developing a new offering, whether you involve customers or not. As you move through the product development process, each step is usually more expensive than the last. Ideas for new products are relatively cheap and easy to generate; what is difficult and expensive is making them a reality.

1.2 Idea Screening

Not all new product ideas are good ones. Famous product blunders include Ford Motor Company's Edsel, Clear Pepsi, and Coca-Cola's New Coke. Less famous is Dell's cell phone for aging baby boomers. The phone's large size, large buttons, and large screen screamed "I'm old and blind!" leading potential users to shun it in droves. Yes, even the big companies make mistakes.

The purpose of idea screening is to try to avoid mistakes early in the development process. The sooner bad ideas are discarded, the less the investment made and lost. In the idea screening stage, the company tries to evaluate the new offering by answering these questions:

- Does the proposed product add value for the customer? Does it satisfy a market need?
- Can the product be made within a stated time period to get it to market when needed?
- How many units of it will sell and at what price?
- Can we manufacture and sell the product within budget and still make money?
- Do we need to provide the customer with after-sales service? If so, do we have the resources to do that?
- Does the product fit our image and corporate strategy?

Some organizations conduct concept testing at this stage. **Concept testing** involves running the idea of the offering by potential consumers. The purpose is to get early consumer feedback before investing too much money in an offering that won't work. Some of the methods used to test concepts include **focus groups**, in which groups of eight to twelve consumers gather and react to the concept, and **depth interviews**, in which individuals are presented with the concept and can react to it individually. Focus groups and depth interviews are research techniques that can also be used later in the offering development process to test ideas, or for other purposes. Focus groups working virtually on the Web and by phone actually helped to develop this textbook. Concepts may also be tested online by creating an image and having people representative of the target market provide feedback. Whether using focus groups, depth interviewing, or online methods, concepts must be evaluated by people representative of the target market or the feedback is not relevant.

Because screening considers the feasibility of actually making and servicing an offering, price and cost are important components. If the company cannot sell the product in sufficient quantities to generate a profit, the idea must be scrapped. Understanding the customer's personal value equation (defined elsewhere as value being equal to benefits received minus the cost, which includes the time and effort of shopping and using) is an important consideration, too. If the value consumers receive from the product is less than the price the company charges for it, they will not buy it. In other words, the offering must be financially feasible to justify investing in it.

The offering must also have process feasibility. **Process feasibility** is the degree to which the company can actually make and service the product. Process feasibility affects **financial feasibility**. If the product's costs cannot be controlled when it's being made or serviced, the firm's financial goals won't be met. Process feasibility also affects customer satisfaction. For example, many manufacturers make great-looking faucets, yet one of your authors had to have the "guts" of one faucet replaced three times before it would work, only to find two other friends had the same experience with the same model. A great-looking design is really only great if it works right.

The question of strategic fit is a difficult one. The history of business is rife with examples of companies failing to develop winning new products only to see their competitors do so. For example, when the inventor Chester Carlson approached IBM executives with the idea of photocopying—the technology platform that later became the heart of Xerox Corporation—they turned Carlson down. IBM did not see the product fitting with its strategy and stopped before they fully considered the potential. Nor did IBM see the moneymaking opportunity the product presented.

FIGURE 7.6

Better idea screening might have helped Coca-Cola avoid the problems it encountered marketing its "New Coke" formula.

Source: Wikimedia Commons.

concept testing

Presenting an idea for an offering (including possible marketing communication ideas) to consumers for their reaction early in the offering development process.

focus group

A group of potential buyers brought together to discuss a marketing research topic with one another.

depth interview

An exploratory research technique of engaging in detailed, one-on-one, question-and-answer sessions with potential buyers.

process feasibility

The degree to which the manufacturing of a product or the delivery of a service can be done within the proper quality specifications on a repeatable basis; the degree to which an organization can actually make and service an offering.

financial feasibility

A new offering's ability to make money.

FIGURE 7.7

A good product doesn't just look right. It also works right, which is the idea behind process feasibility.

Source: Wikimedia Commons.

At this point in the process, the company begins to assess two types of risk. The first is **investment risk**, or the possibility that the company will fail to earn the appropriate return on the money and effort (the investment) it puts into the new product. The second is **opportunity risk**, or the risk that there is a better idea that gets ignored because the firm has invested in the idea at hand. When a company is assessing fit, it is assessing its opportunity risk. When it is assessing feasibility (both financial and process), it is assessing its investment risk. Other risk-related questions include whether or not the offering can be developed on time and within budget. Assessing a product's feasibility continues throughout the entire new product development process.

investment risk

The potential of losing one's money and time should a new offering fail.

opportunity risk

The potential loss of revenue a company risks when it chooses an alternative course of action such as launching a different offering.

1.3 Feature Specification

The next step involves narrowing down the product's features. Again, price enters the picture as the company considers which features are important to consumers at different price points. A premium (high-priced) offering is likely to be loaded with extra features. By contrast, a low-priced offering is likely to be a "bare-bones" product with few features.

Quality function deployment (QFD) is a process whereby a company begins with the customer's desired benefits and then designs an offering that delivers those benefits. The benefits are linked to certain characteristics of the offering, which are then broken down into component-part characteristics. From this list of component parts, the product is designed. Thus, the feature specifications process begins with a strong understanding of what consumers want and need.

quality function deployment (QFD)

A specific process for designing new offerings that begins by specifying a customer's requirements and then designing a product to meet those needs.

HP has developed a number of computer printers using the QFD process. The QFD process has been particularly helpful when it comes to bundling the right features within the HP's printer line because each printer model can be targeted to specific customer needs. Customers can then purchase the model that best suits their needs and doesn't have a bunch of features that don't add value for them.

1.4 Development

In the development stage, the actual offering is designed, specifications for it are written, and prototypes of it are developed. It is also during this stage that the firm considers the product's manufacturing process. For example, when a restaurant is developing a new dish, it must not only taste good; it must also be a dish that can be made in a reasonable amount of time once it's ordered and prepared at a cost that earns the restaurant a profit. In terms of a manufacturer's offerings, using the same technology platform as another product (like Apple has done with iPhones) can be very effective and cheaper. Using the same platform also generally makes it easier for a company to train its technicians to service a new product.

1.5 Testing

During the testing stage, the offering is tested, first in the lab and then with real customers. Lab testing is also called **alpha testing**. Alpha testing ensures that the offering works like it's supposed to in a variety of different environments—that it meets its specifications, that is. For example, Kraft might launch a new food product that has to work in hot climates, cold climates, high humidity, dry climates, and high altitudes—all conditions that can change how well the product works.

alpha testing

The testing of a product in a laboratory setting.

The next step is beta testing. During **beta testing**, actual customers make sure the offering works under real-world conditions. Beta testing not only tests whether the offering works as advertised but also tests the offering's delivery mechanisms, service processes, and other aspects of marketing the product. This step can be an expensive. Depending on the product, some companies might find it better to simply launch the product and let the market respond to, or test, it once it is available for purchase.

beta testing

The testing of a product by real customer in the customer's location.

In B2B settings, beta tests are usually conducted with lead users and preferred customers. The developer of the product needs a strong relationship with these customers because the product might still have bugs that need to be ironed out. If the relationship between the parties is "iffy," and the product or service needs a significant amount of changes, beta testing could damage the relationship between the two parties and hurt the developer of the product's sales.

Simultaneous to testing the offering's ability to meet its specs, the company is also developing and testing the marketing communication plan that will be used to launch the product. Many companies involve consumer panels or user communities, both for testing the offering and the communication plan. As we mentioned, JCPenney solicits the advice of a user community for its Ambrielle line of lingerie. The company frequently runs concepts by the group as well as sends actual prototypes to users to try on and report back to the company. Similarly, the data warehousing company Teradata has a "partners" organization that consists of a community of users who participate in the firm's product design and testing.

1.6 Launch or Commercialization

Once an offering has been designed and tested, it is made available to customers. Sometimes a company launches the offering to all of its markets at once. Other companies may use a **rolling launch** in which the offering is made available to certain markets first and then other markets later. A rolling launch might make sense if the company's service technicians need training. The company makes the offering available to one market after the first batch of its employees are prepared to service the product; then as new batches of employees are prepared to service the product, the company enters more markets. See the following video clip for an example of a new product launch.

rolling launch

Introducing a new offering across markets one by one in order to work out any challenges or problems related to marketing and supporting the offering.

Video Clip

Example of a Successful New Product Launch

This YouTube video documents the launch of Apple's iPhone 3G.

View the video online at: http://www.youtube.com/v/4yVQJ6jJPak

Some companies test the complete launch of a product's marketing plan to ensure that it reaches buyers, gets positive feedback, and generates sales of the product or service. This is called a **market test**. Companies may conduct market tests in limited markets or nationwide. For example, when one beverage maker tested the marketing plan for a new wine cooler, the firm first launched the product on the east coast, where the beverage was promoted as a "Polynesian" drink; on the west coast, the beverage was promoted as an "Australian" drink. The Polynesian version proved more popular, so in other new markets, that's how the beverage was advertised and packaged.

market test

The test launch of a product's complete marketing plan to ensure that it reaches buyers, gets positive reactions, and generates sales of the product.

1.7 Evaluation

Once an offering is launched, a firm's executives carefully monitor its progress. You have probably heard about the "box office" sales for new movies the first weekend following their release. The first weekend is a good predictor of how much money a movie will make overall. If the ticket sales for it are high during the first weekend, a studio's executives might decide to beef up the promotions for it. If the ticket sales for the movie are low, the studio might stop screening the movie in theaters altogether and release it on DVD instead. For other types of offerings, important milestones might be the first ninety days after the product is launched, followed by a second period of ninety days, and so forth. However, be aware that firms are constantly in the process of evaluating their offerings and modifying them by either adding or subtracting the features and services associated with them, changing their prices, or how they are marketed. The length of time for milestones used to evaluate products may vary depending on the organization and other products or services being developed.

KEY TAKEAWAY

Most companies put new offering ideas through a seven-step process, beginning with the idea generation stage. Ideas for new offerings can come from anywhere including one's customers, employees, customers, suppliers, and competitors. The next step in the process is the idea screening stage, followed by the feature specifications, development, testing, and launching stages. After an offering is launched, it is evaluated. A company must balance an offering's investment risk (the risk associated with losing the time and money put into developing the offering) against the offering's opportunity risk (the risk associated with missing the opportunity to market the product and profit from it).

REVIEW QUESTIONS

1. What are the seven steps in the offering development process? What are the key activities in each step?
2. Who are lead users?
3. How should a company evaluate new ideas? What are the criteria?
4. How does quality function deployment work?

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2. MANAGING NEW PRODUCTS: THE PRODUCT LIFE CYCLE

LEARNING OBJECTIVES

1. **Explain how organizations manage offerings after being introduced to the marketplace.**
2. **Explain how managing an offering may be different in international markets.**
3. **Explain the product life cycle and the objectives and strategies for each stage.**

Over 20,000 new offerings, including convenience foods, health and beauty aids, electronics, automobiles, pharmaceutical products, hotels, restaurants, and so on, enter the marketplace each year. For example, in 2006 almost 1,400 food products making a "whole grain claim" were introduced.[3] Other recent new product introductions include many technological products such as Nintendo's Wii, iPhones, and digital video recorders (DVRs); many new personal care products such as new fragrances of shampoo and conditioner and new flavors of toothpaste; and new convenience foods such as frozen meals, "100 calorie pack" snacks, and cereal bars.[4]

Video Clip

Oreo 100 Calorie Pack

The 100 Calorie Packs offered by Nabisco proved to be extremely popular.

View the video online at: http://www.youtube.com/v/ZNfqKHSkL7o

Once a product is created and introduced in the marketplace, the offering must be managed effectively for the customer to receive value from it. Only if this is done will the product's producer achieve its profit objectives and be able to sustain the offering in the marketplace. The process involves making many complex decisions, especially if the product is being introduced in global markets. Before introducing products in global markets, an organization must evaluate and understand factors in the external environment, including laws and regulations, the economy and stage of economic development, the competitors and substitutes, cultural values, and market needs. Companies also need expertise to successfully launch products in foreign markets. Given many possible constraints in international markets, companies might initially introduce a product in limited areas abroad. Other organizations, such as Coca-Cola, decide to compete in markets worldwide.[5]

The **product life cycle (PLC)** includes the stages the product goes through after development, from introduction to the end of the product. Just as children go through different phases in life (toddler, elementary school, adolescent, young adult, and so on), products and services also age and go through different stages. The PLC is a beneficial tool that helps marketers manage the stages of a product's acceptance and success in the marketplace, beginning with the product's introduction, its growth in market share, maturity, and possible decline in market share. Other tools such as the Boston Consulting Group matrix and the General Electric approach (see Chapter 2 for discussion) may also be used to manage and make decisions about what to do with products. For example, when a market is no longer growing but the product is doing well (cash cow in the BCG approach), the company may decide to use the money from the cash cow to invest in other products they have rather than continuing to invest in the product in a no-growth market.

product life cycle (PLC)

The stages (introduction, growth, maturity, decline) that a product may go through over time.

The product life cycle can vary for different products and different product categories. Figure 7.8 illustrates an example of the product life cycle, showing how a product can move through four stages. However, not all products go through all stages and the length of a stage varies. For example, some products never experience market share growth and are withdrawn from the market.

FIGURE 7.8 Life Cycle

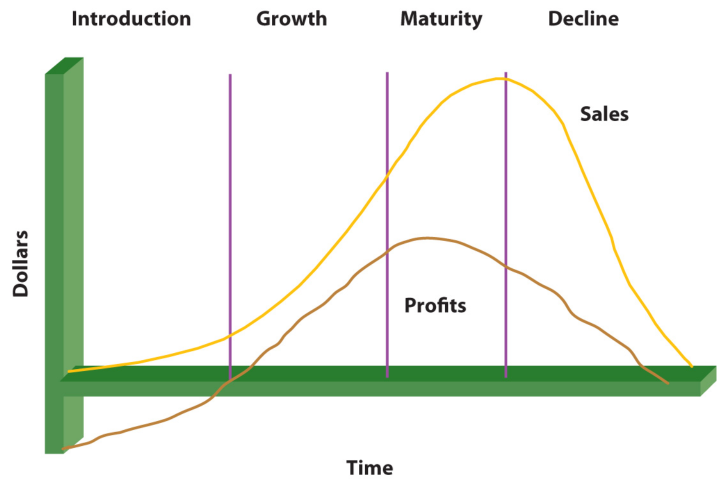

FIGURE 7.9

Diet Coke changed its can to keep from getting outdated.

Source: Wikimedia Commons.

Other products stay in one stage longer than others. For example, in 1992, PepsiCo introduced a product called Clear Pepsi, which went from introduction to decline very rapidly. By contrast, Diet Coke entered the growth market soon after its introduction in the early 1980s and then entered (and remains in) the mature stage of the product life cycle. New computer products and software and video games often have limited life cycles, whereas product categories such as diamonds and durable goods (kitchen appliances) generally have longer life cycles. How a product is promoted, priced, distributed, or modified can also vary throughout its life cycle. Let's now look at the various product life cycle stages and what characterizes each.

2.1 The Introduction Stage

The first stage in a product's life cycle is the **introduction stage**. The introduction stage is the same as commercialization, or the last stage of the new product development process. Marketing costs are typically higher in this stage than in other stages. As an analogy, think about the amount of fuel a plane needs for takeoff relative to the amount it needs while in the air. Just as an airplane needs more fuel for takeoff, a new product or service needs more funds for introduction into the marketplace. Communication (promotion) is needed to generate awareness of the product and persuade consumers to try it, and placement alternatives and supply chains are needed to deliver the product to the customers. Profits are often low in the introductory stage due to the research and development costs and the marketing costs necessary to launch the product.

introduction stage

The first stage of the product life cycle after a product is launched.

The length of the introductory stage varies for different products. However, by law in the United States, a company is only allowed to use the label "new" on a product's package for six months. An organization's objectives during the introductory stage often involve educating potential customers about its value and benefits, creating awareness, and getting potential customers to try the product or service. Getting products and services, particularly multinational brands, accepted in foreign markets can take even longer. Consequently, companies introducing products and services abroad generally must have the financial resources to make a long-term (longer than one year) commitment to their success.

The specific promotional strategies a company uses to launch a product vary depending on the type of product and the number of competitors it faces in the market. Firms that manufacture products such as cereals, snacks, toothpastes, soap, and shampoos often use mass marketing techniques such as television commercials and Internet campaigns and promotional programs such as coupons and sampling to reach consumers. To reach wholesalers and retailers such as Walmart, Target, and grocery stores, firms utilize personal selling. Many firms promote to customers, retailers, and wholesalers. Sometimes other, more targeted advertising strategies are employed, such as billboards and transit signs (signs on buses, taxis, subways, and so on). For more technical or expensive products such as computers or plasma televisions, many firms utilize professional selling, informational promotions, and in-store demonstrations so consumers can see how the products work.

During introduction, an organization must have enough distribution outlets (places where the product is sold or the service is available) to get the product or service to the customers. The product quantities must also be available to meet demand. For example, IBM's ThinkPad was a big hit when it was first introduced, but the demand for it was so great that IBM wasn't able to produce enough of the product. Cooperation from a company's supply chain members—its manufacturers, wholesalers, and so forth—helps ensure that supply meets demand and that value is added throughout the process.

FIGURE 7.10

Many new convenient snack packages, such as jelly snacks and packages of different sizes, are available in China and the United States.

Source: Wikimedia Commons.

When you were growing up, you may remember eating Rice Krispies Treats cereal, a very popular product. The product was so popular that Kellogg's could not keep up with initial demand and placed ads to consumers apologizing for the problem. When demand is higher than supply, the door opens for competitors to enter the market, which is what happened when the microwave was introduced. Most people own a microwave, and prices have dropped significantly since Amana introduced the first microwave at a price of almost $500. As consumers in the United States initially saw and heard about the product, sales increased from forty thousand units to over a million units in only a few years. Sales in Japan increased even more rapidly due to a lower price. As a result of the high demand in both countries, many competitors entered the market and prices dropped.[6]

Product pricing strategies in the introductory stage can vary depending on the type of product, competing products, the extra value the product provides consumers versus existing offerings, and the costs of developing and producing the product. Organizations want consumers to perceive that a new offering is better or more desirable than existing products. Two strategies that are widely used in the introductory stage are penetration pricing and skimming. A **penetration pricing strategy** involves using a low initial price to encourage many customers to try a product. The organization hopes to sell a high volume in order to generate substantial revenues. New varieties of cereals, fragrances of shampoo, scents of detergents, and snack foods are often introduced at low initial prices. Seldom does a company utilize a high price strategy with a product such as this. The low initial price of the product is often combined with advertising, coupons, samples, or other special incentives to increase awareness of the product and get consumers to try it.

penetration pricing strategy

A strategy in which an organization offers a low initial price on a product so that it captures as much market share as possible.

A company uses a **skimming pricing strategy**, which involves setting a high initial price for a product, to more quickly recoup the investment related to its development and marketing. The skimming strategy attracts the top, or high end, of the market. Generally this market consists of customers who are not as price sensitive or who are early adopters of products. Firms that produce electronic products such as DVRs, plasma televisions, and digital cameras set their prices high in the introductory stage. However, the high price must be consistent with the nature of the product as well as the other marketing strategies being used to promote it. For example, engaging in more personal selling to customers, running ads targeting specific groups of customers, and placing the product in a limited number of distribution outlets are likely to be strategies firms use in conjunction with a skimming approach.

skimming pricing strategy

A high initial price that companies set when introducing new products in order to get back money invested.

2.2 The Growth Stage

If a product is accepted by the marketplace, it enters the growth stage of the product life cycle. The **growth stage** is characterized by increasing sales, more competitors, and higher profits. Unfortunately for the firm, the growth stage attracts competitors who enter the market very quickly. For example, when Diet Coke experienced great success, Pepsi soon entered with Diet Pepsi. You'll notice that both Coca-Cola and Pepsi have similar competitive offerings in the beverage industry, including their own brands of bottled water, juice, and sports drinks. As additional customers begin to buy the product, manufacturers must ensure that the product remains available to customers or run the risk of them buying competitors' offerings. For example, the producers of video game systems such as Nintendo's Wii could not keep up with consumer demand when the product was first launched. Consequently, some consumers purchased competing game systems such as Microsoft's Xbox.

growth stage

The stage of the life cycle in which sales increase and more competitors enter the market.

FIGURE 7.11

Demand for the Nintendo Wii increased sharply after the product's introduction.

Source: Wikimedia Commons.

A company sometimes increases its promotional spending on a product during its growth stage. However, instead of encouraging consumers to try the product, the promotions often focus on the specific benefits the product offers and its value relative to competitive offerings. In other words, although the company must still inform and educate customers, it must counter the competition. Emphasizing the advantages of the product's brand name can help a company maintain its sales in the face of competition. Although different organizations produce personal computers, a highly recognized brand such as IBM strengthens a firm's advantage when competitors enter the market. New offerings that utilize the same successful brand name as a company's already existing offerings, which is what Black & Decker does with some of its products, can give a company a competitive advantage. Companies typically begin to make a profit during the growth stage because more units are being sold and more revenue is generated.

The number of distribution outlets (stores and dealers) utilized to sell the product can also increase during the growth stage as a company tries to reach as much of the marketplace as possible. Expanding a product's distribution and increasing its production to ensure its availability at different outlets usually results in a product's costs remaining high during the growth stage. The price of the product itself typically remains at about the same level during the growth stage, although some companies reduce their prices slightly to attract additional buyers and meet the competitors' prices. Companies hope by increasing their sales, they also improve their profits.

2.3 The Maturity Stage

After many competitors enter the market and the number of potential new customers declines, the sales of a product typically begin to level off. This indicates that a product has entered the **maturity stage** of its life cycle. Most consumer products are in the mature stage of their life cycle; their buyers are repeat purchasers versus new customers. Intense competition causes profits to fall until only the strongest players remain. The maturity stage lasts longer than other stages. Quaker Oats and Ivory Soap are products in the maturity stage—they have been on the market for over one hundred years.

maturity stage

The stage of the product life cycle at which sales begin to level off and competitors have saturated the market.

Given the competitive environment in the maturity stage, many products are promoted heavily to consumers by stronger competitors. The strategies used to promote the products often focus on value and benefits that give the offering a competitive advantage. The promotions aimed at a company's distributors may also increase during the mature stage. Companies may decrease the price of mature products to counter the competition. However, they must be careful not to get into "price wars" with their competitors and destroy all the profit potential of their markets, threatening a firm's survival. Intel and Advanced Micro Devices (AMD) have engaged in several price wars with regard to their microprocessors. Likewise, Samsung added features and lowered the price on its Instinct mobile phone, engaging in a price war with Apple's iPhone. With the weakened economy, many online retailers engaged in price wars during the 2008 holiday season by cutting prices on their products and shipping costs; they repeated this price war strategy in 2011. Although large organizations such as Amazon.com can absorb shipping costs, price wars often hurt smaller retailers. Many retailers learned from their mistakes and ordered less inventory for the 2009 holiday season; it remains to be seen what will happen in the 2012 holiday season.

Companies are challenged to develop strategies to extend the maturity stage of their products so they remain competitive. Many firms do so by modifying their target markets, their offerings, or their marketing strategies. Next, we look at each of these strategies.

Modifying the target market helps a company attract different customers by seeking new users, going after different market segments, or finding new uses for a product in order to attract additional customers. Financial institutions and automobile dealers realized that women have increased buying power and now market to them. With the growth in the number of online shoppers, more organizations sell their products and services through the Internet. Entering new markets provides companies an opportunity to extend the product life cycles of their different offerings.

FIGURE 7.12 McDonald's in China

Source: Wikimedia Commons.

Many companies enter different geographic markets or international markets as a strategy to get new users. A product that might be in the mature stage in one country might be in the introductory stage in another market. For example, when the U.S. market became saturated, McDonald's began opening restaurants in foreign markets. Cell phones were very popular in Asia before they were introduced in the United States. Many cell phones in Asia are being used to scan coupons and to charge purchases. However, the market in the United States might not be ready for that type of technology.

Modifying the product, such as changing its packaging, size, flavors, colors, or quality can also extend the product's maturity stage. The 100 Calorie Packs created by Nabisco provide an example of how a company changed the packaging and size to provide convenience and one-hundred-calorie portions for consumers. While the sales of many packaged foods fell, the sales of the 100 Calorie Packs increased to over $200 million, prompting Nabisco to repackage more products.[7] Kraft Foods extended the mature stage of different crackers such as Wheat Thins and Triscuits by creating different flavors. Although not popular with consumers, many companies **downsize** (or decrease) the package sizes of their products or the amount of the product in the packages to save money and keep prices from rising too much.

FIGURE 7.13

Older consumers in international markets are being targeted with different products.

© 2010 Jupiterimages Corporation

downsize

To decrease the size of the package or the amount of product in the package.

Car manufacturers modify their vehicles slightly each year to offer new styles and new safety features. Every three to five years, automobile manufacturers do more extensive modifications. Changing the package or adding variations or features are common ways to extend the mature stage of the life cycle. Pepsi recently changed the design and packaging of its soft drinks and Tropicana juice products. However, consumers thought the new juice package looked like a less expensive brand, which made the quality of the product look poorer. As a result, Pepsi resumed the use of the original Tropicana carton. Pepsi's redesigned soda cans also received negative consumer reviews.

FIGURE 7.14
Pepsi's New Can

Source: Wikimedia Commons.

Video Clip

Pepsi Rebranding

Changing packing designs does not always help the brand.

View the video online at: http://www.youtube.com/v/tZJRJy0UK4g

Video Clip

Tropicana's New Packaging

Tropicana's new (and now abandoned) packaging look didn't compare well with the "orange and the straw" but is still used on the lower-calorie Tropicana.

View the video online at: http://www.youtube.com/v/_GzVpG3jfR4

When introducing products to international markets, firms must decide if the product can be **standardized** (kept the same) or how much, if any, **adaptation**, or changing, of the product to meet the needs of the local culture is necessary. Although it is much less expensive to standardize products and promotional strategies, cultural and environmental differences usually require some adaptation. Product colors and packages as well as product names must often be changed because of cultural and legal differences. For example, in many Asian and European countries, Coca-Cola's diet drinks are called "light," not diet, due to legal restrictions on how the word diet can be used. GE makes smaller appliances such as washers and dryers for the Japanese market because houses tend to be smaller and don't have the room for larger models. Hyundai Motor Company had to improve the quality of its automobiles in order to compete in the U.S. market. Companies must also examine the external environment in foreign markets since the regulations, competition, and economic conditions vary as well as the cultures.

standardized

Keeping a product or service the same in all markets.

adaptation

The changes that an organization must make for a product or service to fit the local culture.

Some companies modify the marketing strategy for one or more marketing variables of their products. For example, many coffee shops and fast-food restaurants such as McDonald's now offer specialty coffee that competes with Starbucks. As a result, Starbucks' managers decided it was time to change the company's strategy. Over the years, Starbucks had added lunch offerings and moved away from grinding coffee in the stores to provide faster service for its customers. However, customers missed the coffee shop atmosphere and the aroma of freshly brewed coffee and didn't like the smell of all the lunch items.

FIGURE 7.15

In Europe, diet drinks are called "light," not diet. This Coca-Cola product is available in Germany.

Source: Wikimedia Commons.

As a result of falling market share, Starbucks' former CEO and founder Howard Schultz returned to the company. Schultz hired consultants to determine how to modify the firm's offering and extend the maturity stage of their life cycle. Subsequently, Starbucks changed the atmosphere of many of its stores back to that of traditional coffee shops, modified its lunch offerings in many stores, and resumed grinding coffee in stores to provide the aroma customers missed. The company also modified some of its offerings to provide health-conscious consumers lower-calorie alternatives.[8] After the U.S. economy weakened in 2009, Starbucks announced it would begin selling instant coffee for about a dollar a cup to appeal to customers who were struggling financially but still wanted a special cup of coffee. The firm also changed its communication with customers by utilizing more interactive media such as blogs.

Whereas Starbucks might have overexpanded, McDonald's plans to add fourteen thousand coffee bars to selected stores.[9] In addition to the coffee bars, many McDonald's stores are remodeling their interiors to feature flat screen televisions, recessed lighting, and wireless Internet access. Other McDonald's restaurants kept their original design, which customers still like.

FIGURE 7.16

The oldest operating McDonald's is in California.

Source: Wikimedia Commons.

2.4 The Decline Stage

When sales decrease and continue to drop to lower levels, the product has entered the **decline stage** of the product life cycle. In the decline stage, changes in consumer preferences, technological advances, and alternatives that satisfy the same need can lead to a decrease in demand for a product. How many of your fellow students do you think have used a typewriter, adding machine, or slide rule? Computers replaced the typewriter and calculators replaced adding machines and the slide rule. Ask your parents about eight-track tapes, which were popular before cassette tapes, which were popular before CDs, which were popular before MP3 players and Internet radio. Some products decline slowly. Others go through a rapid level of decline. Many fads and fashions for young people tend to have very short life cycles and go "out of style" very quickly. (If you've ever asked your parents to borrow clothes from the 1990s, you may be amused at how much the styles have changed.) Similarly, many students don't have landline phones or VCR players and cannot believe that people still use the "outdated" devices. Some outdated devices, like payphones, disappear almost completely as they become obsolete.

Technical products such as digital cameras, cell phones, and video games that appeal to young people often have limited life cycles. Companies must decide what strategies to take when their products enter the decline stage. To save money, some companies try to reduce their promotional expenditures on these products and the number of distribution outlets in which they are sold. They might implement price cuts to get customers to buy the product. **Harvesting** the product entails gradually reducing all costs spent on it, including investments made in the product and marketing costs. By reducing these costs, the company hopes that the profits from the product will increase until their inventory runs out. Another option for the company is **divesting** (dropping or deleting) the product from its offerings. The company might choose to sell the brand to another firm or simply reduce the price drastically in order to get rid of all remaining inventory. If a company decides to keep the product, it may lose money or make money if competitors drop out. Many companies decide the best strategy is to modify the product in the maturity stage to avoid entering the decline stage.

decline stage

The stage of the life cycle at which sales drop and companies must decide whether to keep, modify, or drop a product.

harvesting

Companies reduce investment in a product, service, or business.

divesting

Companies get rid of a product, service, or business.

FIGURE 7.17

Your parents or grandparents might still use a videocassette recorder (VCR) like this.

KEY TAKEAWAY

The product life cycle helps a company understand the stages (introduction, growth, maturity, and decline) a product or service may go through once it is launched in the marketplace. The number and length of stages can vary. When a product is launched or commercialized, it enters the introduction stage. Companies must try to generate awareness of the product and encourage consumers to try it. During the growth stage, companies must demonstrate the product's benefits and value to persuade customers to buy it versus competing products. Some products never experience growth. The majority of products are in the mature stage. In the mature stage, sales level off and the market typically has many competitors. Companies modify the target market, the offering, or the marketing mix in order to extend the mature stage and keep from going into decline. If a product goes into decline, a company must decide whether to keep the product, harvest and reduce the spending on it until all the inventory is sold, or divest and get rid of the product.

REVIEW QUESTIONS

1. Explain what a firm that sells a product with a limited life cycle (such as software) should do in each stage so there is not a lot of inventory left over when a newer version is introduced?
2. Explain why the marketing costs related to a product are typically higher during the introduction stage and why companies must generate awareness of the new product or service and encourage consumers to try it.
3. Explain why and when penetration and skimming pricing are used in the introduction stage.
4. What stage of the life cycle is a product in when the company cannot meet the demand for it and competitors begin to enter the market?
5. What different strategies do firms use to extend the life cycles of their products throughout the maturity stage?
6. How did Kraft extend the mature stage of the product life cycle of Wheat Thins crackers?
7. Explain the difference between harvesting and a divesting when a firm enters the decline stage.

3. DISCUSSION QUESTIONS AND ACTIVITIES

DISCUSSION QUESTIONS

1. Who owns an idea? If a customer comes up with an innovation involving your product, and your company thinks that innovation can be commercialized, who owns the new product?
2. Assume you come up with an idea for a new electronic product you think your fellow students would really like. How would you go through the product development process? How would you accomplish each step within that process?
3. Select a product you are familiar with and explain the stages of the product's life cycle and different ways in which a company can extend its mature stage.
4. Why, given the availability of good research practices, do so many new products fail?
5. What has been Apple's pricing strategy throughout their products' life cycles? If you made iPhone copycat products, what would your price have to be in order to compete successfully?
6. What are the risks associated with beta testing? What criteria would you use to select customers when needing a beta test?
7. This textbook is an open-source text, meaning your professor can modify its contents. Further, multiple delivery mode (online, print black and white, print color) is a relatively new concept for textbooks. What type of screening process would you expect to have been used in developing the concept of open-source, multimode texts? How would that screening process differ from the screening process used to assess this specific book's potential? Describe what you think those two processes would look like. If you don't think the screening process would differ, why?
8. You've got a really great idea for a new online business. But you need capital to get the business going and when you ask investors for money, they want to know if you've done a market test and what the results were. Why are they asking for market test results? What are the risks associated with a market test? Are there other ways you can answer their real concerns without doing a market test?
9. What characteristics of a product would make it a good candidate for a phased launch? What would make the product a good candidate for a worldwide launch?
10. The product life cycle, the BCG matrix, and the GE matrix have all been criticized for leading to early harvesting of older products and overinvesting in new products. Why did that happen when these tools were applied?

ACTIVITIES

1. Take two existing offerings and combine them to create a new one. What type of offering is it? To whom would you sell it? What new benefits does the product offer, and how would you communicate them to potential buyers? What evidence could you generate to predict the likelihood of the new offering being successful?
2. Identify two new consumer products sold in a grocery store or by a mass merchandiser such as Walmart. Explain the strategies used to introduce each of the products and which strategy you feel will be most successful.
3. Identify three products that are sold in international markets and explain any differences in how the products have been changed to meet the needs of consumers in the international markets.

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CHAPTER 8

Using Marketing Channels to Create Value for Customers

Sometimes when you buy a good or service, it passes straight from the producer to you. But suppose every time you purchased something, you had to contact its maker? For some offerings, such as a haircut, this would work. But what about the products you purchase at the grocery store? You couldn't begin to contact and buy from all the makers of those products. It would be an incredibly inefficient way to do business.

Fortunately, companies partner with one another, alleviating you of this burden. So, for example, instead of Procter & Gamble selling individual toothbrushes to consumers, it sells many of them to a drugstore close to you, which then sells them to you and other people.

The specific avenue a seller uses to make a finished good or service available to you for purchase—for example, whether you are able to buy it directly from the seller, at a store, online, from a salesperson, and so on—is referred to as the product's **marketing channel** (or *distribution channel*). All of the people and organizations that buy, resell, and promote the product "downstream" as it makes its way to you are part of the marketing channel. This chapter focuses on downstream channels. In the next chapter, we look not only "downstream" but also "upstream" at the people and organizations that supply the materials and services and that allow products to be made in the first place.

marketing channel

The group of organizations involved in selling and promoting goods from the time they are produced until they reach end users.

1. MARKETING CHANNELS AND CHANNEL PARTNERS

LEARNING OBJECTIVES

1. **Explain why marketing channel decisions can result in the success or failure of products.**
2. **Understand how supply chains differ from marketing channels.**
3. **Describe the different types of organizations that work together as channel partners and what each does.**

Today, marketing channel decisions are as important as the decisions companies make about the features and prices of products.[1] Consumers have become more demanding. They are used to getting what they want. If you can't get your product to them when, where, and how they want it, they will simply buy a competing product. In other words, *how* companies sell has become as important as *what* they sell.[2]

The firms a company partners with to actively promote and sell a product as it travels through its marketing channel to users are referred to by the firm as its **channel members** (or partners). Companies strive to choose not only the best marketing channels but also the best channel partners. A strong channel partner like Walmart can promote and sell the heck out of a product that might not otherwise turn a profit for its producer. In turn, Walmart wants to work with strong channel partners it can depend on to continuously provide it with great products that fly off the shelves. By contrast, a weak channel partner can be a liability.

channel members

The firms a company partners with to actively promote and sell a product as it travels through its marketing channel to users.

intermediaries

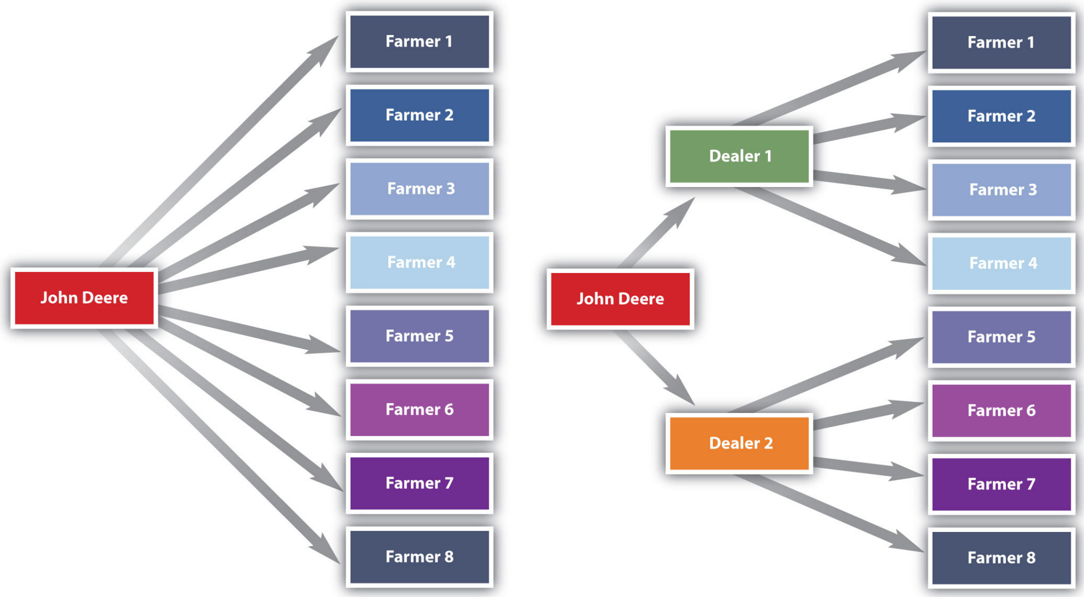
Third parties that facilitate the supply and sale of products from manufacturers to users.

The simplest marketing channel consists of just two parties—a producer and a consumer. Your haircut is a good example. When you get a haircut, it travels straight from your hairdresser to you. No one else owns, handles, or remarkets the haircut to you before you get it. However, many other products and services pass through multiple organizations before they get to you. These organizations are called **intermediaries** (or *middlemen* or *resellers*).

Companies partner with intermediaries not because they necessarily want to (ideally they could sell their products straight to users) but because the intermediaries can help them sell the products better than they could working alone. In other words, they have some sort of capabilities the producer needs: contact with many customers or the right customers, marketing expertise, shipping and handling capabilities, and the ability to lend the producer credit are among the types of help a firm can get by utilizing a channel partner. There are four forms of utility, or value, that channels offer. These are time, form, place, and ownership.

Intermediaries also create efficiencies by streamlining the number of transactions an organization must make, each of which takes time and costs money to conduct. As Figure 8.1 shows, by selling the tractors it makes through local farm machinery dealers, the farm machinery manufacturer John Deere can streamline the number of transactions it makes from eight to just two.

FIGURE 8.1 Using Intermediaries to Streamline the Number of Transactions



The marketing environment is always changing, so what was a great channel or channel partner yesterday might not be a great channel partner today. Changes in technology, production techniques, and your customer's needs mean you have to continually reevaluate your marketing channels and the channel partners you ally yourself with. Moreover, when you create a new product, you can't assume the channels that were used in the past are the best ones.[3] A different channel or channel partner might be better.

Consider Microsoft's digital encyclopedia, Encarta, which was first sold on CD and via online subscription in the early 1990s. Encarta nearly destroyed Encyclopedia Britannica, a firm that had dominated the print encyclopedia business for literally centuries. Ironically, Microsoft had actually tried to partner with Encyclopedia Britannica to use its encyclopedia information to make Encarta but was turned down.

But today, Encarta no longer exists. It's been put out of business by the free online encyclopedia Wikipedia. The point is that products and their marketing channels are constantly evolving. Consequently, you and your company have to be ready to evolve, too.

FIGURE 8.2

Neither Encyclopedia Britannica nor Microsoft saw Wikipedia on the horizon.

1.1 Marketing Channels versus Supply Chains

In the past few decades, organizations have begun taking a more holistic look at their marketing channels. Instead of looking at only the firms that sell and promote their products, they have begun looking at *all* the organizations that figure into any part of the process of producing, promoting, and delivering an offering to its user. All these organizations are considered part of the offering's **supply chain**.

For instance, the supply chain includes producers of the raw materials that go into a product. If it's a food product, the supply chain extends back through the distributors all the way to the farmers who grew the ingredients and the companies from which the farmers purchased the seeds, fertilizer, or animals. A product's supply chain also includes transportation companies such as railroads that help physically move the product and companies that build Web sites for other companies. If a software maker hires a company in India to help it write a computer program, the Indian company is part of the partner's supply chain. These types of firms aren't considered channel partners because it's not their job to actively sell the products being produced. Nonetheless, they all contribute to a product's success or failure.

supply chain

All the organizations that participate in the production, promotion, and delivery of a product or service from the producer to the end consumer.

Firms are constantly monitoring their supply chains and tinkering with them so they're as efficient as possible. This process is called **supply chain management**. Supply chain management is challenging. If done well, it's practically an art.

supply chain management

The process of managing and refining supply chains so as to make them as efficient as possible.

1.2 Types of Channel Partners

Let's now look at the basic types of channel partners. To help you understand the various types of channel partners, we will go over the most common types of intermediaries. The two types you hear about most frequently are wholesalers and retailers. Keep in mind, however, that the categories we discuss in this section are just that—categories. In recent years, the lines between wholesalers, retailers, and producers have begun to blur considerably. Microsoft is a producer of goods, but recently it began opening up its own retail stores to sell products to consumers, much as Apple has done.[4] As you will learn later in the chapter, Walmart and other large retailers now produce their own store brands and sell them to other retailers. Similarly, many producers have outsourced their manufacturing, and although they still call themselves manufacturers, they act more like wholesalers. Wherever organizations see an opportunity, they are beginning to take it, regardless of their positions in marketing channels.

Wholesalers

Wholesalers obtain large quantities of products from producers, store them, and break them down into cases and other smaller units more convenient for retailers to buy, a process called "breaking bulk." Wholesalers get their name from the fact that they resell goods "whole" to other companies without transforming the goods. If you are trying to stock a small electronics store, you probably don't want to purchase a truckload of iPods. Instead, you probably want to buy a smaller assortment of iPods as well as other merchandise. Via wholesalers, you can get the assortment of products you want in the quantities you want. Some wholesalers carry a wide range of different products. Other carry narrow ranges of products.

wholesalers

Businesses that purchase products in large quantities, can store the products, can break the pallets down into cases or units, and can deliver the desired quantity of a product to distributors, retailers, and/or consumers.

Most wholesalers "take title" to goods—or own them until purchased by other sellers. Wholesalers such as these assume a great deal of risk on the part of companies further down the marketing channel as a result. For example, if the iPods you plan to purchase are stolen during shipment, damaged, or become outdated because a new model has been released, the wholesaler suffers the loss—not you. Electronic products, in particular, become obsolete very quickly. Think about the cell phone you owned just a couple of years ago. Would you want to have to use it today?

Video Clip

Marketing Channels and Products That Become Obsolete

Good thing you don't have to use the cell phone shown in this YouTube video. You could forget about putting it in your purse or pocket. But in 1973, the phone was the latest and greatest of gadgets. Martin Cooper, who championed the development of the device, was a lead engineer at Motorola. To whom do you think Cooper made his first phone call on the device? To his rivals at AT&T, which at the time manufactured only "landline" phones. He wanted to let them know he and Motorola had changed the telephone game.

View the video online at: http://www.youtube.com/v/mZZPsu1SgMw

There are many types of wholesalers. The three basic types of wholesalers are merchant wholesalers, brokers, and manufacturers' agents, each of which we discuss next.

Merchant Wholesalers

merchant wholesalers

Wholesalers that take title to the goods.

distributors

Businesses that purchase large quantities of products, can store products, can sell products, can deliver desired quantities of products, and can offer services. Distributors generally take title to products and employ a sales force to actively market their products.

Merchant wholesalers are wholesalers that take title to the goods. They are also sometimes referred to as **distributors**, *dealers*, and *jobbers*. The category includes both full-service wholesalers and limited-service wholesalers. Full-service wholesalers perform a broad range of services for their customers, such as stocking inventories, operating warehouses, supplying credit to buyers, employing salespeople to assist customers, and delivering goods to customers. Maurice Sporting Goods is a large North American full-service wholesaler of hunting and fishing equipment. The firm's services include helping customers figure out which products to stock, how to price them, and how to display them.[5]

Limited-service wholesalers offer fewer services to their customers but lower prices. They might not offer delivery services, extend their customers' credit, or have sales forces that actively call sellers. *Cash-and-carry wholesalers* are an example. Small retailers often buy from cash-and-carry wholesalers to keep their prices as low as big retailers that get large discounts because of the huge volumes of goods they buy.

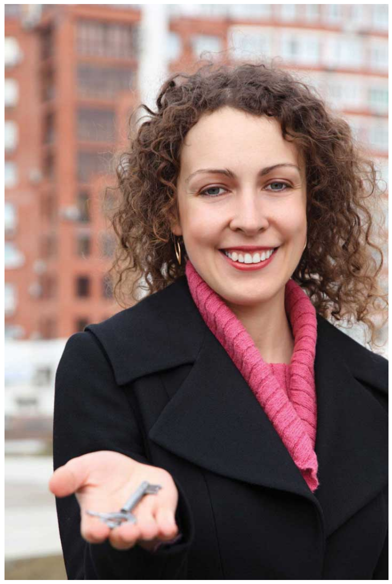
Drop shippers are another type of limited-service wholesaler. Although drop shippers take title to the goods, they don't actually take possession of them or handle them, oftentimes because they deal with goods that are large or bulky. Instead, they earn a commission by finding sellers and passing their orders along to producers, who then ship them directly to the sellers. *Mail-order wholesalers* sell their products using catalogs instead of sales forces and then ship the products to buyers. *Truck jobbers* (or *truck wholesalers*) actually store products, which are often highly perishable (e.g., fresh fish), on their trucks. The trucks make the rounds to customers, who inspect and select the products they want straight off the trucks.

Rack jobbers sell specialty products, such as books, hosiery, and magazines that they display on their own racks in stores. Rack jobbers retain the title to the goods while the merchandise is in the stores for sale. Periodically, they take count of what's been sold off their racks and then bill the stores for those items.

Brokers

FIGURE 8.3

Good brokers with excellent contacts are able to quickly match up buyers and sellers.



Brokers, or *agents*, don't purchase or take title to the products they sell. Their role is limited to negotiating sales contracts for producers. Clothing, furniture, food, and commodities such as lumber and steel are often sold by brokers. They are generally paid a commission for what they sell and are assigned to different geographical territories by the producers with whom they work. Because they have excellent industry contacts, brokers and agents are "go-to" resources for both consumers and companies trying to buy and sell products.

The most common form of agent and broker consumers encounter are in real estate. A real estate agent represents, or acts for, either the buyer or the seller. The listing agent is contacted by the homeowner who wants to sell, and puts the house on the market. The buyer also contacts an agent who shows the buyer a number of houses. If there is a house that the buyer wants to purchase, the agent calls the listing agent and the price is negotiated. In some states, the buyer's agent is a legal representative of the seller, unless a buyer's agent agreement is signed, which is something to keep in mind when you are the buyer. Agents work for brokers, who act as sort of a head agent and market the company's services while making sure that all of the legal requirements are met.

brokers (agents)

Representatives of one or more manufacturers who sell products on their behalf to consumers, wholesalers, and distributors but do not take title to them.

Manufacturers' Sales Offices or Branches

Manufacturers' sales offices or branches are selling units that work directly for manufacturers. These are found in business-to-business settings. For example, Konica-Minolta Business Systems (KMBS) has a system of sales branches that sell KMBS printers and copiers directly to companies that need them. As a consumer, it would be rare for you to interact directly with a manufacturer through a sales office because in those instances, such as with Apple stores and Nike stores, these are considered retail outlets.

manufacturers' sales offices or branches

Selling units that work directly for manufacturers. A type of factory outlet store.

Retailers

Retailers buy products from wholesalers, agents, or distributors and then sell them to consumers. Retailers vary by the types of products they sell, their sizes, the prices they charge, the level of service they provide consumers, and the convenience or speed they offer. You are familiar with many of these types of retailers because you have purchased products from them. We mentioned Nike and Apple as examples of companies that make and sell products directly to consumers, but in reality, Nike and Apple contract manufacturing to other companies. They may design the products, but they actually buy the finished goods from others.

retailers

Businesses that purchase products from manufacturers, wholesalers, agents, or distributors and then sell them to consumers.

Supermarkets, or grocery stores, are self-service retailers that provide a full range of food products to consumers, as well as some household products. Supermarkets can be high, medium, or low range in terms of the prices they charge and the service and variety of products they offer. Whole Foods and Central Market are grocers that offer a wide variety of products, generally at higher prices. Midrange supermarkets include stores like Albertsons and Kroger. Aldi and Sack 'n Save are examples of supermarkets with a limited selection of products and service but low prices. **Drugstores** specialize in selling over-the-counter medications, prescriptions, and health and beauty products and offer services such as photo developing.

Convenience stores are miniature supermarkets. Many of them sell gasoline and are open twenty-four hours a day. Often they are located on corners, making it easy and fast for consumers to get in and out. Some of these stores contain fast-food franchises like Church's Chicken and Jack in the Box. Consumers pay for the convenience in the form of higher markups on products. In Europe, as well as in rural parts of the United States, you'll find convenience stores that offer fresh meat and produce.

Specialty stores sell a certain type of product, but they usually carry a deep line of it. Zales, which sells jewelry, and Williams-Sonoma, which sells an array of kitchen and cooking-related products, are examples of specialty stores. The personnel who work in specialty stores are usually knowledgeable and often provide customers with a high level of service. Specialty stores vary by size. Many are small. However, in recent years, giant specialty stores called category killers have emerged. A **category killer** sells a high volume of a particular type of product and, in doing so, dominates the competition, or "category." PETCO and PetSmart are category killers in the retail pet-products market. Best Buy is a category killer in the electronics-product market. Many category killers are, themselves, struggling, as shoppers for their products are moving to the Web or to discount department stores.

Department stores, by contrast, carry a wide variety of household and personal types of merchandise such as clothing and jewelry. Many are chain stores. The prices department stores charge range widely, as does the level of service shoppers receive. Neiman Marcus, Saks Fifth Avenue, and Nordstrom sell expensive products and offer extensive personal service to customers. The prices department stores such as JCPenney, Sears, and Macy's charge are midrange, as is the level of service shoppers receive. Walmart, Kmart, and Target are discount department stores with cheaper goods and a limited amount of service. As mentioned earlier, these discount department stores are a real threat to category killers, especially in the form of a superstore.

Superstores are oversized department stores that carry a broad array of general merchandise as well as groceries. Banks, hair and nail salons, and restaurants such as Starbucks are often located within these stores for the convenience of shoppers. You have probably shopped at a SuperTarget or a huge Walmart with offerings such as these. Superstores are also referred to as *hypermarkets* and *supercenters*.

Warehouse clubs are supercenters that sell products at a discount. They require people who shop with them to become members by paying an annual fee. Costco and Sam's Club are examples. **Off-price retailers** are stores that sell a variety of discount merchandise that consists of seconds, overruns, and the previous season's stock other stores have liquidated. Big Lots, Ross Dress for Less, and dollar stores are off-price retailers.

supermarkets

Self-service retailers that provide a full range of food products to consumers as well as some household products.

drugstores

Stores that specialize in selling over-the-counter medication, prescriptions, and health and beauty products and offer services such as photo developing.

convenience stores

Miniature supermarkets that stock a limited assortment of products. Many of them sell gasoline and are open twenty-four hours a day.

specialty stores

Stores that sell a certain type of product.

category killer

A firm that sells a high volume of a product in a particular category.

department stores

Stores that carry a wide variety of household and personal types of merchandise such as clothing and jewelry.

superstores

Large department stores that carry a broad array of general merchandise as well as groceries. Superstores are also referred to as *hypermarkets* and *supercenters*.

warehouse clubs

Supercenters that sell products at a discount to people who pay an annual membership fee to join them.

off-price retailers

Stores that sell a variety of discount merchandise that consists of seconds, overruns, and the previous season's stock other stores have liquidated.

Outlet stores were a new phenomenon at the end of the last century. These were discount retailers that operated under the brand name of a single manufacturer, selling products that couldn't be sold through normal retail channels due to mistakes made in manufacturing. Often located in rural areas but along interstate highways, these stores had lower overhead than similar stores in big cities due to lower rent and lower employee salaries. But due to the high popularity of the stores, demand far outstripped the supply of mistakes. Most outlet malls are now selling first-quality products only, perhaps at a discount.

Online retailers can fit into any of the previous categories; indeed, most traditional stores also have an online version. You can buy from JCPenney.com, Walmart.com, BigLots.com, and so forth. There are also stores, like O.co (formerly called Overstock.com) that operate only on the Web.

Used retailers are retailers that sell used products. Online versions, like eBay and Craigslist, sell everything from used airplanes to clothing. Traditional stores with a physical presence that sell used products include Half-Priced Books and clothing consignment or furniture stores like Amelia's Attic. Note that in consignment stores, the stores do not take title to the products but only retail them for the seller.

A new type of retail store that turned up in the last few years is the **pop-up store**. Pop-up stores are small temporary stores. They can be kiosks or temporarily occupy unused retail space. The goal is to create excitement and "buzz" for a retailer that then drives customers to their regular stores. In 2006, JCPenney created a pop-up store in Times Square for a month. Kate Coultas, a spokesperson for JCPenney, said the store got the attention of Manhattan's residents. Many hadn't been to a JCPenney store in a long time. "It was a real dramatic statement," Coultas says. "It kind of had a halo effect" on the company's stores in the surrounding boroughs of New York City.[6] Most commonly, though, pop-up stores are used for seasonal sales, such as a costume store before Halloween or the Hillshire Farms sausage and cheese shops you see at the mall just before Christmas.

Not all retailing goes on in stores, however. **Nonstore retailing**—retailing not conducted in stores—is a growing trend. Online retailing; party selling; selling to consumers via television, catalogs, and vending machines; and telemarketing are examples of nonstore retailing. These are forms of direct marketing. Companies that engage in **direct marketing** communicate with consumers urging them to contact their firms directly to buy products.

outlet stores

Stores that sell a variety of merchandise that may consist of seconds, overruns, and the previous season's stock, as well as first-run merchandise all from one manufacturer.

online retailers

Companies that sell products directly to consumers via the Web.

used retailers

Stores that sell products that have already been used.

pop-up store

Small temporary stores designed to generate "buzz" for a retailer and drive customers to its regular stores.

nonstore retailing

Retailing not conducted in stores.

direct marketing

Delivering personalized promotional materials directly to individual consumers. Materials may be delivered via mail, catalogs, Internet, e-mail, or telephone, or in person.

KEY TAKEAWAY

How a product moves from raw material to finished good to the consumer is a marketing channel, also called a supply chain. Marketing channel decisions are as important as the decisions companies make about the features and prices of products. Channel partners are firms that actively promote and sell a product as it travels through its channel to its user. Companies try to choose the best channels and channel partners to help them sell products because doing so can give them a competitive advantage.

REVIEW QUESTIONS

1. Why are marketing channel decisions as important as pricing and product feature decisions?
2. What are the benefits of looking at all of the organizations that contribute to the production of a product versus just the organizations that sell them?
3. Why do channel partners rely on each other to sell their products and services?
4. How do companies add value to products via their marketing channels?

2. TYPICAL MARKETING CHANNELS

LEARNING OBJECTIVES

1. Describe the basic types of channels in business-to-consumer (B2C) and business-to-business (B2B) markets.
2. Explain the advantages and challenges companies face when using multiple channels and alternate channels.
3. Explain the pros and cons of disintermediation.
4. List the channels firms can use to enter foreign markets.

direct channel

A marketing channel that consists of a producer and a consumer.

indirect channel

A marketing channel that consists of a producer, a consumer, and one or more intermediaries.

Figure 8.4 shows the typical channels in business-to-consumer (B2C) markets. As we explained, the shortest marketing channel consists of just two parties—a producer and a consumer. A channel such as this is a **direct channel**. By contrast, a channel that includes one or more intermediaries—say, a wholesaler, distributor, or broker or agent—is an **indirect channel**. In an indirect channel, the product passes through one or more intermediaries. That doesn't mean the producer will do no marketing directly to consumers. Levi's runs ads on TV designed to appeal directly to consumers. The makers of food products run coupon ads. However, the seller also has to focus its selling efforts on these intermediaries because the intermediary can help with the selling effort. Not everyone wants to buy Levi's online.

FIGURE 8.4 Typical Channels in Business-to-Consumer (B2C) Markets

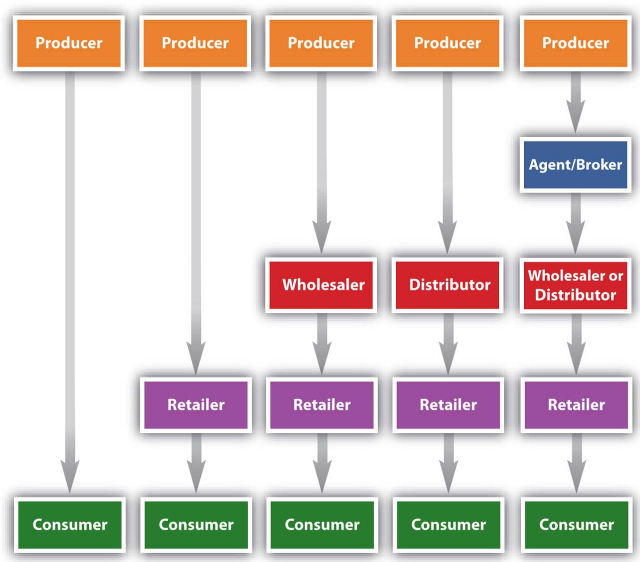


FIGURE 8.5 Typical Channels in Business-to-Business (B2B) Markets

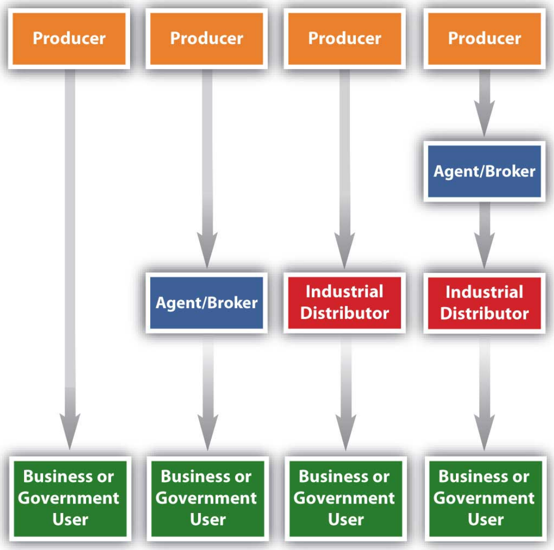


Figure 8.5 shows the marketing channels common in business-to-business (B2B) markets. Notice how the channels resemble those in B2C markets, except that the products are sold to businesses and governments instead of consumers like you. The **industrial distributors** shown in Figure 8.5 are firms that supply products that businesses or government departments and agencies use but don't resell. Grainger Industrial Supply, which sells tens of thousands of products, is one of the world's largest industrial distributors. Nearly two million businesses and institutions in 150 countries buy products from the company, ranging from padlocks to painkillers.

FIGURE 8.6

Name it, and your company can probably buy it from Grainger Industrial Supply.

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2.1 Disintermediation

You might be tempted to think middlemen, or intermediaries, are bad. If you can cut them out of the deal—a process marketing professionals call **disintermediation**—products can be sold more cheaply, can't they? Large retailers, including Target and Walmart, sometimes bypass middlemen. Instead, they buy their products directly from manufacturers and then store and distribute them to their own retail outlets. Walmart is increasingly doing so and even purchasing produce directly from farmers around the word.[7] However, sometimes cutting out the middleman is desirable but not always. A wholesaler with buying power and excellent warehousing capabilities might be able to purchase, store, and deliver a product to a seller more cheaply than its producer could acting alone. Walmart doesn't need a wholesaler's buying power but your local In 'n Out convenience store does. Likewise, hiring a distributor will cost a producer money. But if the distributor can help the producer sell greater quantities of a product, it can increase the producer's profits. Moreover, when you cut out the middlemen you work with, you have to perform the functions they once did. Maybe it's storing the product or dealing with hundreds of retailers. More than one producer has ditched its intermediaries only to rehire them later because of the hassles involved.

The trend today is toward disintermediation. The Internet has facilitated a certain amount of disintermediation by making it easier for consumers and businesses to contact one another without going through any middlemen. The Internet has also made it easier for buyers to shop for the lowest prices on products. Today, most people book trips online without going through travel agents. People also shop for homes online rather than using real estate agents. To remain in business, resellers need to find new ways to add value to products.

industrial distributors

Intermediary firms that sell products that businesses or government departments and agencies use but don't resell.

disintermediation

A situation that occurs when intermediaries are cut out of marketing channels.

FIGURE 8.7

Be glad you're not the owner of this parking lot because it's going to need a lot of cleanup. This Nationwide Insurance ad drives home the point that close personal contact with your insurance agent might be a good idea.

Source: Courtesy of Nationwide, used with permission.

FIGURE 8.8

Michael Dell, founder of the worldwide corporation Dell, Inc., initially made and sold computers to buyers by telephone out of his college dorm room.

Source: Courtesy of Dell, Inc., used with permission.

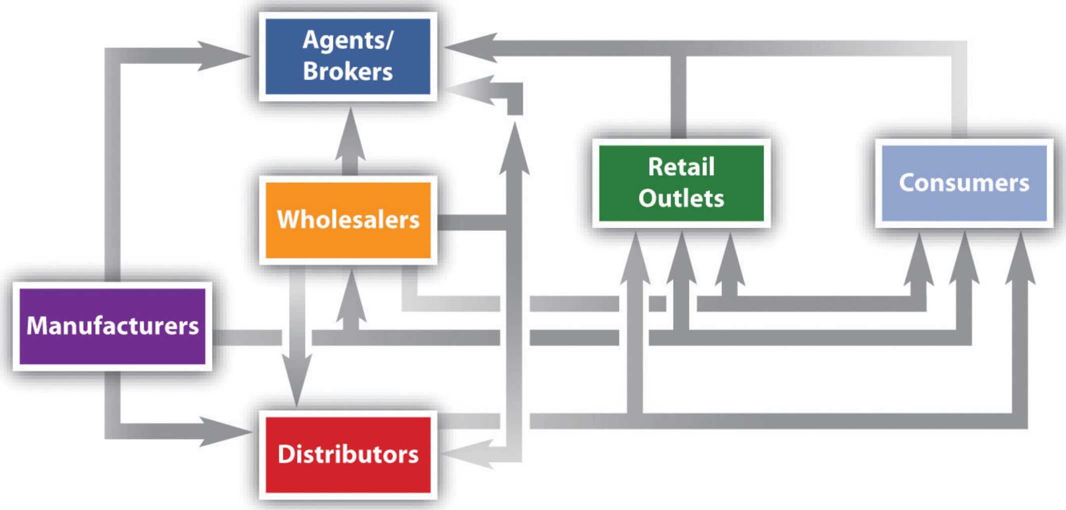
However, for some products, disintermediation via the Internet doesn't work so well. Insurance is an example. You can buy it online directly from companies, but many people want to buy through an agent they can talk to for advice.

Sometimes it's simply impossible to cut out middlemen. Would the Coca-Cola Company want to take the time and trouble to personally sell you an individual can of Coke? No. Coke is no more capable of selling individual Cokes to people than Santa is capable of delivering toys to children around the globe. Even Dell, which initially made its mark by selling computers straight to users, now sells its products through retailers such as Best Buy as well. Dell found that to compete effectively, its products needed to be placed in stores alongside Hewlett-Packard, Acer, and other computer brands.[8]

2.2 Multiple Channels and Alternate Channels

Marketing channels can get a lot more complex than the channels shown in Figure 8.4 and Figure 8.5, though. Look at the channels in Figure 8.9. Notice how in some situations, a wholesaler will sell to brokers, who then sell to retailers and consumers. In other situations, a wholesaler will sell straight to retailers or straight to consumers. Manufacturers also sell straight to consumers, and, as we explained, sell straight to large retailers like Target.

FIGURE 8.9 Alternate Channel Arrangements



The point is that firms can and do utilize multiple channels. Take Levi's, for example. You can buy a pair of Levi's from a retailer such as Kohl's, or you can buy a pair directly from Levi's at one of the outlet stores it owns around the country. You can also buy a pair from the Levi's Web site.

The key is understanding the different target markets for your product and designing the best channel to meet the needs of customers in each. Is there a group of buyers who would purchase your product if they could shop online from the convenience of their homes? Perhaps there is a group of customers interested in your product but they do not want to pay full price. The ideal way to reach these people might be with an outlet store and low prices. Each group then needs to be marketed to accordingly. Many people regularly interact with companies via numerous channels before making buying decisions.

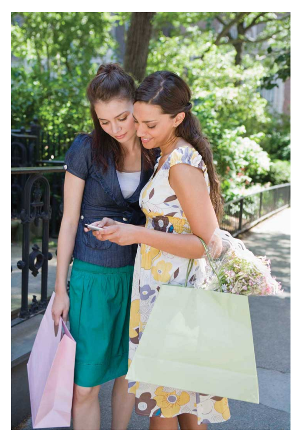
Using multiple channels can be effective. At least one study has shown that the more marketing channels your customers utilize, the more loyal they are likely to be to your products.[9] Companies work hard to try to integrate their selling channels so users get a consistent experience. For example, QVC's TV channel, Web site, and mobile service—which sends alerts to customers and allows them to buy products via their cell phones—all have the same look and feel.

A company can also use a marketing channel to set itself apart from the crowd. Jones Soda Co. initially placed its own funky-looking soda coolers in skate and surf shops, tattoo and piercing parlors, individual fashion stores, and national retail clothing and music stores. The company then began an up-and-down-the-street "attack," placing product in convenience and food stores. Finally, the company was able to sell its drinks to bigger companies like Starbucks, Barnes & Noble, Safeway, Target, and 7-Eleven stores.[10]

Would you like to purchase gold from a vending machine? Soon you will be able to—in Germany. Germans like to purchase gold because it's considered a safe alternative to paper money, which can become devalued during a period of hyperinflation. So, in addition to selling gold the usual way, TG-Gold-Super-Markt company is planning to install "gold to go" machines in five hundred locations in German-speaking countries. The gold is dispensed in metal boxes, and cameras on the machine monitor the transactions to prevent money laundering.[11]

FIGURE 8.10

In addition to selling products on TV and on the Web, QVC also sells them via its mobile message service. Customers can sign up to get alerts about products for sale and buy them on their cell phones.



Video Clip

Gold to Go: Germany's Version of an ATM Machine?
Check out this YouTube clip to get a look at how a gold vending machine works.

View the video online at: http://www.youtube.com/v/eRa0Mnd93wE

strategic channel alliance

An agreement formed by two or more firms to deliver their products via a channel. The products and organizations can be similar or different.

Some companies find ways to increase their sales by forming **strategic channel alliances** with one another. Harley-Davidson has a strategic channel alliance with Best Western. Click on Harley-Davidson's "Ride Planner" tab on its Web site, and you can sign up to receive points and other discounts by staying at Best Western hotels and motels.[12] Starbucks now dispenses its beverages in some of Safeway's grocery stores. Starbucks wants grocery shoppers at Safeway craving a cup of coffee to grab one; Safeway hopes customers dropping in for a Starbucks cup of coffee will buy some grocery products.

2.3 International Marketing Channels

Consumer and business markets in the United States are well developed and growing slowly. However, the opportunities for growth abound in other countries. Coca-Cola, in fact, earns most of its income abroad—not in the United States. The company's latest push is into China, where the per-person consumption of ready-to-drink beverages is only about a third of the global average.[13]

The question is how to enter these markets? Via what marketing channels? Some third-world countries lack good intermediary systems. In these countries, firms are on their own in terms of selling and distributing products downstream to users. Other countries have elaborate marketing channels that must be navigated. Consider Japan, for example. Japan has an extensive, complicated system of intermediaries, each of which demands a cut of a company's profits. Carrefour, a global chain of hypermarkets, tried to expand there but eventually left the country because its marketing channel system was so complicated.

Walmart managed to develop a presence in Japan, but only after acquiring the Japanese supermarket operator Seiyu.[14] As you learned in Chapter 2 and Chapter 5, acquiring part or all of a foreign company is a common strategy for companies. It is referred to as making a direct foreign investment. However, as you learned some nations don't allow foreign companies to do business within their borders or buy local companies. The Chinese government blocked Coca-Cola from buying Huiyuan Juice, that country's largest beverage maker.

Corruption and unstable governments also make it difficult to do business in some countries. The banana company Chiquita found itself in the bad position of having to pay off rebels in Colombia to prevent them from seizing the banana plantations of one of its subsidiaries.

One of the easier ways of utilizing intermediaries to expand abroad is a joint venture. You first learned about joint ventures in Chapter 2. A joint venture is an entity created when two parties agree to share their profits, losses, and control with one another in an economic activity they jointly undertake. The German automaker Volkswagen has struggled to penetrate Asian markets. It recently signed an agreement with Suzuki, the Japanese company, in an effort to challenge Toyota's dominance in Asia. Will it work? Time will tell. Many joint ventures fail, particularly when they involve companies from different countries. Daimler-Chrysler, the union between the German car company and U.S. automaker Chrysler, is one of many joint ventures that fell by the wayside.[15] However, in some countries, such as India, it is the only way companies are allowed to do business within their borders.

An even easier way to enter markets is to simply export your products. Microsoft hasn't done well with its Zune MP3 player in the United States. It subsequently redesigned the product and launched it in other countries.[16] Companies can sell their products directly to other firms abroad, or they can hire intermediaries such as brokers and agents that specialize in international exporting to help them find potential buyers for their products.

Recall that many companies, particularly those in the United States, have expanded their operations via franchising. Franchising grants an independent operator the right to use a company's business model, name, techniques, and trademarks for a fee. McDonald's is the classic example of a franchise. Unlike Walmart, McDonald's has had no trouble making headway in Japan. It has done so by selling thousands of franchises there. In fact, Japan is McDonald's second-largest market next to the United States. The company also has thousands of franchises in Europe and other countries. There is even a McDonald's franchise in the Louvre, the prestigious museum in Paris that houses the *Mona Lisa*. Licensing is similar to franchising. For a fee, a firm can buy the right to use another firm's manufacturing processes, trade secrets, patents, and trademarks for a certain period of time.

FIGURE 8.11

McDonald's opened a franchise in the Louvre. How about a little art with your Big Mac?

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KEY TAKEAWAY

A direct marketing channel consists of just two parties—a producer and a consumer. By contrast, a channel that includes one or more intermediaries (wholesaler, distributor, or broker or agent) is an indirect channel. Firms often utilize multiple channels to reach more customers and increase their effectiveness. Some companies find ways to increase their sales by forming strategic channel alliances with one another. Other companies look for ways to cut out the middlemen from the channel, a process known as disintermediation. Direct foreign investment, joint ventures, exporting, franchising, and licensing are some of the channels by which firms attempt to enter foreign markets.

REVIEW QUESTIONS

1. Why are direct marketing channels possible for some products and not others?
2. Explain the value middlemen can add to products.
3. Name some companies that have multiple marketing channels for their products. What are those channels?
4. How do marketing channels differ around the world? Why is it sometimes hard for firms to penetrate foreign markets?

3. FUNCTIONS PERFORMED BY CHANNEL PARTNERS

LEARNING OBJECTIVES

1. **Describe the activities performed in channels.**
2. **Explain which organizations perform which functions.**

Different organizations in a marketing channel are responsible for different value-adding activities. The following are some of the most common functions channel members perform. However, keep in mind that "who does what" can vary, depending on what the channel members actually agree to in their contracts with one another.

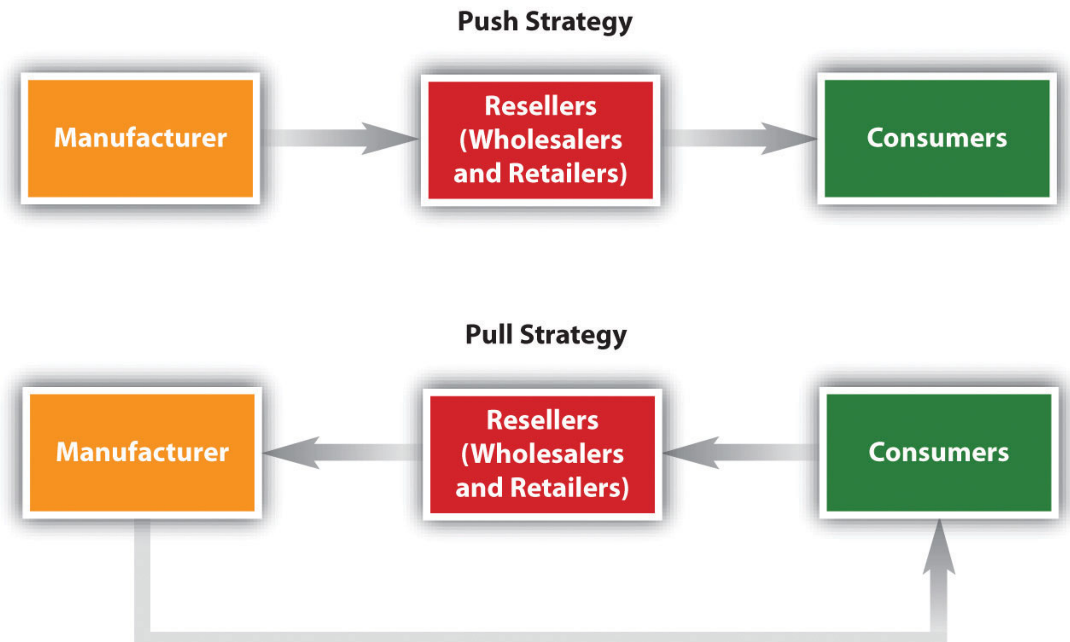
3.1 Disseminate Marketing Communications and Promote Brands

push strategy

A strategy in which businesses are the target of promotions so products get "pushed" through their marketing channels and sold to consumers.

Somehow wholesalers, distributors, retailers, and consumers need to be informed—via marketing communications—that an offering exists and that there's a good reason to buy it. Sometimes, a push strategy is used to help marketing channels accomplish this. A **push strategy** is one in which a manufacturer convinces wholesalers, distributors, or retailers to sell its products. Consumers are informed via advertising and other promotions that the product is available for sale, but the main focus is to sell to intermediaries.

FIGURE 8.12 A Push versus a Pull Strategy



The problem with a push strategy is that it doesn't focus on the needs of the actual users of the products. Coca-Cola used a push strategy for years before realizing that instead of focusing on moving beverages through a retailer's back door and into their warehouse, it needed to help them sell to shoppers through the retailer's front door.[17] College textbook publishers are in a similar position today. Traditionally, they have concentrated their selling efforts on professors and bookstore managers. (Has a textbook company ever asked you what you want out of a textbook?) It's no secret that the price of textbooks is climbing and students are purchasing fewer of them. Like Coca-Cola, textbook publishers are probably going to have to rethink their sales and marketing channel strategies.[18]

By contrast, a **pull strategy** focuses on creating demand for a product among consumers so that businesses agree to sell the product. A good example of an industry that utilizes both pull and push strategies is the pharmaceutical industry. Pharmaceutical companies promote their drugs to pharmacies and doctors, but they now also run ads designed to persuade individual consumers to ask their physicians about drugs that might benefit them.

In many cases, two or more organizations in a channel jointly promote a product to retailers, purchasing agents, and consumers and work out which organization is responsible for what type of communication to whom. For example, the ads from Target, Walmart, and other retailers you see in the paper on Sunday are often a joint effort between manufacturers and the retailer. Coupons are another joint form of promotion even when offered directly by the manufacturer, joint in the sense that the retailer still has to accept the coupon and process it. The actual forms and styles of communication will be discussed more in the promotions and sales section of the book.

FIGURE 8.13

Entrepreneurs Jeff Shelstad and Eric Frank launched Flat World Knowledge, the publisher of this textbook. Shelstad and Frank believe they have found a way to add more value to the textbooks you buy. One of their strategies is to deliver their products via a marketing channel that's different from those used to sell traditional textbooks.

3.2 Sorting and Regrouping Products

As we explained, many businesses don't want to receive huge quantities of a product. One of the functions of wholesalers and distributors is to break down large quantities of products into smaller units and provide an assortment of different products to businesses.

For example, cranberry farmers have large crops to sell. You don't want to buy large amounts of cranberries, make your own juice or cranberry sauce, or dry them into craisins for salads. So the farmers sell their produce to a coop, which sorts the berries by size; large ones become craisins while others are destined to become either juice or sauce, depending on their liquid content. Those are then sold to the juice and sauce producers.

pull strategy

A strategy in which consumers are targeted with sales promotions such as coupons, contests, games, rebates, mail-in offers.

3.3 Storing and Managing Inventory

If a channel member has run out of a product when a customer wants to buy it, the result is often a lost sale. That's why most channel members stock, or "carry," reserve inventory. However, storing products is not free. Warehouses cost money to build or rent and heat and cool; employees have to be paid to stock shelves, pick products, ship them, and so forth. Some companies, including Walmart, put their suppliers in charge of their inventory. The suppliers have access to Walmart's inventory levels and ship products when and where the retailer's stores need them.

Storing and managing inventory is not just a function provided for retailers, though. Storage also involves storing commodities like grain prior to processing. Gigantic grain elevators store corn, wheat, and other grains until processors, like Oroweat, need them. You can buy fresh bread in your grocer every day because the wheat was stored first at a grain elevator until it was needed.

Video Clip

Warehouse Robots at Work

Not all warehouses utilize humans to pluck products from shelves. Some of them use robots, as this video shows. Robots cost money, too, though.

View the video online at: http://www.youtube.com/v/lWsMdN7HMuA

3.4 Distributing Products

Physical goods that travel within a channel need to be moved from one member to another and sometimes back again. Some large wholesalers, distributors, and retailers own their own fleets of trucks for this purpose. In other cases, they hire third-party transportation providers—trucking companies, railroads, and so forth—to move their products.

Being able to track merchandise like you can track a FedEx package is extremely important to channel partners. They want to know where their products are at all times and what shape they are in. Losing inventory or having it damaged or spoiled can wreak havoc on a company's profits. So can not getting products on time or being able to get them at all when your competitors can.

FIGURE 8.14

Walmart doesn't just own its own warehouses. It also owns its own fleet of semi-trucks.

3.5 Assume Ownership Risk and Extend Credit

If products *are* damaged during transit, one of the first questions asked is who owned the product at the time. In other words, who suffers the loss? Generally, no one channel member assumes all of the ownership risk in a channel. Instead, it is distributed among channel members depending on the contracts they have with one another and their free on board provisions. A **free on board (FOB)** provision designates who is responsible for what shipping costs and who owns the title to the goods and when. However, the type of product, the demand for it, marketing conditions, and the clout of the various organizations in its marketing channel can affect the contract terms channel members are willing to agree to. Some companies try to wait as long as possible to take ownership of products so they don't have to store them. During the economic downturn, many channel members tried to hold as little inventory as possible for fear it would go unsold or become obsolete.[19]

free on board (FOB)

A contract term that designates which party is responsible for a product's shipping costs and owns the title to the goods and when.

3.6 Share Marketing and Other Information

Each of the channel members has information about the demand for products, trends, inventory levels, and what the competition is doing. The information is valuable and can be doubly valuable if channel partners trust one another and share it. More information can help each firm in the marketing channel perform its functions better and overcome competitive obstacles.[20]

That said, confidentiality is a huge issue among supply chain partners because they share so much information with one another, such as sales and inventory data. For example, a salesperson who sells Tide laundry detergent for Procter & Gamble will have a good idea of how many units of Tide Walmart and Target are selling. However, it would be unethical for the salesperson to share Walmart's numbers with Target or Target's numbers with Walmart. Many business buyers require their channel partners to sign nondisclosure agreements or make the agreements part of purchasing contracts. A **nondisclosure agreement (NDA)** is a contract that specifies what information is proprietary, or owned by the partner, and how, if at all, the partner can use that information.

nondisclosure agreement

A contract that specifies information that is proprietary, or owned by a channel partner, and how, if at all, the other partners can use that information.

KEY TAKEAWAY

Different organizations in a marketing channel are responsible for different value-adding activities. These activities include disseminating marketing communications and promoting brands, sorting and regrouping products, storing and managing inventory, distributing products, assuming the risk of products, and sharing information.

REVIEW QUESTIONS

1. Explain the difference between a pull and a push strategy when it comes to marketing communications.
2. Why is taking ownership of products an important marketing channel function?
3. Which firms manage inventory in marketing channels?

4. MARKETING CHANNEL STRATEGIES

LEARNING OBJECTIVES

1. **Describe the factors that affect a firm's channel decisions.**
2. **Explain how intensive, exclusive, and selective distribution differ from one another.**
3. **Explain why some products are better suited to some distribution strategies than others.**

4.1 Channel Selection Factors

Selecting the best marketing channel is critical because it can mean the success or failure of your product. One of the reasons the Internet has been so successful as a marketing channel is because customers get to make some of the channel decisions themselves. They can shop virtually for any product in the world when and where they want to, as long as they can connect to the Web. They can also choose how the product is shipped.

Type of Customer

The Internet isn't necessarily the best channel for every product, though. For example, do you want to closely examine the fruits and vegetables you buy to make sure they are ripe enough or not overripe? Then online grocery shopping might not be for you. Clearly, how your customers want to buy products will have an impact on the channel you select. In fact, it should be your prime consideration.

First of all, are you selling to a consumer or a business customer? Generally, these two groups want to be sold to differently. Most consumers are willing to go to a grocery or convenience store to purchase toilet paper. The manager of a hospital trying to replenish its supplies would not. The hospital manager would also be buying a lot more toilet paper than an individual consumer and would expect to be called upon by a distributor, but perhaps only semiregularly. Thereafter, the manager might want the toilet paper delivered on a regular basis and billed to the hospital via automatic systems. Likewise, when businesses buy expensive products such as machinery and computers or products that have to be customized, they generally expect to be sold to personally via salespeople. And often they expect special payment terms.

Type of Product

The type of product you're selling will also affect your marketing channel choices. Perishable products often have to be sold through shorter marketing channels than products with longer shelf lives. For example, a yellowfin tuna bound for the sushi market will likely be flown overnight to its destination and handled by few intermediaries. By contrast, canned tuna can be shipped by "slow boat" and handled by more intermediaries. Valuable and fragile products also tend to have shorter marketing channels. Automakers generally sell their cars straight to car dealers (retailers) rather than through wholesalers. The makers of corporate jets often sell them straight to corporations, which demand they be customized to certain specifications.

Channel Partner Capabilities

Your ability versus the ability of other types of organizations that operate in marketing channels can affect your channel choices. If you are a massage therapist, you are quite capable of delivering your product straight to your client. If you produce downloadable products like digital books or recordings, you can sell your products straight to customers on the Internet. Hypnotic World, a UK producer of self-hypnosis recordings, is such a company. If you want to stop smoking or lose weight, you can pay for and download a recording to help you do this at http://www.hypnoticworld.com.

But suppose you've created a great new personal gadget—something that's tangible, or physical. You've managed to sell it via two channels—say, on TV (via the Home Shopping Network, perhaps) and on the Web. Now you want to get the product into retail stores like Target, Walgreens, and Bed Bath & Beyond. If you can get the product into these stores, you can increase your sales exponentially. In this case, you might want to contract with an intermediary—perhaps an agent or a distributor who will convince the corporate buyers of those stores to carry your product.

Video Clip

Ped Egg Commercial

View the video online at: http://www.youtube.com/v/FB3LzVQGsDk

Where would the world be today without "As Seen on TV" products such as the Ped Egg, designed to remove calluses on feet? Lucky for us, products such as these are now sold both on the Web and in stores. (There have been a few jokes to the effect that a cheese grater might work as well as the Ped Egg, but . . .)

The Business Environment and Technology

The general business environment, such as the economy, can also affect the marketing channels chosen for products. For example, think about what happens when the value of the dollar declines relative to the currencies of other countries. When the dollar falls, products imported from other countries cost more to buy relative to products produced and sold in the United States. Products "made in China" become less attractive because they have gotten more expensive. As a result, some companies then look closer to home for their products and channel partners.

Technological changes affect marketing channels, too, of course. We explained how the Internet has changed how products are bought and sold. Many companies like selling products on the Internet as much as consumers like buying them. For one, an Internet sales channel gives companies more control over how their products are sold and at what prices than if they leave the job to another channel partner such as a retailer. Plus, a company selling on the Internet has a digital footprint, or record, of what shoppers look at, or click on, at its site. As a result, it can recommend products they appear to be interested in and target them with special offers and even prices.[21]

Some sites let customers tailor products to their liking. On the Domino's Web site, you can pick your pizza ingredients and then watch them as they fall onto your virtual pizza. The site then lets you know who is baking your pizza, how long it's taking to cook, and who's delivering it. Even though interaction is digital, it somehow feels a lot more personal than a basic phone order. Developing customer relationships is what today's marketing is about. The Internet is helping companies do this.

Competing Products' Marketing Channels

How your competitors sell their products can also affect your marketing channels. As we explained, Dell now sells computers to firms like Best Buy so the computers can compete with other brands on store shelves.

You don't always have to choose the channels your competitors rely on, though. Netflix is an example. Netflix turned the video rental business on its head by coming up with a new marketing channel that better meets the needs of many consumers. Beginning with direct mail and then moving to Internet delivery, Netflix (along with competitor Hulu) may end up revolutionizing the way television is watched. With the exception of sports and other live events, television will move to an "on-demand" model, where you will watch what you want when you want, not when it is broadcast. Along the way, though, Netflix (and Redbox, the video vending machine) has already virtually eliminated DVD rental through stores. Maybelline and L'Oréal products are sold primarily in retail stores. However, Mary Kay and Avon use salespeople to personally sell their products to consumers.

4.2 Factors That Affect a Product's Intensity of Distribution

Firms that choose an **intensive distribution** strategy try to sell their products in as many outlets as possible. Intensive distribution strategies are often used for convenience offerings—products customers purchase on the spot without much shopping around. Soft drinks and newspapers are an example. You see them sold in all kinds of different places. Redbox, which rents DVDs out of vending machines, has made headway using a distribution strategy that's more intensive than Blockbuster's: the machines are located in fast-food restaurants, grocery stores, and other places people go frequently. The strategy has been so successful, Blockbuster has had to retaliate with its own line of vending machines, though it may be too little too late.

intensive distribution

A strategy of selling a product in as many outlets as possible.

By contrast, **selective distribution** involves selling products at select outlets in specific locations. For instance, Sony TVs can be purchased at a number of outlets such as Circuit City, Best Buy, or Walmart, but the same models are generally not sold at all the outlets. The lowest-priced Sony TVs are at Walmart, the better Sony models are more expensive and found in stores like Circuit City or specialty electronics stores. By selling different models with different features and price points at different outlets, a manufacturer can appeal to different target markets. You don't expect, for example, to find the highest-priced products in Walmart; when you shop there, you are looking for the lower-priced goods.

FIGURE 8.15

Because installing a vending machine is less expensive than opening a retail outlet, Redbox has been able to locate its DVD vending machines in more places than Blockbuster can its stores. Blockbuster has responded with its own vending machines.

Exclusive distribution involves selling products through one or very few outlets. Most students often think exclusive means high priced, but that's not always the case. Exclusive simply means limiting distribution to only one outlet in any area, and can be a strategic decision based on applying the scarcity principle to creating demand. For instance, supermodel Cindy Crawford's line of furniture is sold exclusively at the furniture company Rooms To Go. Designer Michael Graves has a line of products sold exclusively at Target. To purchase those items you need to go to one of those retailers. In these instances, retailers are teaming up with these brands in order to create a sense of quality based on scarcity, a sense of quality that will not only apply to the brand but to the store.

TV series are distributed exclusively. In this instance, the choice isn't so much about applying the scarcity principle as it is about controlling risk. A company that produces a TV series will sign an exclusive deal with a network like ABC, CBS, or Showtime, and the series will initially appear only on that network. Later, reruns of the shows are often distributed selectively to other networks. That initial exclusive run, however, is intended to protect the network's investment by giving the network sole rights to broadcast the show.

To control the image of their products and the prices at which they are sold, the makers of upscale products often prefer to distribute their products more exclusively. Expensive perfumes and designer purses are an example. During the economic downturn, the makers of some of these products were disappointed to see retailers had slashed the products' prices, "cheapening" their prestigious brands.

Distributing a product exclusively to a limited number of organizations under strict terms can help prevent a company's brand from deteriorating, or losing value. It can also prevent products from being sold cheaply in gray markets. A **gray market** is a market in which a producer hasn't authorized its products to be sold.[22] Recognize, though, that the choice to distribute intensively, selectively, or exclusively is a strategic decision based on many factors such as the nature of the brand, the types and number of competitors, and the availability of retail choices.

selective distribution

A strategy of selling products at specific outlets and/or locations.

exclusive distribution

A strategy of selling products through one or a few retailers in a specific location.

gray market

A market in which a producer hasn't authorized its products to be sold.

KEY TAKEAWAY

Selecting the best marketing channel is critical because it can mean the success or failure of your product. The type of customer you're selling to will have an impact on the channel you select. In fact, this should be your prime consideration. The type of product, your organization's capabilities versus those of other channel members, the way competing products are marketed, and changes in the business environment and technology can also affect your marketing channel decisions. Various factors affect a company's decisions about the intensity of a product's distribution. An intensive distribution strategy involves selling a product in as many outlets as possible. Selective distribution involves selling a product at select outlets in specific locations. Exclusive distribution involves selling a product through one or very few outlets.

REVIEW QUESTIONS

1. Why are good channel decisions critical to a product's success?
2. Name the factors that affect channel-selection decisions.
3. Which kinds of products are more likely to be distributed using exclusive marketing strategies?

5. CHANNEL DYNAMICS

LEARNING OBJECTIVES

1. **Explain what channel power is and the types of firms that wield it.**
2. **Describe the types of conflicts that can occur in marketing channels.**
3. **Describe the ways in which channel members achieve cooperation with one another.**

5.1 Channel Power

channel power

The ability to influence a channel partner's goals and efforts.

channel leader

A strong channel member that wields channel power.

Strong channel partners often wield what's called **channel power** and are referred to as **channel leaders**, or *channel captains*. In the past, big manufacturers like Procter & Gamble and Dell were often channel captains. But that is changing. More often today, big retailers like Walmart and Target are commanding more channel power. They have millions of customers and are bombarded with products wholesalers and manufacturers want them to sell. As a result, these retailers increasingly are able to call the shots. In other words, they get what they want.

Category killers are in a similar position. Consumers like you are gaining marketing channel power, too. Regardless of what one manufacturer produces or what a local retailer has available, you can use the Internet to find whatever product you want at the best price available and have it delivered when, where, and how you want.

5.2 Channel Conflict

channel conflict

A dispute among channel members.

A dispute among channel members is called a **channel conflict**. Channel conflicts are common. Part of the reason for this is that each channel member has its own goals, which are unlike those of any other channel member. The relationship among them is not unlike the relationship between you and your boss (assuming you have a job). Both of you want to serve your organization's customers well. However, your goals are different. Your boss might want you to work on the weekend, but you might not want to because you need to study for a Monday test.

All channel members want to have low inventory levels but immediate access to more products. Who should bear the cost of holding the inventory? What if consumers don't purchase the products? Can they be returned to other channel members, or is the organization in possession of the products responsible for disposing of them? Channel members try to spell out details such as these in their contracts.

No matter how "airtight" their contracts are, there will still be points of contention among channel members. Channel members are constantly asking their partners, "What have you done (or not done) for me lately?" Wholesalers and retailers frequently lament that the manufacturers they work with aren't doing more to promote their products—for example, distributing coupons for them, running TV ads, and so forth—so they will move off store shelves more quickly. Meanwhile, manufacturers want to know why wholesalers aren't selling their products faster and why retailers are placing them at the bottom of shelves where they are hard to see. Apple opened its own retail stores around the country, in part because it didn't like how its products were being displayed and sold in other companies' stores.

Channel conflicts can also occur when manufacturers sell their products online. When they do, wholesalers and retailers often feel like they are competing for the same customers when they shouldn't have to. Likewise, manufacturers often feel slighted when retailers dedicate more shelf space to their own store brands. **Store brands** are products retailers produce themselves or pay manufacturers to produce for them. Dr. Thunder is Walmart's store-brand equivalent of Dr. Pepper, for example. Because a retailer doesn't have to promote its store brands to get them on its own shelves like a "regular" manufacturer would, store brands are often priced more cheaply. And some retailers sell their store brands to other retailers, creating competition for manufacturers.

FIGURE 8.16

Dr. Thunder is Walmart's store-brand equivalent of Dr. Pepper. Store brands create competition for "regular" manufacturers.

Vertical versus Horizontal Conflict

The conflicts we've described so far are examples of vertical conflict. A **vertical conflict** is conflict that occurs between two different types of members in a channel—say, a manufacturer, an agent, a wholesaler, or a retailer. By contrast, a **horizontal conflict** is conflict that occurs between organizations of the same type—say, two manufacturers that each want a powerful wholesaler to carry only its products.

Horizontal conflict can be healthy because it's competition driven. But it can create problems, too. In 2005, Walmart experienced a horizontal conflict among its landline telephone suppliers. The suppliers were in the middle of a price war and cutting the prices to all the retail stores they sold to. Walmart wasn't selling any additional phones due to the price cuts. It was just selling them for less and making less of a profit on them.[23]

Channel leaders like Walmart usually have a great deal of say when it comes to how channel conflicts are handled, which is to say that they usually get what they want. But even the most powerful channel leaders strive for cooperation. A manufacturer with channel power still needs good retailers to sell its products; a retailer with channel power still needs good suppliers from which to buy products. One member of a channel can't squeeze all the profits out of the other channel members and still hope to function well. Moreover, because each of the channel partners is responsible for promoting a product through its channel, to some extent they are all in the same boat. Each one of them has a vested interest in promoting the product, and the success or failure of any one of them can affect that of the others.

Flash back to Walmart and how it managed to solve the conflict among its telephone suppliers: Because the different brands of landline telephones were so similar, Walmart decided it could consolidate and use fewer suppliers. It then divided its phone products into market segments—inexpensive phones with basic functions, midpriced phones with more features, and high-priced phones with many features. The suppliers chosen were asked to provide products for one of the three segments. This gave Walmart's customers the variety they sought. And because the suppliers selected were able to sell more phones and compete for different types of customers, they stopped undercutting each other's prices.[24]

One type of horizontal conflict that is much more difficult to manage is **dumping**, or the practice of selling a large quantity of goods at a price too low to be economically justifiable in another country. Typically, dumping can be made possible by government subsidies that allow the company to compete on the basis of price against other international competitors who have to operate without government support, but dumping can also occur due to other factors. One goal of dumping is to drive competitors out of a market, then raise the price. Chinese garlic producers were accused of this practice in the early 2000s, and when garlic prices soared due to problems in China, other countries' producers were unable to ramp back up to cover the demand. U.S. catfish farmers have recently accused China of the same strategy in that market. While there are global economic agreements that prohibit dumping and specify penalties when it occurs, the process can take so long to right the situation that producers have already left the business.

store brands

Products retailers produce themselves or pay manufacturers to produce for them.

vertical conflict

Conflict that occurs between two different types of members of the channel.

horizontal conflict

Conflict that occurs between organizations of the same type.

dumping

The practice of selling goods in another country for a price lower than sold in the home country or at a price that is not economically feasible.

5.3 Achieving Channel Cooperation Ethically

What if you're not Walmart or a channel member with a great deal of power? How do you build relationships with channel partners and get them to cooperate with you? One way is by emphasizing the benefits of working with your firm. For example, if you are a seller whose product and brand name are in demand, you want to point out how being one of its "authorized sellers" can boost a retailer's store traffic and revenues.

Oftentimes companies produce informational materials and case studies showing their partners how they can help boost their sales volumes and profits. Channel partners also want to feel assured that the products coming through the pipeline are genuine and not knockoffs and that there will be a steady supply of them. Your goal is to show your channel partners that you understand issues such as these and help them generate business.

Sometimes the shoe is on the other foot—retailers have to convince the makers of products to do business with them instead of the other way around. Beauty.com, an online retailer, is an example. Selling perfumes and cosmetics online can be difficult because people want to be able to smell and feel the products like they can at a department store. But Beauty.com has been able to convince the makers of more than two hundred upscale cosmetic brands that selling their products on its Web site is a great deal and can increase their revenues. To reassure sellers that shoppers can get personalized service, Beauty.com offers the site's visitors free samples of products and the ability to chat live online with skin and hair care consultants.[25]

FIGURE 8.17

Boar's Head creates in-store displays like the banner shown here to help its channel partners sell its products.

Producing marketing and promotional materials their channel partners can use for sales purposes can also facilitate cooperation among companies. In-store displays, brochures, banners, photos for Web sites, and advertisements the partners can customize with their own logos and company information are examples. Look at the banner in Figure 8.17. Although it looks like it was made by the grocery store displaying it, it wasn't. It was produced by Boar's Head, a meat supplier, for the grocer and others like it.

Educating your channel members' sales representatives is an extremely important part of facilitating cooperation, especially when you're launching a new product. The reps need to be provided with training and marketing materials in advance of the launch so their activities are coordinated with yours. Microsoft is a company that does a good job of training its partners. Before launching operating systems such as Windows XP and Vista, Microsoft provides thousands of its partners with sales and technical training.[26]

In addition, companies run sales contests to encourage their channel partners' sales forces to sell what they have to offer. Offering your channel partners certain monetary incentives, such as discounts for selling your product, can help, too.

What shouldn't you do when it comes to your channel partners? Take them for granted, says John Addison, the author of the book *Revenue Rocket: New Strategies for Selling with Partners*. Addison suggests creating a dialogue with them via one-on-one discussions and surveys and developing "partner advisory councils" to better understand their needs.

You also don't want to "stuff the channel," says Addison. Stuffing the channel occurs when, in order to meet its sales numbers, a company offers its channel partners deep discounts and unlimited returns to buy a lot of a product. The problem is that such a strategy can lead to a buildup of inventory that gets steeply discounted and dumped on the market and sometimes on gray markets. This can affect people's perceptions of the product and its brand name. And what happens to any unsold inventory? It gets returned back up in the channel in the next accounting period, taking a toll on the "stuffers'" sales numbers.

resale price maintenance agreement

An agreement whereby a producer of a product restricts the price a retailer can charge for it.

Lastly, you don't want to risk breaking the law or engage in unfair business practices when dealing with your channel partners.[27] We have already discussed confidentiality issues. Another issue channel partners sometimes encounter relates to resale price maintenance agreements. A **resale price maintenance agreement** is an agreement whereby a producer of a product restricts the price a retailer can charge for it.

The producers of upscale products often want retailers to sign resale price maintenance agreements because they don't want the retailers to deeply discount their products. Doing so would "cheapen" their brands, producers believe. Producers also contend that resale price maintenance agreements prevent price wars from breaking out among their retailers, which can lead to the deterioration of prices for all of a channel's members.

Both large companies and small retail outlets have found themselves in court as a result of price maintenance agreements. Although the U.S. Supreme Court hasn't ruled that all price maintenance agreements are illegal, some states have outlawed them on the grounds that they stifle competition. In some countries, such as the United Kingdom, they are banned altogether. The safest bet for a manufacturer is to provide a "suggested retail price" to its channel partners.

5.4 Channel Integration: Vertical and Horizontal Marketing Systems

Another way to foster cooperation in a channel is to establish a vertical marketing system. In a **vertical marketing system**, channel members formally agree to closely cooperate with one another. (You have probably heard the saying, "If you can't beat 'em, join 'em.") A vertical marketing system can also be created by one channel member taking over the functions of another member; this is a form of disintermediation known as **vertical integration**.

Procter & Gamble (P&G) has traditionally been a manufacturer of household products, not a retailer of them. But the company's long-term strategy is to compete in every personal-care channel, including salons, where the men's business is underdeveloped. In 2009, P&G purchased The Art of Shaving, a seller of pricey men's shaving products located in upscale shopping malls. P&G also runs retail boutiques around the globe that sell its prestigious SK-II skin-care line.[28]

Vertical integration can be **forward**, or downstream, as in the case of P&G just described. **Backward integration** occurs when a company moves upstream in the supply chain—that is, toward the beginning. An example occurred when Walmart bought McLane, a grocery warehousing and distribution company. As much as physical facilities, Walmart also wanted McLane's operating knowledge in order to improve its own logistics.

Franchises are another type of vertical marketing system. They are used not only to lessen channel conflicts but also to penetrate markets. Recall that a franchise gives a person or group the right to market a company's goods or services within a certain territory or location.[29] McDonald's sells meat, bread, ice cream, and other products to its franchises, along with the right to own and operate the stores. And each of the owners of the stores signs a contract with McDonald's agreeing to do business in a certain way.

By contrast, in a **conventional marketing system** the channel members have no affiliation with one another. All the members operate independently. If the sale or the purchase of a product seems like a good deal at the time, an organization pursues it. But there is no expectation among the channel members that they *have* to work with one another in the future.

A **horizontal marketing system** is one in which two companies at the same channel level—say, two manufacturers, two wholesalers, or two retailers—agree to cooperate with another to sell their products or to make the most of their marketing opportunities, and is sometimes called **horizontal integration**. The Internet phone service Skype and the mobile-phone maker Nokia created a horizontal marketing system by teaming up to put Skype's service on Nokia's phones. Skype hopes it will reach a new market (mobile phone users) this way. And Nokia hopes to sell its phones to people who like to use Skype on their personal computers (PCs).[30]

Similarly, Via Technologies, a computer-chip maker that competes with Intel, has teamed up with a number of Chinese companies with no PC-manufacturing experience to produce $200 netbooks. Via Technologies predicts that the new, cheaper netbooks the Chinese companies sell will quickly capture 20 percent of the market.[31] Of course, the more of them that are sold, the more computer chips Via Technologies sells.

vertical marketing system

A system in which channel members located at different levels within a channel formally agree to cooperate with one another.

vertical integration

A strategy of disintermediation, or growth through acquisition or development of operations, or that eliminates middlemen in the channel.

forward integration

A form of vertical integration where the company adds downstream operations, either by acquisition or by growth; the opposite of backward integration.

backward integration

A form of vertical integration where the company integrating channel operations moves upstream, toward manufacturing.

conventional marketing system

A marketing system in which the channel members have no affiliation with one another.

horizontal marketing system

A system in which two companies at the same channel level agree to cooperate with one another to sell their products.

horizontal integration

Adding to operations at the same level in the distribution channel, usually through acquisition of competitors.

KEY TAKEAWAY

Channel partners that wield channel power are referred to as channel leaders. A dispute among channel members is called a channel conflict. A vertical conflict is one that occurs between two different types of members in a channel. By contrast, a horizontal conflict is one that occurs between organizations of the same type. Channel leaders are often in the best position to resolve channel conflicts. Vertical and horizontal marketing systems can help foster channel cooperation, as can creating marketing programs to help a channel's members all generate greater revenues and profits.

REVIEW QUESTIONS

1. What gives some organizations more channel power than others?
2. Why do channel conflicts occur?
3. Which organization(s) has the most power to resolve channel conflicts?
4. How can setting up vertical and horizontal marketing systems prevent channel conflicts?

6. DISCUSSION QUESTIONS AND ACTIVITIES

DISCUSSION QUESTIONS

1. What's the ideal number of marketing channels a firm should have?
2. Is a pull strategy superior in all markets?
3. Is selling power the only source of channel power? From what other sources could an organization derive channel power?
4. The chapter listed a number of scenarios that can cause channel conflicts. What other factors can you think of that might cause channel conflicts?
5. Amazon.com has carved out a unique niche for itself as an intermediary. Amazon sells products on behalf of manufacturers such as Dell, Sony, and Calvin Klein, as well as retailers such as Macy's and Toys"R"Us. How should Amazon be categorized? As a retailer, wholesaler, or broker?
6. What are some reasons for backward integration? For forward integration? Does such integration always benefit the consumer?
7. Direct to consumer advertising for pharmaceuticals is a pull strategy, designed to get consumers to ask their doctors to prescribe certain medications. What are the pros and cons of this practice? Are these always pros and cons to pull strategies? What might the pros and cons be for push strategies involving pharmaceuticals?
8. What are some brands that you think use selective or exclusive channels? How does channel choice, in those instances, influence consumer perceptions of value? In what situations might selective or exclusive channels add real value?
9. Of the channel functions described in the chapter, which is the most important and why? The least important? Why?
10. How does disintermediation benefit the consumer? How might it harm the consumer? Can you think of any revolutionary businesses created in the past few years due to disintermediation? Be sure to describe one not mentioned already in the chapter.

ACTIVITIES

1. Think of some products you currently use. Are there any you would like to buy via different marketing channels? Do you think the products could be successfully marketed this way?
2. Describe a time in which you did business with a company and received conflicting information from its different channels (for example, a store's Web site versus a visit to the store). How did it affect your buying experience? Have you done business with the company since?
3. Break into groups and make a list of four to five different types of products. Decide which channels should be used to distribute each product. Present your findings to your class and see if they agree with you.
4. Make a list of products you believe failed because of poor marketing channel choices.

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