CHAPTER 1
What Is Marketing?

What makes a business idea work? Does it only take money? Why are some products a huge success and similar products a dismal failure? How was Apple, a computer company, able to create and launch the wildly successful iPod, yet Microsoft's first foray into MP3 players was a total disaster? If the size of the company and the money behind a product's launch were the difference, Microsoft would have won. But for Microsoft to have won, it would have needed something it's not had in a while—good marketing so it can produce and sell products that consumers want.

So how does good marketing get done?

1. DEFINING MARKETING

LEARNING OBJECTIVE

1. **Define marketing and outline its components.**

Marketing is defined by the American Marketing Association as "the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large."[1] If you read the definition closely, you see that there are four activities, or components, of marketing:

1. **Creating**. The process of collaborating with suppliers and customers to create offerings that have value.
2. **Communicating**. Broadly, describing those offerings, as well as learning from customers.
3. **Delivering**. Getting those offerings to the consumer in a way that optimizes value.
4. **Exchanging**. Trading value for those offerings.

The traditional way of viewing the components of marketing is via the four Ps:

1. **Product**. Goods and services (creating offerings).
2. **Promotion**. Communication.
3. **Place**. Getting the product to a point at which the customer can purchase it (delivering).
4. **Price.** The monetary amount charged for the product (exchanging).

Introduced in the early 1950s, the four Ps were called the marketing mix, meaning that a marketing plan is a mix of these four components.

If the four Ps are the same as creating, communicating, delivering, and exchanging, you might be wondering why there was a change. The answer is that they are *not* exactly the same. Product, price, place, and promotion are nouns. As such, these words fail to capture all the activities of marketing. For example, exchanging requires mechanisms for a transaction, which consist of more than simply a price or place. Exchanging requires, among other things, the transfer of ownership. For example, when you buy a car, you sign documents that transfer the car's title from the seller to you. That's part of the exchange process.

Even the term *product*, which seems pretty obvious, is limited. Does the product include services that come with your new car purchase (such as free maintenance for a certain period of time on some models)? Or does the product mean only the car itself?

Finally, none of the four Ps describes particularly well what marketing people do. However, one of the goals of this book is to focus on exactly what it is that marketing professionals do.

marketing

"The activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large."

creating

In marketing, a term that involves collaboration with suppliers and customers in order to generate offerings of value to customers.

exchanging

The act of transacting value between a buyer and a seller.

1.1 Value

Value is at the center of everything marketing does (Figure 1.1). What does value mean?

FIGURE 1.1

Marketing is composed of four activities centered on customer value: creating, communicating, delivering, and exchanging value.

value

Total sum of benefits received that meet a buyer's needs. See personal value equation.

personal value equation

The net benefit a consumer receives from a product less the price paid for it and the hassle or effort expended to acquire it.

When we use the term **value**, we mean the benefits buyers receive that meet their needs. In other words, value is what the customer gets by purchasing and consuming a company's offering. So, although the offering is created by the company, the value is determined by the customer.

Furthermore, our goal as marketers is to create a profitable exchange for consumers. By profitable, we mean that the consumer's personal value equation is positive. The **personal value equation** is

$$\text{value} = \text{benefits received} - [\text{price} + \text{hassle}]$$

Hassle is the time and effort the consumer puts into the shopping process. The equation is a personal one because how each consumer judges the benefits of a product will vary, as will the time and effort he or she puts into shopping. Value, then, varies for each consumer.

One way to think of value is to think of a meal in a restaurant. If you and three friends go to a restaurant and order the same dish, each of you will like it more or less depending on your own personal tastes. Yet the dish was exactly the same, priced the same, and served exactly the same way. Because your tastes varied, the benefits you received varied. Therefore the value varied for each of you. That's why we call it a *personal* value equation.

marketing concept

A philosophy underlying all that marketers do, driven by satisfying customer wants and needs.

market oriented

The degree to which a company follows the marketing concept.

Value varies from customer to customer based on each customer's needs. The **marketing concept**, a philosophy underlying all that marketers do, requires that marketers seek to satisfy customer wants and needs. Firms operating with that philosophy are said to be **market oriented**. At the same time, market-oriented firms recognize that exchange must be profitable for the company to be successful. A marketing orientation is not an excuse to fail to make profit.

Firms don't always embrace the marketing concept and a market orientation. Beginning with the Industrial Revolution in the late 1800s, companies were **production orientation**. They believed that the best way to compete was by reducing production costs. In other words, companies thought that good products would sell themselves. Perhaps the best example of such a product was Henry Ford's Model A automobile, the first product of his production line innovation. Ford's production line made the automobile cheap and affordable for just about everyone. The **production era** lasted until the 1920s, when production-capacity growth began to outpace demand growth and new strategies were called for. There are, however, companies that still focus on production as the way to compete.

From the 1920s until after World War II, companies tended to be **selling orientation**, meaning they believed it was necessary to push their products by heavily emphasizing advertising and selling. Consumers during the Great Depression and World War II did not have as much money, so the competition for their available dollars was stiff. The result was this push approach during the **selling era**. Companies like the Fuller Brush Company and Hoover Vacuum began selling door-to-door and the vacuum-cleaner salesman (they were always men) was created. Just as with production, some companies still operate with a push focus.

In the post–World War II environment, demand for goods increased as the economy soared. Some products, limited in supply during World War II, were now plentiful to the point of surplus. Companies believed that a way to compete was to create products different from the competition, so many focused on product innovation. This focus on product innovation is called the **product orientation**. Companies like Procter & Gamble created many products that served the same basic function but with a slight twist or difference in order to appeal to a different consumer, and as a result products proliferated. But as consumers had many choices available to them, companies had to find new ways to compete. Which products were best to create? Why create them? The answer was to create what customers wanted, leading to the development of the marketing concept. During this time, the marketing concept was developed, and from about 1950 to 1990, businesses operated in the **marketing era**.

So what era would you say we're in now? Some call it the **value era**: a time when companies emphasize creating value for customers. Is that really different from the marketing era, in which the emphasis was on fulfilling the marketing concept? Maybe not. Others call today's business environment the **one-to-one era**, meaning that the way to compete is to build relationships with customers one at a time and seek to serve each customer's needs individually. For example, the longer you are customer of Amazon, the more detail they gain in your purchasing habits and the better they can target you with offers of new products. With the advent of social media and the empowerment of consumers through ubiquitous information that includes consumer reviews, there is clearly greater emphasis on meeting customer needs. Yet is that substantially different from the marketing concept?

production orientation

A belief that the way to compete is a function of product innovation and reducing production costs, as good products appropriately priced sell themselves.

production era

A period beginning with the Industrial Revolution and concluding in the 1920s in which production-orientation thinking dominated the way in which firms competed.

selling orientation

A philosophy that products must be pushed through selling and advertising in order for a firm to compete successfully.

selling era

A period running from the 1920s to until after World War II in which the selling orientation dominated the way firms competed.

product orientation

A philosophy that focuses on competing through product innovation.

marketing era

From 1950 to at least 1990 (see service-dominant logic era, value era, and one-to-one era), the dominant philosophy among businesses is the marketing concept.

value era

From the 1990s to the present, some argue that firms moved into the value era, competing on the basis of value; others contend that the value era is simply an extension of the marketing era and is not a separate era.

one-to-one era

From the 1990s to the present, the idea of competing by building relationships with customers one at a time and seeking to serve each customer's needs individually.

Still others argue that this is the time of **service-dominant logic** and that we are in the **service-dominant logic era**. Service-dominant logic is an approach to business that recognizes that consumers want value no matter how it is delivered, whether it's via a product, a service, or a combination of the two. Although there is merit in this belief, there is also merit to the value approach and the one-to-one approach. As you will see throughout this book, all three are intertwined. Perhaps, then, the name for this era has yet to be devised.

service-dominant logic

An approach to business that recognizes that customers do not distinguish between the tangible and the intangible aspects of a good or service, but rather see a product in terms of its total value.

service-dominant logic era

The period from 1990 to the present in which some believe that the philosophy of service-dominant logic dominates the way firms compete.

Whatever era we're in now, most historians would agree that defining and labeling it is difficult. Value and one-to-one are both natural extensions of the marketing concept, so we may still be in the marketing era. To make matters more confusing, not all companies adopt the philosophy of the era. For example, in the 1800s Singer and National Cash Register adopted strategies rooted in sales, so they operated in the selling era forty years before it existed. Some companies are still in the selling era. Recently, many considered automobile manufacturers to be in the trouble they were in because they work too hard to sell or push product and not hard enough on delivering value.

Creating Offerings That Have Value

Marketing creates those goods and services that the company offers at a price to its customers or clients. That entire bundle consisting of the tangible good, the intangible service, and the price is the company's **offering**. When you compare one car to another, for example, you can evaluate each of these dimensions—the tangible, the intangible, and the price—separately. However, you can't buy one manufacturer's car, another manufacturer's service, and a third manufacturer's price when you actually make a choice. Together, the three make up a single firm's offer.

offering

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

Marketing people do not create the offering alone. For example, when the iPad was created, Apple's engineers were also involved in its design. Apple's financial personnel had to review the costs of producing the offering and provide input on how it should be priced. Apple's operations group needed to evaluate the manufacturing requirements the iPad would need. The company's logistics managers had to evaluate the cost and timing of getting the offering to retailers and consumers. Apple's dealers also likely provided input regarding the iPad's service policies and warranty structure. Marketing, however, has the biggest responsibility because it is marketing's responsibility to ensure that the new product delivers value.

Communicating Offerings

Communicating is a broad term in marketing that means describing the offering and its value to your potential and current customers, as well as learning from customers what it is they want and like. Sometimes communicating means educating potential customers about the value of an offering, and sometimes it means simply making customers aware of where they can find a product. Communicating also means that customers get a chance to tell the company what they think. Today companies are finding that to be successful, they need a more interactive dialogue with their customers. For example, Comcast customer service representatives monitor Twitter. When they observe consumers tweeting problems with Comcast, the customer service reps will post resolutions to their problems. Similarly, JCPenney has created consumer groups that talk among themselves on JCPenney-monitored Web sites. The company might post questions, send samples, or engage in other activities designed to solicit feedback from customers.

communicating

In marketing, a broad term meaning describing the offering and its value to potential customers, as well as learning from customers.

Mobile devices, like iPads and Droid smartphones, make mobile marketing possible too. For example, if consumers check-in at a shopping mall on Foursquare or Facebook, stores in the mall can send coupons and other offers directly to their phones and pad computers.

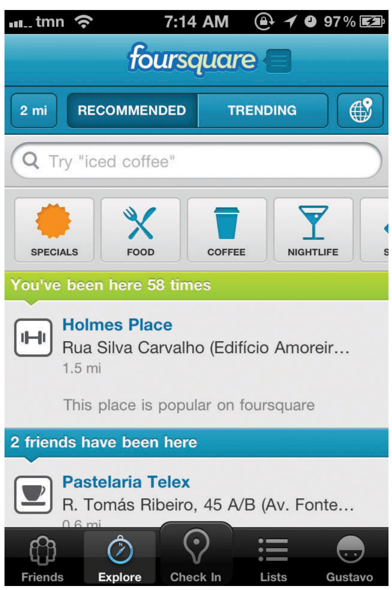
FIGURE 1.2

A BMW X5 costs much more than a Honda CRV, but why is it worth more? What makes up the complete offering that creates such value?

Source: Wikimedia Commons.

FIGURE 1.3

Social media sites like Foursquare and Facebook have a location feature that allows consumers to post their location. Retailers can then use this to send coupons and other special offers to the consumer's phone or pad for immediate use.



Source: Flickr.

Companies use many forms of communication, including advertising on the Web or television, on billboards or in magazines, through product placements in movies, and through salespeople. Other forms of communication include attempting to have news media cover the company's actions (part of public relations [PR]), participating in special events such as the annual International Consumer Electronics Show in which Apple and other companies introduce their newest gadgets, and sponsoring special events like the Susan G. Komen Race for the Cure.

Delivering Offerings

Marketing can't just promise value, it also has to deliver value. **Delivering** an offering that has value is much more than simply getting the product into the hands of the user; it is also making sure that the user understands how to get the most out of the product and is taken care of if he or she requires service later. Value is delivered in part through a company's supply chain. The **supply chain** includes a number of organizations and functions that mine, make, assemble, or deliver materials and products from a manufacturer to consumers. The actual group of organizations can vary greatly from industry to industry, and include wholesalers, transportation companies, and retailers. **Logistics**, or the actual transportation and storage of materials and products, is the primary component of supply chain management, but there are other aspects of supply chain management that we will discuss later.

delivering

In marketing, as in delivering value, a broad term that means getting the product to the consumer and making sure that the user gets the most out of the product and service.

supply chain

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

logistics

The physical flow of materials in the supply chain.

Exchanging Offerings

In addition to creating an offering, communicating its benefits to consumers, and delivering the offering, there is the actual transaction, or **exchange**, that has to occur. In most instances, we consider the exchange to be cash for products and services. However, if you were to fly to Louisville, Kentucky, for the Kentucky Derby, you could "pay" for your airline tickets using frequent-flier miles. You could also use Hilton Honors points to "pay" for your hotel, and cash back points on your Discover card to pay for meals. None of these transactions would actually require cash. Other exchanges, such as information about your preferences gathered through surveys, might not involve cash.

exchange

The transaction of value, usually economic, between a buyer and seller.

When consumers acquire, consume (use), and dispose of products and services, exchange occurs, including during the consumption phase. For example, via Apple's "One-to-One" program, you can pay a yearly fee in exchange for additional periodic product training sessions with an Apple professional. So each time a training session occurs, another transaction takes place. A transaction also occurs when you are finished with a product. For example, you might sell your old iPhone to a friend, trade in a car, or ask the Salvation Army to pick up your old refrigerator.

Disposing of products has become an important ecological issue. Batteries and other components of cell phones, computers, and high-tech appliances can be very harmful to the environment, and many consumers don't know how to dispose of these products properly. Some companies, such as Office Depot, have created recycling centers to which customers can take their old electronics.

Apple has a Web page where consumers can fill out a form, print it, and ship it along with their old cell phones and MP3 players to Apple. Apple then pulls out the materials that are recyclable and properly disposes of those that aren't. By lessening the hassle associated with disposing of products, Office Depot and Apple add value to their product offerings.

KEY TAKEAWAY

The focus of marketing has changed from emphasizing the product, price, place, and promotion mix to one that emphasizes creating, communicating, delivering, and exchanging value. Value is a function of the benefits an individual receives and consists of the price the consumer paid and the time and effort the person expended making the purchase.

REVIEW QUESTIONS

1. What is the marketing mix?
2. How has marketing changed from the four Ps approach to the more current value-based perspective?
3. What is the personal value equation?

2. WHO DOES MARKETING?

LEARNING OBJECTIVE

1. **Describe how the various institutions and entities that engage in marketing use marketing to deliver value.**

The short answer to the question of who does marketing is "everybody!" But that answer is a bit glib and not too useful. Let's take a moment and consider how different types of organizations engage in marketing.

2.1 For-Profit Companies

The obvious answer to the question, "Who does marketing?" is for-profit companies like McDonald's, Procter & Gamble (the makers of Tide detergent and Crest toothpaste), and Walmart. For example, McDonald's creates a new breakfast chicken sandwich for $1.99 (the offering), launches a television campaign (communicating), makes the sandwiches available on certain dates (delivering), and then sells them in its stores (exchanging). When Procter & Gamble (or P&G for short) creates a new Crest tartar control toothpaste, it launches a direct mail campaign in which it sends information and samples to dentists to offer to their patients. P&G then sells the toothpaste through retailers like Walmart, which has a panel of consumers sample the product and provide feedback through an online community. These are all examples of marketing activities.

For-profit companies can be defined by the nature of their customers. A B2C (business-to-consumer) company like P&G sells products to be used by consumers like you, while a B2B (business-to-business) company sells products to be used within another company's operations, as well as by government agencies and entities. To be sure, P&G sells toothpaste to other companies like Walmart (and probably to the army, prisons, and other government agencies), but the end user is an individual person.

Other ways to categorize companies that engage in marketing is by the functions they fulfill. P&G is a manufacturer, Walmart is a retailer, and Grocery Supply Company (http://www.grocerysupply.com) is a wholesaler of grocery items and buys from companies like P&G in order to sell to small convenience store chains. Though they have different functions, all these types of for-profit companies engage in marketing activities. Walmart, for example, advertises to consumers. Grocery Supply Company salespeople will call on convenience store owners and take orders, as well as build in-store displays. P&G might help Walmart or Grocery Supply Company with templates for advertising or special cartons to use in an in-store display, but all the companies are using marketing to help sell P&G's toothpaste.

Similarly, all the companies engage in dialogues with their customers in order to understand what to sell. For Walmart and Grocery Supply, the dialogue may result in changing what they buy and sell; for P&G, such customer feedback may yield a new product or a change in pricing strategy.

2.2 Nonprofit Organizations

Nonprofit organizations also engage in marketing. When the American Heart Association (AHA) created a heart-healthy diet for people with high blood pressure, it bound the diet into a small book, along with access to a special Web site that people can use to plan their meals and record their health-related activities. The AHA then sent copies of the diet to doctors to give to patients. When does an exchange take place, you might be wondering? And what does the AHA get out of the transaction?

From a monetary standpoint, the AHA does not directly benefit. Nonetheless, the organization is meeting its mission, or purpose, of getting people to live heart-healthy lives and considers the campaign a success when doctors give the books to their patients. The point is that the AHA is engaged in the marketing activities of creating, communicating, delivering, and exchanging. This won't involve the same kind of exchange as a for-profit company, but it is marketing. When a nonprofit organization engages in marketing activities, this is called **nonprofit marketing**. Some schools offer specific courses in nonprofit marketing, and many marketing majors begin their careers with nonprofit organizations.

nonprofit marketing

Marketing activities conducted to meet the goals of nonprofit organizations.

Government entities also engage in marketing activities. For example, when the U.S. Army advertises to parents of prospective recruits, sends brochures to high schools, or brings a Bradley Fighting Vehicle to a state fair, the army is engaging in marketing. The U.S. Army also listens to its constituencies, as evidenced by recent research aimed at understanding how to serve military families more effectively. One result was advertising aimed at parents and improving their response to their children's interest in joining the army; another was a program aimed at encouraging spouses of military personnel to access counseling services when their spouse is serving overseas.

Similarly, the Environmental Protection Agency (EPA) runs a number of advertising campaigns designed to promote environmentally friendly activities. One such campaign promoted the responsible disposal of motor oil instead of simply pouring it on the ground or into a storm sewer.

social marketing

Marketing conducted in an effort to achieve social change.

There is a difference between these two types of activities. When the army is promoting the benefits of enlisting, it hopes young men and women will join the army. By contrast, when the EPA runs commercials about how to properly dispose of motor oil, it hopes to change people's attitudes and behaviors so that social change occurs. Marketing conducted in an effort to achieve certain social objectives can be done by government agencies, nonprofit institutions, religious organizations, and others and is called **social marketing**. Convincing people that global warming is a real threat via advertisements and commercials is social marketing, as is the example regarding the EPA's campaign to promote responsible disposal of motor oil.

2.3 Individuals

If you create a résumé, are you using marketing to communicate the value you have to offer prospective employers? If you sell yourself in an interview, is that marketing? When you work for a wage, you are delivering value in exchange for pay. Is this marketing, too?

Some people argue that these are not marketing activities and that individuals do not necessarily engage in marketing. (Some people also argue that social marketing really isn't marketing either.) Can individuals market themselves and their ideas?

In some respects, the question is a rhetorical one, designed for academics to argue about in class. Our point is that in the end, it may not matter. If, as a result of completing this book, you can learn how to more effectively create value, communicate and deliver that value to the receiver, and receive something in exchange, then we've achieved our purpose.

KEY TAKEAWAY

Marketing can be thought of as a set of business practices that for-profit organizations, nonprofit organizations, government entities, and individuals can utilize. When a nonprofit organization engages in marketing activities, this is called *nonprofit marketing*. Marketing conducted in an effort to achieve certain social objectives is called *social marketing*.

REVIEW QUESTIONS

1. What types of companies engage in marketing?
2. What is the difference between nonprofit marketing and social marketing?
3. What can individuals do for themselves that would be considered marketing?

3. WHY STUDY MARKETING?

LEARNING OBJECTIVE

1. **Explain the role marketing plays in individual firms and society as a whole.**

3.1 Marketing Enables Profitable Transactions to Occur

Products don't, contrary to popular belief, sell themselves. Generally, the "build it and they will come" philosophy doesn't work. Good marketing educates customers so that they can find the products they want, make better choices about those products, and extract the most value from them. In this way, marketing helps facilitate exchanges between buyers and sellers for the mutual benefit of both parties. Likewise, good social marketing provides people with information and helps them make healthier decisions for themselves and for others.

Of course, all business students should understand all functional areas of the firm, including marketing. There is more to marketing, however, than simply understanding its role in the business. Marketing has tremendous impact on society.

3.2 Marketing Delivers Value

Not only does marketing deliver value to customers, but also that value translates into the value of the firm as it develops a reliable customer base and increases its sales and profitability. So when we say that marketing delivers value, marketing delivers value to both the customer and the company. Franklin D. Roosevelt, the U.S. president with perhaps the greatest influence on our economic system, once said, "If I were starting life over again, I am inclined to think that I would go into the advertising business in preference to almost any other. The general raising of the standards of modern civilization among all groups of people during the past half century would have been impossible without the spreading of the knowledge of higher standards by means of advertising."[2] Roosevelt referred to advertising, but advertising alone is insufficient for delivering value. Marketing finishes the job by ensuring that what is delivered is valuable.

3.3 Marketing Benefits Society

Marketing benefits society in general by improving people's lives in two ways. First, as we mentioned, it facilitates trade. As you have learned, or will learn, in economics, being able to trade makes people's lives better. Otherwise people wouldn't do it. (Imagine what an awful life you would lead if you had to live a Robinson Crusoe–like existence as did Tom Hanks's character in the movie *Castaway*.) In addition, because better marketing means more successful companies, jobs are created. This generates wealth for people, who are then able to make purchases, which, in turn, creates more jobs.

The second way in which marketing improves the quality of life is based on the value delivery function of marketing, but in a broader sense. When you add all the marketers together who are trying to deliver offerings of greater value to consumers and are effectively communicating that value, consumers are able to make more informed decisions about a wider array of choices. From an economic perspective, more choices and smarter consumers are indicative of a higher quality of life.

3.4 Marketing Costs Money

Marketing can sometimes be the largest expense associated with producing a product. In the soft drink business, marketing expenses account for about one-third of a product's price—about the same as the ingredients used to make the soft drink itself. At the bottling and retailing level, the expenses involved in marketing a drink to consumers like you and me make up the largest cost of the product.

Some people argue that society does not benefit from marketing when it represents such a huge chunk of a product's final price. In some cases, that argument is justified. Yet when marketing results in more informed consumers receiving a greater amount of value, then the cost is justified.

3.5 Marketing Offers People Career Opportunities

Marketing is the interface between producers and consumers. In other words, it is the one function in the organization in which the entire business comes together. Being responsible for both making money for your company and delivering satisfaction to your customers makes marketing a great career. In addition, because marketing can be such an expensive part of a business and is so critical to its success, companies actively seek good marketing people. At the beginning of each chapter in this book, we profile a person in the marketing profession and let that person describe for you what he or she does. As you will learn, there's a great variety of jobs available in the marketing profession. These positions represent only a few of the opportunities available in marketing.

- **Marketing research.** Personnel in marketing research are responsible for studying markets and customers in order to understand what strategies or tactics might work best for firms.
- **Merchandising.** In retailing, merchandisers are responsible for developing strategies regarding what products wholesalers should carry to sell to retailers such as Target and Walmart.
- **Sales.** Salespeople meet with customers, determine their needs, propose offerings, and make sure that the customer is satisfied. Sales departments can also include sales support teams who work on creating the offering.
- **Advertising.** Whether it's for an advertising agency or inside a company, some marketing personnel work on advertising. Television commercials and print ads are only part of the advertising mix. Many people who work in advertising spend all their time creating advertising for electronic media, such as Web sites and their pop-up ads, podcasts, and the like.
- **Product development.** People in product development are responsible for identifying and creating features that meet the needs of a firm's customers. They often work with engineers or other technical personnel to ensure that value is created.
- **Direct marketing.** Professionals in direct marketing communicate directly with customers about a company's product offerings via channels such as e-mail, chat lines, telephone, or direct mail.
- **Digital media.** Digital media professionals combine advertising, direct marketing, and other areas of marketing to communicate directly with customers via social media, the Web, and mobile media (including texts). They also work with statisticians in order to determine which consumers receive which message and with IT professionals to create the right look and feel of digital media.
- **Event marketing.** Some marketing personnel plan special events, orchestrating face-to-face conversations with potential and current customers in a special setting.
- **Nonprofit marketing.** Nonprofit marketers often don't get to do everything listed previously as nonprofits typically have smaller budgets. But their work is always very important as they try to change behaviors without having a product to sell.

A career in marketing can begin in a number of different ways. Entry-level positions for new college graduates are available in many of the positions previously mentioned. A growing number of CEOs are people with marketing backgrounds. Some legendary CEOs like Ross Perot and Mary Kay Ash got their start in marketing. More recently, CEOs like Mark Hurd, CEO of Oracle, and Jeffrey Immelt at GE are showing how marketing careers can lead to the highest pinnacles of the organization.

Criticisms of Marketing

Marketing is not without its critics. We already mentioned that one reason to study marketing is because it is costly, and business leaders need to understand the cost/benefit ratio of marketing in order to make wise investments. Yet that cost is precisely why some criticize marketing. If that money could be put into research and development of new products, perhaps the consumers would be better satisfied. Or, some critics argue, prices could be lowered. Marketing executives, though, are always on the lookout for less expensive ways to have the same performance, and do not intentionally waste money on marketing.

Another criticism is that marketing creates wants among consumers for products and services that aren't really needed. For example, fashion marketing creates demand for high-dollar jeans when much less expensive jeans can fulfill the same basic function. Taken to the extreme, consumers may take on significant credit card debt to satisfy wants created by marketing, with serious negative consequences. When marketers target their messages carefully so an audience that can afford such products is the only group reached, such extreme consequences can be avoided.

KEY TAKEAWAY

By facilitating transactions, marketing delivers value to both consumers and firms. At the broader level, this process creates jobs and improves the quality of life in a society. Marketing can be costly, so firms need to hire good people to manage their marketing activities. Being responsible for both making money for your company and delivering satisfaction to your customers makes marketing a great career.

REVIEW QUESTIONS

1. Why study marketing?
2. How does marketing provide value?
3. Why does marketing cost so much? Is marketing worth it?

We want to hear your feedback

At Flat World Knowledge, we always want to improve our books. Have a comment or suggestion? Send it along! http://bit.ly/wUJmef

4. THEMES AND ORGANIZATION OF THIS BOOK

LEARNING OBJECTIVE

1. **Understand and outline the elements of a marketing plan as a planning process.**

4.1 Marketing's Role in the Organization

We previously discussed marketing as a set of activities that anyone can do. Marketing is also a functional area in companies, just like operations and accounting are. Within a company, marketing might be the title of a department, but some marketing functions, such as sales, might be handled by another department. Marketing activities do not occur separately from the rest of the company, however.

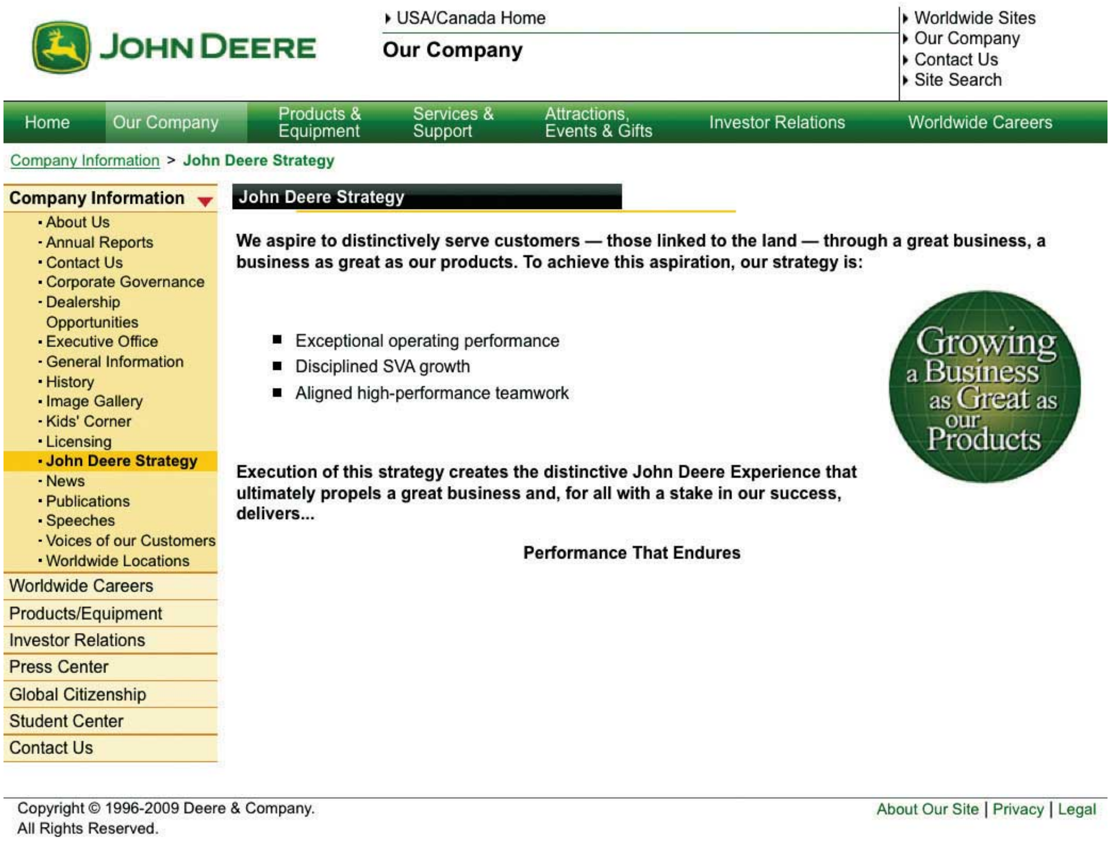
As we have explained, pricing an offering, for example, will involve a company's finance and accounting departments in addition to the marketing department. Similarly, a marketing strategy is not created solely by a firm's marketing personnel. Instead, it flows from the company's overall strategy. We'll discuss strategy much more completely in Chapter 2.

4.2 Everything Starts with Customers

Most organizations start with an idea of how to serve customers better. Apple's engineers began working on the iPod by looking at the available technology and thinking about how customers would like to have their music more available, as well as more affordable, through downloading.

Many companies think about potential markets and customers when they start. John Deere, for example, founded his company on the principle of serving customers. When admonished for making constant improvements to his products even though farmers would take whatever they could get, Deere reportedly replied, "They haven't got to take what we make and somebody else will beat us, and we will lose our trade."[3] He recognized that if his company failed to meet customers' needs, someone else would. The mission of the company then became the one shown in Figure 1.4.

FIGURE 1.4 Mission Statement of Deere and Company



Source: Deere and Company, used with permission.

Here are a few mission statements from other companies. Note that they all refer to their customers, either directly or by making references to relationships with them. Note also how these are written to inspire employees and others who interact with the company and may read the mission statement.

IBM

IBM will be driven by these values:

- *Dedication to every client's success.*
- *Innovation that matters, for our company and for the world.*
- *Trust and personal responsibility in all relationships.*[4]

Coca-Cola

Everything we do is inspired by our enduring mission:

- *To refresh the world…in body, mind, and spirit.*
- *To inspire moments of optimism…through our brands and our actions.*
- *To create value and make a difference…everywhere we engage.*[5]

McDonald's

- *To be our customers' favorite place and way to eat.*[6]

Merck

> *To provide innovative and distinctive products and services that save and improve lives and satisfy customer needs, to be recognized as a great place to work, and to provide investors with a superior rate of return.*[7]

Not all companies create mission statements that reflect a marketing orientation. Note Apple's mission statement: "Apple ignited the personal computer revolution in the 1970s with the Apple II and reinvented the personal computer in the 1980s with the Macintosh. Today, Apple continues to lead the industry in innovation with its award-winning computers, OS X operating system and iLife and professional applications. Apple is also spearheading the digital media revolution with its iPod portable music and video players and iTunes online store, and has entered the mobile phone market with its revolutionary iPhone."[8] This mission statement reflects a product orientation, or an operating philosophy based on the premise that Apple's success is due to great products and that simply supplying them will lead to demand for them. The challenge, of course, is how to create a "great" product without thinking too much about the customer's wants and needs. Apple, and for that matter, many other companies, have fallen prey to thinking that they knew what a great product was without asking their customers. In fact, Apple's first attempt at a graphic user interface (GUI) was the LISA, a dismal failure.

4.3 The Marketing Plan

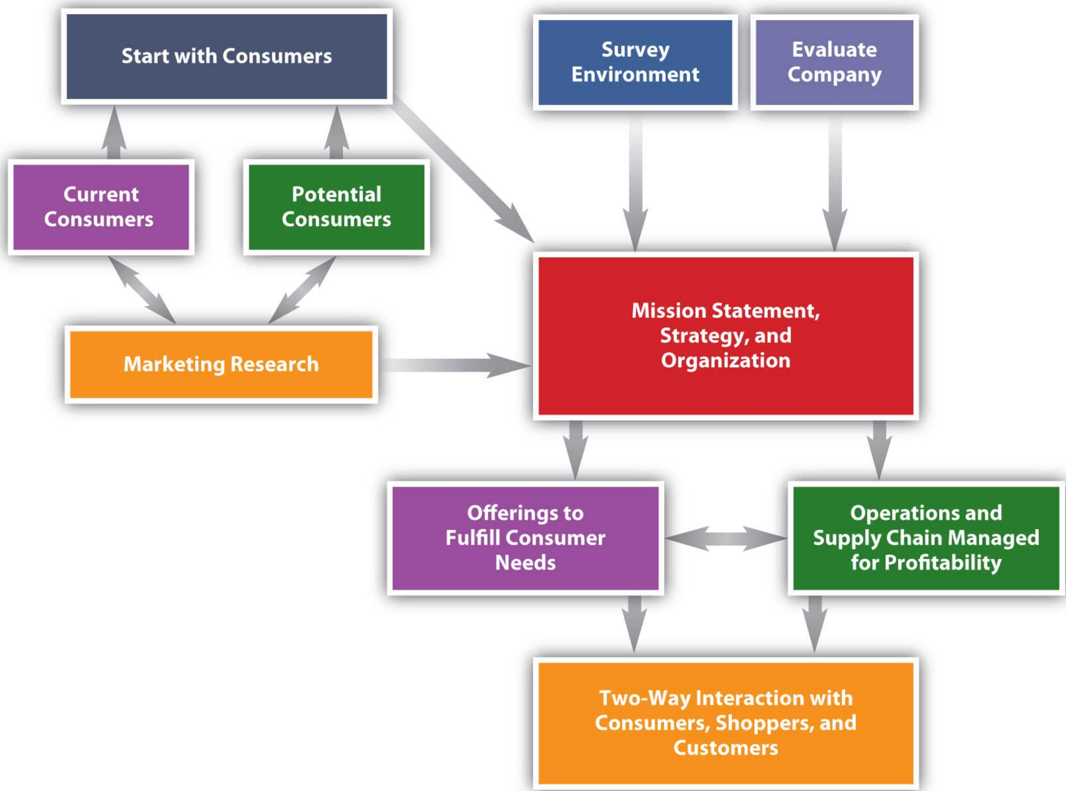
The **marketing plan** is the strategy for implementing the components of marketing: creating, communicating, delivering, and exchanging value. Once a company has decided what business it is in and expressed that in a mission statement, the firm then develops a corporate strategy. Marketing strategists subsequently use the corporate strategy and mission and combine that with an understanding of the market to develop the company's marketing plan. This is the focus of Chapter 2. Figure 1.5 shows the steps involved in creating a marketing plan.

marketing plan

A document that is designed to communicate the marketing strategy for an offering. The purpose of the plan is to influence executives, suppliers, distributors, and other important stakeholders of the firm so they will invest money, time, and effort to ensure the plan is a success.

The book then moves into understanding customers. Understanding the customer's wants and needs; how the customer wants to acquire, consume, and dispose of the offering; and what makes up their personal value equation are three important goals. Marketers want to know their customers—who they are and what they like to do—so as to uncover this information. Generally, this requires marketing researchers to collect sales and other related customer data and analyze it.

FIGURE 1.5 Steps in Creating a Marketing Plan



Once this information is gathered and digested, the planners can then work to create the right offering. Products and services are developed, bundled together at a price, and then tested in the market. Decisions have to be made as to when to alter the offerings, add new ones, or drop old ones. These decisions are the focus of the next set of chapters and are the second step in marketing planning.

Following the material on offerings, we explore the decisions associated with building the value chain. Once an offering is designed, the company has to be able to make it and then be able to get it to the market. This step, planning for the delivery of value, is the third step in the marketing plan.

The fourth step is creating the plan for communicating value. How does the firm make consumers aware of the value it has to offer? How can it help them recognize that value and decide that they should purchase products? These are important questions for marketing planners.

Once a customer has decided that her personal value equation is likely to be positive, then she will decide to purchase the product. That decision still has to be acted on, however, which is the exchange. The details of the exchange are the focus of the last few chapters of the book. As exchanges occur, marketing planners then refine their plans based on the feedback they receive from their customers, what their competitors are doing, and how market conditions are changing.

4.4 The Changing Marketing Environment

At the beginning of this chapter, we mentioned that the view of marketing has changed from a static set of four Ps to a dynamic set of processes that involve marketing professionals as well as many other employees in an organization. The way business is being conducted today is changing, too, and marketing is changing along with it. There are several themes, or important trends, that you will notice throughout this book.

- **Ethics and social responsibility.** Businesses exist only because society allows them to. When businesses begin to fail society, society will punish them or revoke their license. The crackdown on companies in the subprime mortgage-lending industry is one example. These companies created and sold loans (products) that could only be paid back under ideal circumstances, and when consumers couldn't pay these loans back, the entire economy suffered greatly. Scandals such as these illustrate how society responds to unethical business practices. However, whereas ethics require that you only do no harm, the concept of **social responsibility** requires that you must actively seek to improve the lot of others. Today, people are demanding businesses take a proactive stance in terms of social responsibility, and they are being held to ever-higher standards of conduct.
- **Sustainability.** **Sustainability** is an example of social responsibility and involves engaging in practices that do not diminish the earth's resources. Coca-Cola, for example, is working with governments in Africa to ensure clean water availability, not just for manufacturing Coke products but for all consumers in that region. Further, the company seeks to engage American consumers in participating by offering opportunities to contribute to clean water programs. Right now, companies do not *have* to engage in these practices, but because firms really represent the people behind them (their owners and employees), forward-thinking executives are seeking ways to reduce the impact their companies are having on the planet.
- **Service-dominant logic.** You might have noticed that we use the word *offering* a lot instead of the term *product*. That's because of service-dominant logic, the approach to business that recognizes that consumers want value no matter how it is delivered—whether through a tangible product or through intangible services. That emphasis on value is what drives the functional approach to value that we've taken—that is, creating, communicating, delivering, and exchanging value.
- **Metrics.** Technology has increased the amount of information available to decision makers. As such, the amount and quality of data for evaluating a firm's performance is increasing. Earlier in our discussion of the marketing plan, we explained that customers communicate via transactions. Although this sounds both simple and obvious, better information technology has given us a much more complete picture of each exchange. Cabela's, for example, combines data from Web browsing activity with purchase history in order to determine what the next best offer is likely to be. Using data from many sources, we can build more effective metrics that can then be used to create better offerings, better communication plans, and so forth.
- **A global environment.** Every business is influenced by global issues. The price of oil, for example, is a global concern that affects everyone's prices and even the availability of some offerings. We already mentioned Coke's concern for clean water. But Coke also has to be concerned with distribution systems in areas with poor or nonexistent roads, myriads of government policies and regulations, workforce availability, and so many different issues in trying to sell and deliver Coke around the world. Even companies with smaller markets source some or all their offerings from companies in other countries or else face some sort of direct competition from companies based in other countries. Every business professional, whether marketing or otherwise, has to have some understanding of the global environment in which companies operate.

social responsibility

The idea that companies should manage their businesses not just to earn profits but to advance the well-being of society.

Sustainability

An example of social responsibility that involves engaging in practices that do not diminish the earth's resources.

KEY TAKEAWAY

A company's marketing plan flows from its strategic plan. Both begin with a focus on customers. The essential components of the plan are understanding customers, creating an offering that delivers value, communicating the value to the customer, exchanging with the customer, and evaluating the firm's performance. A marketing plan is influenced by environmental trends such as social responsibility, sustainability, service-dominant logic, the increased availability of data and effective metrics, and the global nature of the business environment.

REVIEW QUESTIONS

1. Why does everything start with customers? Or is it only marketing that starts with customers?
2. What are the key parts of a marketing plan?
3. What is the relationship between social responsibility, sustainability, service-dominant logic, and the global business environment? How does the concept of metrics fit?

5. DISCUSSION QUESTIONS AND ACTIVITIES

DISCUSSION QUESTIONS

1. Compare and contrast a four Ps approach to marketing versus the value approach (creating, communicating, and delivering value). What would you expect to be the same and what would you expect to be different between two companies that apply one or the other approach?
2. Assume you are about to graduate. How would you apply marketing principles to your job search? In what ways would you be able to create, communicate, and deliver value as a potential employee, and what would that value be, exactly? How would you prove that you can deliver that value?
3. Is marketing always appropriate for political candidates? Why or why not?
4. How do the activities of marketing for value fulfill the marketing concept for the market-oriented organization?
5. This chapter introduces the personal value equation. How does that concept apply to people who buy for the government or for a business or for your university? How does that concept apply when organizations are engaged in social marketing?
6. This chapter addresses several reasons why marketing is an important area of study. Should marketing be required for all college students, no matter their major? Why or why not?
7. Of the four marketing functions, where does it look like most of the jobs are? What are the specific positions? How are the other marketing functions conducted through those job positions, even though in a smaller way?
8. Why is service-dominant logic important?
9. What is the difference between a need and a want? How do marketers create wants? Provide several examples.
10. The marketing concept emphasizes satisfying customer needs and wants. How does marketing satisfy your needs as a college student? Are certain aspects of your life influenced more heavily by marketing than others? Provide examples.
11. A company's offering represents the bundling of the tangible good, the intangible service, and the price. Describe the specific elements of the offering for an airline carrier, a realtor, a restaurant, and an online auction site.
12. The value of a product offering is determined by the customer and varies accordingly. How does a retailer like Walmart deliver value differently than Banana Republic?
13. Explain how Apple employed the marketing concept in designing, promoting, and supplying the iPhone. Identify the key benefit(s) for consumers relative to comparable competitive offerings.

ACTIVITIES

1. One of your friends is contemplating opening a coffee shop near your college campus. She seeks your advice about size of the prospective customer base and how to market the business according to the four Ps. What strategies can you share with your friend to assist in launching the business?
2. You are considering working for United Way upon graduation. Explain how the marketing goals, strategies, and markets for the nonprofit differ from a for-profit organization.
3. Think about the last time you ate at McDonald's. Evaluate your experience using the personal value equation.
4. Marketing benefits organizations, customers, and society. Explain how an organization like DuPont benefits the community in which it operates as well as society at large.

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CHAPTER 2

Strategic Planning

Have you ever wondered how an organization decides which products and services to develop, price, promote, and sell? Organizations typically develop plans and strategies that outline how they want to go about this process. Such a plan must take into account a company's current internal conditions, such as its resources, capabilities, technology, and so forth. The plan must also take into account conditions in the external environment, such as the economy, competitors, and government regulations that could affect what the firm wants to do. Organizations must also offer value to customers and graduates must provide value to their employers. As such, the value proposition becomes the basis for developing strategies. Given its importance for both organizations and students, we begin with the value proposition and then discuss the strategic planning process.

Just as your personal plans—such as what you plan to major in or where you want to find a job—are likely to change, organizations also have contingency plans. Individuals and organizations both must develop long-term (longer than a year) strategic plans, match their strengths and resources to available opportunities, and adjust their plans to changing circumstances as necessary.

1. THE VALUE PROPOSITION

LEARNING OBJECTIVES

1. **Explain what a value proposition is.**
2. **Understand why a company may develop different value propositions for different target markets.**

1.1 What Is a Value Proposition?

Individual buyers and organizational buyers both evaluate products and services to see if they provide desired benefits. For example, when you're exploring your vacation options, you want to know the benefits of each destination and the value you will get by going to each place. Before you (or a firm) can develop a strategy or create a strategic plan, you first have to develop a value proposition. A **value proposition** is a thirty-second "elevator speech" stating the specific benefits a product or service offering provides a buyer. It shows why the product or service is superior to competing offers. The value proposition answers the questions, "Why should I buy from you or why should I hire you?" As such, the value proposition becomes a critical component in shaping strategy.

The following is an example of a value proposition developed by a sales consulting firm: "Our clients grow their business, large or small, typically by a minimum of 30–50% over the previous year. They accomplish this without working 80 hour weeks and sacrificing their personal lives."[1]

Note that although a value proposition will hopefully lead to profits for a firm, when the firm presents its value proposition to its customers, it doesn't mention its own profits. That's because the goal is to focus on the external market or what customers want.

value proposition

A statement that summarizes the key benefits or value for target customers. It explains why customers should buy a product, why stakeholders should donate, or why prospective employers may want to hire someone for their organization.

FIGURE 2.1

Like any other company, Beaches, an all-inclusive chain of resorts for families, must explain what its value proposition is to customers. In other words, why does a Beaches resort provide more value to vacationing families than do other resorts?

Source: Wikimedia Commons.

Firms typically segment markets and then identify different **target markets**, or groups of customers, they want to reach when they are developing their value propositions. Target markets will be discussed in more detail in Chapter 5. For now, be aware that companies sometimes develop different value propositions for different target markets just as individuals may develop a different value proposition for different employers. The value proposition tells each group of customers (or potential employers) why they should buy a product or service, vacation to a particular destination, donate to an organization, hire you, and so forth.

Once the benefits of a product or service are clear, the firm must develop strategies that support the value proposition. The value proposition serves as a guide for this process. In the case of our sales consulting firm, the strategies it develops must help clients improve their sales by 30–50 percent. Likewise, if a company's value proposition states that the firm is the largest retailer in the region with the most stores and best product selection, opening stores or increasing the firm's inventory might be a key part of the company's strategy. Looking at Amazon's value proposition, "Low price, wide selection with added convenience anytime, anywhere," one can easily see how Amazon has been so successful.[2]

Individuals and students should also develop their own personal value propositions. Tell companies why they should hire you or why a graduate school should accept you. Show the value you bring to the situation. A value proposition will help you in different situations. Think about how your internship experience and/or study abroad experience may help a future employer. For example, you should explain to the employer the benefits and value of going abroad. Perhaps your study abroad experience helped you understand customers that buy from Company X and your customer service experience during your internship increased your ability to generate sales, which improved your employer's profit margin. Thus you may be able to quickly contribute to Company X, something that they might very much value.

target market

The group of customers toward which an organization directs its marketing efforts.

KEY TAKEAWAY

A value proposition is a thirty-second "elevator speech" stating the specific value a product or service provides to a target market. Firms may develop different value propositions for different groups of customers. The value proposition shows why the product or service is superior to competing offers and why the customer should buy it or why a firm should hire you.

REVIEW QUESTIONS

1. What is a value proposition?
2. You are interviewing for an internship. Create a value proposition for yourself that you may use as your thirty-second "elevator speech" to get the company interested in hiring you or talking to you more.

2. COMPONENTS OF THE STRATEGIC PLANNING PROCESS

LEARNING OBJECTIVES

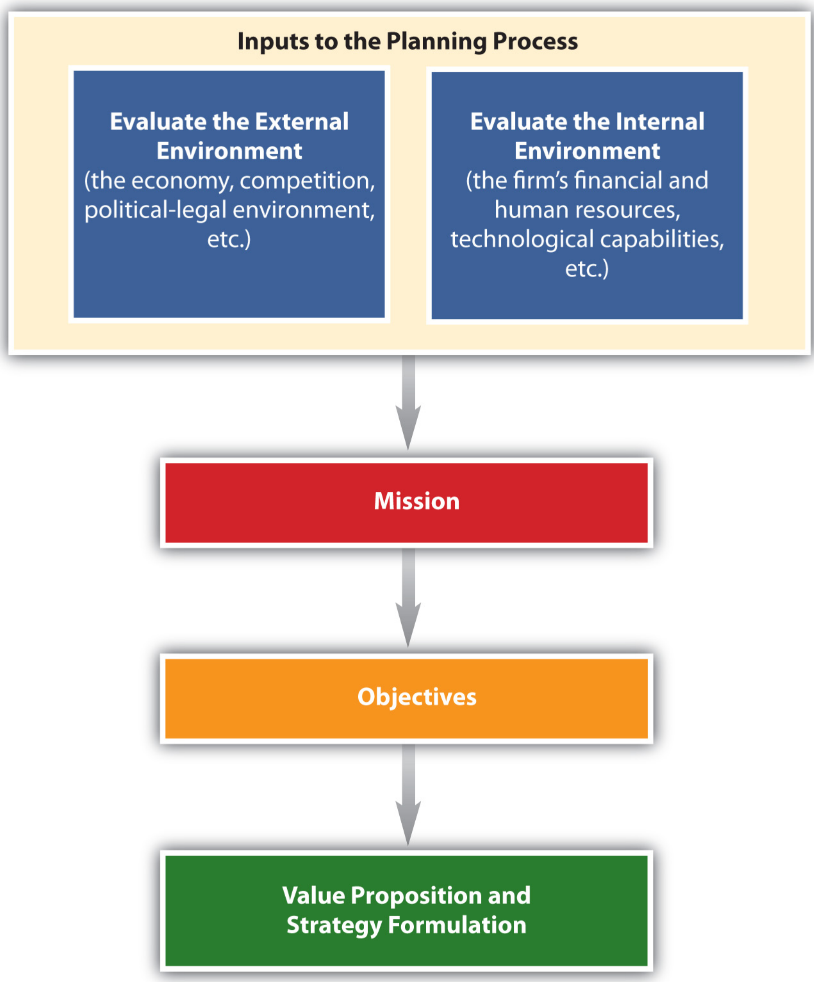
1. Explain how a mission statement helps a company with its strategic planning.
2. Describe how a firm analyzes its internal environment.
3. Describe the external environment a firm may face and how it is analyzed.

Strategic planning is a process that helps an organization allocate its resources to capitalize on opportunities in the marketplace. Typically, it is a long-term process. The **strategic planning process** includes conducting a situation analysis and developing the organization's mission statement, objectives, value proposition, and strategies. Figure 2.2 shows the components of the strategic planning process. Let's now look at each of these components.

strategic planning process

A process that helps an organization allocate its resources under different conditions to accomplish its objectives, deliver value, and be competitive in a market-driven economy.

FIGURE 2.2 The Strategic Planning Process



2.1 Conducting a Situation Analysis

As part of the strategic planning process, a **situation analysis** must be conducted before a company can decide on specific actions. A situation analysis involves analyzing both the external (macro and micro factors outside the organization) and the internal (company) environments. Figure 2.2 and Figure 2.3 show examples of internal and external factors and in a SWOT analysis. The firm's internal environment—such as its financial resources, technological resources, and the capabilities of its personnel

situation analysis

An assessment of an organization's internal and external environments.

and their performance—has to be examined. It is also critical to examine the external macro and micro environments the firm faces, such as the economy and its competitors. The external environment significantly affects the decisions a firm makes, and thus must be continuously evaluated. For example, during the economic downturn in 2008–2009, businesses found that many competitors cut the prices of their products drastically. Other companies reduced package sizes or the amount of product in packages. Firms also offered customers incentives (free shipping, free gift cards with purchase, rebates, etc.) to purchase their goods and services online, which allowed businesses to cut back on the personnel needed to staff their brick-and-mortar stores. While a business cannot control things such as the economy, changes in demographic trends, or what competitors do, it must decide what actions to take to remain competitive—actions that depend in part on their internal environment.

2.2 Conducting a SWOT Analysis

SWOT analysis

An acronym for strengths, weaknesses, opportunities, and threats, the SWOT analysis is a tool that frames the situational analysis.

Based on the situation analysis, organizations analyze their **s**trengths, **w**eaknesses, **o**pportunities, and **t**hreats, or conduct what's called a **SWOT analysis**. Strengths and weaknesses are internal factors and are somewhat controllable. For example, an organization's strengths might include its brand name, efficient distribution network, reputation for great service, and strong financial position. A firm's weaknesses might include lack of awareness of its products in the marketplace, a lack of human resources talent, and a poor location. Opportunities and threats are factors that are external to the firm and largely uncontrollable. Opportunities might entail the international demand for the type of products the firm makes, few competitors, and favorable social trends such as people living longer. Threats might include a bad economy, high interest rates that increase a firm's borrowing costs, and an aging population that makes it hard for the business to find workers.

You can conduct a SWOT analysis of yourself to help determine your competitive advantage. Perhaps your strengths include strong leadership abilities and communication skills, whereas your weaknesses include a lack of organization. Opportunities for you might exist in specific careers and industries; however, the economy and other people competing for the same position might be threats. Moreover, a factor that is a strength for one person (say, strong accounting skills) might be a weakness for another person (poor accounting skills). The same is true for businesses. See Figure 2.3 for an illustration of some of the factors examined in a SWOT analysis.

FIGURE 2.3 Elements of a SWOT Analysis

The easiest way to determine if a factor is external or internal is to take away the company, organization, or individual and see if the factor still exists. Internal factors such as strengths and weaknesses are specific to a company or individual, whereas external factors such as opportunities and threats affect multiple individuals and organizations in the marketplace. For example, if you are doing a situation analysis on PepsiCo and are looking at the weak economy, take PepsiCo out of the picture and see what factors remain. If the factor—the weak economy—is still there, it is an external factor. Even if PepsiCo hadn't been around in 2008–2009, the weak economy reduced consumer spending and affected a lot of companies.

2.3 Assessing the Internal Environment

As we have indicated, when an organization evaluates which factors are its strengths and weaknesses, it is assessing its internal environment. Once companies determine their strengths, they can use those strengths to capitalize on opportunities and develop their competitive advantage. For example, strengths for PepsiCo are what are called "mega" brands, or brands that individually generate over $1 billion in sales.[3] These brands are also designed to contribute to PepsiCo's environmental and social responsibilities.

PepsiCo's brand awareness, profitability, and strong presence in global markets are also strengths. Especially in foreign markets, the loyalty of a firm's employees can be a major strength, which can provide it with a competitive advantage. Loyal and knowledgeable employees are easier to train and tend to develop better relationships with customers. This helps organizations pursue more opportunities.

Although the brand awareness for PepsiCo's products is strong, smaller companies often struggle with weaknesses such as low brand awareness, low financial reserves, and poor locations. When organizations assess their internal environments, they must look at factors such as performance and costs as well as brand awareness and location. Managers need to examine both the past and current strategies of their firms and determine what strategies succeeded and which ones failed. This helps a company plan its future actions and improves the odds they will be successful. For example, a company might look at packaging that worked very well for a product and use the same type of packaging for new products. Firms may also look at customers' reactions to changes in products, including packaging, to see what works and doesn't work. When PepsiCo changed the packaging of major brands in 2008, customers had mixed responses. Tropicana switched from the familiar orange with the straw in it to a new package and customers did not like it. As a result, Tropicana changed back to their familiar orange with a straw after spending $35 million for the new package design.

Video Clip

Tropicana's Recent Ad

Tropicana's recent ad left out the familiar orange with a straw.

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

Tropicana's familiar orange with a straw appears on its newer containers.

Source: Wikimedia

Individuals are also wise to look at the strategies they have tried in the past to see which ones failed and which ones succeeded. Have you ever done poorly on an exam? Was it the instructor's fault, the strategy you used to study, or did you decide not to study? See which strategies work best for you and perhaps try the same type of strategies for future exams. If a strategy did not work, see what went wrong and change it. Doing so is similar to what organizations do when they analyze their internal environments.

2.4 Assessing the External Environment

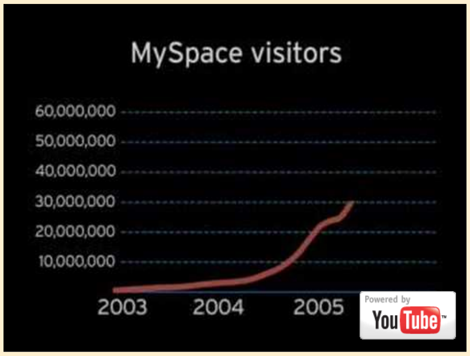
Analyzing the external environment involves tracking conditions in the macro and micro marketplace that, although largely uncontrollable, affect the way an organization does business. The macro environment includes economic factors, demographic trends, cultural and social trends, political and legal regulations, technological changes, and the price and availability of natural resources. Each factor in the macro environment is discussed separately in the next section. The micro environment includes competition, suppliers, marketing intermediaries (retailers, wholesalers), the public, the company, and customers. We focus on competition in our discussion of the external environment in the chapter. Customers, including the public will be the focus of Chapter 3 and marketing intermediaries and suppliers will be discussed in Chapter 8 and Chapter 9.

When firms globalize, analyzing the environment becomes more complex because they must examine the external environment in each country in which they do business. Regulations, competitors, technological development, and the economy may be different in each country and will affect how firms do business. To see how factors in the external environment such as technology may change education and lives of people around the world, watch the videos "Did You Know 2.0?" and "Did You Know 3.0?" which provide information on social media sites compared to populations in the world. Originally created in 2006 and revised in 2007, the video has been updated and translated into other languages. Another edition of "Did You Know?" (4.0) focused on changing media and technology and showed how information may change the world as well as the way people communicate and conduct business.

Video Clip

Did You Know 2.0?

To see how the external environment and world are changing and in turn affecting marketing strategies, check out "Did You Know 2.0?"



View the video online at: http://www.youtube.com/v/pMcfrLYDm2U

Video Clip

Did You Know 4.0?

To see how fast things change and the impact of technology and social media, visit "Did You Know 4.0?"

View the video online at: http://www.youtube.com/v/6ILQrUrEWe8

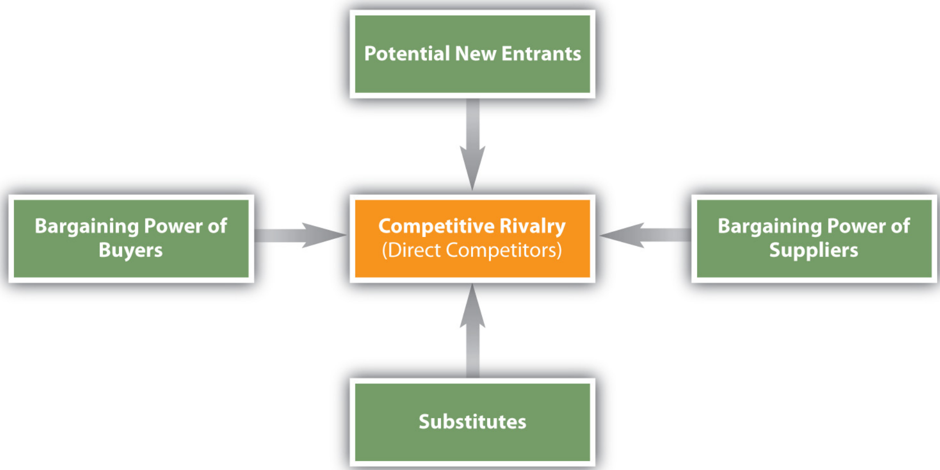
Although the external environment affects all organizations, companies must focus on factors that are relevant for their operations. For example, government regulations on food packaging will affect PepsiCo but not Goodyear. Similarly, students getting a business degree don't need to focus on job opportunities for registered nurses.

The Competitive Environment

All organizations must consider their competition, whether it is direct or indirect competition vying for the consumer's dollar. Both nonprofit and for-profit organizations compete for customers' resources. Coke and Pepsi are direct competitors in the soft drink industry, Hilton and Sheraton are competitors in the hospitality industry, and organizations such as United Way and the American Cancer Society compete for resources in the nonprofit sector. However, hotels must also consider other options that people have when selecting a place to stay, such as hostels, dorms, bed and breakfasts, or rental homes.

A group of competitors that provide similar products or services form an industry. Michael Porter, a professor at Harvard University and a leading authority on competitive strategy, developed an approach for analyzing industries. Called the five forces model[4] and shown in Figure 2.5, the framework helps organizations understand their current competitors as well as organizations that could become competitors in the future. As such, firms can find the best way to defend their position in the industry.

FIGURE 2.5 Five Forces Model[5]



Competitive Analysis

mystery shopper

A person who is paid to shop at a firm's establishment or one of its competitors' to observe the level of service, cleanliness of the facility, and so forth, and report his or her findings to the firm.

When a firm conducts a competitive analysis, they tend to focus on direct competitors and try to determine a firm's strengths and weaknesses, its image, and its resources. Doing so helps the firm figure out how much money a competitor may be able to spend on things such as research, new product development, promotion, and new locations. Competitive analysis involves looking at any information (annual reports, financial statements, news stories, observation details obtained on visits, etc.) available on competitors. Another means of collecting competitive information utilizes **mystery shoppers**, or people who act like customers. Mystery shoppers might visit competitors to learn about their customer service and their products. Imagine going to a competitor's restaurant and studying the menu and the prices and watching customers to see what items are popular and then changing your menu to better compete. Competitors battle for the customer's dollar and they must know what other firms are doing. Individuals and teams also compete for jobs, titles, and prizes and must figure out the competitors' weaknesses and plans in order to take advantage of their strengths and have a better chance of winning.

According to Porter, in addition to their direct competitors (competitive rivals), organizations must consider the strength and impact the following could have:[6]

- Substitute products
- Potential entrants (new competitors) in the marketplace
- The bargaining power of suppliers
- The bargaining power of buyers

When any of these factors change, companies may have to respond by changing their strategies. For example, because buyers are consuming fewer soft drinks these days, companies such as Coke and Pepsi have had to develop new, substitute offerings such as vitamin water and sports drinks. However, other companies such as Dannon or Nestlé may also be potential entrants in the flavored water market. When you select a hamburger fast-food chain, you also had the option of substitutes such as getting food at the grocery or going to a pizza place. When computers entered the market, they were a substitute for typewriters. Most students may not have ever used a typewriter, but some consumers still use typewriters for forms and letters.

Suppliers, the companies that supply ingredients as well as packaging materials to other companies, must also be considered. If a company cannot get the supplies it needs, it's in trouble. Also, sometimes suppliers see how lucrative their customers' markets are and decide to enter them. Buyers, who are the focus of marketing and strategic plans, must also be considered because they have bargaining power and must be satisfied. If a buyer is large enough, and doesn't purchase a product or service, it can affect a selling company's performance. Walmart, for instance, is a buyer with a great deal of bargaining power. Firms that do business with Walmart must be prepared to make concessions to them if they want their products on the company's store shelves.

Lastly, the world is becoming "smaller" and a more of a global marketplace. Companies everywhere are finding that no matter what they make, numerous firms around the world are producing the same "widget" or a similar offering (substitute) and are eager to compete with them. Employees are in the same position. The Internet has made it easier than ever for customers to find products and services and for workers to find the best jobs available, even if they are abroad. Companies are also acquiring foreign firms. These factors all have an effect on the strategic decisions companies make.

FIGURE 2.6

When personal computers were first invented, they were a serious threat to typewriter makers such as Smith Corona.

Source: Flickr.

The Political and Legal Environment

All organizations must comply with government regulations and understand the political and legal environments in which they do business. Different government agencies enforce the numerous regulations that have been established to protect both consumers and businesses. For example, the Sherman Act (1890) prohibits U.S. firms from restraining trade by creating monopolies and cartels. The regulations related to the act are enforced by the Federal Trade Commission (FTC), which also regulates deceptive advertising. The U.S. Food and Drug Administration (FDA) regulates the labeling of consumable products, such as food and medicine. One organization that has been extremely busy is the Consumer Product Safety Commission, the group that sets safety standards for consumer products. Unsafe baby formula and toys with lead paint caused a big scare among consumers in 2008 and 2009.

As we have explained, when organizations conduct business in multiple markets, they must understand that regulations vary across countries and across states. Many states and countries have different laws that affect strategy. For example, suppose you are opening up a new factory because you cannot keep up with the demand for your products. If you are considering opening the factory in France (perhaps because the demand in Europe for your product is strong), you need to know that it is illegal for employees in that country to work more than thirty-five hours per week.

FIGURE 2.7

The U.S. Food and Drug Administration prohibits companies from using unacceptable levels of lead in toys and other household objects, such as utensils and furniture. Mattel voluntarily recalled Sarge cars made in mid-2000.

Source: U.S. Consumer Product Safety Commission.

The Economic Environment

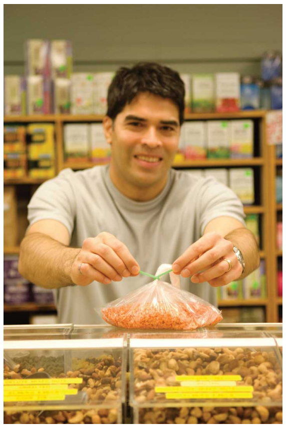
The economy has a major impact on spending by both consumers and businesses, which, in turn, affects the goals and strategies of organizations. Economic factors include variables such as inflation, unemployment, interest rates, and whether the economy is in a growth period or a recession. Inflation occurs when the cost of living continues to rise, eroding the purchasing power of money. When this happens, you and other consumers and businesses need more money to purchase goods and services. Interest rates often rise when inflation rises. Recessions can also occur when inflation rises because higher prices sometimes cause low or negative growth in the economy.

During a recessionary period, it is possible for both high-end and low-end products to sell well. Consumers who can afford luxury goods may continue to buy them, while consumers with lower incomes tend to become more value conscious. Other goods and services, such as products sold in traditional department stores, may suffer. In the face of a severe economic downturn, even the sales of luxury goods can suffer. The economic downturn that began in 2008 affected consumers and businesses at all levels worldwide. Consumers reduced their spending, holiday sales dropped, financial institutions went bankrupt, the mortgage industry collapsed, and the "Big Three" U.S. auto manufacturers (Ford, Chrysler, and General Motors) asked for emergency loans.

The Demographic and Social and Cultural Environments

FIGURE 2.8

A small condiment business in California caters to Hispanic customers.



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The demographic and social and cultural environments—including social trends, such as people's attitudes toward fitness and nutrition; demographic characteristics, such as people's age, income, marital status, education, and occupation; and culture, which relates to people's beliefs and values—are constantly changing in the global marketplace. Fitness, nutrition, and health trends affect the product offerings of many firms. For example, PepsiCo produces vitamin water and sports drinks. More women are working, which has led to a rise in the demand for services such as house cleaning and daycare. U.S. baby boomers are reaching retirement age, sending their children to college, and trying to care of their elderly parents all at the same time. Firms are responding to the time constraints their buyers face by creating products that are more convenient, such as frozen meals and nutritious snacks.

The composition of the population is also constantly changing. Hispanics are the fastest-growing minority in the United States. Consumers in this group and other diverse groups prefer different types of products and brands. In many cities, stores cater specifically to Hispanic customers.

Technology

The technology available in the world is changing the way people communicate and the way firms do business. Everyone is affected by technological changes. Self-scanners and video displays at stores, ATMs, the Internet, and mobile phones are a few examples of how technology is affecting businesses and consumers. Many consumers get information, read the news, use text messaging, and shop online. As a result, marketers have begun allocating more of their promotion budgets to online ads and mobile marketing and not just to traditional print media such as newspapers and magazines. Applications for telephones and electronic devices are changing the way people obtain information and shop, allowing customers to comparison shop without having to visit multiple stores. As you saw in "Did You Know 4.0?" technology and social media are changing people's lives. Many young people may rely more on electronic books, magazines, and newspapers and depend on mobile devices for most of their information needs. Organizations must adapt to new technologies in order to succeed.

FIGURE 2.9

Technology changes the way we do business. Banking on a cell phone adds convenience for customers. Bar codes on merchandise speed the checkout process.

© 2010 Jupiterimages Corporation

Natural Resources

Natural resources are scarce commodities, and consumers are becoming increasingly aware of this fact. Today, many firms are doing more to engage in "sustainable" practices that help protect the environment and conserve natural resources. **Green marketing** involves marketing environmentally safe products and services in a way that is good for the environment. Water shortages often occur in the summer months, so many restaurants now only serve patrons water upon request. Hotels voluntarily conserve water by not washing guests' sheets and towels every day unless they request it. Reusing packages (refillable containers) and reducing the amount of packaging, paper, energy, and water in the production of goods and services are becoming key considerations for many organizations, whether they sell their products to other businesses or to final users (consumers). Construction companies are using more energy efficient materials and often have to comply with green building solutions. Green marketing not only helps the environment but also saves the company, and ultimately the consumer, money. Sustainability, ethics (doing the right things), and social responsibility (helping society, communities, and other people) influence an organization's planning process and the strategies they implement.

green marketing

Marketing environmentally safe products and services in a way that is good for the environment.

Although environmental conditions change and must be monitored continuously, the situation analysis is a critical input to an organization's or an individual's strategic plan. Let's look at the other components of the strategic planning process.

2.5 The Mission Statement

The firm's **mission statement** states the purpose of the organization and why it exists. Both profit and nonprofit organizations have mission statements, which they often publicize. The following are examples of mission statements:

mission statement

Defines the purpose of the organization and answers the question of how a company defines its business.

PepsiCo's Mission Statement

"Our mission is to be the world's premier consumer products company focused on convenient foods and beverages. We seek to produce financial rewards to investors as we provide opportunities for growth and enrichment to our employees, our business partners and the communities in which we operate. And in everything we do, we strive for honesty, fairness and integrity."[7]

The United Way's Mission Statement

"To improve lives by mobilizing the caring power of communities."[8]

Sometimes SBUs develop separate mission statements. For example, PepsiCo Americas Beverages, PepsiCo Americas Foods, and PepsiCo International might each develop a different mission statement.

KEY TAKEAWAY

A firm must analyze factors in the external and internal environments it faces throughout the strategic planning process. These factors are inputs to the planning process. As they change, the company must be prepared to adjust its plans. Different factors are relevant for different companies. Once a company has analyzed its internal and external environments, managers can begin to decide which strategies are best, given the firm's mission statement.

REVIEW QUESTIONS

1. What factors in the external environment are affecting the "Big Three" U.S. automobile manufacturers?
2. What are some examples of Walmart's strengths?
3. Suppose you work for a major hotel chain. Using Porter's five forces model, explain what you need to consider with regard to each force.

3. DEVELOPING ORGANIZATIONAL OBJECTIVES AND FORMULATING STRATEGIES

LEARNING OBJECTIVES

1. Explain how companies develop the objectives driving their strategies.
2. Describe the different types of product strategies and market entry strategies that companies pursue.

3.1 Developing Objectives

objectives

What organizations want to accomplish (the end results) in a given time frame.

Objectives are what organizations want to accomplish—the end results they want to achieve—in a given time frame. In addition to being accomplished within a certain time frame, objectives should be realistic (achievable) and be measurable, if possible. "To increase sales by 2 percent by the end of the year" is an example of an objective an organization might develop. You have probably set objectives for yourself that you want to achieve in a given time frame. For example, your objectives might be to maintain a certain grade point average and get work experience or an internship before you graduate.

Objectives help guide and motivate a company's employees and give its managers reference points for evaluating the firm's marketing actions. Although many organizations publish their mission statements, most for-profit companies do not publish their objectives. Accomplishments at each level of the organization have helped PepsiCo meet its corporate objectives over the course of the past few years. PepsiCo's business units (divisions) have increased the number of their facilities to grow their brands and enter new markets. PepsiCo's beverage and snack units have gained market share by developing healthier products and products that are more convenient to use.

A firm's marketing objectives should be consistent with the company's objectives at other levels, such as the corporate level and business level. An example of a marketing objective for PepsiCo might be "to increase by 4 percent the market share of Gatorade by the end of the year." The way firms analyze their different divisions or businesses will be discussed later in the chapter.

3.2 Formulating Strategies

strategies

Actions (means) taken to accomplish objectives.

tactics

Actions taken to execute strategies.

Strategies are the means to the ends, the game plan, or what a firm is going to do to achieve its objectives. Successful strategies help organizations establish and maintain a competitive advantage that competitors cannot imitate easily. **Tactics** include specific actions, such as coupons, television commercials, banner ads, and so on, taken to execute the strategy. PepsiCo attempts to sustain its competitive advantage by constantly developing new products and innovations, including "mega brands," which include nineteen individual brands that generate over $1 billion in sales each. The tactics may consist of specific actions (commercials during the Super Bowl; coupons; buy one, get one free, etc.) to advertise each brand.

Firms often use multiple strategies to accomplish their objectives and capitalize on marketing opportunities. For example, in addition to pursuing a low cost strategy (selling products inexpensively), Walmart has simultaneously pursued a strategy of opening new stores rapidly around the world. Many companies develop marketing strategies as part of their general, overall business plans. Other companies prepare separate marketing plans. We'll look at marketing plans here and discuss them more completely in Chapter 16.

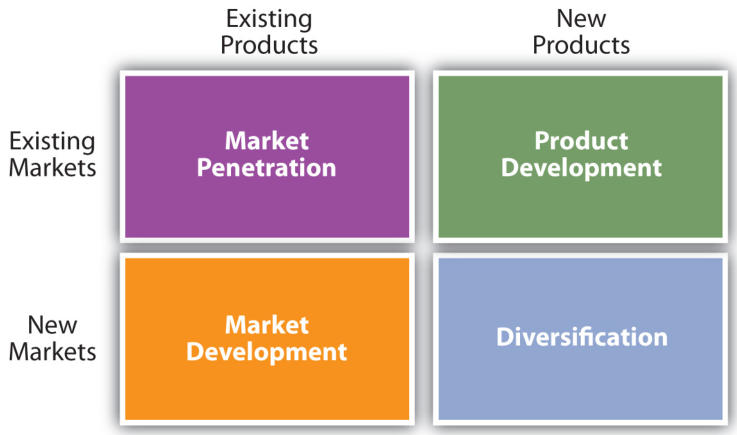
marketing plan

A document that is designed to communicate the marketing strategy for an offering. The purpose of the plan is to influence executives, suppliers, distributors, and other important stakeholders of the firm so they will invest money, time, and effort to ensure the plan is a success.

A **marketing plan** is a strategic plan at the functional level that provides a firm's marketing group with direction. It is a road map that improves the firm's understanding of its competitive situation. The marketing plan also helps the firm allocate resources and divvy up the tasks that employees need to do for the company to meet its objectives. The different components of marketing plans will be discussed throughout the book and then discussed together at the end of the book. Next, let's take a look at the different types of basic market strategies firms pursue before they develop their marketing plans.

FIGURE 2.10 Product and Market Entry Strategies

The different types of product and market entry strategies a firm can pursue in order to meet their objectives.



Market penetration strategies focus on increasing a firm's sales of its existing products to its existing customers. Companies often offer consumers special promotions or low prices to increase their usage and encourage them to buy products. When Frito-Lay distributes money-saving coupons to customers or offers them discounts to buy multiple packages of snacks, the company is utilizing a penetration strategy. The Campbell Soup Company gets consumers to buy more soup by providing easy recipes using their soup as an ingredient for cooking quick meals.

market penetration strategy

Selling more of existing products and services to existing customers.

Product development strategies involve creating new products for existing customers. A new product can be a totally new innovation, an improved product, or a product with enhanced value, such as one with a new feature. Cell phones that allow consumers to charge purchases with the phone or take pictures are examples of a product with enhanced value. A new product can also be one that comes in different variations, such as new flavors, colors, and sizes. Mountain Dew Voltage, introduced by PepsiCo Americas Beverages in 2009, is an example. Keep in mind, however, that what works for one company might not work for another. For example, just after Starbucks announced it was cutting back on the number of its lunch offerings, Dunkin' Donuts announced it was adding items to its lunch menu.

product development strategy

Creating new products or services for existing markets.

Market development strategies focus on entering new markets with existing products. For example, during the recent economic downturn, manufacturers of high-end coffee makers began targeting customers who go to coffee shops. The manufacturers are hoping to develop the market for their products by making sure consumers know they can brew a great cup of coffee at home for a fraction of what they spend at Starbucks.

market development strategy

Selling existing products or services to new customers. Foreign markets often present opportunities for organizations to expand. Exporting, licensing, franchising, joint ventures, and direct investment are methods that companies use to enter international markets.

New markets can include any new groups of customers such as different age groups, new geographic areas, or international markets. Many companies, including PepsiCo and Hyundai, have entered—and been successful in—rapidly emerging markets such as Russia, China, and India. Decisions to enter foreign markets are based on a company's resources as well as the complexity of factors such as the political environmental, economic conditions, competition, customer knowledge, and probability of success in the desired market. As Figure 2.10 shows, there are different ways, or strategies, by which firms can enter international markets. The strategies vary in the amount of risk, control, and investment that firms face. Firms can simply **export**, or sell their products to buyers abroad, which is the least risky and least expensive method but also offers the least amount of control. Many small firms export their products to foreign markets.

export

Sell products to buyers in foreign markets.

Firms can also **license**, or sell the right to use some aspect of their production processes, trademarks, or patents to individuals or firms in foreign markets. Licensing is a popular strategy, but firms must figure out how to protect their interests if the licensee decides to open its own business and void the license agreement. The French luggage and handbag maker Louis Vuitton faced this problem when it entered China. Competitors started illegally putting the Louis Vuitton logo on different products, which cut into Louis Vuitton's profits.

license

Sell the right to use some aspect of the production process, trademark, or patent to individuals in foreign markets.

FIGURE 2.11

The front of a KFC franchise in Asia may be much larger than KFC stores in the United States. Selling franchises is a popular way for firms to enter foreign markets.

Source: Wikimedia Commons.

franchising

Granting an independent operator the right to use your company's business model, techniques, and trademarks for a fee.

contract manufacturing

When companies hire manufacturers to produce their products in another country.

joint venture

An entity that is created when two parties agree to share their profits, losses, and control with one another in an economic activity they jointly undertake.

Franchising is a longer-term (and thus riskier) form of licensing that is extremely popular with service firms, such as restaurants like McDonald's and Subway, hotels like Holiday Inn Express, and cleaning companies like Stanley Steamer. Franchisees pay a fee for the franchise and must adhere to certain standards; however, they benefit from the advertising and brand recognition the franchising company provides.

Contract manufacturing allows companies to hire manufacturers to produce their products in another country. The manufacturers are provided specifications for the products, which are then manufactured and sold on behalf of the company that contracted the manufacturing. Contract manufacturing may provide tax incentives and may be more profitable than manufacturing the products in the home country. Examples of products in which contract manufacturing is often used include cell phones, computers, and printers.

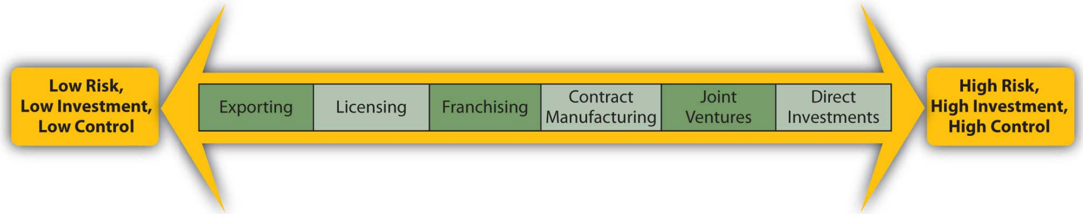
Joint ventures combine the expertise and investments of two companies and help companies enter foreign markets. The firms in each country share the risks as well as the investments. Some countries such as China often require companies to form a joint venture with a domestic firm in order to enter the market. After entering the market in a partnership with a domestic firm and becoming established in the market, some firms may decide to separate from their partner and become their own business. Fuji Xerox Co., Ltd. is an example of a joint venture between the Japanese Fuji Photo Film Co. and the American document management company Xerox. Another example of a joint venture is Sony Ericsson. The venture combined the Japanese company Sony's electronic expertise with the Swedish company Ericsson's telecommunication expertise. With investment by both companies, joint ventures are riskier than exporting, licensing, franchising, and contract manufacturing but also provide more control to each partner.

direct investment

Owning a company or facility overseas.

Direct investment (owning a company or facility overseas) is another way to enter a foreign market, providing the most control but also having the most risk. For example, In Bev, the Dutch maker of Beck's beer, was able to capture market share in the United States by purchasing St. Louis-based Anheuser-Busch. A direct investment strategy involves the most risk and investment but offers the most control. Other companies such as advertising agencies may want to invest and develop their own businesses directly in international markets rather than trying to do so via other companies.

FIGURE 2.12 Market Entry Methods



Diversification strategies involve entering new markets with new products or doing something outside a firm's current businesses. Firms that have little experience with different markets or different products often diversify their product lines by acquiring other companies. Diversification can be profitable, but it can also be risky if a company does not have the expertise or resources it needs to successfully implement the strategy. Warner Music Group's purchase of the concert promoter Bulldog Entertainment is an example of a diversification attempt that failed.

diversification strategy

Offering products that are unrelated to other existing products produced by the organization.

KEY TAKEAWAY

The strategic planning process includes a company's mission (purpose), objectives (end results desired), and strategies (means). Sometimes the different SBUs of a firm have different mission statements. A firm's objectives should be realistic (achievable) and measurable. The different product market strategies firms pursue include market penetration, product development, market development, and diversification.

REVIEW QUESTIONS

1. How do product development strategies differ from market development strategies?
2. Explain why some strategies work for some companies but not others.
3. What factors do firms entering foreign markets need to consider?
4. How do franchising and licensing strategies differ?

4. WHERE STRATEGIC PLANNING OCCURS WITHIN FIRMS

LEARNING OBJECTIVES

1. Identify the different levels at which strategic planning may occur within firms.
2. Understand how strategic planning that occurs at multiple levels in an organization helps a company achieve its overall corporate objectives.

corporate-level plans

Plans developed for the corporation as a whole take place at the corporate level.

strategic business unit (SBU)

Businesses or product lines within an organization that have their own competitors, customers, and profit centers.

business-level plans

Plans developed for each strategic business unit typically have their own mission statement.

As previously mentioned, strategic planning is a long-term process that helps an organization allocate its resources to take advantage of different opportunities. In addition to marketing plans, strategic planning may occur at different levels within an organization. For example, in large organizations top executives will develop strategic plans for the corporation as a whole. These are **corporate-level plans**. In addition, many large firms have different divisions, or businesses, called strategic business units. A **strategic business unit (SBU)** is a business or product line within an organization that has its own competitors, customers, and profit center for accounting purposes. A firm's SBUs may also have their own mission statement (purpose) and will generally develop strategic plans for themselves. These are called **business-level plans**. The different departments, or functions (accounting, finance, marketing, and so forth) within a company or SBU, might also develop strategic plans. For example, a company may develop a marketing plan or a financial plan, which are functional-level plans.

Figure 2.13 shows an example of different strategic planning levels that can exist within an organization's structure. The number of levels can vary, depending on the size and structure of an organization. Not every organization will have every level or have every type of plan. An overview of the marketing (or functional) plan is presented briefly at the end of this chapter but will be discussed in detail in Chapter 16 so you can see how the information discussed throughout the text may be used in developing a marketing plan.

FIGURE 2.13 Strategic Planning Levels in an Organization

The strategies and actions implemented at the functional (department) level must be consistent with and help an organization achieve its objectives at both the business and corporate levels and vice versa. The SBUs at the business level must also be consistent with and help an organization achieve its corporate-level objectives. For example, if a company wants to increase its profits at the corporate level and owns multiple business units, each unit might develop strategic plans to increase its own profits and thereby the firm's profits as a whole. At the functional level, a firm's marketing department might develop strategic plans to increase sales and the market share of the firm's most profitable products, which will increase profits at the business level and help the corporation's profitability. Both business level and functional plans should help the firm increase its profits, so that the company's corporate-level strategic objectives can be met.

For example, take PepsiCo, which has committed itself to achieving business and financial success while leaving a positive imprint on society. PepsiCo identifies its three divisions (business units) as (1) PepsiCo Americas Beverages, which is responsible for products such as Pepsi soft drinks, Aquafina waters, Tropicana juices, and Gatorade products; (2) PepsiCo Americas Foods, which is responsible for Frito-Lay and Quaker Oats products; and (3) PepsiCo International, which consists of PepsiCo's businesses in Asia, Africa, Europe, and Australia.[10] To support PepsiCo's overall corporate strategy, all three business units must develop strategic plans to profitably produce offerings while demonstrating that they are committed to society and the environment.

At the functional (marketing) level, to increase PepsiCo's profits, employees responsible for different products or product categories such as beverages or foods might focus on developing healthier products and making their packaging more environmentally friendly so the company captures more market share. For example, the new Aquafina bottle uses less plastic and has a smaller label, which helps the environment by reducing the amount of waste.

Organizations can utilize multiple methods and strategies at different levels in the corporation to accomplish their various goals just as you may use different strategies to accomplish your goals. However, the basic components of the strategic planning process are the same at each of the different levels. Next, we'll take a closer look at the components of the strategic planning process.

FIGURE 2.14

Many consumers recognize the Goodyear blimp. Goodyear's strategic business units are North American Tire; Latin American Tire; Asia Pacific Tire; and Europe, Middle East, and Africa Tire. Goodyear's SBUs are set up to satisfy customers' needs in different worldwide markets.[9]

Source: Wikimedia Commons.

FIGURE 2.15

The Aquafina bottle uses less plastic and has a smaller label, reducing waste and helping the environment.

Source: Wikipedia.

KEY TAKEAWAY

Strategic planning can occur at different levels (corporate, business, and functional) in an organization. The number of levels may vary. However, if a company has multiple planning levels, the plans must be consistent, and all must help achieve the overall goals of the corporation.

REVIEW QUESTIONS

1. What different levels of planning can organizations utilize?
2. Give an example and explain how a corporation that wants to help protect the environment can do so at its corporate, business, and functional levels.

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5. STRATEGIC PORTFOLIO PLANNING APPROACHES

LEARNING OBJECTIVES

1. **Explain how SBUs are evaluated using the Boston Consulting Group matrix.**
2. **Explain how businesses and the attractiveness of industries are evaluated using the General Electric approach.**

portfolio

A group of business units owned by a single firm.

portfolio planning approach

An approach to analyzing various businesses relative to one another.

When a firm has multiple strategic business units like PepsiCo does, it must decide what the objectives and strategies for each business are and how to allocate resources among them. A group of businesses can be considered a **portfolio**, just as a collection of artwork or investments compose a portfolio. In order to evaluate each business, companies sometimes utilize what's called a portfolio planning approach. A **portfolio planning approach** involves analyzing a firm's entire collection of businesses relative to one another. Two of the most widely used portfolio planning approaches include the Boston Consulting Group (BCG) matrix and the General Electric (GE) approach.

5.1 The Boston Consulting Group Matrix

FIGURE 2.16 The Boston Consulting Group (BCG) Matrix

The **Boston Consulting Group (BCG) matrix** helps companies evaluate each of its strategic business units based on two factors: (1) the SBU's market growth rate (i.e., how fast the unit is growing compared to the industry in which it competes) and (2) the SBU's relative market share (i.e., how the unit's share of the market compares to the market share of its competitors). Because the BCG matrix assumes that profitability and market share are highly related, it is a useful approach for making business and investment decisions. However, the BCG matrix is subjective and managers should also use their judgment and other planning approaches before making decisions. Using the BCG matrix, managers can categorize their SBUs (products) into one of four categories, as shown in Figure 2.16.

Boston Consulting Group (BCG) matrix

A portfolio planning approach that examines strategic business units based on their relative market shares and growth rates. Businesses are classified as stars, cash cows, question marks (problem children), or dogs.

Stars

Everyone wants to be a star. A **star** is a product with high growth and a high market share. To maintain the growth of their star products, a company may have to invest money to improve them and how they are distributed as well as promote them. The iPod, when it was first released, was an example of a star product.

star

Business or offering with high growth and a high market share.

Cash Cows

A **cash cow** is a product with low growth and a high market share. Cash cows have a large share of a shrinking market. Although they generate a lot of cash, they do not have a long-term future. For example, DVD players are a cash cow for Sony. Eventually, DVDs are likely to be replaced by digital downloads, just like MP3s replaced CDs. Companies with cash cows need to manage them so that they continue to generate revenue to fund star products.

cash cow

Business or offering with a large share of a shrinking market.

Question Marks or Problem Children

Did you ever hear an adult say they didn't know what to do with a child? The same question or problem arises when a product has a low share of a high-growth market. Managers classify these products as **question marks or problem children**. They must decide whether to invest in them and hope they become stars or gradually eliminate or sell them. For example, as the price of gasoline soared in 2008, many consumers purchased motorcycles and mopeds, which get better gas mileage. However, some manufacturers have a very low share of this market. These manufacturers now have to decide what they should do with these products.

question marks or problem children

Businesses or offerings with a low share of a high-growth market.

Dogs

In business, it is not good to be considered a dog. A **dog** is a product with low growth and low market share. Dogs do not make much money and do not have a promising future. Companies often get rid of dogs. However, some companies are hesitant to classify any of their products as dogs. As a result, they keep producing products and services they shouldn't or invest in dogs in hopes they'll succeed.

dog

Business or offering with low growth and a low market share.

The BCG matrix helps managers make resource allocation decisions once different products are classified. Depending on the product, a firm might decide on a number of different strategies for it. One strategy is to build market share for a business or product, especially a product that might become a star. Many companies invest in question marks because market share is available for them to capture. The success sequence is often used as a means to help question marks become stars. With the success sequence, money is taken from cash cows (if available) and invested into question marks in hopes of them becoming stars.

Holding market share means the company wants to keep the product's share at the same level. When a firm pursues this strategy, it only invests what it has to in order to maintain the product's market share. When a company decides to **harvest** a product, the firm lowers its investment in it. The goal is to try to generate short-term profits from the product regardless of the long-term impact on its survival. If a company decides to **divest** a product, the firm drops or sells it. That's what Procter & Gamble did in 2008 when it sold its Folgers coffee brand to Smuckers. Proctor & Gamble also sold Jif peanut butter brand to Smuckers. Many dogs are divested, but companies may also divest products because they want to focus on other brands they have in their portfolio.

harvest

When a firm lowers investment in a product or business.

divest

When a firm drops or sells a product or business.

As competitors enter the market, technology advances, and consumer preferences change, the position of a company's products in the BCG matrix is also likely to change. The company has to continually evaluate the situation and adjust its investments and product promotion strategies accordingly. The firm must also keep in mind that the BCG matrix is just one planning approach and that other variables can affect the success of products.

5.2 The General Electric Approach

General Electric (GE) approach

A portfolio planning approach that examines a business's strengths and the attractiveness of industries.

Another portfolio planning approach that helps a business determine whether to invest in opportunities is the **General Electric (GE) approach**. The GE approach examines a business's strengths and the attractiveness of the industry in which it competes. As we have indicated, a business's strengths are factors internal to the company, including strong human resources capabilities (talented personnel), strong technical capabilities, and the fact that the firm holds a large share of the market. The attractiveness of an industry can include aspects such as whether or not there is a great deal of growth in the industry, whether the profits earned by the firms competing within it are high or low, and whether or not it is difficult to enter the market. For example, the automobile industry is not attractive in times of economic downturn such as the recession in 2009, so many automobile manufacturers don't want to invest more in production. They want to cut or stop spending as much as possible to improve their profitability. Hotels and airlines face similar situations.

Companies evaluate their strengths and the attractiveness of industries as high, medium, and low. The firms then determine their investment strategies based on how well the two correlate with one another. As Figure 2.17 shows, the investment options outlined in the GE approach can be compared to a traffic light. For example, if a company feels that it does not have the business strengths to compete in an industry and that the industry is not attractive, this will result in a low rating, which is comparable to a red light. In that case, the company should harvest the business (slowly reduce the investments made in it), divest the business (drop or sell it), or stop investing in it, which is what happened with many automotive manufacturers.

FIGURE 2.17 The General Electric (GE) Approach

- ✓ Red: Harvest or divest products; stop investing in new products, markets, or technology
- ✓ Yellow: Hold market share
- ✓ Green: Build market share; invest in new products, market, or technology

Although many people may think a yellow light means "speed up," it actually means caution. Companies with a medium rating on industry attractiveness and business strengths should be cautious when investing and attempt to hold the market share they have. If a company rates itself high on business strengths and the industry is very attractive (also rated high), this is comparable to a green light. In this case, the firm should invest in the business and build market share. During bad economic times, many industries are not attractive. However, when the economy improves businesses must reevaluate opportunities.

KEY TAKEAWAY

A group of businesses is called a portfolio. Organizations that have multiple business units must decide how to allocate resources to them and decide what objectives and strategies are feasible for them. Portfolio planning approaches help firms analyze the businesses relative to each other. The BCG and GE approaches are two or the most common portfolio planning methods.

REVIEW QUESTIONS

1. How would you classify a product that has a low market share in a growing market?
2. What does it mean to hold market share?
3. What factors are used as the basis for analyzing businesses and brands using the BCG and the GE approaches?

6. DISCUSSION QUESTIONS AND ACTIVITIES

DISCUSSION QUESTIONS

1. Explain how a marketing objective differs from a marketing strategy. How are they related?
2. Explain how an organization like McDonald's can use licensing to create value for the brand.
3. How has PepsiCo employed a product development strategy?
4. Discuss how conducting a SWOT (strengths, weaknesses, opportunities, threats) analysis helps a firm (or an individual) develop its strategic plan.
5. Describe the value propositions the social networking sites YouTube and Facebook offer Web users.

ACTIVITIES

1. Outline a strategic plan for yourself to begin planning for a job after graduation. Include your value proposition, targeted organizations, objectives, strategies, and the internal and external factors that may affect your plans.
2. Assume you have an interview for an entry-level sales position. Write a value proposition emphasizing why you are the best candidate for the position relative to other recent college graduates.
3. A mission statement outlines an organization's purpose and answers the question of how a company defines its business. Write a mission statement for a campus organization.
4. The Web site "My M&Ms" (http://www.mymms.com) allows customers to personalize M&M candies with words, faces, and colors and select from multiple packaging choices. Identify and explain the product market or market development strategies Mars pursued when it introduced personalized M&Ms.
5. Explain how changing demographics and the social and cultural environment have impacted the health care industry. Identify new venues for health care that didn't exist a decade ago. (Hint: emergency care services are available outside a hospital's emergency room today.)
6. Select an organization for which you would like to work. Look up its mission statement. What do you think the organization's objectives and strategies are? What macro and micro environmental and internal factors might affect its success?
7. Break up into teams. Come up with as many real-world examples as you can of companies that pursued market penetration, market development, product development, or diversification strategies. Explain what the company did and how successful you think each strategy will be.

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CHAPTER 3

Consumer Behavior: How People Make Buying Decisions

Why do you buy the things you do? How did you decide to go to the college you're attending? Where do like to shop and when? Do your friends shop at the same places or different places? Do you buy the same brands multiple times or eat at the same restaurants frequently?

Marketing professionals that have the answers to those questions will have a much better chance of creating, communicating about, and delivering value-added products and services that you and people like you will want to buy. That's what the study of consumer behavior is all about. **Consumer behavior** considers the many reasons—personal, situational, psychological, and social—why people shop for products, buy and use them, sometimes become loyal customers, and then dispose of them.

consumer behavior

The study of when, where, and how people buy things and then dispose of them.

Companies spend billions of dollars annually studying what makes consumers "tick." Although you might not like it, Google, AOL, and Yahoo! monitor your Web patterns—the sites you search, that is. The companies that pay for **search advertising**, or ads that appear on the Web pages you pull up after doing an online search, want to find out what kind of things interest you. Doing so allows these companies to send you popup ads and coupons you might actually be interested in instead of ads and coupons for things such as retirement communities.

search advertising

Advertising that appears on the Web pages pulled up when online searches are conducted.

Massachusetts Institute of Technology (MIT), in conjunction with a large retail center, has tracked consumers in retail establishments to see when and where they tended to dwell or stop to look at merchandise. How was it done? By tracking the position of the consumers' mobile phones as the phones automatically transmitted signals to cellular towers, MIT found that when people's "dwell times" increased, sales increased, too.[1]

Researchers have even looked at people's brains by having them lie in scanners and asking them questions about different products. What people *say* about the products is then compared to what their brains scans show—that is, what they are really thinking. Scanning people's brains for marketing purposes might sound nutty, but maybe not when you consider the fact that eight out of ten new consumer products fail, even when they are test marketed. Could it be possible that what people say about potential new products and what they think about them are different? Marketing professionals want to find out.[2]

Studying people's buying habits isn't just for big companies. Small businesses and entrepreneurs can study the behavior of their customers with great success. By figuring out what zip codes their customers are in, a business might determine where to locate an additional store. Small businesses such as restaurants often use coupon codes. For example, coupons sent out in newspapers are given one code. Those sent out via the Internet are given another. When the coupons are redeemed, the restaurants can tell which marketing avenues are having the biggest effect on their sales.

FIGURE 3.1
Tony Hsieh, the chief executive of the shoe company Zappos.com, reportedly has thirty thousand followers on Twitter and his Zappos blog. Dell has begun making millions on Twitter by providing followers with exclusive deals, outlet offers, and product updates. To see the top users of Twitter, go to http://www.twitterholic.com.

© *Zappos.com, Inc.*

Some businesses, including a growing number of startups, are using blogs and social networking Web sites to gather information about their customers at a low cost. For example, Proper Cloth, a company based in New York, has a site on the social networking site Facebook. Whenever the company posts a new bulletin or photos of its clothes, all its Facebook "fans" automatically receive the information on their own Facebook pages. "We want to hear what our customers have to say," says Joseph Skerritt, the young MBA graduate who founded Proper Cloth. "It's useful to us and lets our customers feel connected to Proper Cloth."[3] Skerritt also writes a blog for the company. Twitter and podcasts that can be downloaded from iTunes are two other ways companies are amplifying the "word of mouth" about their products.[4]

Environmental factors (such as the economy and technology) and marketing actions taken to create, communicate about, and deliver products and services (such as sale prices, coupons, Internet sites, and new product features) may affect consumers' behavior. However, a consumer's situation, personal factors, and culture also influence what, when, and how he or she buys things. We'll look at those factors in Section 1. Section 2 focuses on different types of buying decisions and the stages consumers may go through when making purchase decisions.

1. FACTORS THAT INFLUENCE CONSUMERS' BUYING BEHAVIOR

LEARNING OBJECTIVES

1. **Describe the personal and psychological factors that may influence what consumers buy and when they buy it.**
2. **Explain what marketing professionals can do to influence consumers' behavior.**
3. **Explain how looking at lifestyle information helps firms understand what consumers want to purchase.**
4. **Explain how Maslow's hierarchy of needs works.**
5. **Explain how culture, subcultures, social classes, families, and reference groups affect consumers' buying behavior.**

You've been a consumer with purchasing power for much longer than you probably realize—since the first time you were asked which cereal or toy you wanted. Over the years, you've developed rules of thumb or mental shortcuts providing a systematic way to choose among alternatives, even if you aren't aware of it. Other consumers follow a similar process, but different people, no matter how similar they are, make different purchasing decisions. You might be very interested in purchasing a Smart Car, but your best friend might want to buy a Ford F-150 truck. What factors influenced your decision and what factors influenced your friend's decision?

As we mentioned earlier in the chapter, consumer behavior is influenced by many things, including environmental and marketing factors, the situation, personal and psychological factors, family, and culture. Businesses try to figure out *trends* so they can reach the people most likely to buy their products in the most cost-effective way possible. Businesses often try to influence a consumer's behavior with things they can control such as the layout of a store, music, grouping and availability of products, pricing, and advertising. While some influences may be temporary and others are long lasting, different factors can affect how buyers behave—whether they influence you to make a purchase, buy additional products, or buy nothing at all. Let's now look at some of the influences on consumer behavior in more detail.

1.1 Situational Factors

Have you ever been in a department story and couldn't find your way out? No, you aren't necessarily directionally challenged. Marketing professionals take physical factors such as a store's design and layout into account when they are designing their facilities. Presumably, the longer you wander around a facility, the more you will spend. Grocery stores frequently place bread and milk products on the opposite ends of the stores because people often need both types of products. To buy both, they have to walk around an entire store, which of course, is loaded with other items they might see and purchase.

Store locations also influence behavior. Starbucks has done a good job in terms of locating its stores. It has the process down to a science; you can scarcely drive a few miles down the road without passing a Starbucks. You can also buy cups of Starbucks coffee at many grocery stores and in airports—virtually any place where there is foot traffic.

Physical factors that firms can control, such as the layout of a store, music played at stores, the lighting, temperature, and even the smells you experience are called **atmospherics**. Perhaps you've visited the office of an apartment complex and noticed how great it looked and even smelled. It's no coincidence. The managers of the complex were trying to get you to stay for a while and have a look at their facilities. Research shows that "strategic fragrancing" results in customers staying in stores longer, buying more, and leaving with better impressions of the quality of stores' services and products. Mirrors near hotel elevators are another example. Hotel operators have found that when people are busy looking at themselves in the mirrors, they don't feel like they are waiting as long for their elevators.[5]

atmospherics

The physical aspects of the selling environment retailers try to control.

Not all physical factors are under a company's control, however. Take weather, for example. Rainy weather can be a boon to some companies, like umbrella makers such as Totes, but a problem for others. Beach resorts, outdoor concert venues, and golf courses suffer when it is raining heavily. Businesses such as automobile dealers also have fewer customers. Who wants to shop for a car in the rain?

Firms often attempt to deal with adverse physical factors such as bad weather by offering specials during unattractive times. For example, many resorts offer consumers discounts to travel to beach locations during hurricane season. Having an online presence is another way to cope with weather-related problems. What could be more comfortable than shopping at home? If it's raining too hard to drive to the GAP, REI, or Abercrombie & Fitch, you can buy products from these companies and many others online. You can shop online for cars, too, and many restaurants take orders online and deliver.

Crowding is another situational factor. Have you ever left a store and not purchased anything because it was just too crowded? Some studies have shown that consumers feel better about retailers who attempt to prevent overcrowding in their stores. However, other studies have shown that to a certain extent, crowding can have a positive impact on a person's buying experience. The phenomenon is often referred to as "herd behavior."[6]

If people are lined up to buy something, you want to know why. Should you get in line to buy it too? Herd behavior helped drive up the price of houses in the mid-2000s before the prices for them rapidly fell. Unfortunately, herd behavior has also led to the deaths of people. In 2008, a store employee was trampled to death by an early morning crowd rushing into a Walmart to snap up holiday bargains.

Social Situation

The social situation you're in can significantly affect your purchase behavior. Perhaps you have seen Girl Scouts selling cookies outside grocery stores and other retail establishments and purchased nothing from them, but what if your neighbor's daughter is selling the cookies? Are you going to turn her down or be a friendly neighbor and buy a box (or two)?

Video Clip

Thin Mints, Anyone?

Are you going to turn down cookies from this cute Girl Scout? What if she's your neighbor's daughter? Pass the milk, please!

View the video online at: http://www.youtube.com/v/GJHN4eutKjY

Companies like Pampered Chef that sell their products at parties understand that the social situation makes a difference. When you're at a friend's Pampered Chef party, you don't want to look cheap or disappoint your friend by not buying anything. Certain social situations can also make you less willing to buy products. You might spend quite a bit of money each month eating at fast-food restaurants like McDonald's and Subway. Where do you take someone for your first date? Some people might take a first date to Subway, but other people would perhaps choose a restaurant that's more upscale. Likewise, if you have turned down a drink or dessert on a date because you were worried about what the person you were with might have thought, your consumption was affected by your social situation.[7]

Time

The time of day, time of year, and how much time consumers feel like they have to shop affect what they buy. Researchers have even discovered whether someone is a "morning person" or "evening person" affects shopping patterns. Have you ever gone to the grocery store when you are hungry or after pay day when you have cash in your pocket? When you are hungry or have cash, you may purchase more than you would at other times. Seven-Eleven Japan is a company that's extremely in tune to time and how it affects buyers. The company's point-of-sale systems at its checkout counters monitor what is selling well and when, and stores are restocked with those items immediately—sometimes via motorcycle deliveries that zip in and out of traffic along Japan's crowded streets. The goal is to get the products on the shelves when and where consumers want them. Seven-Eleven Japan also knows that, like Americans, its customers are "time starved." Shoppers can pay their utility bills, local taxes, and insurance or pension premiums at Seven-Eleven Japan stores, and even make photocopies.[8]

Companies worldwide are aware of people's lack of time and are finding ways to accommodate them. Some doctors' offices offer drive-through shots for patients who are in a hurry and for elderly patients who find it difficult to get out of their cars. Tickets.com allows companies to sell tickets by sending them to customers' mobile phones when they call in. The phones' displays are then read by barcode scanners when the ticket purchasers arrive at the events they're attending. Likewise, if you need customer service from Amazon.com, there's no need to wait on the telephone. If you have an account with Amazon, you just click a button on the company's Web site and an Amazon representative calls you immediately.

Reason for the Purchase

The reason you are shopping also affects the amount of time you will spend shopping. Are you making an emergency purchase? What if you need something for an important dinner or a project and only have an hour to get everything? Are you shopping for a gift or for a special occasion? Are you buying something to complete a task/project and need it quickly? In recent years, emergency clinics have sprung up in strip malls all over the country. Convenience is one reason. The other is sheer necessity. If you cut yourself and you are bleeding badly, you're probably not going to shop around much to find the best clinic. You will go to the one that's closest to you. The same thing may happen if you need something immediately.

Purchasing a gift might not be an emergency situation, but you might not want to spend much time shopping for it either. Gift certificates have been popular for years. You can purchase gift cards for numerous merchants at your local grocery store or online. By contrast, suppose you need to buy an engagement ring. Sure, you could buy one online in a jiffy, but you probably wouldn't do that. What if the diamond was fake? What if your significant other turned you down and you had to return the ring? How hard would it be to get back online and return the ring?[9]

Mood

Have you ever felt like going on a shopping spree? At other times wild horses couldn't drag you to a mall. People's moods temporarily affect their spending patterns. Some people enjoy shopping. It's entertaining for them. At the extreme are compulsive spenders who get a temporary "high" from spending.

A sour mood can spoil a consumer's desire to shop. The crash of the U.S. stock market in 2008 left many people feeling poorer, leading to a dramatic downturn in consumer spending. Penny pinching came into vogue, and conspicuous spending was out. Costco and Walmart experienced heightened sales of their low-cost Kirkland Signature and Great Value brands as consumers scrimped.[10] Saks Fifth Avenue wasn't so lucky. Its annual release of spring fashions usually leads to a feeding frenzy among shoppers, but spring 2009 was different. "We've definitely seen a drop-off of this idea of shopping for entertainment," says Kimberly Grabel, Saks Fifth Avenue's senior vice president of marketing.[11] To get buyers in the shopping mood, companies resorted to different measures. The upscale retailer Neiman Marcus began introducing more mid-priced brands. By studying customer's loyalty cards, the French hypermarket Carrefour hoped to find ways to get its customers to purchase nonfood items that have higher profit margins.

The glum mood wasn't bad for all businesses though. Discounters like Half-Priced books saw their sales surge. So did seed sellers as people began planting their own gardens. Finally, what about those products (Aqua Globes, Snuggies, and Ped Eggs) you see being hawked on television? Their sales were the best ever. Apparently, consumers too broke to go on vacation or shop at Saks were instead watching television and treating themselves to the products.[12]

1.2 Personal Factors

Personality and Self-Concept

Personality describes a person's disposition, helps show why people are different, and encompasses a person's unique traits. The "Big Five" personality traits that psychologists discuss frequently include **openness** or how open you are to new experiences, **conscientiousness** or how diligent you are, **extraversion** or how outgoing or shy you are, **agreeableness** or how easy you are to get along with, and **neuroticism** or how prone you are to negative mental states.

personality

An individual's disposition as other people see it.

Do personality traits predict people's purchasing behavior? Can companies successfully target certain products to people based on their personalities? How do you find out what personalities consumers have? Are extraverts wild spenders and introverts penny pinchers?

The link between people's personalities and their buying behavior is somewhat unclear. Some research studies have shown that "sensation seekers," or people who exhibit extremely high levels of openness, are more likely to respond well to advertising that's violent and graphic. The problem for firms is figuring out "who's who" in terms of their personalities.

Marketers have had better luck linking people's self-concepts to their buying behavior. Your **self-concept** is how you see yourself—be it positive or negative. Your **ideal self** is how you would *like* to see yourself—whether it's prettier, more popular, more eco-conscious, or more "goth," and others' self-concept, or how you think others see you, also influences your purchase behavior. Marketing researchers believe people buy products to enhance how they feel about themselves—to get themselves closer to their ideal selves.

self-concept

How a person sees himself or herself.

ideal self

How a person would like to view himself or herself.

The slogan "Be All That You Can Be," which for years was used by the U.S. Army to recruit soldiers, is an attempt to appeal to the self-concept. Presumably, by joining the U.S. Army, you will become a better version of yourself, which will, in turn, improve your life. Many beauty products and cosmetic procedures are advertised in a way that's supposed to appeal to the ideal self people seek. All of us want products that improve our lives.

Gender, Age, and Stage of Life

While demographic variables such as income, education, and marital status are important, we will look at gender, age, and stage of life and how they influence purchase decisions. Men and women need and buy different products.[13] They also shop differently and in general, have different attitudes about shopping. You know the old stereotypes. Men see what they want and buy it, but women "try on everything and shop 'til they drop." There's some truth to the stereotypes. That's why you see so many advertisements directed at one sex or the other—beer commercials that air on ESPN and commercials for household products that air on Lifetime. Women influence fully two-thirds of all household product purchases, whereas men buy about three-quarters of all alcoholic beverages.[14] The shopping differences between men and women seem to be changing, though. Younger, well-educated men are less likely to believe grocery shopping is a woman's job and would be more inclined to bargain shop and use coupons if the coupons were properly targeted at them.[15] One survey found that approximately 45 percent of married men actually *like* shopping and consider it relaxing.

One study by Resource Interactive, a technology research firm, found that when shopping online, men prefer sites with lots of pictures of products and women prefer to see products online in lifestyle context—say, a lamp in a living room. Women are also twice as likely as men to use viewing tools such as the zoom and rotate buttons and links that allow them to change the color of products.

Video Clip

What Women Want versus What Men Want

Check out this Heineken commercial, which highlights the differences between "what women want" and "what men want" when it comes to products.

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

FIGURE 3.2

Marketing to men is big business. Some advertising agencies specialize in advertisements designed specifically to appeal to male consumers.

© 2010 Jupiterimages Corporation

Many businesses today are taking greater pains to figure out "what men want." Products such as face toners and body washes for men such as the Axe brand and hair salons such as the Men's Zone and Weldon Barber are a relatively new phenomenon. Some advertising agencies specialize in advertising directed at men. There are also many products such as kayaks and mountain bikes targeted toward women that weren't in the past.

You have probably noticed that the things you buy have changed as you age. Think about what you wanted and how you spent five dollars when you were a child, a teenager, and an adult. When you were a child, the last thing you probably wanted as a gift was clothing. As you became a teen, however, cool clothes probably became a bigger priority. Don't look now, but depending on the stage of life you're currently in, diapers and wrinkle cream might be just around the corner.

If you're single and working after graduation, you probably spend your money differently than a newly married couple. How do you think spending patterns change when someone has a young child or a teenager or a child in college? Diapers and day care, orthodontia, tuition, electronics—regardless of the age, children affect the spending patterns of families. Once children graduate from college and parents are empty nesters, spending patterns change again.

Empty nesters and baby boomers are a huge market that companies are trying to tap. Ford and other car companies have created "aging suits" for young employees to wear when they're designing automobiles.[16] The suit simulates the restricted mobility and vision people experience as they get older. Car designers can then figure out how to configure the automobiles to better meet the needs of these consumers.

Video Clip

Car Makers Design Special Aging Suit

The "aging suit" has elastic bindings that hamper a car designer's movement and goggles that simulate deteriorating eyesight. The suit gives the designer an idea what kinds of car-related challenges older consumers face.

View the video online at: http://www.youtube.com/v/_hcw17EsE7A

Lisa Rudes Sandel, the founder of Not Your Daughter's Jeans (NYDJ), created a multimillion-dollar business by designing jeans for baby boomers with womanly bodies. Since its launch seven years ago, NYDJ has become the largest domestic manufacturer of women's jeans under $100. "The truth is," Rudes Sandel says, "I've never forgotten that woman I've been aiming for since day one." Rudes Sandel "speaks to" every one of her customers via a note tucked into each pair of jean that reads, "NYDJ (Not Your Daughter's Jeans) cannot be held responsible for any positive consequence that may arise due to your fabulous appearance when wearing the Tummy Tuck jeans. You can thank me later."[17]

Your **chronological age**, or actual age in years, is one thing. Your **cognitive age**, or how old you perceive yourself to be, is another. A person's cognitive age affects his or her activities and sparks interests consistent with his or her perceived age.[18] Cognitive age is a significant predictor of consumer behaviors, including people's dining out, watching television, going to bars and dance clubs, playing computer games, and shopping.[19] Companies have found that many consumers feel younger than their chronological age and don't take kindly to products that feature "old folks" because they can't identify with them.

FIGURE 3.3

You're only as old as you feel—and the things you buy.

© 2010 Jupiterimages Corporation

Lifestyle

If you have ever watched the television show *Wife Swap*, you can see that despite people's similarities (e.g., being middle-class Americans who are married with children), their lifestyles can differ radically. To better understand and connect with consumers, companies interview or ask people to complete questionnaires about their lifestyles or their activities, interests, and opinions (often referred to as AIO statements). Consumers are not only asked about products they like, where they live, and what their gender is but also about what they do—that is, how they spend their time and what their priorities, values, opinions, and general outlooks on the world are. Where do they go other than work? Who do they like to talk to? What do they talk about? Researchers hired by Procter & Gamble have gone so far as to follow women around for weeks as they shop, run errands, and socialize with one another.[20] Other companies have paid people to keep a daily journal of their activities and routines.

A number of research organizations examine lifestyle and psychographic characteristics of consumers. **Psychographics** combines the lifestyle traits of consumers and their personality styles with an analysis of their attitudes, activities, and values to determine groups of consumers with similar characteristics. One of the most widely used systems to classify people based on psychographics is the VALS (Values, Attitudes, and Lifestyles) framework. Using VALS to combine psychographics with demographic information such as marital status, education level, and income provide a better understanding of consumers.

chronological age

A person's age in years.

cognitive age

The age a buyer perceives himself or herself to be.

psychographics

Measuring the attitudes, values, lifestyles, and opinions of consumers using demographics.

1.3 Psychological Factors

Motivation

motivation

The inward drive people have to get what they need.

Motivation is the inward drive we have to get what we need. In the mid-1900s, Abraham Maslow, an American psychologist, developed the hierarchy of needs shown in Figure 3.4.

FIGURE 3.4 Maslow's Hierarchy of Needs

Maslow theorized that people have to fulfill their basic needs—food, water, and sleep—before they can begin fulfilling higher-level needs. Have you ever gone shopping when you were tired or hungry? Even if you were shopping for something that would make you the envy of your friends (maybe a new car) you probably wanted to sleep or eat even more. (Forget the car. Just give me a nap and a candy bar.)

The need for food is recurring. Other needs, such as shelter, clothing, and safety, tend to be enduring. Still other needs arise at different points in time in a person's life. For example, during grade school and high school, your *social* needs probably rose to the forefront. You wanted to have friends and get a date. Perhaps this prompted you to buy certain types of clothing or electronic devices. After high school, you began thinking about how people would view you in your "station" in life, so you decided to pay for college and get a professional degree, thereby fulfilling your need for *esteem*. If you're lucky, at some point you will realize Maslow's state of *self-actualization*. You will believe you have become the person in life that you feel you were meant to be.

Following the economic crisis that began in 2008, the sales of new automobiles dropped sharply virtually everywhere around the world—except the sales of Hyundai vehicles. Hyundai understood that people needed to feel secure and safe and ran an ad campaign that assured car buyers they could return their vehicles if they couldn't make the payments on them without damaging their credit. Seeing Hyundai's success, other carmakers began offering similar programs. Likewise, banks began offering "worry-free" mortgages to ease the minds of would-be homebuyers. For a fee of about $500, First Mortgage Corp., a Texas-based bank, offered to make a homeowner's mortgage payment for six months if he or she got laid off.[21]

While achieving self-actualization may be a goal for many individuals in the United States, consumers in Eastern cultures may focus more on belongingness and group needs. Marketers look at cultural differences in addition to individual needs. The importance of groups affects advertising (using groups versus individuals) and product decisions.

Perception

Perception is how you interpret the world around you and make sense of it in your brain. You do so via stimuli that affect your different senses—sight, hearing, touch, smell, and taste. How you combine these senses also makes a difference. For example, in one study, consumers were blindfolded and asked to drink a new brand of clear beer. Most of them said the product tasted like regular beer. However, when the blindfolds came off and they drank the beer, many of them described it as "watery" tasting.[22]

perception

How people interpret the world around them.

Consumers are bombarded with messages on television, radio, magazines, the Internet, and even bathroom walls. The average consumer is exposed to about three thousand advertisements per day.[23] Consumers are surfing the Internet, watching television, and checking their cell phones for text messages simultaneously. Some, but not all, information makes it into our brains. Selecting information we see or hear (e.g., television shows or magazines) is called selective exposure.

Have you ever read or thought about something and then started noticing ads and information about it popping up everywhere? Many people are more perceptive to advertisements for products they need. **Selective attention** is the process of filtering out information based on how relevant it is to you. It's been described as a "suit of armor" that helps you filter out information you *don't* need. At other times, people forget information, even if it's quite relevant to them, which is called **selective retention**. Often the information contradicts the person's belief. A longtime chain smoker who forgets much of the information communicated during an antismoking commercial is an example. To be sure their advertising messages get through to you and you remember them, companies use repetition. How tired of iPhone commercials were you before they tapered off? How often do you see the same commercial aired during a single television show?

selective attention

The process whereby a person filters information based on how relevant it is to them.

selective retention

The process whereby a person retains information based on how well it matches their values and beliefs.

Another potential problem that advertisers (or your friends) may experience is **selective distortion** or misinterpretation of the intended message. Promotions for weight loss products show models that look slim and trim after using their products, and consumers may believe they will look like the model if they use the product. They misinterpret other factors such as how the model looked before or how long it will take to achieve the results. Similarly, have you ever told someone a story about a friend and that person told another person who told someone else? By the time the story gets back to you, it is completely different. The same thing can happen with many types of messages.

selective distortion

The process whereby consumers misinterpret information and messages.

Video Clip

A Parody of an iPhone Commercial

Check out this parody on Apple's iPhone commercial.

View the video online at: http://www.youtube.com/v/4vle73VqtHw

Using surprising stimuli or **shock advertising** is also a technique that works. One study found that shocking content increased attention, benefited memory, and positively influenced behavior among a group of university students.[24]

shock advertising

Advertising designed to startle people so as to get their attention.

Subliminal advertising is the opposite of shock advertising and involves exposing consumers to marketing stimuli such as photos, ads, and messages by stealthily embedding them in movies, ads, and other media. Although there is no evidence that subliminal advertising works, years ago the words *Drink Coca-Cola* were flashed for a millisecond on a movie screen. Consumers were thought to perceive the information subconsciously and to be influenced to buy the products shown. Many people considered the practice to be subversive, and in 1974, the Federal Communications Commission condemned it. Much of the original research on subliminal advertising, conducted by a researcher trying to drum up business for his market research firm, was fabricated.[25] People are still fascinated by

subliminal advertising

Advertising that is not apparent to consumers but is thought to be perceived subconsciously by them.

subliminal advertising, however. To create "buzz" about the television show *The Mole* in 2008, ABC began hyping it by airing short commercials composed of just a few frames. If you blinked, you missed it. Some television stations actually called ABC to figure out what was going on. One-second ads were later rolled out to movie theaters.[26]

Different consumers perceive information differently. A couple of frames about *The Mole* might make you want to see the television show. However, your friend might see the ad, find it stupid, and never tune in to watch the show. One man sees Pledge, an outstanding furniture polish, while another sees a can of spray no different from any other furniture polish. One woman sees a luxurious Gucci purse, and the other sees an overpriced bag to hold keys and makeup.[27]

Learning

learning

The process by which consumers change their behavior after they gain information or experience with a product.

Learning refers to the process by which consumers change their behavior after they gain information or experience. It's the reason you don't buy a bad product twice. Learning doesn't just affect what you buy; it affects how you shop. People with limited experience about a product or brand generally seek out more information than people who have used a product before.

Companies try to get consumers to learn about their products in different ways. Car dealerships offer test drives. Pharmaceutical reps leave samples and brochures at doctor's offices. Other companies give consumers free samples. To promote its new line of coffees, McDonald's offered customers free samples to try. Have you ever eaten the food samples in a grocery store? While sampling is an expensive strategy, it gets consumers to try the product and many customers buy it, especially right after trying in the store.

operant conditioning

A type of behavior that's repeated when it's rewarded.

Another kind of learning is **operant or instrumental conditioning**, which is what occurs when researchers are able to get a mouse to run through a maze for a piece of cheese or a dog to salivate just by ringing a bell. In other words, learning occurs through repetitive behavior that has positive or negative consequences. Companies engage in operant conditioning by rewarding consumers, which cause consumers to want to repeat their purchasing behaviors. Prizes and toys that come in Cracker Jacks and McDonald's Happy Meals, free tans offered with gym memberships, a free sandwich after a certain number of purchases, and free car washes when you fill up your car with a tank of gas are examples.

classical conditioning

A learning process where consumers associate a response with a condition that was previously not associated with the response.

Another learning process called **classical conditioning** occurs by associating a conditioned stimulus (CS) with an unconditioned stimulus (US) to get a particular response. The more frequently the CS is linked with the US, the faster learning occurs and this is what advertisers and businesses try to do. Think about a meal at a restaurant where the food was really good and you went with someone special. You like the person and want to go out again. It could be that classical conditioning occurred. That is, the food produced a good feeling and you may associate the person with the food, thus producing a good feeling about the person.

Attitude

attitudes

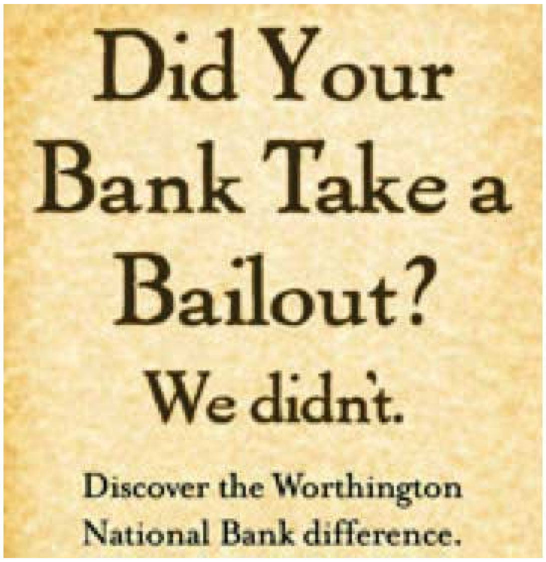
"Mental positions" or emotional feelings, favorable or unfavorable evaluations, and action tendencies people have about products, services, companies, ideas, issues, or institutions.

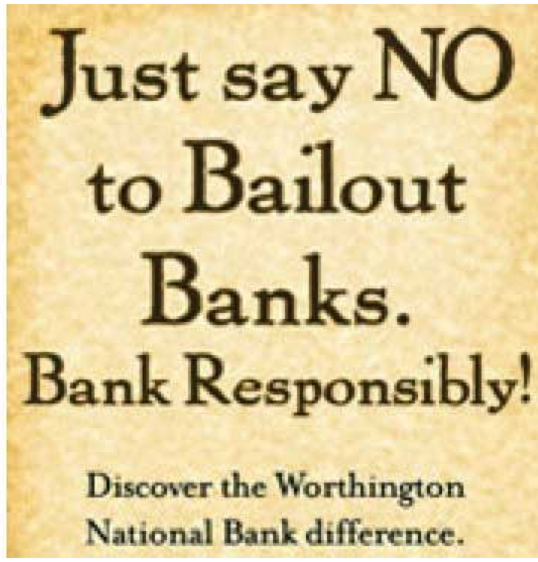
Attitudes are "mental positions" or emotional feelings, favorable or unfavorable evaluations, and action tendencies people have about products, services, companies, ideas, issues, or institutions.[28] Attitudes tend to be enduring, and because they are based on people's values and beliefs, they are hard to change. Companies want people to have positive feelings about their offerings. A few years ago, KFC began running ads to the effect that fried chicken was healthy—until the U.S. Federal Trade Commission told the company to stop. Wendy's slogan that its products are "way better than fast food" is another example. Fast food has a negative connotation, so Wendy's is trying to get consumers to think about its offerings as being better.

An example of a shift in consumers' attitudes occurred when the taxpayer-paid government bailouts of big banks that began in 2008 provoked the wrath of Americans, creating an opportunity for small banks not involved in the credit bailout and subprime mortgage mess. The Worthington National Bank, a small bank in Fort Worth, Texas, ran billboards reading: "Did Your Bank Take a Bailout? We didn't." Another read: "Just Say NO to Bailout Banks. Bank Responsibly!" The Worthington Bank received tens of millions in new deposits soon after running these campaigns.[29]

FIGURE 3.5

Worthington National, a small Texas bank, capitalized on people's bad attitudes toward big banks that accepted bailouts from the government in 2008–2009. After running billboards with this message, the bank received millions of dollars in new deposits.





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1.4 Societal Factors

Situational factors, personal factors, and psychological factors influence what you buy, but only on a temporary basis. Societal factors are a bit different. They are more outward and have broad influences on your beliefs and the way you do things. They depend on the world around you and how it works.

Culture

Culture refers to the shared beliefs, customs, behaviors, and attitudes that characterize a society. Culture is a handed down way of life and is often considered the broadest influence on a consumer's behavior. Your culture prescribes the way in which you should live and has a huge effect on the things you purchase. For example, in Beirut, Lebanon, women can often be seen wearing miniskirts. If you're a woman in Afghanistan wearing a miniskirt, however, you could face bodily harm or death. In Afghanistan women generally wear *burqas*, which cover them completely from head to toe. Similarly, in Saudi Arabia, women must wear what's called an *abaya*, or long black garment. Interestingly, abayas have become big business in recent years. They come in many styles, cuts, and fabrics and some are encrusted with jewels and cost thousands of dollars. To read about the fashions women in Muslim countries wear, check out the following article: http://www.time.com/time/world/article/0,8599,1210781,00.html.

culture

The shared beliefs, customs, behaviors, and attitudes that characterize a society used to cope with their world and with one another.

Even cultures that share many of the same values as the United States can be quite different. Following the meltdown of the financial markets in 2008, countries around the world were pressed by the United States to engage in deficit spending to stimulate the worldwide economy. The plan was a hard sell both to German politicians and to the German people in general. Most Germans don't own credit cards and running up a lot of debt is something people in that culture generally don't do. Credit card companies such as Visa, American Express, and MasterCard must understand cultural perceptions about credit.

Subcultures

subculture

A group of people within a culture who are different from the dominant culture but have something in common with one another, such as common interests, vocations or jobs, religions, ethnic backgrounds, or sexual orientations.

A **subculture** is a group of people within a culture who are different from the dominant culture but have something in common with one another such as common interests, vocations or jobs, religions, ethnic backgrounds, and geographic locations. The fastest-growing subculture in the United States consists of people of Hispanic origin, followed by Asian Americans, and African Americans. The purchasing power of U.S. Hispanics continues to grow, exceeding $1 trillion in 2010.[30] Home Depot has launched a Spanish version of its Web site. Walmart is in the process of converting some of its Neighborhood Markets into stores designed to appeal to Hispanics. The Supermarcado de Walmart stores are located in Hispanic neighborhoods and feature elements such as cafés serving Latino pastries and coffee and full meat and fish counters.[31] Marketing products based on the ethnicity of consumers is useful but may become harder to do in the future because the boundaries between ethnic groups are blurring.

FIGURE 3.6

Care to join the subculture of the "Otherkin"? Otherkins are primarily Internet users who believe they are reincarnations of mythological or legendary creatures—angels, demons, vampires—you name it. To read more about the Otherkins and seven other bizarre subcultures, visit http://www.oddee.com/item_96676.aspx.

Subcultures, such as college students, can develop in response to people's interests, similarities, and behaviors that allow marketing professionals to design specific products for them. You have probably heard of the hip-hop subculture, people who in engage in extreme types of sports such as helicopter skiing or people who play the fantasy game Dungeons and Dragons.

Social Class

social class

A group of people who have the same social, economic, or educational status in society.

A **social class** is a group of people who have the same social, economic, or educational status in society.[32] While income helps define social class, the primary variable determining social class is occupation. To *some* degree, consumers in the same social class exhibit similar purchasing behavior. In many countries, people are expected to marry within their own social class. When asked, people tend to say they are middle class, which is not always correct. Have you ever been surprised to find out that someone you knew who was wealthy drove a beat-up old car or wore old clothes and shoes or that someone who isn't wealthy owns a Mercedes or other upscale vehicle? While some products may appeal to people in a social class, you can't assume a person is in a certain social class because they either have or don't have certain products or brands.

Table 3.1 shows seven classes of American consumers along with the types of car brands they might buy. Keep in mind that the U.S. market is just a fraction of the world market. The rise of the middle class in India and China is creating opportunities for many companies to successfully sustain their products. For example, China has begun to overtake the United States as the world's largest auto market.[33]

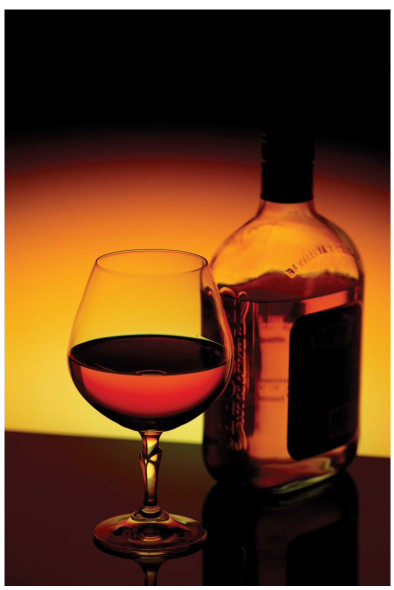
TABLE 3.1 An Example of Social Classes and Buying Patterns

Class	Type of Car	Definition of Class
Upper-Upper Class	Rolls-Royce	People with inherited wealth and aristocratic names (the Kennedys, Rothschilds, Windsors, etc.)
Lower-Upper Class	Mercedes	Professionals such as CEOs, doctors, and lawyers
Upper-Middle Class	Lexus	College graduates and managers
Middle Class	Toyota	Both white-collar and blue-collar workers
Working Class	Pontiac	Blue-collar workers
Lower but Not the Lowest	Used Vehicle	People who are working but not on welfare
Lowest Class	No vehicle	People on welfare

In a recession when luxury buyers are harder to come by, the makers of upscale brands may want their customer bases to be as large as possible. However, companies don't want to risk "cheapening" their brands. That's why, for example, Smart Cars, which are made by BMW, don't have the BMW label on them. For a time, Tiffany's sold a cheaper line of silver jewelry to a lot of customers. However, the company later worried that its reputation was being tarnished by the line. Keep in mind that a product's price is to some extent determined by supply and demand. Luxury brands therefore try to keep the supply of their products in check so their prices remain high.

FIGURE 3.7

The whiskey brand Johnnie Walker has managed to expand its market share without cheapening the brand by producing a few lower-priced versions of the whiskey and putting them in bottles with different labels.



Some companies, such as Johnnie Walker, have managed to capture market share by introducing "lower echelon" brands without damaging their luxury brands. The company's whiskeys come in bottles with red, green, blue, black, and gold labels. The blue label is the company's best product. Every blue-label bottle has a serial number and is sold in a silk-lined box, accompanied by a certificate of authenticity.[34]

Reference Groups and Opinion Leaders

reference groups

Groups a consumer identifies with and wants to join.

dissociative groups

Groups a consumer does not want to associate with or join.

opinion leaders

People with expertise certain areas. Consumers respect these people and often ask their opinions before they buy goods and services.

Reference groups are groups (social groups, work groups, family, or close friends) a consumer identifies with and may want to join. They influence consumers' attitudes and behavior. If you have ever dreamed of being a professional player of basketball or another sport, you have an aspirational reference group. That's why, for example, Nike hires celebrities such as Michael Jordan to pitch the company's products. There may also be **dissociative groups** or groups where a consumer does not want to be associated.

Opinion leaders are people with expertise in certain areas. Consumers respect these people and often ask their opinions before they buy goods and services. An information technology (IT) specialist with a great deal of knowledge about computer brands is an example. These people's purchases often lie at the forefront of leading trends. The IT specialist is probably a person who has the latest and greatest tech products, and his opinion of them is likely to carry more weight with you than any sort of advertisement.

Today's companies are using different techniques to reach opinion leaders. Network analysis using special software is one way of doing so. Orgnet.com has developed software for this purpose. Orgnet's software doesn't mine sites like Facebook and LinkedIn, though. Instead, it's based on sophisticated techniques that unearthed the links between Al Qaeda terrorists. Explains Valdis Krebs, the company's founder: "Pharmaceutical firms want to identify who the key opinion leaders are. They don't want to sell a new drug to everyone. They want to sell to the 60 key oncologists."[35]

Family

Most market researchers consider a person's family to be one of the most important influences on their buying behavior. Like it or not, you are more like your parents than you think, at least in terms of your consumption patterns. Many of the things you buy and don't buy are a result of what your parents bought when you were growing up. Products such as the brand of soap and toothpaste your parents bought and used, and even the "brand" of politics they leaned toward (Democratic or Republican) are examples of the products you may favor as an adult.

Companies are interested in which family members have the most influence over certain purchases. Children have a great deal of influence over many household purchases. For example, in 2003 nearly half (47 percent) of nine- to seventeen-year-olds were asked by parents to go online to find out about products or services, compared to 37 percent in 2001. IKEA used this knowledge to design their showrooms. The children's bedrooms feature fun beds with appealing comforters so children will be prompted to identify and ask for what they want.[36]

Marketing to children has come under increasing scrutiny. Some critics accuse companies of deliberately manipulating children to nag their parents for certain products. For example, even though tickets for Hannah Montana concerts ranged from hundreds to thousands of dollars, the concerts often still sold out. However, as one writer put it, exploiting "pester power" is not always ultimately in the long-term interests of advertisers if it alienates kids' parents.[37]

KEY TAKEAWAY

- Situational influences are temporary conditions that affect how buyers behave. They include physical factors such as a store's buying locations, layout, music, lighting, and even scent. Companies try to make the physical factors in which consumers shop as favorable as possible. If they can't, they utilize other tactics such as discounts. The consumer's social situation, time factors, the reason for their purchases, and their moods also affect their buying behavior.
- Your personality describes your disposition as other people see it. Market researchers believe people buy products to enhance how they feel about themselves. Your gender also affects what you buy and how you shop. Women shop differently than men. However, there's some evidence that this is changing. Younger men and women are beginning to shop more alike. People buy different things based on their ages and life stages. A person's cognitive age is how old one "feels" oneself to be. To further understand consumers and connect with them, companies have begun looking more closely at their lifestyles (what they do, how they spend their time, what their priorities and values are, and how they see the world).
- Psychologist Abraham Maslow theorized that people have to fulfill their basic needs—like the need for food, water, and sleep—before they can begin fulfilling higher-level needs. Perception is how you interpret the world around you and make sense of it in your brain. To be sure their advertising messages get through to you, companies often resort to repetition. Shocking advertising and product placement are two other methods. Learning is the process by which consumers change their behavior after they gain information about or experience with a product. Consumers' attitudes are the "mental positions" people take based on their values and beliefs. Attitudes tend to be enduring and are often difficult for companies to change.
- Culture prescribes the way in which you should live and affects the things you purchase. A subculture is a group of people within a culture who are different from the dominant culture but have something in common with one another—common interests, vocations or jobs, religions, ethnic backgrounds, sexual orientations, and so forth. To some degree, consumers in the same social class exhibit similar purchasing behavior. Most market researchers consider a person's family to be one of the biggest determinants of buying behavior. Reference groups are groups that a consumer identifies with and wants to join. Companies often hire celebrities to endorse their products to appeal to people's reference groups. Opinion leaders are people with expertise in certain areas. Consumers respect these people and often ask their opinions before they buy goods and services.

REVIEW QUESTIONS

1. Explain what physical factors, social situations, time factors, and/or moods have affected your buying behavior for different products.
2. Explain how someone's personality differs from his or her self-concept. How does the person's ideal self-concept come into play in a consumer behavior context?
3. Describe how buying patterns and purchase decisions may vary by age, gender, and stage of life.
4. Why are companies interested in consumers' cognitive ages and lifestyle factors?
5. How does the process of perception work and how can companies use it to their advantage in their marketing?
6. How do Maslow's hierarchy of needs and learning affect how companies market to consumers?
7. Why do people's cultures and subcultures affect what they buy?
8. How do subcultures differ from cultures? Can you belong to more than one culture or subculture?
9. How are companies trying to reach opinion leaders?

2. LOW-INVOLVEMENT VERSUS HIGH-INVOLVEMENT BUYING DECISIONS AND THE CONSUMER'S DECISION-MAKING PROCESS

LEARNING OBJECTIVES

1. Distinguish between low-involvement and high-involvement buying decisions.
2. Understand what the stages of the buying process are and what happens in each stage.

As you have seen, many factors influence a consumer's behavior. Depending on a consumer's experience and knowledge, some consumers may be able to make quick purchase decisions and other consumers may need to get information and be more involved in the decision process before making a purchase. The *level of involvement* reflects how personally important or interested you are in consuming a product and how much information you need to make a decision. The level of involvement in buying decisions may be considered a continuum from decisions that are fairly routine (consumers are not very involved) to decisions that require extensive thought and a high level of involvement. Whether a decision is low, high, or limited, involvement varies by consumer, not by product, although some products such as purchasing a house typically require a high-involvement for all consumers. Consumers with no experience purchasing a product may have more involvement than someone who is replacing a product.

You have probably thought about many products you want or need but never did much more than that. At other times, you've probably looked at dozens of products, compared them, and then decided not to purchase any one of them. When you run out of products such as milk or bread that you buy on a regular basis, you may buy the product as soon as you recognize the need because you do not need to search for information or evaluate alternatives. As Nike would put it, you "just do it." Low-involvement decisions are, however, typically products that are relatively inexpensive and pose a low risk to the buyer if she makes a mistake by purchasing them.

Consumers often engage in **routine response behavior** when they make low-involvement decisions—that is, they make automatic purchase decisions based on limited information or information they have gathered in the past. For example, if you always order a Diet Coke at lunch, you're engaging in routine response behavior. You may not even think about other drink options at lunch because your routine is to order a Diet Coke, and you simply do it. Similarly, if you run out of Diet Coke at home, you may buy more without any information search.

Some low-involvement purchases are made with no planning or previous thought. These buying decisions are called **impulse buying**. While you're waiting to check out at the grocery store, perhaps you see a magazine with Angelina Jolie and Brad Pitt on the cover and buy it on the spot simply because you want it. You might see a roll of tape at a check-out stand and remember you need one or you might see a bag of chips and realize you're hungry or just want them. These are items that are typically low-involvement decisions. **Low-involvement decisions** aren't necessarily products purchased on impulse, although they can be.

By contrast, **high-involvement decisions** carry a higher risk to buyers if they fail, are complex, and/or have high price tags. A car, a house, and an insurance policy are examples. These items are not purchased often but are relevant and important to the buyer. Buyers don't engage in routine response behavior when purchasing high-involvement products. Instead, consumers engage in what's called **extended problem solving**, where they spend a lot of time comparing different aspects such as the features of the products, prices, and warranties.

High-involvement decisions can cause buyers a great deal of postpurchase dissonance (anxiety) if they are unsure about their purchases or if they had a difficult time deciding between two alternatives. Companies that sell high-involvement products are aware that postpurchase dissonance can be a problem. Frequently, they try to offer consumers a lot of information about their products, including why they are superior to competing brands and how they won't let the consumer down. Salespeople may be utilized to answer questions and do a lot of customer "hand-holding."

routine response behavior

When consumers make automatic purchase decisions based on limited information or information they have gathered in the past.

impulse buying

Purchases that occur with no planning or forethought.

low-involvement decisions

Products that carry a low risk of failure or have a low price tag for a specific individual or group making the decision.

high-involvement decisions

Products that carry a high price tag or high level of risk to the individual or group making the decision.

extended problem solving

Purchasing decisions in which a consumer gathers a significant amount of information before making a decision.

Limited problem solving falls somewhere between low-involvement (routine) and high-involvement (extended problem solving) decisions. Consumers engage in **limited problem solving** when they already have some information about a good or service but continue to search for a little more information. Assume you need a new backpack for a hiking trip. While you are familiar with backpacks, you know that new features and materials are available since you purchased your last backpack. You're going to spend some time looking for one that's decent because you don't want it to fall apart while you're traveling and dump everything you've packed on a hiking trail. You might do a little research online and come to a decision relatively quickly. You might consider the choices available at your favorite retail outlet but not look at every backpack at every outlet before making a decision. Or you might rely on the advice of a person you know who's knowledgeable about backpacks. In some way you shorten or limit your involvement and the decision-making process.

Products, such as chewing gum, which may be low-involvement for many consumers often use advertising such as commercials and sales promotions such as coupons to reach many consumers at once. Companies also try to sell products such as gum in as many locations as possible. Many products that are typically high-involvement such as automobiles may use more personal selling to answer consumers' questions. Brand names can also be very important regardless of the consumer's level of purchasing involvement. Consider a low- versus high-involvement decision—say, purchasing a tube of toothpaste versus a new car. You might routinely buy your favorite brand of toothpaste, not thinking much about the purchase (engage in routine response behavior), but not be willing to switch to another brand either. Having a brand you like saves you "search time" and eliminates the evaluation period because you know what you're getting.

When it comes to the car, you might engage in extensive problem solving but, again, only be willing to consider a certain brand or brands. For example, in the 1970s, American-made cars had such a poor reputation for quality that buyers joked that a car that's "not Jap [Japanese made] is crap." The quality of American cars is very good today, but you get the picture. If it's a high-involvement product you're purchasing, a good brand name is probably going to be very important to you. That's why the manufacturers of products that are typically high-involvement decisions can't become complacent about the value of their brands.

FIGURE 3.8

Allstate's "You're in Good Hands" advertisements are designed to convince consumers that the insurance company won't let them down.

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limited problem solving

Purchasing decisions made based on consideration of some outside information.

Video Clip

1970s American Cars

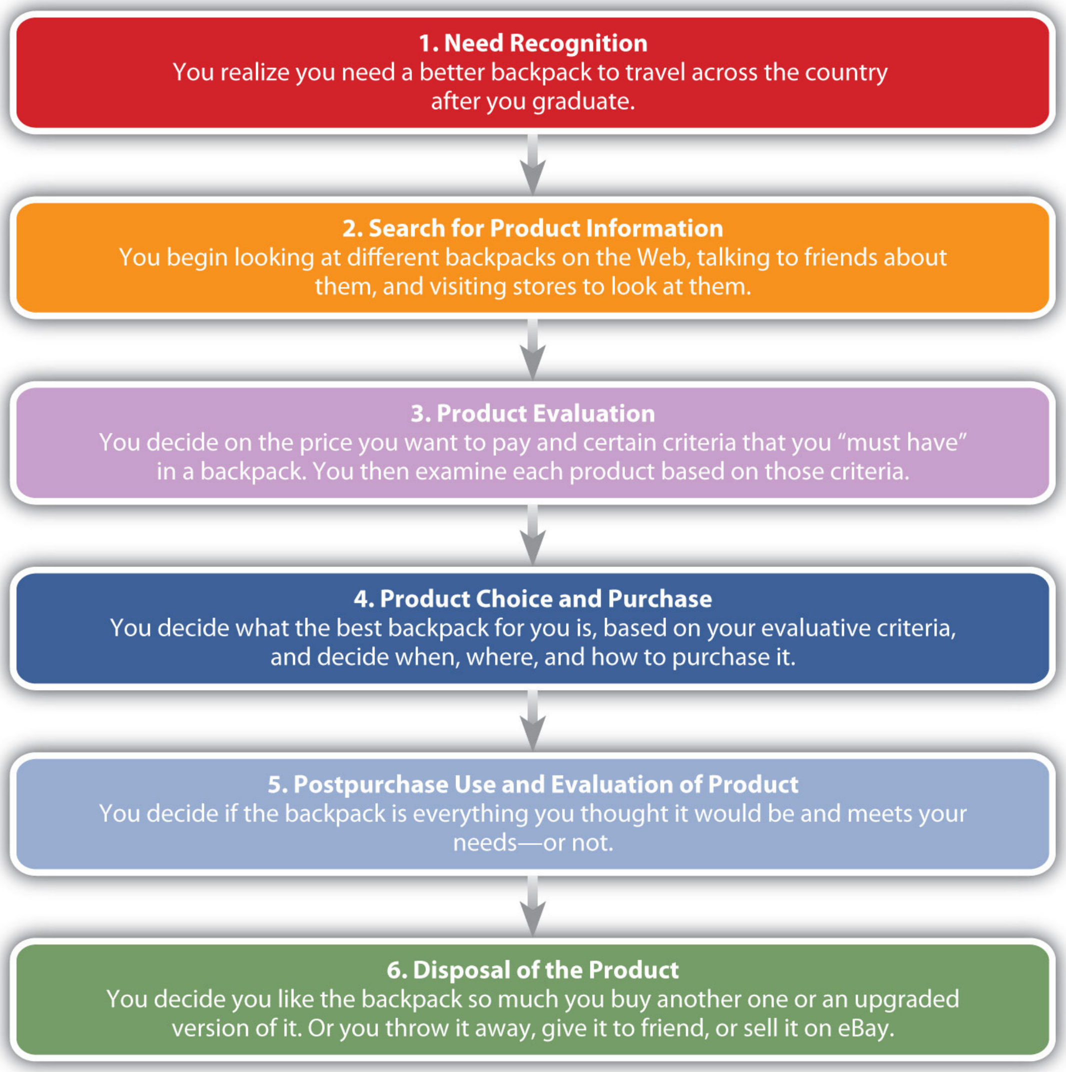
Today, Lexus is the automotive brand that experiences the most customer loyalty. For a humorous, tongue-in-cheek look at why the brand reputation of American carmakers suffered in the 1970s, check out this clip.

View the video online at: http://www.youtube.com/v/pjzpx_jUUA0

2.1 Stages in the Buying Process

Figure 3.9 outlines the buying stages consumers go through. At any given time, you're probably in a buying stage for a product or service. You're thinking about the different types of things you want or need to eventually buy, how you are going to find the best ones at the best price, and where and how will you buy them. Meanwhile, there are other products you have already purchased that you're evaluating. Some might be better than others. Will you discard them, and if so, how? Then what will you buy? Where does that process start?

FIGURE 3.9 Stages in the Consumer's Purchasing Process



Stage 1. Need Recognition

You plan to backpack around the country after you graduate and don't have a particularly good backpack. You realize that you must get a new backpack. You may also be thinking about the job you've accepted after graduation and know that you must get a vehicle to commute. Recognizing a need may involve something as simple as running out of bread or milk or realizing that you must get a new backpack or a car after you graduate. Marketers try to show consumers how their products and services add value and help satisfy needs and wants. Do you think it's a coincidence that Gatorade, Powerade, and other beverage makers locate their machines in gymnasiums so you see them after a long, tiring workout? Previews at movie theaters are another example. How many times have you heard about a movie and had no interest in it—until you saw the preview? Afterward, you felt like you *had* to see it.

Stage 2. Search for Information

For products such as milk and bread, you may simply recognize the need, go to the store, and buy more. However, if you are purchasing a car for the first time or need a particular type of backpack, you may need to get information on different alternatives. Maybe you have owned several backpacks and know what you like and don't like about them. Or there might be a particular brand that you've purchased in the past that you liked and want to purchase in the future. This is a great position for the company that owns the brand to be in—something firms strive for. Why? Because it often means you will limit your search and simply buy their brand again.

If what you already know about backpacks doesn't provide you with enough information, you'll probably continue to gather information from various sources. Frequently people ask friends, family, and neighbors about their experiences with products. Magazines such as *Consumer Reports* (considered an objective source of information on many consumer products) or *Backpacker Magazine* might also help you. Similar information sources are available for learning about different makes and models of cars.

Internet shopping sites such as Amazon.com have become a common source of information about products. Epinions.com is an example of consumer-generated review site. The site offers product ratings, buying tips, and price information. Amazon.com also offers product reviews written by consumers. People prefer "independent" sources such as this when they are looking for product information. However, they also often consult non-neutral sources of information, such advertisements, brochures, company Web sites, and salespeople.

Stage 3. Product Evaluation

Obviously, there are hundreds of different backpacks and cars available. It's not possible for you to examine all of them. In fact, good salespeople and marketing professionals know that providing you with too many choices can be so overwhelming that you might not buy anything at all. Consequently, you may use choice heuristics or rules of thumb that provide mental shortcuts in the decision-making process. You may also develop evaluative criteria to help you narrow down your choices. Backpacks or cars that meet your initial criteria before the consideration will determine the set of brands you'll consider for purchase.

Evaluative criteria are certain characteristics that are important to you such as the price of the backpack, the size, the number of compartments, and color. Some of these characteristics are more important than others. For example, the size of the backpack and the price might be more important to you than the color—unless, say, the color is hot pink and you hate pink. You must decide what criteria are most important and how well different alternatives meet the criteria.

evaluative criteria

Certain characteristics of products consumers consider when they are making buying decisions.

Companies want to convince you that the evaluative criteria you are considering reflect the strengths of their products. For example, you might not have thought about the weight or durability of the backpack you want to buy. However, a backpack manufacturer such as Osprey might remind you through magazine ads, packaging information, and its Web site that you should pay attention to these features—features that happen to be key selling points of its backpacks. Automobile manufacturers may have similar models, so don't be afraid to add criteria to help you evaluate cars in your consideration set.

FIGURE 3.10

Osprey backpacks are known for their durability. The company has a special design and quality control center, and Osprey's salespeople annually take a "canyon testing" trip to see how well the company's products perform.

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Stage 4. Product Choice and Purchase

With low-involvement purchases, consumers may go from recognizing a need to purchasing the product. However, for backpacks and cars, you decide which one to purchase after you have evaluated different alternatives. In addition to which backpack or which car, you are probably also making other decisions at this stage, including where and how to purchase the backpack (or car) and on what terms. Maybe the backpack was cheaper at one store than another, but the salesperson there was rude. Or maybe you decide to order online because you're too busy to go to the mall. Other decisions related to the purchase, particularly those related to big-ticket items, are made at this point. For example, if you're buying a high-definition television, you might look for a store that will offer you credit or a warranty.

Stage 5. Postpurchase Use and Evaluation

At this point in the process you decide whether the backpack you purchased is everything it was cracked up to be. Hopefully it is. If it's not, you're likely to suffer what's called **postpurchase dissonance**. You might call it *buyer's remorse*. Typically, dissonance occurs when a product or service does not meet your expectations. Consumers are more likely to experience dissonance with products that are relatively expensive and that are purchased infrequently.

postpurchase dissonance

Situations that occur when experiences do not match expectations and consumers rethink their decisions after purchasing products and wonder if they made the best decision.

You want to feel good about your purchase, but you don't. You begin to wonder whether you should have waited to get a better price, purchased something else, or gathered more information first. Consumers commonly feel this way, which is a problem for sellers. If you don't feel good about what you've purchased from them, you might return the item and never purchase anything from them again. Or, worse yet, you might tell everyone you know how bad the product was.

Companies do various things to try to prevent buyer's remorse. For smaller items, they might offer a money back guarantee or they might encourage their salespeople to tell you what a great purchase you made. How many times have you heard a salesperson say, "That outfit looks so great on you!" For larger items, companies might offer a warranty, along with instruction booklets, and a toll-free troubleshooting line to call or they might have a salesperson call you to see if you need help with product. Automobile companies may offer loaner cars when you bring your car in for service.

Companies may also try to set expectations in order to satisfy customers. Service companies such as restaurants do this frequently. Think about when the hostess tells you that your table will be ready in

30 minutes. If they seat you in 15 minutes, you are much happier than if they told you that your table would be ready in 15 minutes, but it took 30 minutes to seat you. Similarly, if a store tells you that your pants will be altered in a week and they are ready in three days, you'll be much more satisfied than if they said your pants would be ready in three days, yet it took a week before they were ready.

Stage 6. Disposal of the Product

There was a time when neither manufacturers nor consumers thought much about how products got disposed of, so long as people bought them. But that's changed. How products are being disposed of is becoming extremely important to consumers and society in general. Computers and batteries, which leech chemicals into landfills, are a huge problem. Consumers don't want to degrade the environment if they don't have to, and companies are becoming more aware of this fact.

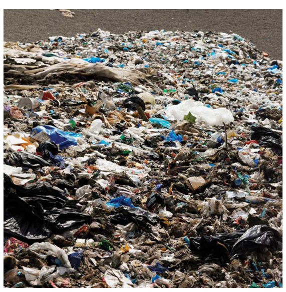
Take for example Crystal Light, a water-based beverage that's sold in grocery stores. You can buy it in a bottle. However, many people buy a concentrated form of it, put it in reusable pitchers or bottles, and add water. That way, they don't have to buy and dispose of plastic bottle after plastic bottle, damaging the environment in the process. Windex has done something similar with its window cleaner. Instead of buying new bottles of it all the time, you can purchase a concentrate and add water. You have probably noticed that most grocery stores now sell cloth bags consumers can reuse instead of continually using and discarding of new plastic or paper bags.

Other companies are less concerned about conservation than they are about **planned obsolescence**. Planned obsolescence is a deliberate effort by companies to make their products obsolete, or unusable, after a period of time. The goal is to improve a company's sales by reducing the amount of time between the repeat purchases consumers make of products. When a software developer introduces a new version of product, it is usually designed to be incompatible with older versions of it. For example, not all the formatting features are the same in Microsoft Word 2007 and 2010. Sometimes documents do not translate properly when opened in the newer version. Consequently, you will be more inclined to upgrade to the new version so you can open all Word documents you receive.

Products that are disposable are another way in which firms have managed to reduce the amount of time between purchases. Disposable lighters are an example. Do you know anyone today that owns a nondisposable lighter? Believe it or not, prior to the 1960s, scarcely anyone could have imagined using a cheap disposable lighter. There are many more disposable products today than there were in years past—including everything from bottled water and individually wrapped snacks to single-use eye drops and cell phones.

FIGURE 3.11

The hike up to Mount Everest used to be pristine. Now it looks more like this. Who's responsible? Are consumers or companies responsible, or both?



planned obsolescence

A deliberate effort by companies to make their products obsolete, or unusable, after a period of time.

FIGURE 3.12

Disposable lighters came into vogue in the United States in the 1960s. You probably don't own a cool, nondisposable lighter like one of these, but you don't have to bother refilling it with lighter fluid either.

KEY TAKEAWAYS

Consumer behavior looks at the many reasons why people buy things and later dispose of them. Consumers go through distinct buying phases when they purchase products: (1) realizing the need or wanting something, (2) searching for information about the item, (3) evaluating different products, (4) choosing a product and purchasing it, (5) using and evaluating the product after the purchase, and (6) disposing of the product. A consumer's level of involvement is how interested he or she is in buying and consuming a product. Low-involvement products are usually inexpensive and pose a low risk to the buyer if he or she makes a mistake by purchasing them. High-involvement products carry a high risk to the buyer if they fail, are complex, or have high price tags. Limited-involvement products fall somewhere in between.

REVIEW QUESTIONS

1. How do low-involvement decisions differ from high-involvement decisions in terms of relevance, price, frequency, and the risks their buyers face? Name some products in each category that you've recently purchased.
2. What stages do people go through in the buying process for high-involvement decisions? How do the stages vary for low-involvement decisions?
3. What is postpurchase dissonance and what can companies do to reduce it?

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3. DISCUSSION QUESTIONS AND ACTIVITIES

DISCUSSION QUESTIONS

1. Why do people in different cultures buy different products? Discuss with your class the types of vehicles you have seen other countries. Why are they different, and how do they better meet buyers' needs in those countries? What types of cars do you think should be sold in the United States today?
2. What is your opinion of companies like Google that gather information about your browsing patterns? What advantages and drawbacks does this pose for consumers? If you were a business owner, what kinds of information would you gather on your customers and how would you use it?
3. Are there any areas in which you consider yourself an opinion leader? What are they? How are companies getting information about opinion leaders?
4. What purchasing decisions have you been able to influence in your family and why? Is marketing to children a good idea? If not, what if one of your competitors were successful in doing so? Would it change your opinion?
5. Name some products that have led to postpurchase dissonance on your part. Then categorize them as high- or low-involvement products.
6. Describe the decision process for impulse purchases at the retail level. Would they be classified as high- or low-involvement purchases?
7. How do you think the manufacturers of products sold through infomercials reduce postpurchase dissonance?
8. Explain the relationship between extensive, limited, and routine decision making relative to high- and low-involvement decisions. Identify examples of extensive, limited, and routine decision making based on your personal consumption behavior.
9. Why is understanding consumer behavior so important for companies? Think of examples where you do not think companies understood their consumers.

ACTIVITIES

1. Go to http://www.ospreypacks.com and enter the blog site. Does the blog make you more or less inclined to purchase an Osprey backpack?
2. Select three advertisements and describe the needs identified by Abraham Maslow that each ad addresses. Find an international version of an advertisement for one of the products. What differences do you detect in the international version of the ad?
3. Break up into groups and visit an ethnic part of your town that differs from your own ethnicity(ies). Walk around the neighborhood and its stores. What types of marketing and buying differences do you see? Write a report of your findings.
4. Using Maslow's hierarchy of needs, identify a list of popular advertising slogans that appeal to each of the five levels.
5. Identify how McDonald's targets both users (primarily children) and buyers (parents, grandparents, etc.). Provide specific examples of strategies used by the fast-food marketer to target both groups. Make it a point to incorporate Happy Meals and Mighty Kids Meals into your discussion.

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CHAPTER 4

Business Buying Behavior

In the last chapter, we talked about the buying behavior of consumers—people like you and me who buy products for our own personal use. However, many businesses don't offer their goods and services to individual consumers at all. Instead, their customers are other businesses, institutions, or government organizations. These are the business-to-business (B2B) markets we talked about in Chapter 1.

1. THE CHARACTERISTICS OF BUSINESS-TO-BUSINESS (B2B) MARKETS

LEARNING OBJECTIVES

1. **Identify the ways in which business-to-business (B2B) markets differ from business-to-consumer (B2C) markets.**
2. **Explain why business buying is acutely affected by the behavior of consumers.**

Business-to-business (B2B) markets differ from business-to-consumer (B2C) markets in many ways. For one, the number of products sold in business markets dwarfs the number sold in consumer markets. Suppose you buy a five-hundred-dollar computer from Dell. The sale amounts to a single transaction for you. But think of all the transactions Dell had to go through to sell you that one computer. Dell had to purchase many parts from many computer component makers. It also had to purchase equipment and facilities to assemble the computers, hire and pay employees, pay money to create and maintain its Web site and advertise, and buy insurance and accounting and financial services to keep its operations running smoothly. Many transactions had to happen before you could purchase your computer.

Each of those transactions needed a salesperson. Each of those companies have a marketing department. Thus, there are a lot more college marketing graduates going into B2B companies than in B2C, which is reason enough to spend some time studying the subject. There are other differences, too.

Business products can be very complex. Some need to be custom built or retrofitted for buyers. The products include everything from high-dollar construction equipment to commercial real estate and buildings, military equipment, and billion-dollar cruise liners used in the tourism industry. A single customer can account for a huge amount of business. Some businesses, like those that supply the U.S. auto industry around Detroit, have just a handful of customers—General Motors, Chrysler, and/or Ford. Consequently, you can imagine why these suppliers become very worried when the automakers fall on hard times.

Not only can business products be complex, but so can figuring out the buying dynamics of organizations. Many people within an organization can be part of the buying process and have a say in ultimately what gets purchased, how much of it, and from whom. Having different people involved makes business marketing much more complicated. And because of the quantities each business customer is capable of buying, the stakes are high. For some organizations, losing a big account can be financially devastating and winning one can be a financial bonanza.

How high are the stakes? Table 4.1 shows a recent ranking of the top five corporations in the world in terms of the sales they generate annually. Believe it or not, these companies earn more in a year than all the businesses of some countries do. Imagine the windfall you could gain as a seller by landing an exclusive account with any one of them.

TABLE 4.1 Top Five Corporations Worldwide in Terms of Their Revenues

Company	Sales (Billions of Dollars)
Walmart Stores	422
Royal Dutch Shell	369
ExxonMobil	341
PetroChina	222
Chevron	189
Note: Numbers have been rounded to the nearest billion.	

Source: "The Global 2000," Forbes, April 8, 2011, http://www.forbes.com/lists/2011/18/global-09_The-Global-2000_Sales.html (accessed October 10, 2011).

Generally, the more high-dollar and complex the item being sold is, the longer it takes for the sale to be made. The sale of a new commercial jet to an airline company such as Southwest Airlines, Delta, or American Airlines can literally take years to be completed. Purchases such as these are risky for companies. The buyers are concerned about many factors, such as the safety, reliability, and efficiency of the planes. They also generally want the jets customized in some way. Consequently, a lot of time and effort is needed to close these deals.

Unlike many consumers, most business buyers demand that the products they buy meet strict standards. Take for example the Five Guys burger chain, based in Virginia. The company taste-tested eighteen different types of mayonnaise before settling on the one it uses. Would you be willing to taste eighteen different brands of mayonnaise before buying one? Probably not.[1]

Another characteristic of B2B markets is the level of personal selling that goes on. Salespeople personally call on business customers to a far greater extent than they do consumers. Most of us have had door-to-door salespeople call on us occasionally. However, businesses often have multiple salespeople call on them in person daily, and some customers even provide office space for key vendors' salespeople. Table 4.2 outlines the main differences between B2C and B2B markets.

TABLE 4.2 Business-to-Consumer Markets versus Business-to-Business Markets: How They Compare

Consumer Market	Business Market
Many customers, geographically dispersed	Fewer customers, often geographically concentrated, with a small number accounting for most of the company's sales
Smaller total dollar amounts due to fewer transactions	Larger dollar amounts due to more transactions
Shorter decision cycles	Longer decision cycles
More reliance on mass marketing via advertising, Web sites, and retailing	More reliance on personal selling
Less-rigid product standards	More-rigid product standards

1.1 The Demand for B2B Products

derived demand

Demand that springs from, or is derived from, a secondary source other than the primary buyer of the product.

fluctuating demand

Demand that fluctuates sharply in response to a change in consumer demand.

Even though they don't sell their products to consumers like you and me, B2B sellers carefully watch general economic conditions to anticipate consumer buying patterns. The firms do so because the demand for business products is based on derived demand. **Derived demand** is demand that springs from, or is derived from, a source other than the primary buyer of a product. When it comes to B2B sales, that source is consumers. If consumers aren't demanding the products produced by businesses, the firms that supply products to these businesses are in big trouble.

Fluctuating demand is another characteristic of B2B markets: a small change in demand by consumers can have a big effect throughout the chain of businesses that supply all the goods and services that produce it. Often, a bullwhip type of effect occurs. If you have ever held a whip, you know that a slight shake of the handle will result in a big snap of the whip at its tip. Essentially, consumers are the handle and businesses along the chain compose the whip—hence the need to keep tabs on end consumers. They are a powerful purchasing force.

For example, Cisco makes routers, which are specialized computers that enable computer networks to work. If Google uses five hundred routers and replaces 10 percent of them each year, that means Google usually buys fifty routers in a given year. What happens if consumer demand for the Internet falls by 10 percent? Then Google needs only 450 routers. Google's demand for Cisco's routers therefore becomes zero. Suppose the following year the demand for the Internet returns to normal. Google now needs to replace the fifty routers it didn't buy in the first year plus the fifty it needs to replace in the second year. So in year two, Cisco's sales go from zero to a hundred, or twice normal. Thus Cisco experiences a bullwhip effect, whereas Google's sales vary only by 10 percent.

Because consumers are such a powerful force, some companies go so far as to try to influence their B2B sales by directly influencing consumers even though they don't sell their products to them. Intel is a classic case. Do you really care what sort of microprocessing chip gets built into your computer? Intel would like you to, which is why it has run a long series of commercials on TV to think about what chip is inside your computer. The following video clip shows how they've continued to promote "Intel Inside" even though their actual product has changed. The commercial isn't likely to persuade a computer manufacturer to buy Intel's chips. But the manufacturer might be persuaded to buy them if it's important to you. Derived demand is also the reason Intel demands that the buyers of its chips put a little "Intel Inside" sticker on each computer they make—so you get to know Intel and demand its products.

Video Clip

Intel Animations Over the Years

Does this commercial make you want to buy a computer with "Intel Inside"? Intel hopes so.

View the video online at: http://www.youtube.com/v/VRcAdXd-TRU

B2B buyers also keep tabs on consumers to look for patterns that could create joint demand. **Joint demand** occurs when the demand for one product increases the demand for another. For example, when a new video console like the Xbox comes out, it creates demand for a whole new crop of video games.

joint demand

When the demand for one product increases the demand for another.

Video Clip

The History of Pong

Watch this video to see the first video game ever invented, Pong, and learn about its maker. Of course, Pong got old pretty fast, so more games were quickly developed and continue to be, especially when new gaming systems hit the market.

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

KEY TAKEAWAY

B2B markets differ from B2C markets in many ways. There are more transactions in B2B markets and more high-dollar transactions because business products are often costly and complex. There are also fewer buyers in B2B markets, but they spend much more than the typical consumer does and have more-rigid product standards. The demand for business products is based on derived demand. Derived demand is demand that springs from, or is derived from, a secondary source other than the primary buyer of a product. For businesses, this source is consumers. Fluctuating demand is another characteristic of B2B markets: a small change in demand by consumers can have a big effect throughout the chain of businesses that supply all the goods and services that produce it.

REVIEW QUESTIONS

1. Why are there more transactions in B2B markets than B2C markets? Why are there fewer buyers?
2. Explain what derived demand is.
3. Why do firms experience a bullwhip effect in the demand for their products when consumers demand changes?

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2. TYPES OF B2B BUYERS

LEARNING OBJECTIVES

1. **Describe the major categories of business buyers.**
2. **Explain why finding decision makers in business markets is challenging for sellers.**

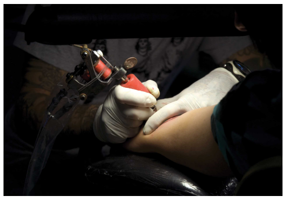
Business buyers can be either nonprofit or for-profit businesses. To help you get a better idea of the different types of business customers in B2B markets, we've put them into four basic categories: producers, resellers, governments, and institutions.

2.1 Producers

Producers are companies that purchase goods and services that they transform into other products. They include both manufacturers and service providers. Procter & Gamble, General Motors, McDonald's, Dell, and Delta Airlines are examples. So are the restaurants around your campus, your dentist, your doctor, and the local tattoo parlor. All these businesses have to buy certain products to produce the goods and services they create. General Motors needs steel and hundreds of thousands of other products to produce cars. McDonald's needs beef and potatoes. Delta Airlines needs fuel and planes. Your dentist needs drugs such as Novocain, oral tools, and X-ray machines. Your local tattoo parlor needs special inks and needles and a bright neon sign that flashes "open" in the middle of the night.

FIGURE 4.1

Your local tattoo parlor is a producer.



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producers

Companies that purchase goods and services that they transform into other products.

2.2 Resellers

Resellers are companies that sell goods and services produced by other firms without materially changing them. They include wholesalers, brokers, and retailers. Walmart and Target are two big retailers you are familiar with. Large wholesalers, brokers, and retailers have a great deal of market power. If you can get them to buy your products, your sales can exponentially increase.

Every day, retailers flock to Walmart's corporate headquarters in Bentonville, Arkansas, to try to hawk their products. But would it surprise you that not everybody wants to do business with a powerhouse like Walmart? Jim Wier, one-time CEO of the company that produces Snapper-brand mowers and snowblowers, actually took a trip to Walmart's headquarters to *stop* doing business with the company. Why? Snapper products are high-end, heavy-duty products. Wier knew that Walmart had been selling his company's products for lower and lower prices and wanted deeper and deeper discounts from Snapper. He believed Snapper products were too expensive for Walmart's customers and always would be, unless the company started making cheaper-quality products or outsourced their manufacturing overseas, which is something he didn't want to do.

"The whole visit to Wal-Mart's headquarters is a great experience," said Wier about his trip. "It's so crowded, you have to drive around, waiting for a parking space. You have to follow someone who is leaving, walking back to their car, and get their spot. Then you go inside this building, you register for your appointment, they give you a badge, and then you wait in the pews with the rest of the peddlers, the guy with the bras draped over his shoulder." Eventually, would-be suppliers were taken into small cubicles where they had thirty minutes to make their case. "It's a little like going to see the principal, really," he said.[2]

resellers

Companies that sell goods and services produced by other firms without materially changing them.

2.3 Governments

Can you guess the biggest purchaser of goods and services in the world? It is the U.S. government. It purchases everything you can imagine, from paper and fax machines to tanks and weapons, buildings, toilets for NASA (the National Aeronautics and Space Administration), highway construction services, and medical and security services. State and local governments buy enormous amounts of products, too. They contract with companies that provide citizens with all kinds of services from transportation to garbage collection. (So do foreign governments, provinces, and localities, of course.) **Business-to-government (B2G) markets**, or when companies sell to local, state, and federal governments, represent a major selling opportunity, even for smaller sellers. In fact, many government entities specify that their agencies must award a certain amount of business to small businesses, minority- and women-owned businesses, and businesses owned by disabled veterans.

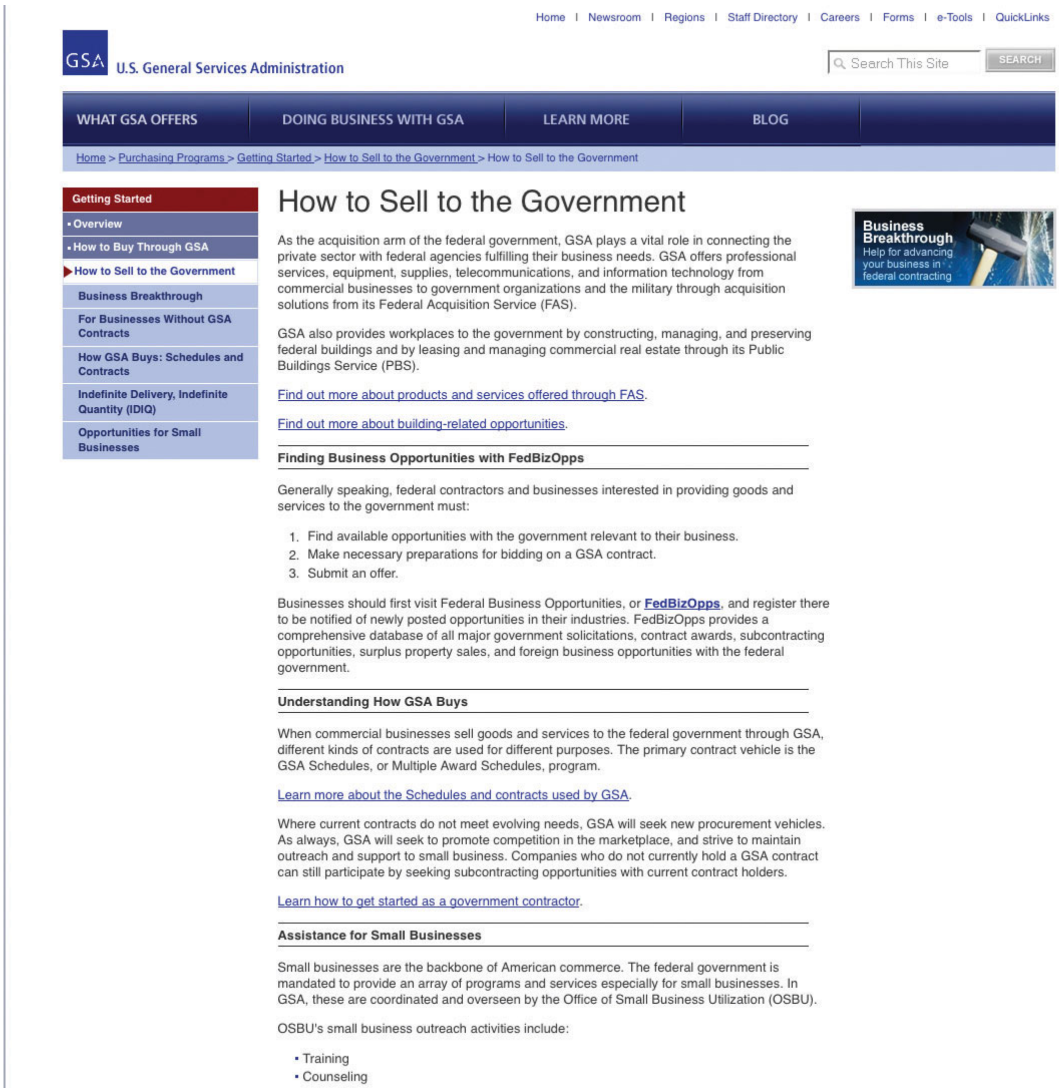
business-to-government (B2G) markets

Markets in which local, state, and federal governments buy products.

There is no one central department or place in which all these products are bought and sold. Companies that want to sell to the U.S. government should first register with the Central Contractor Registry at http://www.CCR.gov. They should then consult the General Services Administration (GSA) Web site (http://www.gsa.gov). The GSA helps more than two hundred federal agencies buy a wide variety of products purchased routinely. The products can include office supplies, information technology services, repair services, vehicles, and many other products purchased by agencies on a regular basis. Consequently, it is a good starting point. However, the GSA won't negotiate a contract for the NASA toilet or a fighter jet. It sticks to routine types of purchases.

FIGURE 4.2

The General Services Administration (GSA) is a good starting point for companies that want to do business with the federal government. The U.S. Small Business Administration (SBA) also offers sellers a great deal of information on marketing to the government, including online courses that explain how to do it.



Source: http://www.gsa.gov/portal/content/105344.

The existence of the GSA doesn't mean the agencies it works with don't have any say over what is purchased for them. The agencies themselves have a big say, so B2B sellers need to contact them and aggressively market their products to them. After all, agencies don't buy products, people do. Fortunately, every agency posts on the Internet a forecast of its budget, that is, what it is planning on spending money on in the coming months. The agencies even list the names, addresses, and e-mails of contact persons responsible for purchasing decisions. Many federal agencies are able to purchase as much as $25,000 of products at a time by simply using a government credit card. This fact makes them a good target for small businesses.

It's not unusual for each agency or department to have its own procurement policies that must be followed. Would-be sellers are often asked to submit sealed bids that contain the details of what they are willing to provide the government and at what price. But contrary to popular belief, it's not always the lowest bid that's accepted. Would the United States want to send its soldiers to war in the cheapest planes and tanks, bearing the lowest-cost armor? Probably not. Like other buyers, government buyers look for the best value.

Yet selling to the government is not always easy. The GSA has its own red tape, as does each government division, and many purchases come with additional regulations or specifications written into the legislation that funded them. Because many purchases can be rather large, decision cycles can be very long and involve large buying centers. Some businesses avoid selling to the government because the perceived hassle is too great to warrant the effort. Other businesses, though, realize that learning the ins and outs of government purchases can become a sustainable competitive advantage.

FIGURE 4.3

Politics can come into play when it comes to large government purchases: Although the F-22 is the most sophisticated fighter jet in the world, it has never been used in battle. But when the Pentagon wanted to stop production on seven of the jets so it could spend the money on other conventional weapons being used in the wars the United States is currently fighting, it had a fight on its hands from the members of Congress. They didn't want the companies in their states that helped produce the plane to lose business.

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2.4 Institutions

Institutional markets include nonprofit organizations such as the American Red Cross, churches, hospitals, charitable organizations, private colleges, civic clubs, and so on. Like government and for-profit organizations, they buy a huge quantity of products and services. Holding costs down is especially important to them. The lower their costs are, the more people they can provide their services to.

institutional markets

Nonprofit organizations such as the American Red Cross, churches, hospitals, charitable organizations, private colleges, and civic clubs.

The businesses and products we have mentioned so far are broad generalizations to help you think about the various markets in which products can be sold. In addition, not all products a company buys are high dollar or complex. Businesses buy huge quantities of inexpensive products, too. McDonald's, for example, buys a lot of toilet paper, napkins, bags, employee uniforms, and so forth. Pretty much any product you and I use is probably used for one or more business purposes (cell phones and cell-phone services, various types of food products, office supplies, and so on). Some of us own real estate, and so do many businesses. But very few of us own many of the other products businesses sell to one another: cranes, raw materials such as steel, fiber-optic cables, and so forth.

That said, a smart B2B marketer will look at all the markets we have mentioned to see if they represent potential opportunities. The Red Cross will have no use for a fighter jet, of course. However, a company that manufactures toilet paper might be able to market it to both the Red Cross and the U.S. government. B2B opportunities abroad and online B2B markets can also be successfully pursued. We will discuss these topics later in the chapter.

2.5 Who Makes the Purchasing Decisions in Business Markets?

Figuring out who exactly in B2B markets is responsible for what gets purchased and when often requires some detective work for marketing professionals and the salespeople they work with. Think about the college textbooks you buy. Who decides which ones ultimately are purchased by the students at your school? Do publishers send you e-mails about certain books they want you to buy? Do you see ads for different types of chemistry or marketing books in your school newspaper or on TV? Generally, you do not. The reason is that even though you buy the books, the publishers know that professors ultimately decide which textbooks are going to be used in the classroom. Consequently, B2B sellers largely concentrate their efforts on those people.

FIGURE 4.4

Who ya gonna call? Click on http://blogs.bnet.com/salesmachine/?p=2308&page=1&tag =col1;post-2308 to play an online game that will help you understand why finding the right decision makers in a company is so tricky. Are you up to the challenge?

That's not to say that to some extent the publishers don't target you. They may offer you a good deal by packaging a study guide with your textbook or some sort of learning supplement online you can purchase. They might also offer your bookstore manager a discount for buying a certain number of textbooks. However, a publishing company that focused on selling its textbooks directly to you or to a bookstore manager would go out of business. They know the true revenue generators are professors.

The question is, which professors? Some professors choose their own books. Adjunct professors often don't have a choice—their books are chosen by a course coordinator or the dean or chair of the department. Still other decisions are made by groups of professors, some of whom have more say over the final decision than others. Are you getting the picture? Figuring out where to start in B2B sales can be a little bit like a scavenger hunt.

KEY TAKEAWAY

Business buyers can be either nonprofit or for-profit businesses. There are four basic categories of business buyers: producers, resellers, governments, and institutions. Producers are companies that purchase goods and services that they transform into other products. They include both manufacturers and service providers. Resellers are companies that sell goods and services produced by other firms without materially changing them. They include wholesalers, brokers, and retailers. Local, state, and national governments purchase large quantities of goods and services. Institutional markets include nonprofit organizations such as the American Red Cross, churches, hospitals, charitable organizations, private colleges, civic clubs, and so on. Holding costs down is especially important to them because it enables them to provide their services to more people. Figuring out who exactly in B2B markets is responsible for what gets purchased and when often requires some detective work by marketing professionals and the salespeople they work with.

REVIEW QUESTIONS

1. What sorts of products do producers buy?
2. What role do resellers play in B2B markets, and why are they important to sellers?
3. How do sellers find government buyers? Institutional buyers?
4. Why is it difficult to figure out whom to call on in business markets?

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3. BUYING CENTERS

LEARNING OBJECTIVES

1. **Explain what a buying center is.**
2. **Explain who the members of buying centers are and describe their roles.**
3. **Describe the duties of professional buyers.**
4. **Describe the personal and interpersonal dynamics that affect the decisions buying centers make.**

The professors who form a committee at your school to choose textbooks are acting like a buying center. **Buying centers** are groups of people within organizations who make purchasing decisions. Large organizations often have permanent departments that consist of the people who, in a sense, shop for a living. They are professional buyers, in other words. Their titles vary. In some companies, they are simply referred to as *buyers*. In other companies, they are referred to as *purchasing agents*, *purchasing managers*, or *procurement officers*. Retailers often refer to their buyers as *merchandisers*. Most of the people who do these jobs have bachelor's of science degrees. Some undergo additional industry training to obtain an advanced purchasing certification designation.[3]

buying centers

Groups of people within organizations who make purchasing decisions.

Buyers can have a large impact on the expenses, sales, and profits of a company. Pier 1's purchasing agents literally comb the entire world looking for products the company's customers want most. What happens if the products the purchasing agents pick don't sell? Pier 1's sales fall, and people get fired. This doesn't happen in B2C markets. If you pick out the wrong comforter for your bed, you don't get fired. Your bedroom just looks crummy.

Consequently, professional buyers are shrewd. They have to be because their jobs depend on it. Their jobs depend on their choosing the best products at the best prices from the best vendors. Professional buyers are also well informed and less likely to buy a product on a whim than consumers. The following sidebar outlines the tasks professional buyers generally perform.

The Duties of Professional Buyers

- Considering the availability of products, the reliability of the products' vendors, and the technical support they can provide
- Studying a company's sales records and inventory levels
- Identifying suppliers and obtaining bids from them
- Negotiating prices, delivery dates, and payment terms for goods and services
- Keeping abreast of changes in the supply and demand for goods and services their firms need
- Staying informed of the latest trends so as to anticipate consumer buying patterns
- Determining the media (TV, the Internet, newspapers, and so forth) in which advertisements will be placed
- Tracking advertisements in newspapers and other media to check competitors' sales activities

Increasingly, purchasing managers have become responsible for buying not only products but also functions their firms want to outsource. The functions aren't limited to manufacturing. They also include product innovation and design services, customer service and order fulfillment services, and information technology and networking services to name a few. Purchasing agents responsible for finding offshore providers of goods and services often take trips abroad to inspect the facilities of the providers and get a better sense of their capabilities.

3.1 Other Players

Purchasing agents don't make all the buying decisions in their companies, though. As we explained, other people in the organization often have a say, as well they should. Purchasing agents frequently need their feedback and help to buy the best products and choose the best vendors. The people who provide their firms' buyers with input generally fall into one or more of the following groups:

Initiators

Initiators are the people within the organization who first see the need for the product. But they don't stop there; whether they have the ability to make the final decision of what to buy or not, they get the ball rolling. Sometimes they initiate the purchase by simply notifying purchasing agents of what is needed; other times they have to lobby executives to consider making a change.

initiators

People within the organization that first see the need for a product and, depending on their ability to make the final decision, either notify the purchasing agents of what is needed or lobby executives to consider making a change.

Users

Users are the people and groups within the organization that actually use the product. Frequently, one or more users serve as an initiator in an effort to improve what they produce or how they produce it, and they certainly have the responsibility for implementing what is purchased. Users often have certain specifications in mind for products and how they want them to perform. An example of a user might be a professor at your school who wants to adopt an electronic book and integrate it into his or her online course.

users

The people and groups within the organization that actually use the product.

Influencers

Influencers are people who may or may not use the product but have experience or expertise that can help improve the buying decision. For example, an engineer may prefer a certain vendor's product platform and try to persuade others that it is the best choice.

influencers

People who may or may not use the product but actively participate in the purchasing process in order to secure a decision they consider favorable.

Gatekeepers

If you want to sell a product to a large company like Walmart, you can't just walk in the door of its corporate headquarters and demand to see a purchasing agent. You will first have to get past of a number of **gatekeepers**, or people who will decide if and when you get access to members of the buying center. These are people such as buying assistants, personal assistants, and other individuals who have some say about which sellers are able to get a foot in the door.

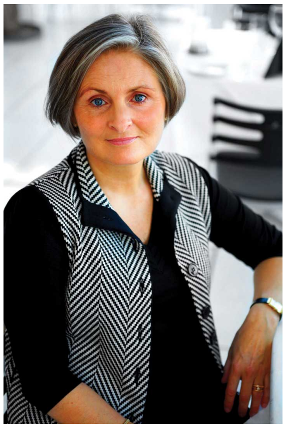
gatekeepers

People who decide if and when a salesperson gets access to members of the buying center.

Gatekeepers often need to be courted as hard as prospective buyers do. They generally have a lot of information about what's going on behind the scenes and a certain amount of informal power. If they like you, you're in a good position as a seller. If they don't, your job is going to be *much* harder. In the case of textbook sales, the gatekeepers are often faculty secretaries. They know in advance which instructors will be teaching which courses and the types of books they will need. It is not uncommon for faculty secretaries to screen the calls of textbook sales representatives.

FIGURE 4.5

Warning: Do not be rude to or otherwise anger the faculty secretary. This is good advice for salespeople and students as well as faculty members.



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Deciders

The **decider** is the person who makes the final purchasing decision. The decider might or might not be the purchasing manager. Purchasing managers are generally solely responsible for deciding upon routine purchases and small purchases. However, the decision to purchase a large, expensive product that will have a major impact on a company is likely to be made by or with the help of other people in the organization, perhaps even the CEO. The decision may be made by a single decider, or there may be a few who reach consensus. Further, deciders take into account the input of all of the other participants: the users, influencers, and so forth. Sellers, of course, pay special attention to what deciders want. "Who makes the buying decision?" is a key question B2B sales and marketing personnel are trained to quickly ask potential customers.

decider

The person who makes the final purchasing decision.

3.2 The Interpersonal and Personal Dynamics of B2B Marketing

We made it a point earlier in our discussion to explain how rational and calculating business buyers are. So would it surprise you to learn that sometimes the dynamics that surround B2B marketing don't lead to the best purchasing decisions? Interpersonal factors among the people making the buying decision often have an impact on the products chosen, good or bad. (You can think of this phenomenon as "office politics.") For example, one person in a buying unit might wield a lot of power and greatly influence the purchasing decision. However, other people in the unit might resent the power he or she wields and insist on a different offering, even if doesn't best meet the organization's needs. Savvy B2B marketers are aware of these dynamics and try their best to influence the outcome.

Personal factors play a part. B2B buyers are overwhelmed with choices, features, benefits, information, data, and metrics. They often have to interview dozens of potential vendors and ask them hundreds of questions. No matter how disciplined they are in their buying procedures, they will often find a way to simplify their decision making either consciously or subconsciously.[4] For example, a buyer deciding upon multiple vendors running neck and neck might decide to simply choose the vendor whose sales representative he likes the most.

Factors such as these can be difficult for a company to control. However, branding—how successful a company is at marketing its brands—*is* a factor under a company's control, says Kevin Randall of Movéo Integrated Branding, an Illinois-based marketing-consulting firm. Sellers can use their brands to their advantage to help business buyers come to the conclusion that their products are the best choice. IBM, for example, has long had a strong brand name when it comes to business products. The company's reputation was so solid that for years the catchphrase "Nobody ever got fired for buying IBM" was often repeated among purchasing agents—and by IBM salespeople of course![5]

In short, B2B marketing is very strategic. Selling firms try to gather as much information about their customers as they can and use that information to their advantage. As an analogy, imagine if you were interested in asking out someone you had seen on campus. Sure, you could simply try to show up at a party or somewhere on campus in the hopes of meeting the person. But if you were thinking strategically, you might try to find out everything you could about the person, what he or she likes to do and so forth, and then try to arrange a meeting. That way when you did meet the person, you would be better able to strike up a conversation and develop a relationship with him or her. B2B selling is similarly strategic. Little is left to chance.

KEY TAKEAWAY

Buying centers are groups of people within organizations who make purchasing decisions. The buying centers of large organizations employ professional buyers who, in a sense, shop for a living. They don't make all the buying decisions in their companies, though. The other people who provide input are users, or the people and groups within the organization that actually use the product; influencers, or people who may or may not use the product but have experience or expertise that can help improve the buying decision; gatekeepers, or people who will decide if and when a seller gets access to members of the buying center; and deciders, or the people who make the final purchasing decision. Interpersonal dynamics between the people in a buying center will affect the choices the center makes. Personal factors, such as how likeable a seller is, play a part because buyers are often overwhelmed with information and will find ways to simplify their decision making.

REVIEW QUESTIONS

1. Which people do you think have the most influence on the decisions a buying center makes? Why?
2. Describe the duties of professional buyers. What aspects of their jobs seem attractive? Which aspects seem unattractive to you?
3. How do personal and interpersonal dynamics affect the decisions buying centers make?

4. STAGES IN THE B2B BUYING PROCESS AND B2B BUYING SITUATIONS

LEARNING OBJECTIVES

1. **Outline the stages in the B2B buying process.**
2. **Explain the scorecard process of evaluating proposals.**
3. **Describe the different types of B2B buying situations and how they affect sellers.**

4.1 Stages in the B2B Buying Process

Next, let's look at the stages in the B2B buying process. They are similar to the stages in the consumer's buying process.

1. A need is recognized. Someone recognizes that the organization has a need that can be solved by purchasing a good or service. Users often drive this stage, although others can serve the role of initiator. In the case of the electronic textbook, it could be, for example, the professor assigned to teach the online course. However, it could be the dean or chairman of the department in which the course is taught.

2. The need is described and quantified. Next, the buying center, or group of people brought together to help make the buying decision, work to put some parameters around what needs to be purchased. In other words, they describe what they believe is needed, the features it should have, how much of it is needed, where, and so on. For more technical or complex products the buyer will define the product's technical specifications. Will an off-the-shelf product do, or must it be customized?

Users and influencers come into play here. In the case of our electronic book, the professor who teaches the online course, his teaching assistants, and the college's information technology staff would try to describe the type of book best suited for the course. Should the book be posted on the Web as this book is? Should it be downloadable? Maybe it should be compatible with Amazon's Kindle. Figure 4.6 shows the specifications developed for a janitorial-services purchase by the state of Kentucky.

FIGURE 4.6 An Example of Product Specifications Developed for a B2B Purchase

Who: Division of Building Services

What: Janitorial Services for State Office Building at High and Mero Streets, Frankfort, Kentucky

Background:

Past experience with various contractors indicates that not all vendors are prepared to handle buildings the size of the State Office Building. Building Services indicated that staff and materials supported by a quality review program have been the common elements of the more successful vendors.

- Gross area: 384,586 sq. ft
- Total area to be cleaned: 322,585 sq. ft
- Rest room areas: 7,801 sq. ft
- Carpeted areas: 126,304 sq. ft
- Basement areas: 22,734 sq. ft
- Computer areas: 1,104 sq. ft
- Stairways: 4 sets
- Passenger elevators: 6
- Freight elevators: 1

Specifications:

- Daily cleaning for waste baskets, ashtrays, trash can liners, glass partitions, floors (sweep, mop, and buff), carpets (vacuum), and restrooms
- All cleaning conducted after hours
- Sign–in sheets and identification on badges for contractor's employees
- Current insurance

DIVISION OF PURCHASES

Source: http://www.state.ky.us/agencies/adm/leadership/best/sld047.htm.

3. Potential suppliers are searched for. At this stage, the people involved in the buying process seek out information about the products they are looking for and the vendors that can supply them. Most buyers look online first to find vendors and products, then attend industry trade shows and conventions and telephone or e-mail the suppliers with whom they have relationships. The buyers might also consult trade magazines, the blogs of industry experts, and perhaps attend Webinars conducted by vendors or visit their facilities. Purchasing agents often play a key role when it comes to deciding which vendors are the most qualified. Are they reliable and financially stable? Will they be around in the future? Do they need to be located near the organization or can they be in another region of the country or in a foreign country? The vendors that don't make the cut are quickly eliminated from the running.

4. Qualified suppliers are asked to complete responses to requests for proposal (RFPs). Each vendor that makes the cut is sent a **request for proposal (RFP)**, which is an invitation to submit a bid to supply the good or service. An RFP outlines what the vendor is able to offer in terms of its product—its quality, price, financing, delivery, after-sales service, whether it can be customized or returned, and even the product's disposal, in some cases. Good sales and marketing professionals do more than just provide basic information to potential buyers in RFPs. They focus on the buyer's problems and how to adapt their offers to solve those problems.

request for proposal (RFP)

An invitation to submit a bid to supply the good or service.

Oftentimes the vendors formally present their products to the people involved in the buying decision. If the good is a physical product, the vendors generally provide the purchaser with samples, which are then inspected and sometimes tested. They might also ask satisfied customers to make testimonials or initiate a discussion with the buyer to help the buyer get comfortable with the product and offer advice on how best to go about using it.

5. The proposals are evaluated and supplier(s) selected. During this stage, the RFPs are reviewed and the vendor or vendors selected. RFPs are best evaluated if the members agree on the criteria being evaluated and the importance of each. Different organizations will weigh different parts of a proposal differently, depending on their goals and the products they purchase. The price might be very important to some sellers, such as discount and dollar stores. Other organizations might be more focused on top-of-the-line goods and the service a seller provides. Recall that the maker of Snapper mowers and snowblowers was more focused on purchasing quality materials to produce top-of-the-line equipment that could be sold at a premium. Still other factors include the availability of products and the reliability with which vendors can supply them. Reliability of supply is extremely important because delays in the supply chain can shut down a company's production of goods and services and cost the firm its customers and reputation.

For high-priced, complex products, after-sales service is likely to be important. A fast-food restaurant might not care too much about the after-sales service for the paper napkins it buys—just that they are inexpensive and readily available. However, if the restaurant purchases a new drive-thru ordering system, it wants to be assured that the seller will be on hand to repair the system if it breaks down and perhaps train its personnel to use the system.

A scorecard approach can help a company rate the RFPs. Figure 4.7 is a simple example of a scorecard completed by one member of a buying team. The scorecards completed by all the members of the buying team can then be tabulated to help determine the vendor with the highest rating.

FIGURE 4.7 A Scorecard Used to Evaluate RFPs

Reviewer: Jose Martinez		Vendor A		Vendor B		Vendor C	
Criteria	**Weight**	**Score (scale of 1–3)**	**Points (score × weight)**	**Score (scale of 1–3)**	**Points (score × weight)**	**Score (scale of 1–3)**	**Points (score × weight)**
Product Performance	3	1	3	3	9	2	6
Product Durability	3	3	9	2	6	3	9
Price	3	3	9	2	6	2	6
On-Time Delivery	3	3	9	2	6	2	6
Customer Service	3	2	6	2	6	2	6
Returns Policy	2	2	6	2	6	2	6
TOTAL SCORE			42		39		39

Selecting Single versus Multiple Suppliers. Sometimes organizations select a single supplier to provide the good or service. This can help streamline a company's paperwork and other buying processes. With a single supplier, instead of negotiating two contracts and submitting two purchase orders to buy a particular offering, the company only has to do one of each. Plus, the more the company buys from one vendor, the bigger the volume discount it gets. Single sourcing can be risky, though, because it leaves a firm at the mercy of a sole supplier. What if the supplier doesn't deliver the goods, goes out of business, or jacks up its prices? Many firms prefer to do business with more than one supplier to avoid problems such as these. Doing business with multiple suppliers keeps them on their toes. If they know their customers can easily switch their business over to another supplier, they are likely to compete harder to keep the business.

6. An order routine is established. This is the stage in which the actual order is put together. The order includes the agreed-upon price, quantities, expected time of delivery, return policies, warranties, and any other terms of negotiation.[6] The order can be made on paper, online, or sent electronically from the buyer's computer system to the seller's. It can also be a one-time order or consist of multiple orders that are made periodically as a company needs a good or service. Some buyers order products continuously by having their vendors electronically monitor their inventory for them and ship replacement items as the buyer needs them. (We'll talk more about inventory management in Chapter 9.)

7. A postpurchase evaluation is conducted and the feedback provided to the vendor. Just as consumers go through an evaluation period after they purchase goods and services, so do businesses. The buying unit might survey users of the product to see how satisfied they were with it. Cessna Aircraft Company, a small U.S. airplane maker, routinely surveys the users of the products it buys so they can voice their opinions on a supplier's performance.[7]

Some buyers establish on-time performance, quality, customer satisfaction, and other measures for their vendors to meet, and provide those vendors with the information regularly, such as trend reports that show if their performance is improving, remaining the same, or worsening. (The process is similar to a performance evaluation you might receive as an employee.) For example, Food Lion shares a wide variety of daily retail data and performance calculations with its suppliers in exchange for their commitment to closely collaborate with the grocery-store chain.

Keep in mind that a supplier with a poor performance record might not be entirely to blame. The purchasing company might play a role, too. For example, if the U.S. Postal Service contracts with FedEx to help deliver its holiday packages on time, but a large number of the packages are delivered late, FedEx may or may not be to blame. Perhaps a large number of loads the U.S. Postal Service delivered to FedEx were late, weather played a role, or shipping volumes were unusually high. Companies need to collaborate with their suppliers to look for ways to improve their joint performance. Some companies hold annual symposiums with their suppliers to facilitate cooperation among them and to honor their best suppliers.[8]

4.2 Types of B2B Buying Situations

To some extent the stages an organization goes through and the number of people involved depend on the buying situation. Is this the first time the firm has purchased the product or the fiftieth? If it's the fiftieth time, the buyer is likely to skip the search and other phases and simply make a purchase. A **straight rebuy** is a situation in which a purchaser buys the same product in the same quantities from the same vendor. Nothing changes, in other words. Postpurchase evaluations are often skipped, unless the buyer notices an unexpected change in the offering such as a deterioration of its quality or delivery time.

straight rebuy

When a purchaser buys the same product in the same quantities from the same vendor.

Sellers like straight rebuys because the buyer doesn't consider any alternative products or search for new suppliers. The result is a steady, reliable stream of revenue for the seller. Consequently, the seller doesn't have to spend a lot of time on the account and can concentrate on capturing other business opportunities. Nonetheless, the seller cannot ignore the account. The seller still has to provide the buyer with top-notch, reliable service or the straight-rebuy situation could be jeopardized.

If an account is especially large and important, the seller might go so far as to station personnel at the customer's place of business to be sure the customer is happy and the straight-rebuy situation continues. IBM and the management consulting firm Accenture station employees all around the world at their customers' offices and facilities.

By contrast, a **new-buy** selling situation occurs when a firm purchases a product for the first time. Generally speaking, all the buying stages we described in the last section occur. New buys are the most time consuming for both the purchasing firm and the firms selling to them. If the product is complex, many vendors and products will be considered, and many RFPs will be solicited.

new buy

When a firm purchases a product for the first time.

New-to-an-organization buying situations rarely occur. What is more likely is that a purchase is new to the people involved. For example, a school district owns buildings. But when a new high school needs to be built, there may not be anyone in management who has experience building a new school. That purchase situation is a new buy for those involved.

A **modified rebuy** occurs when a company wants to buy the same type of product it has in the past but make some modifications to it. Maybe the buyer wants different quantities, packaging, or delivery, or the product customized slightly differently. For example, your instructor might have initially adopted this textbook "as is" from its publisher, Flat World Knowledge, but then decided to customize it later with additional questions, problems, or content that he or she created or that was available from Flat World Knowledge.

modified rebuy

When a company wants to buy the same type of product it has in the past but make some modifications to it.

A modified rebuy doesn't necessarily have to be made with the same seller, however. Your instructor may have taught this course before, using a different publisher's book. High textbook costs, lack of customization, and other factors may have led to dissatisfaction. In this case, she might visit with some other textbook suppliers and see what they have to offer. Some buyers routinely solicit bids from other sellers when they want to modify their purchases in order to get sellers to compete for their business. Likewise, savvy sellers look for ways to turn straight rebuys into modified buys so they can get a shot at the business. They do so by regularly visiting with customers and seeing if they have unmet needs or problems a modified product might solve.

KEY TAKEAWAY

The stages in the B2B buying process are as follows: Someone recognizes that the organization has a need that can be solved by purchasing a good or service. The need is described and quantified. Qualified suppliers are searched for, and each qualified supplier is sent a request for proposal (RFP), which is an invitation to submit a bid to supply the good or service. The proposals suppliers submit are evaluated, one or more supplier(s) selected, and an order routine with each is established. A postpurchase evaluation is later conducted and the feedback provided to the suppliers. The buying stages an organization goes through often depend on the buying situation—whether it's a straight rebuy, new buy, or modified rebuy.

REVIEW QUESTIONS

1. What buying stages do buying centers typically go through?
2. Why should business buyers collaborate with the companies they buy products from?
3. Explain how a straight rebuy, new buy, and modified rebuy differ from one another.

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5. INTERNATIONAL B2B MARKETS AND E-COMMERCE

LEARNING OBJECTIVES

1. **Describe the reasons why firms in the same industries are often located in the same geographic areas.**
2. **Explain the effect e-commerce is having on the firms, the companies they do business with, where they are located, and the prices they charge.**
3. **Outline the different types of e-commerce sites and what each type of site is used for.**

5.1 International B2B Markets

Another characteristic of B2B markets that you may or may not have noticed or thought about is that firms in the same industry tend to cluster in the same geographic areas. In the United States, many banks and financial companies are located on or near Wall Street in New York City. Many film and television companies operate out of Hollywood. Is it just by chance that this has occurred? No.

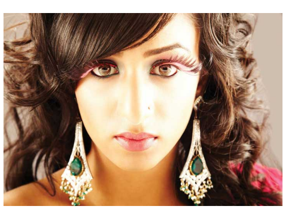
The clustering occurs because the resources these firms need—both human and natural—are located in some areas and not others. For example, the Gulf of Mexico is rich with oil deposits. As a result, many oil companies and facilities are located along or near the Gulf in cities such as Houston. Likewise, many high-tech companies are located in Silicon Valley (California). One reason is that nearby Stanford University is one of the top computer-science schools in the country and the firms want to hire graduates from the school.

But that's not the only reason businesses in the same industry cluster together. Another reason is the sellers want to be close to their buyers. Bentonville, Arkansas, the world headquarters of Walmart, used to be a sleepy little rural town. As Walmart grew, so have the number of companies moving into the area to do business with Walmart. In the last twenty years, the size of the town has nearly tripled.

Why do companies want to be near their buyers? Let's go back to our date analogy. Suppose you hit it off with the person you're interested in and you become "an item." You probably wouldn't want to be half the world away from the person for a long period of time because you would miss the person and because you wouldn't want a rival moving in on your turf! The same is true for sellers. Buyers also want to be close to their suppliers because it can help them get inventory more quickly. Dell's suppliers are located right next to the company's assembly plants. And, as you have learned, some companies actually locate their personnel on their customers' sites.

FIGURE 4.8

Bollywood, which refers to the film industry in India, has become one of the largest film centers in the world. It's growing faster than Hollywood and is beginning to rival its size.



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5.2 B2B E-Commerce

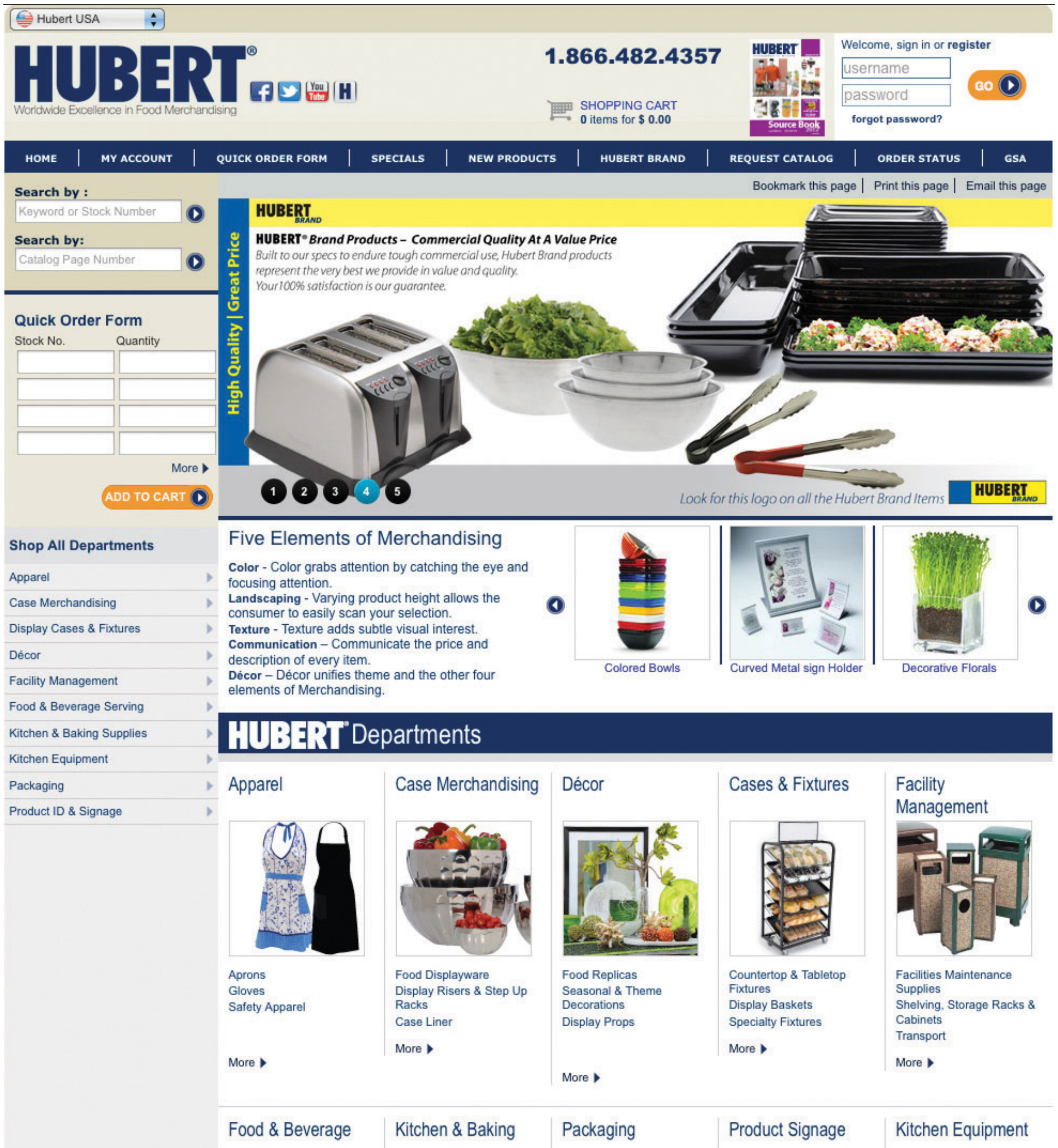
Not all B2B buyers and sellers are cozying up to one another location-wise today, though: **e-commerce**, or commerce conducted electronically, such as over the Internet, has made locating near buyers less important. Consider the Hubert Company, a Cincinnati-based firm that sells supplies to the food industry. "Just ten years ago the Internet didn't exist for the Hubert Company, and today almost 30 percent of our business comes through the Internet as an ordering mechanism," says Bart Kohler, president of the company.[9] However, the Hubert Company can no longer protect the market in and around Cincinnati just because it's headquartered there. "Whereas in the past, I was somewhat insulated to just people in my area, now there really are no geographic boundaries anymore, and anyone can compete with me anywhere," Kohler explains. The advantage is that whereas the United States is a mature market in which growth is limited, other countries, like Brazil, India, and China, are growing like crazy and represent huge e-commerce opportunities for the Hubert Company, he says.

e-commerce

Commerce conducted electronically, such as over the Internet.

FIGURE 4.9

The Hubert Company sells to companies all over the globe, including the U.S. government. Notice the GSA link in the upper right-hand corner of its Web page.



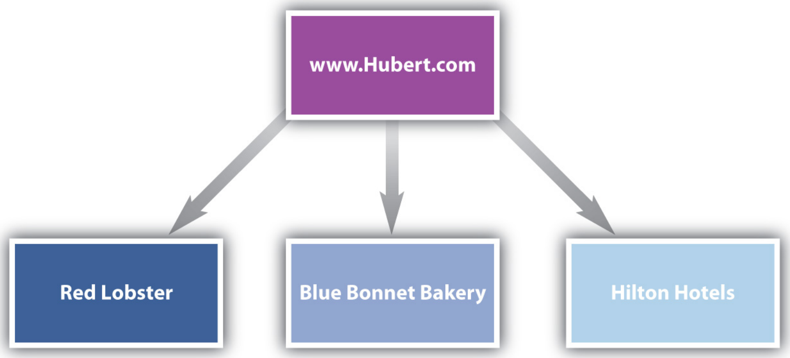
Source: http://www.hubert.com.

B2B e-commerce was actually a little slower to take hold than B2C e-commerce, though. Initially, the Web sites of many B2B firms were static. There was no interactivity. "We put our first Web site up in 1998, and it really didn't do anything," Kohler explains. "All it did was it had the picture of the company. I think it had a picture of me holding a catalog with a toll-free number at the bottom, and said, 'Hey, call this number and we'll send you a catalog.'"

Things have changed. Companies have since developed sophisticated e-commerce systems that allow their customers to do many things for themselves. As a result, they have been able to cut down on the amount of customer service they need to provide. Does your business want to ship your products cheaply across the country via rail? You can sign up online for an account with a railroad like Union Pacific (UP), reserve some rail cars on UP's site, and choose the route you want them to travel. Later, after you ship the goods, you can check your account balance on the Web site and track the rail cars online like when packages are shipped with FedEx and UPS. The office supply chain Staples has special Web sites set up for each of its business customers, which are customized with online catalogs containing the types of products they buy at the prices they seem to be willing to pay, based on their past purchases on StaplesLink.com.[10] Today's B2B sites are far from static.

Types of B2B Web Sites

FIGURE 4.10 An Example of a Sell-Side B2B Web site



sell-side site

A Web site in which a single seller sells products to many different buyers.

buy-side site

A Web site in which a business buys products from multiple sellers that go there to do business with the firm.

B2B exchanges

E-commerce Web sites where multiple buyers and sellers go to find and do business with one another.

Most of the examples we've described so far are examples of *sell-side* e-commerce sites. A **sell-side site** is a site in which a single seller sells products to many different buyers. Figure 4.10 shows the direction of the sale of goods and services sold on a sell-side site, such as the Hubert Company has.

But there are buy-side e-commerce sites as well. A **buy-side site** is one in which a business *buys* products from multiple sellers that go there to do business with the firm. Some government agencies have buy-side sites. **B2B exchanges** are e-commerce sites where multiple buyers and sellers go to find and do business with one another. (You can think of the exchanges as being somewhat like Craigslist but composed solely of business buyers and sellers.) Sites such as these make their money by charging buyers and sellers a fee when they conduct transactions with one another. In the late 1990s and early 2000s, B2B exchanges sprouted up on the Internet like weeds. Cyber entrepreneurs took a "build it and they will come" attitude, hoping to earn a fee off the transactions conducted on site. Many of these sites have failed, but not all of them. One of the most successful and largest exchanges is Alibaba.com, founded in 1999 as a trading platform for small and medium manufacturers to sell their wares.[11] ChemNet.com is a global exchange where companies go to buy and sell chemicals of all kinds. The homepage for ChemNet is shown in Figure 4.11. (Ammonium, sodium, or potassium, anyone?)

FIGURE 4.11

Need chemicals? You can find them on the B2B exchange Web site ChemNet.

Source: http://www.chemnet.com.

B2B auctions are Web-based auctions that occur between businesses. The auctions can be either sell side or buy side. An example of a sell-side auction is a B2B auction that occurs on eBay or a site like AssetAuctions.com where surplus industrial equipment is sold. Motorola regularly sells small quantities of products at the end of their life cycles on eBay. Motorola has found that eBay is a good way to make some money from products that businesses are reluctant to buy otherwise because they are being discontinued.[12] Sell-side auctions are sometimes referred to as forward auctions.

> **B2B auctions**
>
> Web-based auctions that occur between businesses.

Buy-side auctions, by contrast, reverse the traditional auction formula, which is to help the seller get the highest price for the product. Instead, the buyer initiates the auction in order to find the cheapest supplier of a product. Sellers then bid against one another, offering the lowest prices they can for their products, in order to get the buyer's business. Because the roles of the buyers and sellers are reversed in buy-side auctions, they are often referred to as **reverse auctions**.

> **reverse auction**
>
> When the buyer lists what he or she wants to buy and also states how much he or she is willing to pay. The reverse auction is finished when at least one firm is willing to accept the buyer's price.

Not all companies use an intermediary like eBay or AssetAuctions to conduct their auctions, though. Some companies conduct their own auctions on their Web sites so they don't have to pay a fee to an intermediary. For example, General Motors auctions off reconditioned vehicles to auto dealers on its own Web site, http://www.gmonlineauctions.com.

Pricing in E-commerce Markets

One of the consequences of e-commerce is that B2B customers can easily shop around from the convenience of their cubicles or offices, bid on products, and read blogs about products from industry experts. That's what buyers generally do before they get on the phone or personally meet with sellers. E-commerce has made it especially easy for buyers to compare prices. And the cheapest price often attracts the most attention.

The result is that B2B sellers (and B2C sellers) have found their ability to raise prices is limited. The problem is more acute when products are very similar to one another (commodities) and B2B auctions and exchanges are utilized. If you are a buyer of chemicals looking for a supplier on ChemNet, do you want to pay more for one brand of a chemical that has the same molecular formula as every other brand? Maybe not. However, if you believe you can get better service from one company than from another, you might pay more. "Everything has become much more of a commodity, commodity meaning that it's basically more and more about price," says Kohler about e-commerce competition. "So my challenge as a distributor is that I have got to constantly find new ways to try to create value for

Hubert's customers." When he is able to find a new way to create value, the decision becomes less about price and he can compete more effectively.

To avoid e-commerce price wars, some companies refuse to sell their products directly online or put prices on them. Snapper products are an example. Go to Snapper.com, and you will find a lot of information about Snapper mowers and snowblowers online and dealers where you can buy them. But you won't see any prices listed. Nor can you buy a product directly from the Web site.

KEY TAKEAWAY

Firms in the same industry tend to cluster in the same geographic areas because the resources these firms need—both human and natural—are located in some areas and not others. Sellers also want to be close to their buyers. E-commerce, or commerce conducted electronically such as over the Internet, has made locating near buyers less important for business-to-business sellers and opened up opportunities for them to sell their products around the world. However, e-commerce has also led to more competition and made it difficult for sellers to raise their prices. B2B e-commerce was slower to take hold than B2C e-commerce. Companies have since developed sophisticated e-commerce systems, including sell-side and buy-side Web sites, exchanges, and B2B auctions.

REVIEW QUESTIONS

1. Name some other industries you're aware of in which companies tend to cluster geographically. Why are the companies in these industries located near one another?
2. How do B2B exchange sites differ from B2B auction sites?
3. How can firms that sell their products on the Internet prevent their prices from being driven down by competitors?

6. ETHICS IN B2B MARKETS

LEARNING OBJECTIVES

1. **Explain how the ethical dilemmas B2B marketers face differ from the ethical dilemmas B2C marketers face.**
2. **Outline the measures companies take to encourage their employees and executives to act in ethical ways.**

It's likely that every topic we have talked about so far in this chapter has an ethical dimension to it. Take procurement, for example: unlike B2C markets, offering customers free dinners, golf games, and so forth is very common in B2B settings. In many foreign countries, business and government buyers not only expect perks such as these but also actually demand bribes be paid if you want to do business with them. And firms pay them, even though some countries prohibit them. (The United States is one such country.) Which countries have a penchant for bribery? In a report called the "Bribe Payers Index," Transparency International, a watchdog organization, annually ranks the likelihood of firms from the world's industrialized countries to bribe abroad. The top five countries are shown in Table 4.3.

TABLE 4.3 Transparency International's Bribe Payers Index

1. Russia
2. China
3. Mexico
4. India
5. Italy

Source: "Emerging economic giants show high levels of corporate bribery overseas," Transparency.org, London and Berlin, 2008. http://www.transparency.org/whatwedo/pub/bribe_payers_index_2008 (accessed December 7, 2009).

Or take, for example, the straight-rebuy situation we discussed earlier. Recall that in a straight rebuy, buyers repurchase products automatically. Recently, Dean Foods, which manufactures the Silk brand of soy milk, experienced a lot of negative press after the company changed the word "organic" to "natural" on the labels of its milk, and quietly switched to conventional soybeans, which are often grown with pesticides. But Dean didn't change the barcode for the product, the packaging of the product, or the price much. So stores kept ordering what they thought was the same product—making a straight rebuy—but it wasn't. Many stores and consumers felt as though they had been duped. Some grocers dropped the entire Silk lineup of products.[13]

And remember Intel's strategy to increase the demand for its chips by insisting that PC makers use "Intel Inside" stickers? Recently Intel paid a competitor more than a billion dollars to settle a court case contending that it strong-armed PC makers into doing business exclusively with Intel. (Does that make you feel less warm and fuzzy about the "Intel Inside" campaign?)

What Dean Foods and Intel did might strike you as being wrong. However, what is ethical and what is not is often not clear-cut. Walmart has a reputation for using its market power to squeeze its suppliers for the best deals possible, in some cases putting them out of business. Is that ethical? What about companies that hire suppliers abroad, putting U.S. companies and workers out of business? Is that wrong? It depends on whom you ask. Some economists believe Walmart's ability to keep costs low has benefited consumers far more than it has hurt the suppliers of products. Is it fair to prohibit U.S. companies from offering bribes when their foreign competitors can?

Clearly, people have very different ideas about what's ethical and what's not. So how does a business get all of its employees on the same page in terms of how they behave? Laws and regulations—state, federal, and international—are an obvious starting point for companies, their executives, and employees wanting to do the right thing. The U.S. Federal Trade Commission (FTC) often plays a role when it comes to B2B laws and regulations. The FTC regulates companies in an effort to prevent them from engaging in unfair trade practices that can harm consumers and hamper competition.

Further, companies that sell to the government must, by law, follow very strict ethical guidelines. These companies tend to make such guidelines their policy because it is easier to make sure that the federal regulations are followed all of the time than only when selling to the government.

Companies are also adopting ethics codes that provide general guidelines about how their employees should behave. Many firms require employees to go through ethics training so they know what to do when they face tricky ethical dilemmas. Large corporations have begun hiring "chief ethics officers" to ensure ethics are properly implemented within their organizations. The Business Marketing Association has also developed a code of ethics that discourages bribery and other practices, such as disparaging a competitor's products unfairly, and encourages treating one's suppliers equitably.

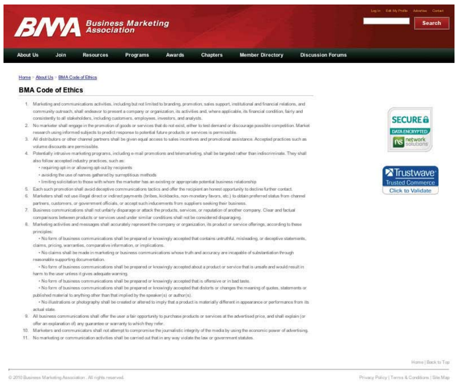
As for Walmart, you can't fault the company's procurement practices. Walmart's purchasing agents aren't allowed to accept a lunch, dinner, golf game, or so much as a cup of coffee from potential vendors. Walmart is not the only company to have implemented such a policy. More and more firms have followed suit because (1) they realize that perks such as these drive up product costs and (2) they don't want their buyers making decisions based on what they personally can get out of them rather than what's best for the company.

All things equal, companies want to do business with firms that are responsible. They don't want to be associated with firms that are not. Why is this important? Because that's what consumers are increasingly demanding. A few years ago, Nike and a number of other apparel makers were lambasted when it came to light that the factories they contracted with were using child labor and keeping workers toiling for long hours under terrible conditions. Nike didn't own the factories, but it still got a bad rap. Today, Nike, Inc., uses a "balanced scorecard." When evaluating suppliers, it looks at their labor-code compliance along with measures such as price, quality, and delivery time. During crunch times, it allows some Chinese factories latitude by, for example, permitting them to adjust when employees can take days off.[14]

Similarly, Walmart has developed a scorecard to rate its suppliers on how their packaging of products affects the environment.[15] Walmart does so because its customers are becoming more conscious of environmental damage and see value in products that are produced in as environmentally friendly a way as possible.

FIGURE 4.12

Click on the following link to read the Business Marketing Association's entire code of ethics: http://www.marketing.org/i4a/pages/Index.cfm?pageID=3286.



KEY TAKEAWAY

Ethics come into play in almost all business settings. Business-to-business markets are no different. For example, unlike B2C markets, offering customers perks is very common in B2B settings. In many foreign countries, government buyers demand bribes be paid if a company wants to do business with them. Understanding the laws and regulations that apply to their firms is an obvious starting point for companies, their executives, and employees in terms of knowing how to act ethically. Companies are also adopting ethics codes that provide general guidelines about how their employees should behave, requiring their employees to go through ethics training, and hiring chief ethics officers. Companies want to do business with firms that are responsible. They don't want to be associated with firms that are not. Why? Because they know ethics are important to consumers and that they are increasingly demanding firms behave responsibly.

REVIEW QUESTIONS

1. Name some of the types of ethical dilemmas facing firms in B2B markets.
2. Why is it difficult for employees and firms to know what's considered to be ethical behavior and what is not?

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7. DISCUSSION QUESTIONS AND ACTIVITIES

DISCUSSION QUESTIONS

1. Assume your company makes shop towels, hand-washing stations, and similar products. Make a list of all the companies that could be potential customers of your firm. Then identify all the markets from which their demand is derived. (Who are their customers and their customers' customers?) What factors might influence the success or failure of your business in these markets?
2. How might a buying center be different for a company that is considering building a new plant versus choosing a new copier?
3. Imagine you are a salesperson for a company that sells maintenance items used in keeping a manufacturing plant running. There is a large plant in your territory that buys 60 percent of its products from one competitor and the other 40 percent from another competitor. What could you do to try to make a sale in that plant if they have never purchased from you before? How would your answer change if you were the 40 percent vendor and wanted to increase your share of the buyer's business? Would your answer change if you were the other vendor? Why or why not?
4. When your family makes a major purchase, such as choosing a vacation destination or buying furniture, does it resemble a buying center? If so, who plays what roles?
5. Katie is a forklift operator who is tired of her forklift breaking down. She points out to her boss, the plant supervisor, that her forklift is broken down at least 20 percent of the time, and it is beginning to impact production. The plant supervisor tells the purchasing agent that a new forklift is needed and asks the purchasing agent to get three bids on new ones with similar features. The purchasing agent calls three companies and gets bids, which the plant supervisor uses to narrow it down to two. He then has Katie test drive the two and since she liked the Yamamatsu best, he decides to purchase that one. What roles do the supervisor and Katie play in this firm's buying center? Does the process followed resemble the process outlined in the chapter? If not, why not?
6. Someone who works in a company is also a consumer at home. You have already learned about how consumers buy. How does what you already know about how consumers buy relate to what you would expect those same people to do at work when making a purchase?
7. A major office equipment manufacturer and an airline once teamed up to offer a special deal: Buy a copier/printer and get a free round-trip ticket anywhere in the United States where the airline flies. The promotion didn't last long—buyers complained it was unethical. What about it was unethical? Who was really doing the complaining?
8. Congratulations, you just made a sale! For the first time in five years, the Humongo Corporation purchased from your company. How do you turn this into a straight rebuy? What product characteristics might make this goal easier to accomplish? What buyer characteristics might make it more difficult to accomplish?
9. Consider a company where marketing and sales are two different departments. Their customers are other businesses. Using both the buying center and buying process, describe what the marketing department actually does. What do salespeople actually do?

ACTIVITIES

1. Interview someone you know who makes purchasing decisions as part of the job. The person may or may not be a professional purchasing agent as long as business purchasing decisions are a fairly regular part of his or her position. What are the key principles to making good purchasing decisions at work? How do those principles influence people's purchases for their own personal consumption?
2. Locate three different types of Web sites that cater to markets discussed in this chapter. How do these differ from sites like eBay or Overstock.com? How are they similar? B2C models like Groupon and LivingSocial are being adopted by B2B companies. Examples include Bizy Deal; take a look at their site and identify the types of offerings that seem prevalent. What characteristics of the product or service would make such a model right for a B2B company?
3. Go to http://www.ism.ws/. What is the purpose of this site and the organization that created it? How does the ISM help its members with ethical dilemmas? Be specific, with specific examples from the site.
4. Many B2B marketers use NAICS to segment their market. Go to http://www.census.gov/epcd/www/naics.html. Click on the FAQs link to answer these questions. What is NAICS and how is it used? How does NAICS handle market-based rather than production-based statistical classifications, and why is that distinction important?

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